Soothing Investors: The Impact of Manager Communication on Mutual Fund Flows

Ahmed Guecioueur*

October 27, 2023
Latest: ahmedgc.com/files/latest.pdf

Abstract

I show that communication by fund managers to their investor clients fosters trust and encourages these investors to bear risk. Using an institutional setting that enables causal identification, I find that more detailed communication about risk encourages investors to *increase* their holdings in the market portfolio, driving flows into the stock market. I rule out learning about risk, returns or manager skill, and other potential explanations. Instead, my analysis shows this communication soothes investors' anxiety and alleviates their effective risk aversion, consistent with the money doctors framework of Gennaioli, Shleifer, and Vishny (2015).

Keywords: Fund Flows, Anxiety, Trust, Persuasion, Text Data
JEL Codes: G11, G23, G41, G50, D01, D83

*INSEAD, Boulevard de Constance, 77300 Fontainebleau, France, email: ahmed.guecioueur@insead.edu
I am grateful to my advisor, Joël Peress, for his invaluable guidance. I would like to thank Pat Akey, Alexandru Barbu, Frederico Belo, Pedro Bordalo, Gavin Cassar, Aditya Chaudhry, Olivier Dessaint, Tilman Fries (discussant), Andreas Fuster, Nicola Gennaioli, Sergei Glebkin, Naveen Gondhi, Richard Grice, Markus Ibert, Philipp Illeditsch, Pascal Maenhout, Massimo Massa, Cristina Ortiz (discussant), Alessandro Previtero, Rodolfo Prieto, Dmitrii Pugachev, Vesa Pursiainen, Lucie Teplá, Boris Vallée, Scott Yonker (discussant), Bart Zhou Yueshen, and many others, as well as participants at the 2023 Financial Intermediation Research Society (FIRS) Conference PhD Sessions, the 7th SAFE Household Finance Workshop, the 16th Behavioural Finance Working Group Conference, the LSE-Oxford-Imperial Behavioural Finance Group, the 6th Monash-Warwick-Zürich Text-as-Data Workshop, the 16th International Risk Management Conference, the 2023 Washington University in St. Louis Economics Graduate Student Conference, the 7th HEC Paris Finance PhD Workshop, the 11th Wharton-INSEAD Doctoral Consortium, and the PhD Economics Virtual Seminar for their helpful comments. I am grateful to Yehuda Izhakian, Gerald S. Martin, Melissa Porras Prado, and Rüdiger Weber for sharing data, and to Google for granting me access to its Trends API. A previous version of this paper was circulated under the title "Money Doctors and Their Prognoses." This paper is scheduled for presentation at the 2023 NBER Behavioral Finance Working Group Meeting.