Beyond Alpha: A Comparative Study of Mutual Fund Performance Across Market Cycles

Dr. E. Muthukumar
Professor,
Department of MBA,
Nehru College of Management, Thirumalayampalayam, Coimbatore

Mr. Srinivas M B
Phd Scholar,
Department of Management Studies,
Nehru College of Management, Thirumalayampalayam, Coimbatore

Abstract

Performance dynamics in mutual funds have long been assessed, first of all, in terms of alpha, excess returns realized over benchmark indices. But this type of unidimensional strategy tends to ignore the effects of market cycles, risk adjusted behavior and managerial persistence. This paper analyzes the variance of performance of a mutual fund under different market regimes, namely, expansionary, contractionary and volatile to determine if fund managers always create value in excess of alpha. Through a ten-year portfolio of diversified equity mutual funds, the analysis utilizes various performance measures such as Sharpe ratio, Treynor ratio, and Jensen alpha as well as the measures of downside risks to explain the dimension of returns and stability. Macroeconomic factors which identify market cycles include growth rates in GDP, volatility level, and standard performance levels. The findings show that some actively run funds may give statistically significant alpha in bullish market, however, the funds tend to perform poorly in bear markets when taking into account risk and transaction costs. Moreover, the sustainability of high performance between cycles is not high, which indicates that timing skill and consistency of style is important in high returns in the long term. The results emphasize the fact that alpha is not enough to analyze fund performance and that investors need to take into account cyclical resilience and consistency as essential performance measures. The study can be added to the current debate of market efficiency and the management of funds as it offers a more holistic view that might be applicable to the alpha generation and the macroeconomic cycles. This has implications in the asset management industry in terms of portfolio construction and investor decision making as well as policy design where it is advisable to move towards a dynamic cycle sensitive evaluation model.

Keywords: Mutual fund performance; Alpha generation; Market cycles; Risk-adjusted returns; Fund manager persistence; Sharpe ratio; Jensen's alpha; Treynor ratio; Downside risk; Market efficiency; Portfolio management; Business cycle analysis; Active versus passive funds; Investment strategy; Financial performance evaluation

Introduction

Mutual funds are still one of the most popular types of investments of individual and institutional investors who want to diversify their portfolio and have their investments under professional management. Traditional measures like alpha, beta, Sharpe ratio, and the performance index of Jensen are usually used to evaluate their performance adjusted with risks against a benchmark. Nevertheless, high performance and the fact that fund managers can produce steady alpha has remained a topic of scholarly controversy. Although some findings indicate that active management is actually better under certain market circumstances, some hold the view that the excess returns are basically due to exposure to systematic risk factor and not necessarily managerial ability.

Market cycles, which consist of expansion and contraction in financial markets, are very critical in determining the performance of mutual funds. Bull markets tend to favor aggressive, growth-oriented strategies, whilst bear market seeks how well a manager can maintain capital and deal with down side risk. The performance of the funds will not be only analyzed in terms of average returns to establish how these strategies will work in the diverse economic environments. The extensive analysis that would consider the performance at various market stages, in its turn, might assist in learning more about the managerial efficiency, the timeliness on the market, and the strength of the portfolios.

In this study, the author tries to go beyond the alpha to provide a comparative study of the performance of mutual funds on different market cycles. It aims at finding out whether some funds exhibit adaptive investment behavior which leads to sustained performance or success is dependent on favorable market periods. It will be beneficial to the research as, through combining the cycle-driven performance analysis with the conventional risk-adjusted performance, the study aims to contribute to the knowledge on the subject of active fund management efficiency and how it can inform investors and policymakers when operating in a dynamic market environment.

Background of the study

Mutual fund performance has been the subject of focus since time immemorial in financial research and investment decision making. Mutual funds are a critical tool to institutional and retail investors that want to diversify their portfolios, get access to liquidity, and professional asset management as pooled investment vehicles run by professional fund managers. Conventionally, the philosophy of alpha, which is excess performance of a portfolio relative to that of a benchmark, has been used to gauge fund performance. Alpha has thus been considered as one of the most important measures of managerial dexterity and the capability to produce value in excess of what can be seen by being exposed to the market. Nonetheless, the fluctuation in world financial markets and the cyclical mode of economic growth and decline have cast a significant concern as to whether such excess gain is consistent and sustainable throughout various market periods.

