Mutual Fund Selection and Performance Persistence in 401(k) Plans

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ABSTRACT

We examine how plan sponsors/providers select mutual funds for 401(k) plans and whether performance persistence exists for mutual funds listed in 401(k) plans. Using a hand-collected data set of 401(k) investment options, we find that plan sponsors are likely to choose actively managed growth funds, including aggressive growth funds and long-term growth funds. Furthermore, more than 50% of the mutual funds in our sample of 401(k) plans are selected from the top 10 fund families in terms of total net assets. On average, plan sponsors select funds that outperform the funds with the same investment objective and that have low expense ratios. The performance of mutual funds in 401(k) plans only persists in a short horizon. Our analysis indicates that the menus of 401(k) investment options do not exhibit a signaling effect, indicating that investment options in 401(k) plans do not supply useful information about the future performance of mutual funds for investors in selecting mutual funds.

Keywords: 401(k) plans, mutual funds, performance persistence

REFERENCES

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