

Question 4

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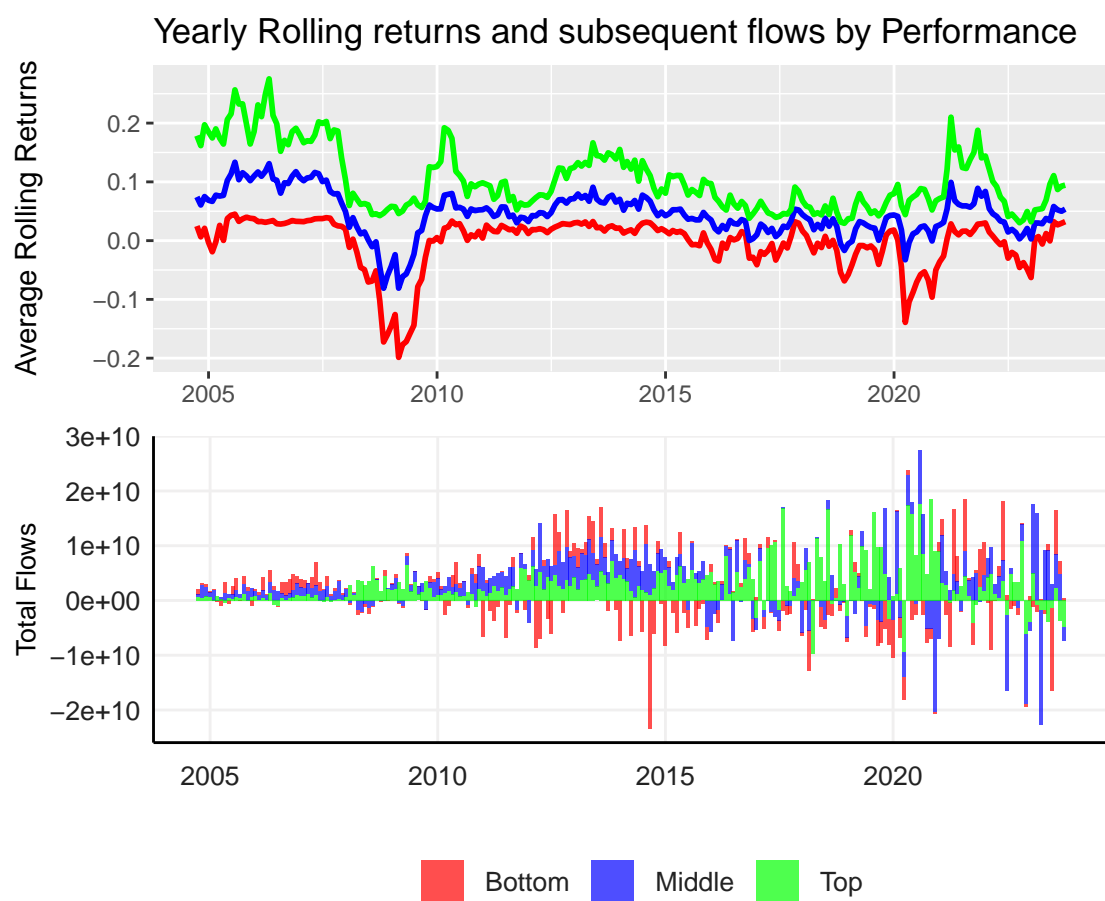
Abstract

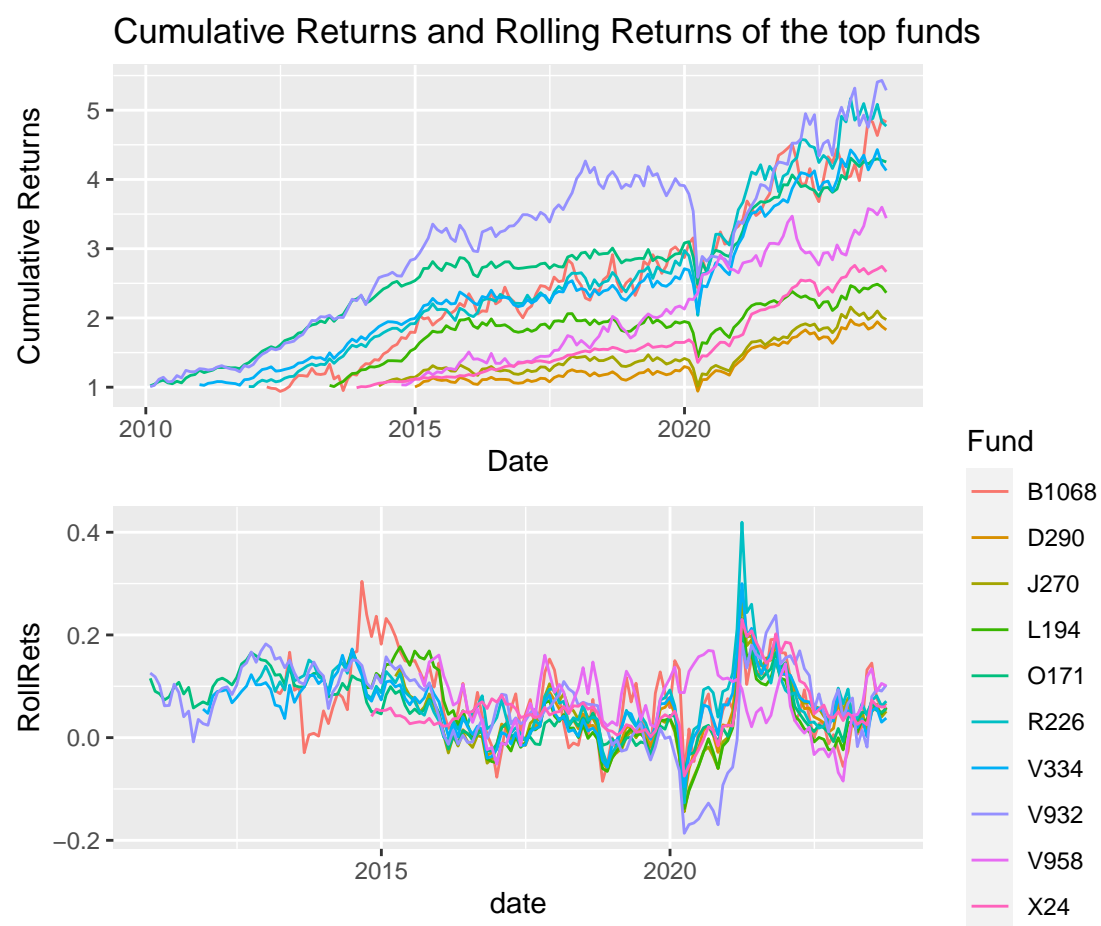
Do past performers do consistently better? Investigating the returns and subsequent flows of winners and losers.

