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## STRATEGIES

## Want to Pump New Life Into a Fund? Change Its Name

By **MARK HULBERT**

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**I**NVESTORS apparently pay much attention to mutual funds' names. Funds that change names often receive a significant increase in inflows, even when they have not altered their investment strategies.

Though this behavior appears irrational, it is widespread, according to a recent study conducted by three finance professors, Michael J. Cooper and P. Raghavendra Rau, both of Purdue University, and Huseyin Gulen of Virginia Tech. They examined 296 stock mutual funds in the United States that changed their names from April 1994 to July 2001 by adding or deleting the words "value," "growth," "small" or "large." The professors' study is online at [papers.ssrn.com/sol3](http://papers.ssrn.com/sol3)

[/papers.cfm?abstract\\_id=423989](#).

The researchers found that the bulk of these funds changed their names either to remove any association with a lagging investment style or to create an association with a strong style. In the late 1990's, for example, most changes involved eliminating the words "small cap" and "value" or adding the words "large cap" and "growth."

The researchers found that these funds had a significant increase in new investments after the name changes. Using a complex statistical technique, they estimated how much the funds' net



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assets would have grown in one year without the name changes. On average, the funds' actual total assets were 22 percent greater than the estimates a year after the name changes.

The average fund in the study had \$299 million in net assets when it changed its name. The findings mean that one year later, the average fund had \$65 million more assets than if it would have had by keeping its old name. Across all 296 funds in the sample, that translates into a total shift of more than \$19 billion.

The increased inflows do not necessarily mean that investors were responding to name changes alone. Some funds might have altered their investment strategies at the same time they changed their names, so investors might have been reacting to those new strategies, too.

But while some renamed funds did change their investment approaches, the researchers found that many others did not. And the assets of both types grew at similar rates after the name changes.

The researchers also looked at the possible role of advertising but found further evidence that investors were reacting primarily to the name changes alone. Though funds that increased their ad budgets had higher inflows, so did funds that did not increase their advertising, as well as those with no advertising budget at all.

Of course, if funds improved their performance after the name changes, they could argue that the changes were more than cosmetic. But the researchers found just the opposite, on average. They compared each fund with a control group of funds that owned similar stocks, as indicated by factors like market capitalization and the ratio of price to book value. They found that the average renamed fund lagged behind its control group by 2.3 percent over the year after its name change.

The new study shows that many investors are choosing mutual funds based on factors having nothing to do with the funds' actual performance or strategies. Professor Cooper says he believes that investors would be better served by using objective criteria like past performance, turnover rates and expenses in deciding among funds.

IN January 2001, the Securities and Exchange Commission adopted a rule that prohibits mutual funds from using misleading names. The rule was adopted six months before the end of the period analyzed by the researchers, so the study sheds little light on whether the rule will be effective in reducing the number of funds that make purely cosmetic name changes.

But the researchers doubt that it will. They note that the S.E.C.'s new rule puts no restrictions on funds' use of the words "growth" and "value." Further, funds whose names include "small cap" or "large cap" are restricted in the kind of stocks they own only if they have defined such terms themselves. If they have not, the new S.E.C. rule leaves them free to use those terms in any way they wish.

*Mark Hulbert is editor of The Hulbert Financial Digest, a service of CBS MarketWatch. His column on investment strategies appears every other week. E-mail: strategy@nytimes.com.*

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