

Chapter 5

Conclusion

This research attempts to find statistical evidences on performance persistence of Malaysian unit trusts. The statistical analysis confirmed that performance persistence is very much dependent upon how unit trusts performance is measured and the methodology used to test for persistence.

Generally, the study finds no performance persistence of units trust using cross sectional regression of residual returns. Instead, there was strong performance reversal for moving average-adjusted residuals. The negative correlations of mean-adjusted residual with one month lag return are statistically significant to 95% confidence level. The study also finds negative correlations for government-sponsored equity unit trusts when risk-adjusted residuals were used for the cross sectional regression analysis.

The study found that there was no significant different between government sponsored unit trusts and private sector unit trusts expect for risk-adjusted residual returns. However, there was difference in performance persistence between Malaysian unit trusts categorized according to investment objectives. Balanced funds were found to be inclined towards performance reversal while growth funds has no serial correlation with previous performance. However, no statistical evidence was found for the performance reversal of balanced funds.

Test on performance persistence of Malaysian unit trusts before and after the currency crisis in 1997 revealed that there was performance reversal before currency crisis but no relationship was found after the crisis.

Cross-sectional regressions also confirmed that the correlations of past performance were short-run in nature as the slope coefficients for 7-months lag to 9-months lag were not significant.

Non-parametric test for performance persistence by counting repeated winners or losers unit trusts yielded different results. Generally, there was performance persistence in equity unit trusts in term of raw returns from year 1991-2000 except for the period of 1995-98. Due to small numbers of Malaysian unit trusts before year 1995, the statistical test on the results for the period of 1991–95 was not reliable.

Except for the period of 1997-2000, the government-sponsored unit trusts have similar pattern of performance persistence or reversal with private sector unit trusts. The contingency table analysis also showed that similar pattern of performance persistence or reversal were obtained when risk-adjusted performance (Jensen's alpha) was used in analysis.

Similar conclusion is not expected from the parametric and non-parametric tests on performance persistence, i.e. cross-sectional regression and contingency table. This is because cross-sectional regressions require serial correlation in absolute returns to conclude persistence while contingency tables require only relative performance. In other words, persistence in relative performance doesn't guarantee persistence in performance measured in absolute returns.