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# Inexperienced Investors and Bubbles

by Robin Greenwood and Stefan Nagel

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## Abstract

We use mutual fund manager data from the technology bubble to examine the hypothesis that inexperienced investors play a role in the formation of asset price bubbles. Using age as a proxy for managers' investment experience, we find that around the peak of the technology bubble, mutual funds run by younger managers are more heavily invested in technology stocks, relative to their style benchmarks, than their older colleagues. Furthermore, young managers, but not old managers, exhibit trend-chasing behavior in their technology stock investments. As a result, young managers increase their technology holdings during the run-up, and decrease them during the downturn. Both results are in line with the behavior of inexperienced investors in experimental asset markets. The economic significance of young managers' actions is amplified by large inflows into their funds prior to the peak in technology stock prices.

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