

Dr. Matthew Morey's research on mutual fund rating systems was recently featured in the Wall Street Journal.

Morey rates mutual fund raters

Jon Tallman

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Dr. Matthew R. Morey, an associate professor of finance at the Lubin School of Business, was recently featured in an article in the Wall Street Journal, on January 15, for his research in the field of mutual fund rating systems.

Receiving accolades from nationally syndicated publications is not a particularly new thing for Dr. Morey. In his many years as a professor, He has appeared on radio stations like NPR as well as television spots on MSNBC, and he has also been published in the New York Times on several occasions. His recent exposure in the Wall Street Journal came in the context of an article titled "Mutual-Fund Ratings Come Under Fire", by Ian McDonald. McDonald uses the information from Morey's research as well as his own insights as the foundation for the article.

In his latest project, Dr. Morey conducted a study for which he examined the effectiveness of such mutual fund rating systems, like Morningstar, Value Line and Lipper Analytical Systems.

His study, "Rating the Raters: An Investigation of Mutual Fund Rating Services", which was published in The Journal of Investment Consulting, concluded that these rating systems, although mainstream, do not effectively forecast winning funds or even caution investors who rely on them when choosing both the funds in which they invest, as well as the timing that they utilize when moving in and out of investments. Morey calls the latter inadequacy "a hot hands phenomenon", or buying and selling mutual funds, based on volatile market swings.

He warns investors who treat Mutual Funds like stocks by trading them frequently, that they should investigate the fees that accompany them. "It's important to caution people about flipping. For the average mainstream investor, it just doesn't work."

"People need to be very careful," said Morey, about the rating systems. "They're very seductive. A five star hotel is not the same as a five star [mutual] fund."

Although he adamantly cautions many investors as to certain shortcomings among these rating systems, he does believe that they have some useful attributes. "[the fund raters] have been pretty accurate about indicating past performance" said Morey, though he finished that thought by saying, "investors need to be careful what they do with that information...past performance is not an indicator of future performance."

Right now, Morey is working on a self-proclaimed, "esoteric" research project. Like the last study, this one falls under his particular area of expertise: mutual funds. Although its completion date is still unclear, its subject matter is bound to stir controversy. The context of his study is focused on a recent shift in the stock market. The structure of many large mutual funds has been fragmented. Many are now broken into several "classes", each of which consists of different charging methods by the brokerage firm. This project is intended to find out whether these changes are in fact advantageous for the average investor, or just another scheme intended to pad the pockets of brokerage houses.

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