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PERFORMANCE PERSISTENCE: New Evidence for the Finnish Mutual Fund Market

In the 90's the mutual fund literature has partly taken more of a practitioners view, and a new type of studies tracking fund performance persistence, or in other words the ability of prior winners to repeat their superior performance, have emerged. Historical performance is used as a selling argument by fund managers, and is often taken as an indicator of future performance by the investment industry. According to the efficient market hypothesis, however, future performance should not be predictable after adjusting for risk and other pricing factors. Consequently, the usefulness of prior information should be limited to for instance risk assessment. The increasing amount of persistence studies offer an interesting synthesis of the fund persistency and the market efficiency views.

This study investigates the short term performance persistence of Finnish stock, bond, and balanced funds during the time period 1.1.1995/30.6.1998 using a sample free of survivorship bias. The funds are ranked based on the performance in a six month ranking period and winner (loser) fund portfolios are formed. The performance of the prior winners and losers is followed in a subsequent six month performance period by following the evolution of average weekly cumulated abnormal returns of the winner (loser) portfolios. The study changes the perception of the performance persistence of Finnish mutual funds in that evidence of performance persistence is found for all three fund types. Prior winners have indeed on the average outperformed the prior losers, with the differences furthermore being statistically significant.

Firstly, the study contributes to the fund literature by looking at performance persistence on more a disaggregate level than what has been done previously. Secondly, as to date there are hardly any other studies measuring the persistence of bond, and especially balanced funds. Thirdly, the study changes the perception of Finnish mutual fund performance persistence.