

QUANTILE BASED ESTIMATION OF FINANCIAL MARKET MELTDOWN

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Abstract

We investigate the market return timing ability of fund managers of actively managed Indian mutual funds categorised by market capitalisation – small-cap, mid-cap, large-cap, and multi-cap funds – for the time period of 2014 to 2019. First, we use the 4-factor model to assess the exposure to each investment factor – market, value, momentum and size. Using the Treynor-Mazuy Model and Henriksson-Merton model, we study the timing ability of the magnitude and direction of the style, respectively. We observe that value investment has the least style timing, followed by momentum. Magnitude of size timing is highest but the direction timing is least in small cap, despite having the highest exposure to size factor. Mid-cap funds place second in size factor timing. Market timing factor shows best results for multi and large-cap funds while showing moderately better results for the other two when compared to the value factor in the same. These findings could be used in adding another dimension to mutual fund performance evaluation, along with understanding the investment that is best suited to each fund type so that fund managers could maximise returns by using the right style.

Key words: mutual funds, investment style timing, 1, TM model