

Title: **DO FUNDS MAKE MORE WHEN THEY TRADE MORE?**

Speaker: **Robert Stambaugh**
The Wharton School, University of Pennsylvania

Importance: Why this matters:

The author and his colleagues postulate that a mutual fund trades more when it perceives better opportunities. If the fund is skilled, perceived opportunities produce profits. Therefore a skilled fund should earn more after trading more. If so, higher trading activity should predict better fund performance.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

The authors combined CRSP data with Morningstar data on 3126 active funds from 1979 through 2011.

Innovation: Are there new techniques of interest in the data or approach to the problem?

The authors combined "active share" with trading activity. They performed quarterly time-series analyses (in contrast to the usual cross-sectional performance analytics) and provide tableaus of returns and statistical significance data on breakdowns by fund size, management fee, turnover, and fund expenses.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. The mutual funds show generally positive, statistically significant relative returns.
2. Heavier trading leads to better returns, providing evidence of skill.
3. Results are stronger for small funds, suggesting decreasing returns to scale, and high-fee funds: greater skill earns higher fees.
4. These results seem inconsistent with the cross-sectional measurement of fund performance. The authors address this as follows: "The literature investigating the skill of active mutual funds is extensive. Average past performance delivers a seemingly negative verdict, since many studies show that active funds have underperformed passive benchmarks, net of fees. "

Yet active funds can have skill. Skilled funds might charge higher fees, and some funds might be more skilled than others. Moreover, with fund-level or industry-level decreasing returns to scale, skill does not equate to average performance, either gross or net of fees.

Audience rating: 3.67