

Mutual Fund Performance Evaluation and Best Clienteles

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Abstract

This paper investigates investor disagreement and clientele effects in performance evaluation by developing a measure that considers the best potential clienteles of mutual funds. In an incomplete market under law-of-one-price and no-good-deal conditions, we obtain an upper bound on admissible performance measures that identifies the most favorable alpha. Empirically, we find that a reasonable investor disagreement leads to generally positive performance for the best clienteles. Performance disagreement by investors can be significant enough to change the average evaluation of mutual funds from negative to positive, depending on the clienteles.

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