

AXA Wealth Research Warns Against Knee-Jerk Reaction To Fund Manager Departures

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Mike Kellard, chief executive officer, AXA Wealth, comments on research into the performance of funds after the departure of 'star fund managers'

"Our research into the performance of 'star fund managers' and their successors indicates that pressing the panic button when a 'star' leaves and exiting the fund is not necessarily the best policy. We're not trying to argue that, for instance, Mark Barnett is a better or worse manager than Neil Woodford - or indeed imply that a fund manager's performance should be judged on a one year time horizon, which is clearly not the case - but our data does highlight the perils of making a knee-jerk reaction based purely on the name or reputation of a manager.

"Our argument is that investors might be better placed sitting tight for a year and reviewing performance after that time. Looking at the 12 month period up to the point that 10 recent 'stars' left their funds and comparing this to the annualised performance of their successor, seven out of 10 funds performed better under the new manager when judged against their peer group.? By switching funds you are incurring costs based on an unprovable and unquantifiable benefit?.

"It is important for investors to remember that, in most cases, funds are fronted by a single fund manager but, in practice, run on a team approach. The investment team, the analysts and indeed the fund infrastructure, systems and processes will - in most cases - remain in place after a fund manager exit so by redeeming immediately an investor is really staking that the performance of the fund has been entirely, or at least overwhelmingly, the result of the brilliance of one individual. An additional factor to consider is that, when a star fund manager leaves, they often cite that they have felt constrained by the size of their fund and its performance may have begun to suffer. For many investors in a large fund, if there are outflows, performance may pick up because that fund no longer needs to 'buy the market' to the same extent and can be more selective as to where money is allocated.

"There are undoubtedly exceptionally talented individuals whose track record over decades sets them apart as unique investors. Our research does not set out to dispute this fact - but does indicate that following these individuals hastily, without considering the merits of the fund? going forward, is not always the best strategy."

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