

Do European Hedge Fund Managers Time Market Liquidity?

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Abstract : We propose two approaches to examine whether European hedge fund managers can time market liquidity. Using a sample of 1616 European hedge funds, we find evidence of liquidity timing. More importantly, this ability adds economic value to investors. Thus, it represents valuable managerial skill and a major source of European hedge funds' performance. Also we show that the majority of these funds demonstrate liquidity timing ability especially during liquidity crisis. Finally, it emerged that our main evidence of liquidity timing remains significant after controlling for market timing and volatility timing.

Keywords : european hedge funds, liquidity timing ability, market liquidity, crisis

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