

Unrealized Gains, Fund Distribution, and Mutual Fund Flows¹

Tomoki Kitamura^{2,3} and Kozo Omori⁴

Abstract

This study examines whether mutual fund flows respond discontinuously at the zero unrealized-gain threshold, using regression discontinuity and regression kink designs based on a fund-level proxy for investors' average book-price basis. Focusing on Japanese equity mutual funds, we show that gross inflows of stock active funds display economically and statistically meaningful threshold-related responses, especially for younger funds and when recent returns are nonnegative. Under these conditions, inflows exhibit both a positive jump and a negative kink, whereas passive funds show much weaker responses. Outflow responses are substantially weaker overall. These findings are difficult to reconcile with a purely investor-side interpretation of the running variable and instead suggest that threshold-related responses reflect variation in the ease of fund distribution and marketing.

Keywords: Mutual fund flows; Unrealized gains; Fund distribution; Regression discontinuity design; Regression kink design; Retail investors; Active and passive funds

JEL Codes: G11; G23; D14; D91

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² Department of Finance, Musashi University, 1-26-1, Toyotamakami, Nerimaku, Tokyo 170-8534 JAPAN. E-mail: PXL03406@nifty.ne.jp

³ Corresponding Author

⁴ Faculty of Economics, Osaka University of Economics, 2-2-8, Osumi, Higashiyodagawaku, Osaka 533-8533 JAPAN. E-mail: kozo@osaka-ue.ac.jp