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Market Timing and Mutual Fund Investment Performance*

The investment performance of mutual fund portfolios has been the subject of extensive examination in the literature of finance. Evidence about the *collective* performance of such funds is relevant to the efficient market hypothesis and thereby to an understanding of the process of security price determination, because of its potential implications about differential investment information availability in the marketplace. Evidence about the *relative* performance of individual mutual funds is, of course, of obvious interest to entities with investment funds to allocate.

Performance evaluations of this sort have typically employed a one-parameter risk/return benchmark like that developed by Jensen (1968, 1969) and refined by Black, Jensen, and Scholes (1972) and Blume and Friend (1973). Such investigations have effectively focused on fund managers' security selection skills (or lack thereof), since the examined portfolios' risk levels have been assumed to be stationary through time.

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The parametric statistical procedure recently developed by Henrikson and Merton to test jointly for the presence of either superior market timing or security selection ability in managed portfolios is employed to evaluate empirically the investment performance of a sample of mutual funds. This procedure and the associated findings are compared with those of prior investment performance evaluations. The new technique produces a more favorable judgment about mutual fund security selection performance in the aggregate, and it alters the performance evaluations of various individual funds. Nonetheless, few fund managers appear to have displayed much market-timing skill, and the general conclusion that they have been unable collectively to outperform a passive investment strategy still seems valid.