



The following letter was received in reference to our article [Investor Timing and Fund Distribution Channels](#). A response by the authors of the study is provided as well.

### **The ZAG Study: Questioning the Objectivity of Privately Funded Academic Research**

To the Editor:

My guess is that if one were to survey one hundred people regarding academic research sponsored by a tobacco company on the health effects of smoking, most would readily pick up on the potential conflict of interest and would question the objectivity of the study. How is it, then, that similar skepticism is apparently absent with respect to research sponsored by special interest groups in the investment industry? As an example, I cite a research paper that was published via press release in December by Zero Alpha Group (ZAG). The paper, "*Investor Timing and Fund Distribution Channels*", was co-authored by University of Nebraska Finance Professor Geoff Friesen, Iowa State University Finance Professor Travis Sapp, and Fund Democracy founder and University of Mississippi Assistant Professor of Law, Mercer Bullard. To briefly summarize, the paper concludes that investors who purchase actively managed load funds through brokerage advisors experience worse performance due to poor timing decisions than investors who self-direct using pure no-load funds and passive index strategies. While the release of the study has created minor buzz in the financial media, most of the coverage uses the paper's findings as a springboard for criticizing the value of financial advisors and/or actively managed mutual funds. Interestingly, the objectivity of Zero Alpha Group – a special interest group of fee-based registered investment advisors devoted to promoting passive investment strategies and lobbying the SEC for stricter regulation of traditional brokerage advisors - has gone unchallenged.

At issue is whether academic research sponsored by special interest groups and published via press release without peer-review should be more closely scrutinized than traditional unfunded academic research that is published in peer reviewed journals. In the case of the ZAG study, one might justifiably question whether ZAG was biased from the outset and jury-rigged the research by commissioning academics most likely to produce conclusions aligned with its economic and political agenda. When asked about this, Mr. Friesen agreed that his selection by ZAG for the research grant was likely related to the fact that he and Mr. Sapp had collaborated on an unfunded paper (one that received far less media fanfare) that reached similar conclusions a year earlier. One might also question why ZAG commissioned Mr. Bullard – a law professor – to serve as the lead author an academic study that is traditionally the bailiwick of finance professors and economists. Could it be that Mr. Bullard was selected because of his high media profile and because of a pre-existing bias against actively managed funds and traditional brokers that is obvious from public comments such as, "...if you've paid more to get advice, the broker should be selling you or directing you to the low-cost S&P 500 Index... Find a broker who is going to put you in an asset-based fee program. Although I still think you are probably going to pay too much, at least you will get a benefit in that the broker has incentive to put you in the lowest-cost S&P 500 fund..." [MarketWatch, March 26, 2007](#)



Another issue relevant to the objectivity of the study pertains to the amount of money ZAG paid to generate the research. A review of the marketing material on ZAG's website reveals that the group is a zealous advocate of fiduciary responsibility and strikes an almost moralistic tone with respect to avoidance of conflicts of interest, transparency, and fee disclosure. However, in an ironic ethical contradiction, ZAG president and founder, Jeff Buckner, refused to disclose the commission paid to the authors. Similarly, when approached for their views, the authors unanimously stated that they believe it is sufficient to simply acknowledge ZAG's financial support and that the amount of compensation they received was not relevant to the study's outcome. As Mr. Friesen noted in a recent interview, "as academics, neither of us has an ulterior motive." [Investment News, December 17, 2007](#). He also noted that if the data lead to opposite conclusions they would have reported it. (Perhaps, but would ZAG still have issued the press releases?) While I do not in any way question the authors' integrity, the fact of the matter is that the amount of compensation should be disclosed because of the obvious *potential* conflict of interest. To further this point through analogy, would the amount of money paid by an energy company to generate studies downplaying the effects of CO2 emissions on global warming be relevant to the public discussion?

In terms of the report itself, I believe there are intuitive obvious flaws in the assumptions about the data and that the conclusions were overreaching based upon a fair amount of ambiguity in the output. Even Mr. Bullard admitted to being "perplexed" by some of the results. In communications with the authors, all three stand behind the results of the study, but indicate that they will incorporate critical commentary when a later version of the paper is submitted for peer review and journal publication. What appears lost on the authors is that, through ZAG's press releases, the study circumvented the peer review process and has effectively already been published.

In conclusion it is hoped that this essay will lead others to question the objectivity of academic research funded by special interest groups and published via press release. While, as a dual registered financial advisor, I support ZAG's efforts in lobbying for fiduciary reform in the brokerage industry, I believe ZAG's practice of generating research through "academic gerrymandering" sets a dangerous precedent. If private organizations such as ZAG are left unchallenged in using self-sponsored research to promote legislative change, the result may be regulations that serve special interests rather than the public interest.

Regards,

John H. Robinson  
Honolulu, Hawaii

**The authors of the study respond:**

We have had extended private correspondence with Mr. Robinson over the last month regarding our study and we believe he is passionate about matters concerning the fund industry and appreciate his interest. However, we have found disagreement with him on



multiple points, some of them technical issues, and some of them simply matters of personal opinion. Our response to his letter is brief and is not intended to respond to all of the points in his letter with which we disagree.

Our study is an off-shoot of a previous unfunded study on investor timing by Friesen and Sapp which uses the same method, reaches some similar conclusions, and is now published in the Journal of Banking and Finance. The current study expands on the first by examining investor timing by fund share class in more detail, a direction suggested by results in the first paper. We believe our findings are robust and the conclusions we reach are both justified and reasonable. We note that our method for computing fund investor timing performance in both papers is the same as that used by Morningstar since late 2006 to report, on a calendar year basis, their fund Investor Return measure. We do appreciate that Mr. Robinson states "I do not in any way question the authors' integrity," as well as this newsletter's editors' earlier statement that "[w]e do not fault the methodology of the study, nor do we see any reason to suspect the results are biased because of the financial support [the authors] received from the Zero Alpha Group." As is common practice with any research grant, the fact that the study has been sponsored by ZAG has always been clearly disclosed and is plainly stated on the title page of the study. As to the other statements that Mr. Robinson has made regarding the sponsor or the usefulness of the study, he is, of course, entitled to his opinion.

Sincerely,

Mercer Bullard, Geoff Friesen and Travis Sapp

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