Heads, I was good. Tails, my luck was bad.

Mutual fund managers are paid to deliver value through their research and good judgment about the markets—never mind the fact that study after study has shown that most active managers tend to underperform over time. A new research report published in September found that fund managers, in their shareholder communications, were more likely to attribute any performance above their benchmark to skill, and any performance that lagged their benchmark, according to them, was the result of external factors beyond their control (bad luck).

The study had an artificial intelligence program read through 15,434 shareholder reports associated with 1,969 unique funds. The AI reported on the times when the fund manager attributed success or failure to ‘internal factors’ (that is, decisions made by the fund manager and team) or ‘external factors’ (like market downturns or an adverse economic environment).

The result: taken altogether, the researchers found that the fund managers were 59% likely to attribute good performance to internal factors, and 83% of the time they blamed underperformance on external factors. In other words, when their performance was good, they tended to attribute it to skill, but when their performance lagged the benchmark, they were overwhelmingly blaming it on their lousy luck.

Sources:

<https://www.advisorperspectives.com/articles/2023/09/25/research-explain-underperformance-active-managers-larry-swedroe>

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