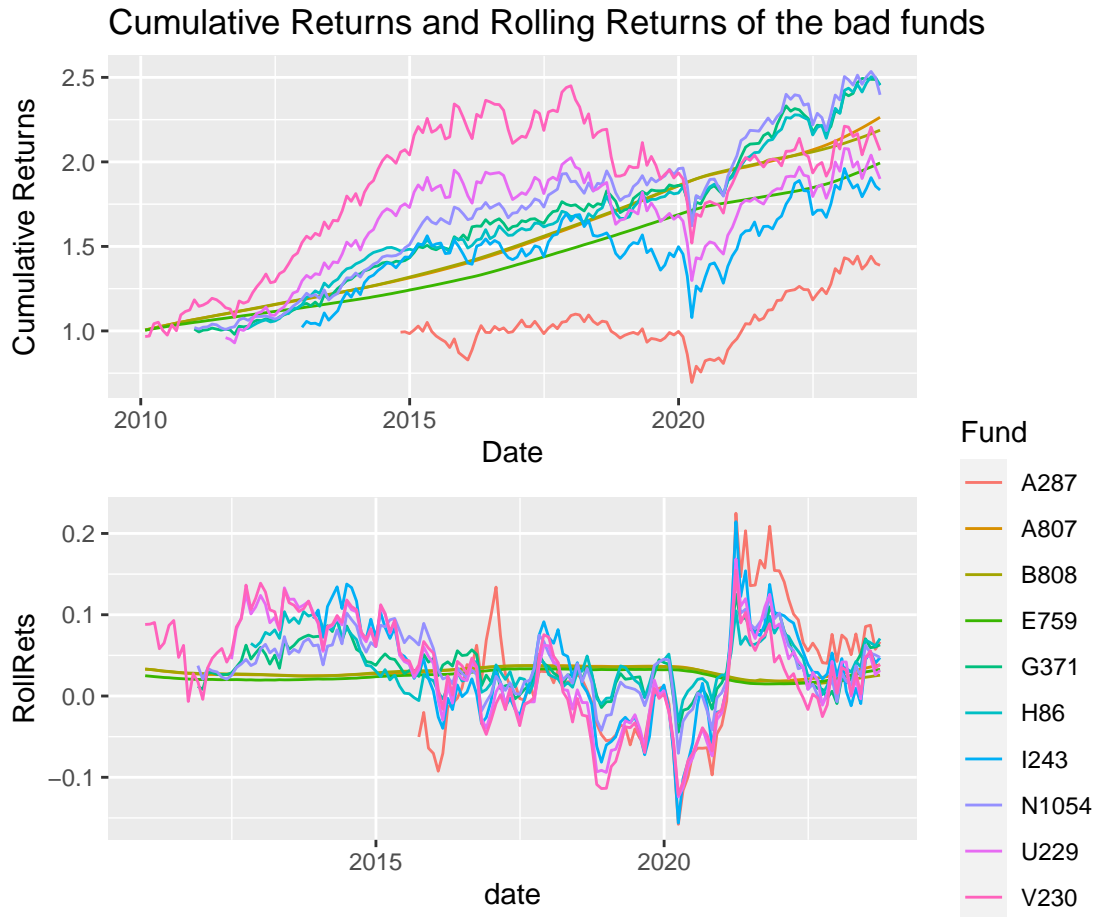
1. Broad Overview

The figure below shows the top, middle and bottom thirds of actively managed funds. It then shows the average flow in the subsequent period by performance. It is evident from the figure that total flows to the previous period's top funds are almost always positive. This highlights the persistence of flows to previous periods winners.

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Comparing the funds that have outperformed the benchmark (capped SWIX) on the most and least occasions gives an idea of what the returns would be for strategies that elected to chase winners or instead chose to chase losers. It is clear to see that at the extremes chasing the winners is a superior strategy.

Type	Corr_1month	Corr_3months	Corr_1year	Corr_2years	Corr_3years	Corr_5years
Bad	0.0063445	0.0091190	0.0028851	-0.0018863	-0.0014035	0.0093662
Top	0.0027796	0.0104318	0.0160773	0.0027332	0.0082819	0.0007391

Lastly, I look at the correlations of returns of funds with their flows at future dates and the table above shows that returns explain very little of subsequent period's flows. The persistence of winners' influence on flows is at its highest after 3 months and year. The persistence of losers' influence on flows never exceeds 1% and is negative for 2 and 3 years ahead. While the correlations are very small in absolute value, when comparing relatively winners do have a much larger effect on flows.

References