

# Accepted Manuscript

A Tale of Feedback Trading by Hedge Funds

Marc B.J. Schauten, Robin Willemstein, Remco C.J. Zwinkels

PII: S0927-5398(15)00070-5  
DOI: doi: [10.1016/j.jempfin.2015.05.006](https://doi.org/10.1016/j.jempfin.2015.05.006)  
Reference: EMPFIN 817

To appear in: *Journal of Empirical Finance*

Received date: 25 September 2012  
Revised date: 24 April 2015  
Accepted date: 11 May 2015



Please cite this article as: Schauten, Marc B.J., Willemstein, Robin, Zwinkels, Remco C.J., A Tale of Feedback Trading by Hedge Funds, *Journal of Empirical Finance* (2015), doi: [10.1016/j.jempfin.2015.05.006](https://doi.org/10.1016/j.jempfin.2015.05.006)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

## A Tale of Feedback Trading by Hedge Funds

Marc B.J. Schauten

VU University Amsterdam

Robin Willemstein

Erasmus School of Economics

Remco C.J. Zwinkels<sup>1</sup>

VU University Amsterdam and Tinbergen Institute

April 2015

### Abstract

This paper studies the extent of feedback trading at the factor level by hedge fund managers. We show that fund managers continuously adjust their exposure to different risk factors conditional on the recent performance of these factors. The majority of managers applies a positive feedback strategy, whereas the remaining managers use a negative feedback strategy. In addition, we find some evidence for factor timing ability, although managers appear to be more backward looking than forward looking. We show that positive feedback trading can be beneficial to fund performance in our setup. If managers applied the positive feedback strategy more aggressively, however, they could benefit more from it. As such, the “smart switching benchmark” can be used to assess the risk-adjusted performance of hedge funds.

**Keywords:** hedge funds, style analysis, feedback trading, time variation.

---

<sup>1</sup> Corresponding author. VU University Amsterdam. De Boelelaan 1105, 1081 HV Amsterdam, the Netherlands. E: [r.zwinkels@vu.nl](mailto:r.zwinkels@vu.nl); T: +31 20 59 85220.

We thank an anonymous referee, participants of the 2011 WEHIA meeting, as well as Laurens Swinkels, Sheridan Titman, Nick Bollen, Marno Verbeek, Narayan Naik, Tarun Ramodorai, and Bart Frijns for their highly useful comments and feedback. A previous version of this paper circulated under the title “Time-variation in hedge fund risk exposures”. The usual disclaimer applies.

Download English Version:

<https://daneshyari.com/en/article/7360799>

Download Persian Version:

<https://daneshyari.com/article/7360799>

[Daneshyari.com](https://daneshyari.com)