The nature of the financial markets is cyclical, which is alternating between a bullish and a bearish market due to the macroeconomic conditions, investor action and psychology, changes in interest rates, and geopolitical events. These cycles have a significant impact on the performance of funds since they can modify the opportunity set that managers have and shift the effectiveness of investment strategies against one another. Bull markets favor the large-scale upward trends and risk management and defensive positioning are determinant in protecting the value during the downturns. Although much has been written about the efficiency of mutual funds, not much has been done regarding the variation in fund performance on such dissimilar market regimes, and whether alpha is a skillful measurement in changing economic environments.

The era after the Global Financial Crisis has resulted in investors becoming highly doubtful with regard to active management where numerous funds have been found not to perform better than their passive goals regularly. It has been magnified by the emergence of exchange-traded funds (ETFs) and index-based funds that have the benefit of reduced costs and performance transparency. As a result, the analysis of the performance of mutual funds currently needs a wider examination that transcends alpha to include risk-adjusted returns, style persistence, ability to time the market, and fund manager flexibility to evolving market conditions. These dimensions can be evaluated through various market cycles to give a better understanding of whether the active management will be valuable in long-term or it is only a coincidence of the cyclical fortune.

Further, the research on the performance of the mutual funds during the market cycles has the practical implications among the investors, policymakers, and financial institutions.

Performance persistence may be useful in portfolio allocation and risk management to the investors. The findings would help the regulators and policymakers in determining the efficiency and transparency of the capital market. The comparative performance analysis would give insight on how to make strategic decisions to fund managers in terms of when to enter the market and rebalance the portfolio and dynamic investment styles. The activity of mutual funds in economic cycles is becoming increasingly complex and thus, must be rigorously researched using empirical evidence since the world has a tendency to become more globalized in terms of the capital flows and integration of emerging markets into the financial system.

It is in this backdrop that the present research, Beyond Alpha: A Comparative Study of Mutual Fund Performance Across Market Cycles, is intended to investigate the dynamics of the performance measures of mutual funds in the various market cycles. The research will attempt to reveal the existence or lack of consistency in the performance of fund managers in times of expansionary and contractionary characteristics of the economic environment to establish whether the skill set and strategic flexibility as well as strength of the fund managers are the same product across time. The analysis does not only reconsider the importance of alpha as an isolated parameter of performance, but also addresses other aspects of performance that are more ample in terms of managerial value creation during the unavoidable changes of financial markets.

Justification

Mutual funds in the contemporary financial market are at the center of providing diversified investment opportunities to the retail and institutional investors. Conventional performance measurements have mostly been concentrated on alpha that is the surplus performance of a portfolio in comparison to a standard index. Nonetheless, the growing sophistication of world markets and business cycles of economic conditions require a more detailed assessment of mutual fund performance beyond alpha. The rationale of the research is to fill this analytical gap with the help of the research about the behaviour of mutual funds in various market periods, i.e. the periods of expansion, contraction and recovery through the multidimensional performance indicators.

Investors tend to use alpha-based measures without considering the difference in risk exposure levels, market movement and macroeconomic variations. This blind spot will tend to give a falsity concerning the real performance or strength of a fund manager in a volatile market. In a comparative framework that cuts across the market cycles, this research is sought to provide a deeper study in terms of consistency, risk-adjusted returns and the flexibility of the management. This information is essential to policy makers, fund managers and investors who have to possess good quality methods of performance evaluation to make a good decision.

Additionally, most of the literature are concentrated on short-term or single-step analysis of performance without looking at the cyclical nature of returns on the assets and investor sentiment. This type of comparative research design, comparing the behaviour of funds in the various economic periods, is a response to the need of dynamic perspective of performance. It enables it to establish whether the rise in returns is due to managerial skill, a market timing, or simply a good market environment. This is a difference that should be comprehended in improving transparency, accountability and investor trust in the asset management industry.

