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Hedge funds, managerial skill, and macroeconomic variables

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Doron Avramov, *Robert Kosowski*, *Narayan Y. Naik* and *Melvyn Teo*

Journal of Financial Economics, 2011, vol. 99, issue 3, pages 672-692

Abstract: This paper evaluates hedge fund performance through portfolio strategies that incorporate predictability based on macroeconomic variables. Incorporating predictability substantially improves out-of-sample performance for the entire universe of hedge funds as well as for various investment styles. While we also allow for predictability in fund risk loadings and benchmark returns, the major source of investment profitability is predictability in managerial skills. In particular, long-only strategies that incorporate predictability in managerial skills outperform their Fung and Hsieh (2004) benchmarks by over 17% per year. The economic value of predictability obtains for different rebalancing horizons and alternative benchmark models. It is also robust to adjustments for backfill bias, incubation bias, illiquidity, fund termination, and style composition.

Keywords: Hedge; funds; Predictability; Managerial; skills; Macroeconomic; variables (search for similar items in EconPapers)
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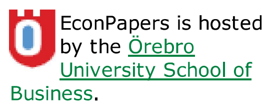

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