

# [Financial econometrics](https://assignbuster.com/financial-econometrics/)

[Business](https://assignbuster.com/essay-subjects/business/)

Fund Manager Allocation Fund Manager Allocation Strengths of the Study Highly skilled fund managers can exploit market inefficiency better.
The basic idea is that fund families allocate more highly skilled managers to less efficient market segments since skill pays off more in these segments.
Weaknesses
In markets that are more efficient allow active management do not pay off; hence, investors should buy index funds rather than actively managed funds.
A higher return predictability suggests lower efficiency in the high yield segment than the investment grade market.
Assumptions
Skilled Managers are rewarded more in less efficient market
Fund families allocate more highly skilled managers to less efficient market segments.
Robustness Test
GMAT as alternative skill measure
The Graduate Management Admission Test (GMAT) scores are used instead of SAT scores to capture manager skill in measuring alternative skill.
It is worth noting that the alternative skill measures are based on SAT score
The same element or understand is used to calculate the three alternative ways to estimate estimate of the man- agers skill including SAT percentile in mathematics, SAT percentile in critical reading, and SAT percentile in critical reading (Fang, Alexander, and Monika, 2014; Pg. 662).
Alternative performance metrics
To test the robustness or effectiveness of our results with respect to the factor models we have chosen.
Temporal stability
The sample is split into two parts
Proxies Chosen
1. High Yield Segments
HY fund managers have attended business schools with slightly higher matriculates SAT scores. Almost half of the managers hold an MBA degree, and about 25% hold a CFA degree but are less experienced. It should be noted that the HY managers yield higher gross returns.
2. Investment Grade Segments
The proportion of index funds is much higher at 18% in the IG segment than in the HY segment with only 2%. This observation supports the claim that the IG segment is more efficient than the HY segment.
Main Assumptions of the Study
Our basic idea is that fund families allocate more highly skilled managers to less efficient market segments.
Skill is rewarded more in the less efficient HY market segment than in the more efficient IG segment.
Selection Bias
The Possible selection bias in this study may be the restriction of our sample to managers with an MBA degree.
Identification Strategy
The main strategy used to identify the managers as investment grade and high yield is based on skill and focuses on the following:
Holders of master’s in Business Administration
Non holders of Masters in Business Administration
Holders of Certified Financial Analysts
Other Qualifications
Experience in the field
Endogeneity Problem
The fund family has to decide how to assign the managers to two funds: operating in the inefficient market segment and operating in the more efficient segment. To maximize its profit, the fund family allocates managers to funds so that overall fund performance is maximized (Fang, Alexander, and Monika, 2014; Pg. 667). The rationale is that fund performance determines fund growth, given the industries fee structure, fee income, and profit at the fund family level. Since the skill fund family to assign more highly skilled manager to the less efficient market segment, and the less skilled manager to more efficient segment.
References
FANG, J., ALEXANDER, K. & MONIKA, T. (2014). Fund Manager Allocation. Journal of Financial Economics. 111, Pp. 661–674. NY: Elsevier Publishers.