

Slow and Steady Wins the Race: The Impact of Chasing Returns on Quartile Rankings

Rama Malladi, PhD, CFA, CAIA, FRM¹

Corresponding Author & 1st Author

Associate Professor

Department of Accounting, Finance, and Economics (CBAPP, SBS C-315)

California State University Dominguez Hills, Carson, CA 90747

Tel: (310) 243-3560

Email: rmalladi@csudh.edu

Jennifer Brodmann, PhD²

Assistant Professor & 2nd Author

Department of Accounting, Finance, and Economics

California State University Dominguez Hills, Carson, CA 90747

Tel: (310) 243-2607

Email: jbroadmann@csudh.edu

¹ Rama K. Malladi is Associate Professor of Finance at the California State University, Dominguez Hills in California; he holds CFA, CAIA, and FRM designations, and is a past president of the CFA Society Los Angeles.

² Jennifer Brodmann is Assistant Professor of Finance at the California State University, Dominguez Hills in California; she is a researcher at the South Bay Economics Institute.

We thank the seminar participants of the 48th Annual Conference of the Western Decisions Sciences Conference (2019) in Cabo San Lucas, Mexico, 2019 Annual Conference of the American Financial Services in Minneapolis, MN, and the Brown Bag Series at the California State University Dominguez Hills for their insightful feedback in improving this paper.

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Abstract

Investment fund managers are torn between staying in the 1st quartile and growing assets under management (AUM) over a long-time horizon. We show that each goal requires a different strategy. This paper explores whether passive fund managers who aim to be in the 1st quartile by chasing higher returns (i.e., higher risk) are more likely to achieve their goal compared with those that chase somewhat lesser returns (i.e., lower risk). Using monthly historical returns from 01/01/1979 to 01/01/2018, we show that if a fund's goal is to achieve higher AUM, it should aim to be in the 1st quartile every year. However, if a fund's long-term goal is to stay in the 1st quartile, it should strive to be in the 2nd quartile every year.

JEL classification: G11, G17

Keywords: asset management; risk and return; quartile; fund performance; benchmark; investment performance.