

ANALYSIS THE PERFORMANCE OF MUTUAL FUNDS: THE MARKOV SWITCHING APPROACH

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ABSTRACT

Recently investments in mutual funds have been increasing rapidly. The mutual funds have also played a significant role in an economy. Many studies have developed models for performance evaluation and focused on developed markets, especially in the US. Only a few examine whether findings carry over to the emerging markets as well. This paper has proposed an alternative method to examine mutual funds performance by using the MS-VAR model. This model allows some parameters varying along with the business cycle. The results from this model, therefore, would help provide a better understanding of mutual fund performance; e.g., how it reacts to different periods of the business cycle. The conjecture of this paper is the reaction of funds would be different depending on the business cycle.

Keywords: *Business cycle; Markov switching model; Mutual funds*