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INVESTMENT STYLE AND PERFORMANCE OF MUTUAL FUNDS: AN EMPIRICAL ANALYSIS

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ABSTRACT

This paper investigates the difference in the performance of mutual funds on the basis of their investment style. For this purpose, 150 mutual funds schemes from four investment styles (income, equity, balanced and liquid) as classified by the Association of Mutual Funds of India have been studied. For risk adjusted performance, Sharpe ratio measure has been used. The affect of two attributes i.e., asset size and expense ratio on the performance has been studied for all the investment styles. Mutual fund data for past five years (April'2006 – March'2011) has been analysed using multiple regression model. Five regression equations for three hypotheses have been tested.

It has been found from the study that performance persistence exists for all investment style. Also performance is negatively related to expense ratio except for balanced schemes. For these schemes, performance is unrelated to expense ratio. Also, performance increases with an increase in asset size except for income schemes. For these schemes no effect of asset size is there on the performance. This study will add to the existing knowledge of the relationship between mutual fund's performance and their investment style. This will also help mutual fund investors to judge the investment options on the basis of fund's attributes and investment style.

KEY WORDS: *Asset Size, Expense ratio, Investment style, Mutual Funds, Open Ended, Performance Persistence.*