Examining Healthcare Mutual Fund Performance

Specialty mutual funds such as healthcare funds offer investors the opportunity to focus on high total return, income and further diversification within a specific industry. Although extensive research has been conducted on mutual fund performance generally, little such work has been conducted on healthcare-related mutual funds.

D.K. Malhotra, PhD, professor of finance and Nydick Family Term Chair and colleagues, sought to decode the characteristics and performance of healthcare mutual funds by examining their risk-adjusted rate of return from 2001 to 2018. He studied a broad range of healthcare-related funds, including those that focused on pharmaceuticals, biotechnology, health insurance, manufacture of diagnostic supplies and other sectors. The research used multi-prong methodologies to evaluate performance, all of which take risk and return into consideration.

The study found that, on average, equally weighted portfolios of healthcare mutual funds over-performed relative to the Dow Jones Total Market Index and CRSP Value Weighted Index, but underperformed relative to Dow Jones Health Care Index. What are the implications for the average investor? "While investors must make decisions that address their individual goals, resources and risk tolerance," Dr. Malhotra explains, "our study suggests that the average investor in stock funds would be better off including healthcare mutual funds in their overall investment strategy. In addition, it would be prudent to do so through healthcare index funds, because we did not find evidence that actively managed healthcare mutual funds—which generally charge higher expenses than do index funds—provide a superior risk-adjusted return relative to the overall market." ■