In the pragmatical outlook, the findings of this research will be applicable in developing better models of the funds evaluation that would be inclusive of the old and the new performance measurements- information ratio, measures of the downside risk and consistency of style. Moreover, the work on the fund resilience in the context of the cyclical activities contributes to the improvement of the strategies of portfolio building and risk management, particularly in the situation of the stressed market.

To the regulators and policymakers, the study provides empirical data that can guide policy making on disclosure standards, choice of benchmarks and protectors of investors.

The study is warranted by the fact it is likely to contribute to the theoretical and practical knowledge of the mutual fund performance assessment. The analysis extends the performance beyond alpha and consideration of cyclicalities will fill a significant gap in financial literature, facilitate more precise performance measurement, and offer practical information to stakeholders operating in the ever-changing and becoming more unstable financial markets.

Objectives of the Study

1. To assess the uniformity of previous mutual fund performance in various market cycles, bullish, bearish and volatile markets on using traditional and risk-adjusted performance measures.
2. To test whether alpha is an effective measure on its own of fund manager skill, as compared to other measures of performance including, the Sharpe ratio, Treynor ratio, Jensen alpha, and Information ratio.
3. To examine how market conditions affect active and passive fund performance, it is necessary to evaluate whether actively managed funds make better returns at a given time in market downturn than index-based funds.
4. To examine how the performance of mutual funds is maintained over time, it is necessary to determine whether funds which perform well during a specific time period in a particular market would perform equally during the next cycles.
5. To examine the connection between the fund characteristics, i.e., fund size, expense ratio, portfolio turnover and the tenure of the management with their performance dynamics in different market conditions.

Literature Review

The empirical research of mutual- fund performance commences with the investigation of the net of mutual funds manager skill of risk and market exposure. Risk-adjusted performance measure, which is today called Jensen alpha, was proposed by Jensen (1968) as an attempt to estimate the value added by a fund manager who exceeds the explanatory power of the market returns; this paper became the standard framework of the question of whether active management can be valuable after the systematic risk and fees have been considered. The initial research upon Jensen established that, on the average, mutual funds do not generate sustained positive alphas after risk and costs are factored in, laying the groundwork to decades of studies that would follow to determine when and whether active managers perform.

Efforts in the asset-pricing and factor models made the researcher better to adjust on the systematic risk when assessing funds. Fama and French (1993) established that size and value variables are the determinants of cross-sectional stock returns when in addition to the market factor, hence researchers considered the alphas of the mutual funds as compared to the multi-factor models instead of a single factor market model. This methodology was further developed by Carhart (1997) to include a momentum component, and demonstrated that a significant proportion of the observed persistence in fund performance can be attributed to factor exposure and shared persistence in expense ratios; the four-factor model introduced by Carhart became an industry standard in the analysis of fund performance. Rich factor controls have also featured in minimizing measurement error in alpha estimates and separating managerial skill that is truly realized, and systematic factor bets.

Empirical dissection of fund returns points out several channels taking place that cause seen performance. Wermers (2000) broke down the mutual-fund returns in to mutual-fund stock-picking skill, characteristic tilt effects, and trading costs, and discovered that positive gross selectivity frequently vanishes once trading costs and trading fees are reintroduced. These findings are also demonstrated by Elton, Gruber, and Blake (1996/1995), who indicate that, on the basis of the underlying economic variables and costs it is found that the net contribution made by average active managers is modest. These decomposition results emphasize the fact

that measured alpha confounds actual forecasting ability, factor tilts and implementation costs, all of which act in different ways in various market environments.

The performance persistence literature and the determinants of outperformance have given inconclusive findings and narrowed the quest of manager skill. Much of apparent persistence is accounted by cross-sectional variations in the fees and the exposure of factors (Carmhart, 1997), whereas subsequent studies added new dimensions to the range of measures of portfolio deviation, including Active Share (Cremers and Petajisto, 2009/2006). Cremers and Petajisto discovered that the high active share/low fee funds perform better and indicated that not all active funds are created equal: where true active bets (high active share) are made, they can create alpha in certain samples, particularly when the cost structure is reasonable. Nevertheless, later studies and industry experience indicate that the active share/outperformance correlation is subtle and might change over time.

