Advertisement

Journal of Futures Markets / Volume 21, Issue 11 / pp. 1003-1028

Hedge Fund Performance and Manager Skill

Franklin R. Edwards, Mustafa Onur Caglayan

First published: 05 September 2001

https://doi.org/10.1002/fut.2102

PDF

Abstract

Using data on the monthly returns of hedge funds during the period January 1990 to August 1998, we estimate six-factor Jensen alphas for individual hedge funds, employing eight different investment styles. We find that about 25% of the hedge funds earn positive excess returns and that the frequency and magnitude of funds' excess returns differ markedly with investment style. Using six-factor alphas as a measure of performance, we also analyze performance persistence over 1-year and 2-year horizons and find evidence of significant persistence among both winners and losers. These findings, together with our finding that hedge funds that pay managers higher incentive fees also have higher excess returns, are consistent with the view that fund manager skill may be a partial explanation for the positive excess returns earned by hedge funds. © 2001 John Wiley & Sons, Inc. Jrl Fut Mark 21:1003–1028, 2001

BIBLIOGRAPHY

Ackermann, C., McEnally, R., & Ravenscraft, D. (1999). The performance of hedge funds: Risk, return, and incentives. *Journal of Finance*, **54**, 833–874.

Web of Science® Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Agarwal, V., & Naik, N. Y. (2000b). On taking the alternative route: Risks, rewards, and performance persistence of hedge funds. *Journal of Alternative Investments*, **2**, 6–23.

Web of Science® | Google Scholar

Agarwal, V., & Naik, N. Y. (2000c). Performance evaluation of hedge funds with option-based and buy-and-hold strategies (Working Paper). London: London School of Economics.

Google Scholar

Asness, C. S. (1995). The power of past stock returns to explain future stock returns (Working Paper). New York, NY: Applied Quantitative Research.

Google Scholar

Banz, R. W. (1981). The relationship between return and market value of common stock. *Journal of Financial Economics*, **9**, 3–18.

Web of Science® | Google Scholar

Brown, S. J., & Goetzmann, W. N. (1995). Performance persistence. *Journal of Finance*, **50**, 679–698.

Web of Science® | Google Scholar

Brown, S. J., Goetzmann, W. N., & Ibbotson, R. G. (1999). Offshore hedge funds: Survival and performance 1989–1995. *Journal of Business*, **72**, 91–118.

Web of Science® | Google Scholar

Carhart, M. (1997). On persistence in mutual fund performance. *Journal of Finance*, **52**, 57–82.

Web of Science® | Google Scholar

Christensen, R. (1990). *Log–linear models*. New York: Springer-Verlag.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Edwards, F. R., & Hubbard, R. G. (2000). The growth of institutional stock ownership: A promise unfulfilled. *Journal of Applied Corporate Finance*, **13**, 92–104.

Google Scholar

Edwards, F. R., & Liew, J. (1999). Hedge funds versus managed futures as asset classes. *Journal of Derivatives*, **6**, 45–64.

Google Scholar

Elton, E. J., Gruber, M. J., & Blake, C. R. (1996). The persistence of risk-adjusted mutual fund performance. *Journal of Business*, **69**, 133–157.

Web of Science® Google Scholar

Elton, E. J., Gruber, M. J., Das, H., & Hlavka, M. (1993). Efficiency with costly information: A reinterpretation of evidence from managed portfolios. *Review of Financial Studies*, **6**(1), 1–22.

Web of Science® Google Scholar

Fama, E. F., & French, K. R. (1993). Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics*, **33**, 3–56.

Web of Science® Google Scholar

Fama, E. F., & French, K. R. (1995). Size and book-to-market factors in earnings and returns. *Journal of Finance*, **50**, 131–155.

Web of Science® Google Scholar

Fama, E. F., & French, K. R. (1996). Multi-factor explanations of asset pricing anomalies. *Journal of Finance*, **51**, 55–84.

Web of Science® Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Fung, W., & Hsieh, D. A. (2000). Performance characteristics of hedge funds and commodity funds: Natural vs.spurious biases. *Journal of Financial and Quantitative Analysis*, **35**, 291–307.

Web of Science® | Google Scholar

Goetzmann, W. N., & Ibbotson, R. G. (1994). Do winners repeat? Patterns in mutual fund return behavior. *Journal of Portfolio Management*, **20**, 9–18.

Web of Science® | Google Scholar

Gruber, M. J. (1996). Another puzzle: The growth in actively managed mutual funds. *Journal of Finance*, **51**, 783–810.

Web of Science® | Google Scholar

Hendricks, D., Patel, J., & Zeckhauser, R. (1993). Hot hands in mutual funds: Short-run persistence of relative performance, 1974–1988. *Journal of Finance*, **48**, 93–130.

Web of Science® | Google Scholar

Jegadeesh, N., & Titman, S. (1993). Returns to buying winners and selling losers: Implications for stock market efficiency. *Journal of Finance*, **48**, 65–91.

Web of Science® | Google Scholar

Jensen, M. C. (1968). The performance of mutual funds in the period 1945–1964. *Journal of Finance*, **23**, 389–416.

Web of Science® | Google Scholar

Liang, B. (1999). On the performance of hedge funds. *Financial Analysts Journal*, **55**, 72–85.

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Web of Science® Google Scholar

Malkiel, B. G. (1995). Returns from investing in equity mutual funds 1971 to 1991. *Journal of Finance*, **50**, 549–572.

Web of Science® Google Scholar

Moskowitz, T. J., & Grinblatt, M. (1999). Do industries explain momentum? *Journal of Finance*, **54**, 1249–1290.

Web of Science® Google Scholar

Norris, F. (2000, April 29). Another technology victim. New York Times, p. C1.

Google Scholar

Rosenberg, B., Reid, K., & Lanstein, R. (1985). Persuasive evidence of market inefficiency. *Journal of Portfolio Management*, **11**, 9–17.

Web of Science® Google Scholar

Schneeweis, T., & Spurgin, R. (1998). Alternative investments in institutional portfolios (Working Paper). Amherst, MA: CISDM Isenberg School of Management, University of Massachusetts.

Google Scholar

Sharpe, W. F. (1966). Mutual fund performance. *Journal of Business*, **39**, 119–138.

Web of Science® Google Scholar

Treynor, J. L. (1965). How to rate management of investment funds. *Harvard Business Review*, **43**, 63–75.

Web of Science® Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences
Accept All
Reject Non-Essential