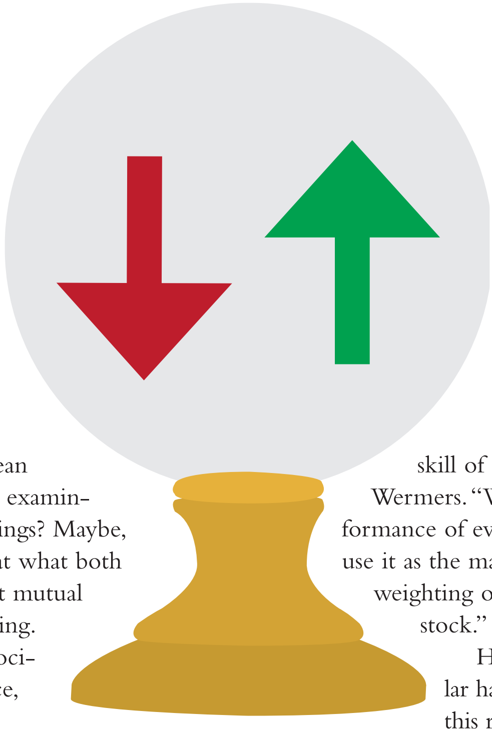
>>FINANCE

What Mutual Funds Can Tell You About Stock Picks



Is there a way to glean useful information by examining mutual fund holdings? Maybe, but only if you look at what both the best and the worst mutual fund managers are doing.

Russ Wermers, associate professor of finance, developed a statistical model that predicts the future performance of individual stocks based on how heavily they are held or purchased by both successful and unsuccessful fund managers.

Rather than simply looking at the results of winning funds, Wermers and his co-authors examined good, average and bad funds to see what highly skilled—and thus very successful—fund managers were buying in common, and what underperforming fund managers were not buying. The model uses a weighted average alpha to determine the outlook for a stock at the beginning of a given year, consisting of the portfolio weight on a stock multiplied by a manager's past alpha, summed across all managers who held that stock at the beginning of that month.

"You can't just consider how many winning funds bought the stock, you have to weight how much of it they purchased, and you also have to put some weight on the skill of the manager," says Wermers. "We considered the performance of every fund manager and use it as the main factor in the weighting of the outlook for a stock."

Hedge funds in particular have shown interest in this research because they need an independent source of stock returns beyond what is already known by the masses.

Unfortunately, this information isn't easy for the average investor to find. Because mutual funds only disclose portfolio holdings information on a quarterly basis, and because the funds have a 60-day grace period to file their holdings with the SEC, investors interested in using this model to predict stock returns are limited by the time lag in receiving information about what mutual fund managers are holding. Mutual fund disclosures are also staggered, so it isn't easy to obtain the information—for instance, some funds report their holdings in December, while others report in October. Wermers used a multitude of datasets to create the holdings data and returns data used in the study. **–RW**

For more information about this research, contact rwermers@rhsmith.umd.edu.

>>INFORMATION TECHNOLOGY

Value of an MBA

If you're an IT professional, you really need an MBA. Firms in the United States value IT professionals' MBA degrees much more than IT experience, according to recent research from the Smith School's Sunil Mithas, assistant professor of decision, operations and information technologies. An IT professional with an MBA degree earns 46 percent more than his counterpart with only a bachelor's degree, and 37 percent more than one with any other master's degree, Mithas found.

"Our research confirms that getting an MBA is the single best move you can make to increase your value as an IT professional in today's market," said Mithas. "Education is more valuable than experience because it provides more durable and versatile conceptual skills. In contrast, IT experience has a high rate of obsolescence — learning new technologies only makes a professional valuable for a few years when those skills are in high demand. An MBA education teaches how to evaluate new technologies or how to strategically invest in and manage IT projects, which makes for a more valuable long-term employee that can use those skills in a variety of situations."

On average, in dollar terms (deflated to 1999 figures), IT professionals with MBAs earn over $24,000 more per year than those with only bachelor's degrees, and over $17,000 more per year than those with other master's degrees, after controlling for a variety of demographic and institutional factors.

Read more, see a video interview with Mithas or learn about how to get a Smith School MBA at Smith Business Online. **–RW**