

ABSTRACT

This research proposed empirical evidence that very few equity mutual funds in the ASEAN market generate outperform returns due to a lack of stock selection and market timing abilities. This research proves ineffective implementation of the determined investment strategy to generate the excess and outperform return. This result is consistent with recent studies. This fact is unfavorable for the mutual fund industry, making this investment instrument no longer attract investors.

This research proposes enhancing the existing theories of passive and active investment strategies. The market and the investment risk keep changing. Therefore, stock selection and market timing abilities shall be embedded in both theories; hence the theories will be relevant to use to generate the outperform returns. This research proposes a suitable model for both passive and active investment strategies to periodically evaluate the performance of the equity mutual funds based on factors affecting the performance of equity mutual funds. By then, proper action can be taken at the right time to deal with the market condition, manage the risk, and generate the outperform returns.

In addition, recent research proved few equity mutual funds have the strong stock selection and market timing abilities. Therefore, those funds could not outperform. However, those research did not provide extensive empirical evidence of the significance of the stock selection and market timing abilities.

This research is conducted to fill this gap by proposing novel empirical evidence on factors affecting the significance of stock selection and market timing abilities through econometrics analyses on panel data and causality Dumitrescu Hurlin test. The factors affecting stock selection and market timing abilities are macroeconomics indicators (market return, yield of government bonds), volatility of the fund's NAV, growth of the fund size, and indicator performance of the underlying assets (price to earnings and dividend yield).

Abbreviation list	
GFS	Growth in Fund Size
SDNAV	Standard Deviation of Fund's NAV
DY	Dividend Yield
P/E	Price to Earnings
RM	Market Return
GYLD	Government Bond Yield
RF	Risk Free
GDP	Gross Domestic Products