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## Smart Beta, Smart Money

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### Abstract

Factor-timing strategies in the U.S. produce weak returns and are strongly correlated to the basic factor-holding strategies. We present contrasting evidence from China, where actively managed stock mutual funds successfully time the size factor (small minus big) despite a negative unconditional loading. Size-factor timing is an important aspect of manager skill, as it attributes to over 50% of fund alpha. We show that the timing skill arises from funds' intra-period trading. Relatedly, funds with bigger return gaps exhibit more timing skill. Moreover, we find that mutual funds increase their size-factor exposure after high market turnover. However, mutual funds' factor-timing skill remains significant after controlling for lagged turnover.

**Keywords:** mutual funds, emerging market, factor timing, smart beta, performance attribution

**JEL:** G11, G12, G14, G15, G23

**Declarations of interest:** None

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