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Journal of Banking & Finance

Volume 52, March 2015, Pages 217–229



The performance of US equity mutual funds

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doi: 10.1016/j.jbankfin.2014.12.008

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Abstract

The paper examines the performance of US no-load equity mutual funds. Fund performance is derived using stochastic frontier analysis for a flexible functional form. This analysis allows us to derive parametric estimates of efficiency scores for each fund in our sample for the first time in the literature. Our results indicate that US no-load equity funds display varying levels of efficiency over time but also depending on size and on investment style. Robustness analysis reaffirm the efficiency scores remain consistent across different selections of inputs and outputs as well as the underlying distribution of the return. Having estimated each fund's efficiency in the sample we unveil their underlying dynamics, also with respect to risk and operational characteristics such as flows, assets, and Morningstar star ratings. Panel-VAR estimations reveal that the response of funds' efficiency to a shock in risk is positive and substantial. Some evidence of reverse causality is also observed. Finally, we extend our analysis to investigate the relationship between funds performance and key covariates across subgroups defined by size.

JEL classification

G11; G12; G14; G23

Keywords

US fund performance; Stochastic frontier analysis; Panel VAR; Risk

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