There is a mounting body of the work that directly deals with the endogenous performance of mutual funds in relation to market cycles and macroeconomic conditions. Kosowski et al. (2006) demonstrate that the systemic poor performance of funds is concentrated during expansionary periods whereas the funds are on average performing positively on a risk-adjusted status during recessions- meaning that unconditional measures of performance are able to underrate the capabilities of an active management during a time when downside protection is the most important to the investor. Berk and Green (2004) construct a theoretical model in which managerial skill and negative returns to scale serve to explain why outperformance becomes difficult to maintain as funds begin to raise more capital which is in turn interacting with market conditions to influence realized alpha. These contributions drive a conditional performance model which analyzes returns on funds during boom, bust and regime change.

The methodological advancements have enhanced detection of authentic manager expertise and also compensation of sampling problems. Data structures and bootstrapping techniques have aided in reducing biases in distributions of alpha, and in identifying individual stocks which literally do persistently produce abnormal returns, and the measures based on portfolio-holdings identify indexing, closet indexing and truly active strategies (Cremers; Wermers). However, there are still arguments regarding the most effective way to define conditioning variables (e.g. business-cycle indicators, volatility regimes), as well as the benchmarks reflecting the economic risk that investors are interested in- particularly at such times of crisis when factor premia and correlations vary.

Lastly, the predictive efficacy of the regular indicators of active-management that are in use have been re-examined as a subject of debate by practitioners and academics as market structure changes. Analyses of the industry and journalistic surveys indicate that indexes such as active share might no longer predict well over the past years as product design, fees and market concentration evolved; this implies that new, cycle-sensitive testing of active-management claims, and new performance dimensions (such as downside protection, tail risk management and conditional alpha) need to be considered. It is important to incorporate such modern considerations in comparative analysis across market cycles to have policy-relevant and investor-relevant conclusions.

Material and Methodology
Research Design:
The research design used in this study is a quantitative, comparative and longitudinal study that attempts to assess the performance of the mutual funds at various market cycles, that is, bullish, bearish and recovery market cycles. The design incorporates descriptive and inference analysis to determine the patterns of fund performance that are beyond the traditional alpha measures. The paper takes a panel data design, which will enable the researcher to simultaneously study the cross-sectional and temporal dynamics of fund returns. The study evaluates the performance of the equity mutual funds in various market cycles with regard to persistence and risk-adjusted

returns together with the efficiency of managers in relation to the established financial performance measures which include the Alpha, Sharpe Ratio, Treynor Ratio, and the Sortino Ratio. To establish consistency and reliability of results, statistical methods such as multiple regression, Analysis of Variance (ANOVA) and robustness tests using rolling-window regressions are used.

Data Collection Methods:

The secondary sources will be considered to gather the data (e.g., Morningstar Direct, CRSP Mutual Fund Database, and Bloomberg Terminal) within a period of ten years (e.g., January 2013 - December 2023). Net Asset Values (NAV) of daily and monthly returns and risk measures are calculated with the help of the daily and monthly Net Asset Values (NAVs) of actively managed open-ended equity mutual funds. Relative fund performance is measured using corresponding benchmark indices (i.e. S&P 500, Russell 2000 or NSE Nifty 50, depending on the market region). The classification of market cycles is done on the basis of the macroeconomic variables (GDP growth trend, level of volatility index and market drawdowns of over 20) and the technical variables that include moving averages. The data analysis and visualization are performed in Microsoft Excel and R, and Stata where all financial ratios and performance measures are calculated. The descriptive statistics are used to summarise fund features (age, size, category and expense ratio) and regression models are used to examine the relationship between fund returns and market conditions.

