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A statistically robust decomposition of mutual fund performance ☆

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Highlights

- Previous decompositions of risk-adjusted performance might deliver biased results.
- We provide new reliable insights on the drivers of mutual fund performance.
- We decompose performance using the Generalized Calendar Time regression model.
- Only fund size, lagged performance, and fund family size remain highly significant.
- Much variation in previous results can be attributed to methodological issues.

Abstract

Previous decompositions of risk-adjusted mutual fund performance might deliver biased results. In this paper, we provide new reliable insights on the drivers of mutual fund performance by decomposing risk-adjusted performance of U.S. equity mutual funds using the Generalized Calendar Time regression model. According to our results, out of all previously considered fund characteristics, only the negative effect of lagged fund size and the positive effects of lagged performance and lagged family size remain highly significant. Our analysis further suggests that much of the variation in previous empirical results can be attributed to methodological issues.

JEL classification

G23; C21

Keywords

Mutual fund performance; Cross-sectional dependence; GCT-regression model

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