ABSTRACT

Market Timing and Stock Selectivity Performance Analysis on Equity Mutual Fund in Indonesia: GARCH Model Application

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One of a component which was considered by investor for choosing mutual fund is the performance of mutual fund itself. This performance shown by two factors, one of it’s the market timing and stock selection ability of an investment manager. The objective of this research is to analyze market timing and stock selectivity on equity mutual fund in Indonesia by using GARCH model. This research use Henriksson-Merton model and Conditional Ferson-Schadt model to examine market timing and stock selectivity performance of 17 equity mutual funds in Indonesia. Data collected from January 1st 2004 until August 31st 2007. Multiple Regression and Generalized Autoregressive Conditional Heteroscedasticity (GARCH) were used as a statistical method. Based on examination results of 17 equity mutual fund data shows that market timing ability of investment manager give a negative contribution to the fund returns, while stock selection ability give a positive contribution to the fund returns. This result also indicates that there were negative correlation between market timing and stock selection ability of investment managers.

Keywords: Mutual Funds, Performance, Market Timing Ability, Stock Selection Ability, Investment Managers, GARCH.