COMPARING ACTIVE AND PASSIVE MUTUAL FUND MANAGEMENT: CASE STUDY OF THAILAND

Wisuwat Yaikwawong
ID 5502042434

Master of Science Program in Finance (International Program)
Faculty of Commerce and Accountancy, Thammasat University, Bangkok, Thailand

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ABSTRACT

Mutual fund is an investment vehicle that each individual in securities by pooling their funds. Mutual funds are one of the most popular financial products however individual investors make a decision based on mutual fund return without taking risk into account. This paper studies the mutual fund performance between active and passive funds in terms of return; risk and risk adjusted return, tracking error and evaluate the market timing ability of Thai mutual fund managers. Monthly net asset value of equity funds and market returns are observed for five year from January 2008 to December 2012. The findings indicate net return and risk between passive and active funds are statistically indifferent by independent t-test. Mutual funds net returns are statistically indifferent to the market return by paired t-test. Passive funds statistically outperform active ones when considered the risk adjusted return revealed by Sharpe, Treynor ratio and Modigliani measure. Active and passive funds failed to generate excess return which implies lack of stock selectivity of fund managers. The management styles in fund prospectus are aligned with tracking error. Finding on market timing models indicates the absence of market timing ability in most of mutual fund managers in Thai market. Finally, regression analysis with dummy variable technique confirms "January effect" of passive funds. Passive funds also increase replication capability in June due to lowest tracking error.

Key word: Mutual Fund Performance,Tracking Error,Active Funds,Passive Funds