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Short-term persistence in hybrid mutual fund performance: The role of style-shifting abilities

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Abstract

Our study analyzes the performance of hybrid mutual funds. Based on two extended Carhart models we determine total fund performance by comparing fund returns to investable fund-specific style benchmarks. Using daily returns and a quarterly measurement interval, we present an innovative return-based approach to decompose total performance into in-quarter abnormal performance and style-shifting performance. In addition, we split total style-shifting performance into active and passive components. In this context, we confirm possible benefits of these performance measures by analyzing several simulated investment strategies. Our empirical study covers 520 hybrid mutual funds from 10/1998 to 12/2009 and shows that hybrid mutual funds (i) do not outperform their benchmarks on average, (ii) partially show positive in-quarter abnormal performance and style-shifting abilities, and (iii) exhibit short-term persistence in in-quarter abnormal performance but not in style-shifting abilities.

Highlights

► Most comprehensive empirical study of hybrid mutual funds. ► New approach to measure fund performance against ex-ante investable benchmarks. ► We distinguish between style-shifting and in-quarter abnormal performance. ► Analysis of short-term persistence in fund performance. ► In-quarter abnormal performance of hybrid funds persists; style-shifting abilities do not.

JEL classification

G11; G20; G23

Keywords

Hybrid mutual funds; Performance persistence; Total performance; Style-shifting abilities

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