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Time Changing Alpha and Active Fund Performance Evaluation: Australian International Funds

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ABSTRACT
Tests for active management are inevitably based on averages estimated with 10 years or more of mutual fund monthly returns. In general, these tests implicitly assume that the impact of active management is reflected in a stable and well-behaved increment or decrement to mutual fund returns over the study period. There is virtually no justification appearing in the literature for this assumption and little research is evident that deals with the time series behaviour of mutual fund alphas. We focus on a sample of 75 Australian international funds using data covering the period from July 1995 to January 2005. Even after controlling for predictable time variation in fund risk there is evidence of time changing alpha, with some variation apparent when the sample is split into three groups, Asian, European/USA and global/international.

KEYWORDS: international equity funds, time changing alpha

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