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Performance of Individual and Institutional Investors in the Prediction of Mutual Funds' Returns

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Abstract

Between 1387 and 1396, mutual funds experienced a significant growth in terms of capital under their management, so that during this period, the volume of their available capital has reached about 800 billion tomans. Over the period, however, the return on these funds was less than both the stock market index and the fixed income funds. This research aims to address the question of whether, despite their poor long-term performance, individual and institutional investors are able to earn higher returns by predicting high-return funds and proper timing of their buys and sells. In technical terms, is money smart in the mutual funds market? To test the ability of investors in these funds, we construct hypothetical portfolios based on fund flows and compare the average monthly return on inflows with outflows and the average fund. The results show that funds with more inflows perform better than the average fund which is consistent with the smart money hypothesis. Comparing the performance of individual and institutional investors separately also shows that individuals and institutional investors, on average, identify funds with higher and lower returns, but there is no evidence that one performs better than the other.

Keywords: Mutual Funds; Smart money; individual investors; institutional investors.

JEl Classification: G23, G11, G23, G23.

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