

## Selectivity & Market Timing of Indian Mutual Fund Managers : Application of TM Conditional and Unconditional Performance Models<sup>1</sup>

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### Abstract

The appraisal of fund managers skills is of great importance to both investors and researchers across the world. In the present study, we employ the selected models like Jensen's alpha and Treynor-Mazuy's unconditional and conditional forms to evaluate and compare the fund managers performance across the chosen mutual funds. For this, a sample of 30 open-ended equity growth mutual fund schemes from 1st January 2013 to 31st December 2019 is preferred for analysis. The market and risk-free asset proxies used in the study are BSE-100 and T-Bills 91 days, respectively. The sample size and selected time period are considered enough to reveal the fund managers performance in terms of market timing and stock selection abilities based on Jensen's alpha and Treynor-Mazuy's unconditional, conditional models. It was observed from the results that the majority of Indian mutual fund managers exhibit a lack of stock selection and market timing ability.

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**JEL Code :** G10, G11, G12, G23

**Keywords :** Conditional Model; Jensen's Alpha; Mutual funds; Market Timing; Stock; Treynor-Mazuy; India

### I. Introduction

THE MF INDUSTRY is turning out to be the fastest-growing and the most competitive segment of India's financial sector, offering operational flexibility and attractive returns to investors (RBI, 2017). With the increasing formalisation and financialisation of the Indian economy, there is a shift in household savings from physical assets to financial assets and from bank deposits to securities. (RBI, 2018). Mutual funds as an investment vehicle provide an opportunity at low cost to investors to invest in market, but lack the knowledge of stock selection, portfolio construction and timing of markets. Not surprisingly, therefore, the preference of investors for

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30 open-ended equity growth mutual funds schemes using Jensen's alpha and TM unconditional & conditional models. We found that under the conditional model performance decrease with the inclusion of macroeconomic variables as they seem to raise the bar of performance evaluation. During our period of study, we also found that market timing and selectivity are virtually absent in the majority of our schemes.

The future scope of our study is very wide apart from understanding the market timing and selectivity of mutual fund managers. There are other factors also that affect the return of the funds. Thus, future research could be conducted by incorporating all those factors such as expense ratio, cash flow, size of the fund, turnover ratio, etc. which will give more detailed results. Second, the present study is based on monthly data of seven years. For more reliable results, future work can analyze the long-term persistence of actively managed funds using daily observations and can increase the time span of the study. Third, a broader picture of fund performance can be visualized by increasing the sample size and incorporating other macroeconomic variables like interest rate of benchmark and volatility of the oil price etc. Fourth, the study of risk-adjusted performance techniques like Treynor and Sharpe Ratio along with market timing and selectivity models will give an aggregate picture of the performance of funds and their managers.

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**Annexure  
Table A1  
List of Sample Schemes under study**

1.	Aditya Birla Sun Life Focused Equity Fund - Growth - Direct Plan	ABSL-FEF-G-DP	Private Sector
2.	Aditya Birla Sun Life Equity Fund - Growth - Direct Plan	ABSL-EF-G-DP	Private Sector
3.	Aditya Birla Sun Life Equity Hybrid'95 Fund - Direct Plan-Growth	ABSL-EHF-DPG	Private Sector
4.	Aditya Birla Sun Life Focused Equity Fund - Growth - Direct Plan	ABSL-FEF-G-DP	Private Sector
5.	Aditya Birla Sun Life Focused Equity Fund -Growth Option	ABSLFEF-GO	Private Sector
6.	Baroda hybrid equity fund - Plan A - Growth Option	BHEF-PLAN A	Public Sector
7.	Baroda hybrid equity fund - Plan B (Direct) - Growth Option	BHEF-PLAN B	Public Sector
8.	HDFC Capital Builder Value Fund -Direct Plan - Growth Option	HDFC CBVF-DP-GO	Private Sector
9.	Top 100 HDFC Fund - Growth Option	TOP 100 HDFC -GO	Private Sector
10.	HDFC Equity Fund -Direct Plan -Growth Option	HDFC EF-DF-GO	Private Sector
11.	HDFC Equity Fund - Growth Option	HDFC EF-GO	Private Sector
12.	HDFC Capital Builder Fund - Growth	HDFC CBF-G	Private Sector
13.	ICICI Prudential US Bluechip Equity Fund - Growth	ICICI PUS BEF- G	Private Sector
14.	ICICI Prudential Focused Equity Fund - Direct Plan-Growth	ICICI P FEF-D	Private Sector
15.	ICICI Prudential Equity - Arbitrage Fund-Institutional Growth Option	ICICI PE-AF- IGO	Private Sector
16.	ICICI Prudential US Blue-chip Equity Fund - Direct Plan-Growth	ICICI P US BEF- DF -G	Private Sector
17.	ICICI Prudential Focused Equity Fund - Growth	Private Sector ICICI PFEF-G	
18.	LIC MF Equity Hybrid Fund-Direct Plan-Growth	LIC MF HF-DP-G	Public Sector
19.	LIC MF Large Cap Fund-Direct Plan-Growth	LIC MF LCF-DP-G	Public Sector
20.	LIC MF Equity Hybrid Fund-Regular Plan-Growth	LIC MF EHF- RP G	Public Sector
21.	LIC MF Index Fund-Nifty Plan-Direct Plan-Growth	LIC MF IF-NP-DP-G	Public Sector
22.	SBI Magnum Equity ESG Fund - Direct Plan-Growth	SBI ME-ESG-DF-G	Public Sector
23.	SBI equity hybrid fund - direct plan - growth	SBI EHF-DP-G	Public Sector
24.	SBI focused equity fund - direct plan -growth	SBI FEQ-DP-G	Public Sector
25.	SBI long term equity fund - regular plan- Growth	SBI LTEF-RP-G	Public Sector
26.	SBI savings fund - regular plan - Growth	SBI SF-RP-G	Public Sector
27.	UTI - Equity Fund-Growth Option	UTI -EF-GO	Public Sector
28.	UTI - Core Equity Fund - Direct Plan-Growth Option	UTI CEF-DP-GO	Public Sector
29.	UTI - Core Equity Fund - Regular Plan-Growth Option	UTI CEF- RP-GO	Public Sector
30.	UTI - Hybrid Equity Fund - Regular Plan-Growth	UTI- - HEF RP G	Public Sector

Source: Self Compiled