

# *Exploring US Mutual Funds Market*

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## *Introduction*

Its very important study highlighting performance of growth funds vs value funds using various statistical criteria. US mutual funds industry is one of the most important part of global economy and studying it in depth is always of great interest for investors, academia and policy makers. I appreciate the hardwork and effort put by the scholars in the paper. This study aims at suggesting whether to invest in value funds or growth funds and conclude that one should invest in small-cap value funds. A sample data of 65 mutual funds (further divided into 6 categories large, medium, small (growth and mutual funds)) are taken from **Morningstar database**. Various statistical criteria are used to evaluate the performance of value funds vs growth funds and accordingly an investment strategies mainly based upon  $M^2$  results has been suggested.

I have following comments which may not necessarily be in order of importance.

## *Comments*

Two or three investment strategies: growth vs value vs hybrid. As such there is no single strategy which dominates all and there are boom and bust cycles for each strategy. Russel1000 index for growth and value funds indicate big cycles where the two performed poorly. 1970s to 1987 (27% fall on single day), value funds dominated while onward till 2000, its growth funds, 2000 till 2008/09 its value funds again and now once again during the last 12 years or so growth funds are performing better. Funds performance is mainly a cyclical phenomenon so evaluating performance at a given time and advising uniform strategy to investors is not an idea practiced anywhere. poorly or good on the basis of some formula .

*Big part of interest in it lies because of its popularity*

I think reason for academicians interest is

The mutual fund industry plays an increasingly important role in US economy over the past few decades mutual fund industry have showed tremendous growth as more and more investors investing in US mutual funds.

- Questions changed from one part of the document to another. I shall suggest a unique precise question should be designed for hav-

ing a precise answer. Reader remains confused throughout out the document **whether its comparison of techniques or comparison of performance of growth vs value vs hybrid investment strategies or devising investment strategy...?**

### *Claim*

This study will provide important information to investors to decide which fund to choose by considering benefits of holding growth or value funds.

- I think its a bit tall claim as there is no single best strategy which will be useful or dominate or one may say its the behavior of the investor which matters. In growth funds, one is interested what will be future earning stream (like investing in Apple in 2007/8 and then annualising profit of 25% till now was growth strategy) . Growth investor invest in companies like **FB, Google, Netflix, Amazon...** where future growth is very high but it maybe very costly right now. While value investor is a **Bargain hunter** and tries to pick stocks which are **boring, established and predictable as happens in mature industries**. She loves at investing stocks that are priced 30/40/50 discount to their worth or intrinsic value.

### *Technical jargon*

Story telling style is missing : one is lost in techniques and becomes difficult for reader to get the crux of the matter. Jensen alpha, Sharpe, Treynor, M-square, and other technical jargon dominate the story instead of growth vs value vs hybrid strategies of investments.

Is this study about comparing M-square with other measures or devising investment strategies or something else needs to be clarified. **Survivor bias** is defined in detail but how its taken care in this study is not clear. Simply selecting those which survived 2005-09 throughout this study will not ensure no survivor bias unless we have some information about those which did not survive during the period.

- Is this sample reasonable to make a statement or generalize results for 10,000 plus US mutual funds: 65/10000 is less than 0.65% of population? If homogeneity, it maybe acceptable with reservation but with a lot of heterogeneity. Moreover, its a lopsided sample as sample is not well balanced so comparing too many companies in one case and too few in other categories.

Not "I" it is "We..."

Not "My study" , it should be "Our study..."

- Most of the measures are very standard and has been part of the literature for decades. There is need just to cite those tools instead of providing all basic details like that of t-test, rank correlation and many others.

### *Findings*

One of problem defined as if expenses and management fee has any effect on mutual fund performance is found insignificant. Mean difference is not significant for any fund category under growth or value funds. It indicates that expenses does not cause radical shift in performance of mutual fund under study.

-what variables and data are used for expenses and management fee  
? Probably I missed while reading this very lengthy document.

Its written in findings

**Findings implied that US equity mutual funds managers do not posses significant market timing skill,however there are some evidence of ‘stock picking’ or selection skills demonstrated by manger.**

From which part of the results you draw this result. I think one should restrict to what one has evaluated and say that measures we have used show that the 65 funds we have selected have “VALUE fund investment” is better strategy. As mentioned earlier **sample seems non-representative as well as lopsided.** - How many large cap growth, value, small cap growth/value funds in US funds market? What should be sampling strategy and which sampling strategy is listed in literature in such a case. - On the basis of alpha or any technical calculations , one cant make statement about growth fund managers unless one studies manager....

### *Conclusions*

How have you reached at the following two conclusions?

**In perspective of new researches, more investment style categories be included so draw inferences if any other fund category provide understanding to investor to diversify their investment.**

**Investment in small cap funds is essential as small funds categories performed well on alpha intercept by obtaining more funds with positive selectivity. It is also evident form average Jensen alpha for small growth and value funds. So it is highly recommended that investor and mangers should consider diverse investment policy.**

*Suggestions*

- Storytelling way
- Clear and precise research question
- Choice of time period needs to be justified
- How findings of 2005-09 data are valid today : issue of internal and external validity and change in nature of economy over last 15 years
- Russel 1000 index for growth and value funds investments: 4 cycles
- Short time period missed boom and bust cycles
- Title: Exploring growth vs value funds while conclusions are like some breakthrough strategy to invest in value funds.
- Need to update data before generalizing results
- Have a precise research question(s) whether technical analysis, funds performance or valuation of funds
- Sample size should be at least acceptable
- Implications for domestic market