Has your fund manager got stage fright?

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"Knowledge is power", is one of those cliches that we all casually use without thinking too hard about whether it is true. Even before the financial crisis made us — and worryingly, politicians, regulators and central bankers — acutely aware of how little we knew about what was going on in the financial world, it was assumed that the more we know about what we are buying the better. The buzzword, and I've used it plenty of times myself, has been "transparency": the assumption being that the more informed we are the less likely we are to fall prey to rip offs or to pile our money into unsuitable products.

New research, though, puts this assumption to the test and finds it wanting. Conducted by researchers from University of Nottingham, VU University Amsterdam and Erasmus University Rotterdam, the study used the format of the game show Deal or No Deal to assess how people's decisions are affected by being in the limelight. Yes, I know it sounds frivolous, but it does have a serious intent.

"Contestants" could either accept a cash offer or hold out for a mystery amount hidden in a box selected at random. Prize money ranged from €0.01 to €500. They either played on computer terminals, away from the prying eyes of others, in a laboratory setting or in a simulated game-show environment with an audience, a host and camera.

The results for the camera shy will not be too surprising. Lab-based contestants demanded a much higher offer than those who played in the game show setting.

Dr Dennie van Dolder, of the University of Nottingham's School of Economics, says: "There's a popular conception that contestants on game shows play to the crowd because they want the audience to think of them as entertaining.

"Our results suggest the contrary. They indicate that making decisions in public doesn't encourage us to show off – rather, it increases the fear of losing after going out on a limb."

What's that got to do with finance? Well according to Dr van Dolder too much attention encourages investment managers to be overly timid and not to take risks. That in turn can result in lower returns.

"The bottom line – figuratively and literally – is that the overcautious decisions that too much transparency encourages may ultimately harm our economic well-being," says Dr van

Dolder.

It is not the only study to come to that conclusion. Research shows, for example, that investors tend to trade more speculatively when they switch from phone-based to online trading. The more people are scrutinised the more cautious they are.

Another study out this week suggests there is something in this: that too many fund managers stick fearfully to their benchmark index, charging large fees just to mimic the benchmark index. An analysis by Morningstar for the specialist publication Investment Adviser found that the number of closet trackers has doubled from eight last year to 17, with the vast majority found in the UK All Companies sector.

Is this the result of too much transparency? It is certainly easier than ever to see how a fund manager is performing day to day. The fear that straying away from the herd will reflecting negatively on a fund manager's reputation and prompt investors to head for the exits may discourage risk taking.

But, would it be better if things were less transparent? Well, the first thing to say is it ain't going to happen; thanks to the communication revolution that has introduced us to the internet and smart phones and who knows what next greater openness is the direction of travel.

Secondly, there is no excuse for mediocre performance. Neil Woodford, at his new venture has made a virtue out of being transparent, publishing a full monthly list of his fund holdings. It hasn't done him or his investors any harm: in its first 12 months the CF Woodford Equity Income fund has returned 17 per cent against an average 8 per cent from the UK income funds. If you deserve investors' money you shouldn't have anything to hide.

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