

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

FIN 411
Investments

Professor G. William Schwert
Spring 1997

Case #3 -- Performance Evaluation of Mutual Fund Portfolios: due June 4, 1997

Use the data on monthly rates of return to open-end mutual funds (and a couple of closed-end funds) from 1976-93 in the files F411C4XL.EXE (a self-extracting Excel file) or F411C4WF.EXE (a self-extracting Eviews file) to evaluate the performance of:

- (a) at least three open-end funds (explain why you chose those funds);
- (b) at least one closed-end fund; and
- (c) the pension fund for your company (labeled "YOUR").

The list of funds available is:

- (1) DFA 9-10 Small Company Fund (DFA)
- (2) Fidelity Capital & Income Fund (FCI)
- (3) Fidelity Magellan Fund (FMAG)
- (4) Fidelity Select Healthcare Fund (FSH)
- (5) Templeton World Fund (TWRLD)
- (6) Vanguard International Growth Fund (VINTG)
- (7) Vanguard Index 500 Fund (VINDX)
- (8) Berkshire Hathaway (BKHT) -- Closed-end fund run by Warren Buffett
- (9) Templeton Emerging Markets Fund (KSM) -- Closed-end
- (10) Inefficient Market Fund (EMF)-- Closed-end
- (11) Your Pension Fund (YOUR)

In addition to the mutual fund returns, these files contain several benchmark portfolios that might be useful to you:

- (1) The CRSP value-weighted portfolio of NYSE & Amex stocks (CRSPVW)
- (2) The Standard & Poor's 500 portfolio (SP500)
- (3) The Morgan-Stanley World Portfolio (MSWP)
- (4) The Fama-French Small minus Large Firm Portfolio (FFSIZE)
- (5) The Fama-French High minus Low Market/Book Value Portfolio (FFMB)
- (6) The return to a portfolio of Long-term corporate bonds (LTCORP)
- (7) The return to a portfolio of Low-rated corporate bonds (JUNK)
- (8) The return to one-month Treasury bills (TBILL).

Using these data, you should try to decide whether the funds you have chosen have "beaten the market" using either "stock selection" and/or "market timing" methods over the 1984-93 decade, and the two five year subperiods 1984-88 and 1989-93. You should write this as a memo to your boss, the manager of your company's pension fund, as the basis for recommending managers to invest your company's pension assets for the next five years. Explain what you are doing and why it is meaningful as clearly and concisely as possible.