Evaluating the Performance of Mutual Funds Operating in the Jordanian Financial Market

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Abstract

The study aims to evaluate the performance of three open-ended mutual funds operating in the Jordanian financial market over the period 1/1/2002 – 31/12/2004. The model of Treynor and Mazuy was used to evaluate the performance (ability to time the market and select undervalued securities) of mutual fund’s managers.

The empirical findings didn’t reveal any ability of the managers to time the market correctly. Only one fund showed a positive statistical significant coefficient of undervalued security selection; hence, its manager had superior selective ability.

The two popular indices of performance, the Sharpe index and the Jensen’s alpha were used to evaluate the mutual funds performance. The three mutual funds outperformed the benchmark on the basis of Sharpe index while on the basis of
Jensen’s alpha, one mutual fund achieved positive risk-adjusted excess return on the basis of monthly returns; hence, it outperformed the benchmark. The other two funds matched the market on a risk-adjusted basis, in other words, it didn’t provide risk adjusted excess return because alpha was insignificantly different from zero.

This study used a model that evaluates the performance of mutual funds and seeks to address the limitations of the earlier indices. The model applies an operational research methodology, called Data Envelopment Analysis (DEA), which allows measuring the relative efficiency of decision making units. The best performer across all three years was fund (A), fund (C) was the second on ranking, and finally fund (B) ranked third. When comparing the ranking of the funds between DEA and the Sharpe index, both techniques agreed on the same ranking either in each year separately or across all three years.