Managers’ Skills and Mutual Fund-Flows in the Japanese Mutual Fund Market

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Abstract

Mutual fund investors assess a fund manager’s skill when allocating their capital. To identify the rationale behind retail investors’ decisions, this study examines the relation between mutual fund flows and abnormal returns (alpha), as well as various risk factors, in the Japanese mutual fund market. Five different standard asset pricing models are used to investigate the investor’s assessment of a mutual fund manager’s skill: market adjusted return; CAPM; and the Fama-French three, four, and eight factor models. This study finds that investors in Japan mainly rely on alpha to assess mutual funds, and such evaluations depend on the market environment and their mutual fund search costs. This study also finds that investors do not necessarily obtain alpha by adjusting fund-flows. This study measures the response of investors to the skills of a mutual fund manager in the Japanese market, especially for funds purchased through bank-related distributors, who captured a greater share of the market after deregulation and reveals higher response to alpha. The relation between current fund-flows and future alpha is also addressed.

Keywords: Mutual fund-flow, Abnormal return, Alpha, Japan, Mutual fund market.

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