Too many fund choices can spoil the portfolio, researchers say

By Editor Test *Thu, Aug 16, 2012*

Increasing the fund options increases the number of funds that people invest in and increases their tendency to spread the dollars evenly among those funds, a new study shows.

Because ordinary investors tend to be overwhelmed by too many retirement fund options, they often adapt by choosing simple, intuitive diversification strategies that don't necessarily reduce their overall portfolio risk.

That conclusion was reached by a team of researchers from Rutgers, the University of Pittsburgh, the University of Texas, and Boston College and reported in the August issue of the *Journal of Marketing Research*.

The researchers' experiments showed that increasing the fund assortment size does two things: it increases the number of funds that people invest in and increases their tendency to spread the dollars evenly among those funds. As a result, people may be under-diversified and more vulnerable to market swings.

"People get overwhelmed by choice," said J. Jeffrey Inman, a marketing professor and associate dean for research and faculty at the University of Pittsburgh. "It is one thing to be faced with a big assortment of mustards at the grocery store, where the stakes are low. The order of magnitude is greater with mutual funds, where you feel less informed."

The study, "Investing for Retirement: The Moderating Effect of Fund Assortment Size of the 1/N Heuristic," was co-written by Inman, with Maureen Morrin of the Rutgers University School of Business; Susan M. Broniarczyk of the University of Texas-Austin McCombs School of Business; and Gergana Nenkov and Jonathan Reuter of the Boston College Carroll School of Management.