

An Empirical Study of Market Timing Abilities of Mutual Fund Managers in India

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Abstract

Market timing is an important element to test the predictive abilities of fund managers along with stock selection abilities. This helps to benchmark fund performance with Markets. The objective of this paper is to empirically test the market timing ability of selected mutual fund managers in India the Treynor-Mazuy and Henriksson-Merton (HM) models with the BSE- Sensex as a market surrogate for market returns. Based on a study on seven periods of local maximas and minimas of the Sensex from April 2003 to July 2016 for a sample of 41 equity funds the findings indicate that the fund managers adjusted their betas while predicting the market cycles. The study will aid practitioners not to just look at the fund timing from a fund or annual periodic perspective, but to take a larger perspective of understanding how fund managers have adjusted the systematic risk during different phase of Market movements when markets have peaked or bottomed up.

I. Introduction

MUTUAL FUNDS IN India come in all shapes and sizes, with varied objectives and target customers. In India it is becoming an effective intermediary between investors and the financial market with the Asset under Management crossing ₹16.86 trillion by October 2016 from a meager ₹ 0.067 trillion in 1964. It plays an important role for Investors who do not have the expertise, time and knowledge for direct equity investments. The number of schemes has increased from a single scheme (US-64) in 1964 to 10,987 schemes by September 2016 (mutualfundsindia.com) launched by the forty three mutual fund houses, additionally, a record 4, 76,63,024 investor accounts have been registered by September 2016 which indicates that mutual funds

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VI. Conclusion

The present study based on the techniques suggested by the HM and TM models makes a case for positive market timing ability of Indian equity fund managers based on sample of 41 large cap and diversified equity funds studied across a period of 160 months from April 2003 to July 2016 and that fund managers have adjusted their betas while predicting the market cycle with an aim to optimize the risk-return trade-offs. The study will aid practitioners not to just look at the fund timing from a fund or annual periodic perspective, but to take a larger perspective of understanding how fund managers have adjusted the systematic risk during different phases of market movements when markets have peaked or bottomed out. Further, fund managers in the phases of study have been impacted by Global and Domestic events and therefore, predicting and adjusting for the same successfully indicates the effectiveness of the investment management by these practitioners.

Further work may include a more comprehensive study including

- i. conditional expectations of fund managers across various factors influencing their market timing ability
- ii. relative contributions of market timing and stock selection in overall out-performance of the Indian equity funds vis-a-vis their benchmarks.

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Annexures

Table A1

List of Sample Schemes under study

1. Birla Sun Life Advantage Fund (G)	2. Birla Sun Life Frontline Equity Fund (G)
3. DHFL Pramerica Large Cap Fund (G)	4. DSP BR Top 100 Equity Fund (G)
5. Escorts Growth Plan (G)	6. Franklin India Bluechip Fund - (G)
7. Franklin India Prima Plus - (G)	8. HDFC Capital Builder - (G)
9. HDFC Equity Fund - (G)	10. HDFC Growth Fund (G)
11. HDFC Top 200 Fund (G)	12. HSBC Equity Fund (G)
13. ICICI Pru Top 100 Fund - (G)	14. JM Equity Fund - (G)
15. Kotak 50 (G)	16. LIC MF Equity Fund - (G)
17. LIC MF Growth Fund (G)	18. Reliance Vision Fund - (G)
19. Sahara Growth Fund (G)	20. Sundaram Select Focus - (G)
21. Tata Large Cap Fund - Regular (G)	22. Taurus Bonanza Fund (G)
23. UTI-Mastershare (G)	24. UTI-Top 100 Fund (G)
25. Birla Sun Life Balanced '95 Fund (G)	26. Birla Sun Life Balanced Advantage Fund (G)
27. DSP BR Balanced Fund - (G)	28. Escorts Balanced Fund (G)
29. Franklin India Balanced Fund - (G)	30. HDFC Balanced Fund (G)
31. HDFC Children's Gift Fund-Investment Plan (G)	32. HDFC Prudence Fund - (G)
33. ICICI Pru Balanced Fund - (G)	34. ICICI Pru Child Care Plan-Gift Plan
35. JM Balanced Fund - (G)	36. LIC MF Balanced Fund - (G)
37. LIC MF ULIS-5 Yrs Single Premiums - Reg (D)	38. Principal Balanced Fund - (G)
39. Sundaram Balanced Fund - (G)	40. Tata Balanced Fund - Regular (G)
41. UTI-Balanced Fund (G)	

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