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

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Abstract

This paper shows that communication by asset managers can encourage their investor clients to bear greater risk. By analyzing the contents of funds' letters to their investors, I find that voluntary transparency about risk encourages greater risk-taking. To establish causality, I focus on index funds and exploit the presence of corner bunching using a control function approach. Learning, shrouding, and marketing channels cannot explain this result. Instead, the evidence supports a trust-building mechanism in which voluntary risk transparency reduces the anxiety component of investors' risk aversion, consistent with the money doctors theory of Gennaioli, Shleifer, and Vishny (2015).

Keywords: Fund Flows, Trust, Risk Aversion, Persuasion, Text Data

JEL Codes: D14, D83, D91, G11, G20, G41

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