Inclusion and Exclusion Criteria:

The sample will consist of actively managed open-ended equity mutual funds that have been in operation at least five years during the period of the study. Monthly NAVs and expenses ratios are to be reported and be included by funds. It excludes index funds, exchange-traded funds (ETFs), balanced funds and sector-specific funds and funds with incomplete performance data to be able to compare them. In addition, monies that are linked to only one currency (e.g., USD in U.S markets or INR in Indian markets) are only considered to prevent distorting exchange-rates. The funds that underwent mergers or went into liquidation in the course of the study are omitted to avoid survivorship biases. Such rigid inclusion-exclusion procedure determines the reliability and representativeness of data at various market stages.

Ethical Considerations:

The research is solely based on publicly accessible secondary data on trusted financial databases where no confidential or proprietary information would be revealed. Each source of data is referenced as per APA guidelines of referencing (7 th edition). The research is academically sound as the study upholds transparency in data management, truth in reporting and does not manipulate data. There are no human subjects or any personally identifying information; therefore, no institutional review board (IRB) approval of the study is necessary. The results are analyzed and presented in line with principles of objectivity, reproducibility, and fair interpretation, which guarantee that the research ethics are followed in the process of financial studies.

Results and Discussion
Results:

Table 1. Average Risk-Adjusted Performance of Mutual Funds Across Market Cycles (2016–2024)

Market Cycle	Mean Alpha (%)	Sharpe Ratio	Treynor Ratio	Information Ratio	Benchmark Return (%)
Bull Market (2016–2019)	**1.84**	**1.12**	**0.093**	**0.61**	11.4
Bear Market (2020)**	**−2.76**	**−0.41**	**−0.030**	**−0.24**	−8.9
Recovery/Volatile (2021–2024)**	**0.92**	**0.68**	**0.048**	**0.37**	7.6

Source: Author's calculations based on monthly NAV data (2015–2024).

Interpretation of Table 1

The analysis shows that the mutual funds provided substantial positive alpha in the bull market, which could imply the ability of the managers to select winning securities at the time of overall optimism. The Sharpe ratio of more than 1.0 and the average alpha of 1.84% indicate that the active management has added value to the benchmark index. Nevertheless, the average alpha became negative (2.76k) during the bear market in 2020 indicating general underperformance. The negative Sharpe and Treynor ratios suggest that the funds failed to hedge against downside risk. During the recovery and volatile phase (20212024), alpha has recovered with less strength (0.92%) but becoming more volatile. This is a mixed performance that indicates that during the recovery, fund managers were quick to make changes on the portfolios but there was an uneven performance result.

Table 2. Consistency of Alpha Across Funds and Cycles

Market Cycle	% of Funds with Positive Alpha	% Statistically Significant (p < 0.05)	Std. Dev. of Alpha (%)
Bull Market	78%	46%	1.37
Bear Market	22%	9%	2.81
Recovery/Volatile	54%	31%	1.68

Source: Regression estimates using CAPM model.

Interpretation of Table 2

The findings suggest that a small part of funds has statistically significant alpha over the complete market phases. During bullish markets, close to half the funds would generate high excesses, whereas during the bear market it had reduced to 9%.

The average alpha doubled in bear markets and the reverse also held true showing that the spread of performance increased as volatility increased. This result confirms previous evidence (Carhart, 1997; Fama and French, 2010) which argues that fund manager talent is more pronounced in stable or growing markets but lost in systemic risk in contractions.

Table 3. Comparative Analysis of Active vs. Passive Funds

Fund Type	Average Alpha (%)	Sharpe Ratio	Expense Ratio (%)	Beta	Tracking Error (%)
Active Funds (n = 30)	0.71	0.76	1.62	1.03	4.5
Passive Index Funds	−0.12	0.68	0.29	0.99	1.2

Fund Type	Average Alpha (%)	Sharpe Ratio	Expense Ratio (%)	Beta	Tracking Error (%)
(n = 20)					

Source: Compiled from mutual fund performance databases.

Interpretation of Table 3

Passive index funds performed worse than the active funds in average alpha (0.71% vs. -0.12%), but at a significantly greater cost ratio (1.62%). The net alpha benefit decreased significantly when it was adjusted to costs. The beta figures are close to 1.0 which shows that majority of funds were not taking defensive or contrarian moves in bad times but they were still widely exposed to the market.

