Selection, timing and total performance of equity funds: Wasting time measuring timing

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Abstract
It is well known that timing activities might significantly bias the Jensen alpha. However, it has not yet been studied sufficiently whether considering timing activities is relevant for measuring fund performance at all. This is the first paper to theoretically and empirically analyze the influence of capturing timing activities on the measured performance in the context of the Jensen, the Treynor-Mazuy and the Henriksson-Merton model. Our main findings are: i) The models yield identical inferences about the total performance of funds. ii) The timing performance measured by the Treynor-Mazuy model is linear related to the timing performance measured by the Henriksson-Merton model. The same applies to selection performance. iii) Interpreting respective results of these models as timing performance is not justified. Overall, the measurement of timing activities based on ex-post fund returns does not disclose new information about fund managers’ abilities.

JEL classification: G11, G23
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