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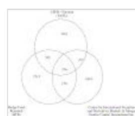

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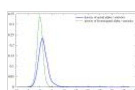

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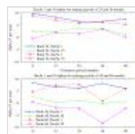

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Do hedge funds deliver alpha? A Bayesian and bootstrap analysis ☆

Robert Kosowski[a], Narayan Y. Naik[b], , Melvyn Teo[c]

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Abstract

Using a robust bootstrap procedure, we find that top hedge fund performance cannot be explained by luck, and hedge fund performance persists at annual horizons. Moreover, we show that Bayesian measures, which help overcome the short-sample problem inherent in hedge fund returns, lead to superior performance predictability. Sorting on Bayesian alphas, relative to OLS alphas, yields a 5.5% per year increase in the alpha of the spread between the top and bottom hedge fund deciles. Our results are robust and relevant to investors as they are neither confined to small funds, nor driven by incubation bias, backfill bias, or serial correlation.

JEL classification

G11; G12; G23

Keywords

Hedge fund performance; Persistence; Alpha; Factor models; Bayesian; Bootstrap

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Corresponding author. Tel.: +44 20 7262 5050, 3579; fax: +44 20 7724 3317.

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