

House of Funds

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Abstract

I document that political connections are an important driver of investment strategies of U.S. mutual funds. I collect data on mutual fund holdings of U.S. Congress members and equity holdings of mutual funds from 2004 to 2013. I show that funds which have politicians among investors place larger bets and trade more actively in stocks of politically sensitive firms, and in stocks of firms that operate in industries under the scope of politicians' congressional committees. In addition, a portfolio long in politically sensitive stocks and short in all remaining stocks earns abnormal return of over 75 basis points per quarter.

JEL Classification: G23, D72, G11, G14, G18.

Keywords: Mutual Funds, Political Connections, Performance, Legislator Incentives, Investment by Politicians.