

Do Mutual Funds Time the Market? Evidence From Portfolio Holdings

Abstract

Existing literature has found no evidence of market-timing ability by mutual funds using tests based on fund returns. This paper proposes alternative market-timing tests based on observed fund holdings. The holdings-based measures are shown to be more powerful than the return-based measures, and are not subject to “artificial timing” bias. Applying the holdings-based tests, we find strong evidence of mutual fund timing ability. Our findings also suggest that market-timing funds tend to have higher returns and trade more actively. Furthermore, they seem to have market-timing information beyond those common return-predictive economic variables documented in the academic studies. Finally, we quantify the potential economic value of market-timing as a contingent claim. The magnitude of the estimated values indicates that market-timing is potentially an important investment strategy deserving more academic attention.