Mutual fund styles

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Abstract

Mutual funds are typically grouped by their investment objectives or the 'style' of their managers. We propose a new empirical to the determination of manager 'style.' This approach is simple to apply, yet it captures nonlinear patterns of returns that result from virtually all active portfolio management styles. Our classifications are superior to common industry classifications in predicting cross-sectional future performance, as well as past performance, and they also outperform classifications based on risk measures and analogue portfolios. Interestingly, 'growth' funds typically break down into several categories that differ in composition and strategy.

Key words: Mutual funds; Management style; Style analysis
JEL classification: G20; G23; G11

1. Introduction

Investment objectives and style classifications are widely used in the financial industry to characterize differences between money managers. Mutual funds, for