

Interaction between Mutual Fund Performance and Portfolio Turnover

Authors : Sheng-Ching Wu

Abstract : This paper examines the interaction between mutual fund performance and portfolio turnover. Active trading could affect fund performance, but underperforming funds could also be traded actively at the same time to perform well. Therefore, we used two-stage least squares to address with simultaneity. The results indicate that funds with higher portfolio turnovers exhibit inferior performance compared with funds having lower turnovers. Moreover, funds with poor performance exhibit higher portfolio turnover. The findings support the assumptions that active trading erodes performance, and that fund managers with poor performance attempt to trade actively to retain employment.

Keywords : mutual funds, portfolio turnover, simultaneity, two-stage least squares

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