Do Those Five-Star Funds Really Shine?

Aaron Pressman Edited by Toddi Gutner. Business Week. New York: May 23, 2005., Iss. 3934; pg. 126

» Jump to full text
» Translate document into: Select languageChinese (Simplified)Chinese (Traditional)FrenchGermanItalianJapaneseKoreanPortugueseRussianSpanishTurkish

» More Like This - Find similar documents

Subjects: Mutual funds, Rating bureaus, Performance evaluation
Classification Codes 9190 United States, 8130 Investment services, 9000 Short article
Locations: United States, US
Companies: MorningStar Health (NAICS: 541612)
Author(s): Aaron Pressman Edited by Toddi Gutner
Document types: News
Section: Footnotes: MUTUAL FUNDS
Publication title: Business Week. New York: May 23, 2005. , Iss. 3934; pg. 126
Source type: Periodical
ISSN/ISBN: 07398395
ProQuest document ID: 841665561
Text Word Count 192
Document URL:
http://proquest.umi.com.rlib.pace.edu/pqdweb?did=841665561&sid=3&Fmt=3&clientId=2088&RQT=309&VName=PQD

Abstract (Document Summary)
Thanks in part to the popularity of its one-to-five-star mutual-fund ratings, Morningstar went public on May 2 in a deal valuing the company at more than $700 million. Now, new research is questioning the value of those ratings. Finance professor Matthew Morey at Pace University reviewed the performance of diversified US equity funds in the three years before and after they first received the coveted five stars.

Full Text (192 words)

Thanks in part to the popularity of its one-to-five-star mutual-fund ratings, Morningstar went public on May 2 in a deal valuing the company at more than $700 million. Now, new research is questioning the value of those ratings.

Finance professor Matthew Morey at Pace University reviewed the performance of diversified U.S. equity funds in the three years before and after they first received the coveted five stars. Once the funds are adjusted for risk, they outperformed the Standard & Poor's 500-stock index on average by 0.36% a month in the three years before they earned top honors and trailed by 0.41% a month afterward.

Why the falloff in performance? One reason, says Morey, is that money suddenly pouring into the five-star funds overwhelms the manager's ability to invest it. "People think these stars are like the ratings of a movie," he adds. "But a mutual fund isn't the same, and it doesn't maintain its quality."

Morningstar, which revised its ratings criteria two years ago, says its own study shows slightly better performance for five-star funds since the changes. It also warns investors not to invest in mutual funds solely by the stars.