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ARTICLE

False (and Missed) Discoveries in Financial Economics

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ABSTRACT

Multiple testing plagues many important questions in finance such as fund and factor selection. We propose a new way to calibrate both Type I and Type II errors. Next, using a double-bootstrap method, we establish a *t*-statistic hurdle that is associated with a specific false discovery rate (e.g., 5%). We also establish a hurdle that is associated with a certain acceptable ratio of misses to false discoveries (Type II error scaled by Type I error), which effectively allows for differential costs of the two types of mistakes. Evaluating current methods, we find that they lack power to detect outperforming managers.

Supporting Information

Filename	Description
jofi12951-sup-0001-InternetAppendix.pdf 325.6 KB	**Appendix S1**: Internet Appendix.
jofi12951-sup-0002-ReplicationCode.zip 16.1 KB	**Replication code**.

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