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

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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.