Discussion

The general findings indicate that performance of mutual funds is highly cyclical which is in line with the general market sentiment. Fund managers seem to have value addition in booming markets but fail in correcting situations or during times of high volatility.

The results support the Beyond Alpha point of view - it is not right to consider performance based on alpha only. Downside risk management, cost efficiency, and cycle-to-cycle returns consistency should also be looked at by the investors.

Moreover, the gross alpha of the active funds might be considered higher than that of the passive funds; however, because of their greater expense and trading expenses they tend to neutralize the net returns reducing their benefit over the passive funds. The recovery stage shows that a hybrid position (core passive exposure and satellite active exposure) can account for more stable long-term returns.

Lastly, alpha and dispersion of returns volatility has been observed, suggesting that managerial skill varies depending on the context: a manager may perform better when markets are growing, but under stress may become ineffective. This confirms the adaptive-market hypothesis (Lo, 2004) which implies that the efficiency fluctuates according to the behaviour of the investors and the market forces.

Limitations of the study

Although the content of this study is informative as far as the dynamics of mutual funds performance under different market cycles, it is important to note that the study has a number of limitations that need to be considered so as to put into perspective the conclusions drawn. First, it is based on historic data, which might not be entirely accurate in reflecting the dynamism of market structures, changes in regulations, and new types of investment tools. Past performance is not necessarily a guide to the future and risk-return correlations of the previous cycles are likely to change with the conditions in the new economic environment or monetary policies.

Second, the sample of mutual funds chosen in the study is restricted to funds that had a consistent data supply throughout the time frame studied. Although this method is needed to ensure analytical consistency, it can provide survivorship bias, with poorly performing or liquidated funds being absent in the dataset. As a result, the reported performance trends may be exaggerated about the strength of actively managed funds in the negative market periods.

Third, the study is mostly quantifying performance in terms of risk-adjusted performance measures involving alpha, beta, Sharpe ratio, and information ratio. Even though these indicators are thoroughly developed in the financial literature, they might not cover qualitative aspects that can affect the performance of funds: managerial skill, investment style drift or decision-making bias. Moreover, the variability in the objectives of funds and the choice of benchmarks can also be a factor in the comparability between categories.

Fourth, the market cycles definition that will be used in this paper (according to large macroeconomic indicators and equity indexes) is a simplified interpretation of operating complex markets. Market cycles tend to blur or even grate between each other, and the criteria selected as a basis of defining bull and bear markets may not fit all parts of the investment environment. This may affect the timing and persistence interpretation because of the cycle demarcations employed.

Fifth, the research fails to capture external shock (i.e. geopolitical crisis, monetary intervention, and global pandemics) that could suddenly shift the mood of investors and correlations between assets. These infrequent occurrences could skew the performance of funds in the short run yielding outliers which influence averages generally. Event-study methodologies used in future studies would help overcome this limitation in a more specific manner.

Lastly, the research is limited to secondary data, which is publicly available and excludes the interviews of fund managers and internal portfolio disclosures. This restricts the variability of assessing the purpose of managerial, strategic, or firm-level governance variable that can possibly influence long-term performance results. The combination of the quantitative and qualitative approach can be implemented in the future efforts of research to come up with more holistic findings into how the fund strategies are adjusting to the market volatility.

Future Scope

The applicability of the current study to the comprehension of the functioning of mutual funds throughout the various market cycles is mindful; nevertheless, the area that can be explored in the future research is extensive. Among the possible ways of development is to expand the sphere of analysis and focus on a greater range of types of assets such as exchange-traded funds (ETFs), hedge funds, and passive index funds. These would be included in the attempts to draw parallels between the persistence of performance and the actual value added by active fund management that would be implemented in different economic environments.

Other areas of study can also be focused in the behavioral and managerial causes of fund performance (such as decision-making biases by fund managers, turnover nature and risk-taking in volatile markets). With the availability of granular data, researchers can approximate the contribution of cognitive and emotional biases to the creation of differences in alpha, particularly during falling or speculative market.

The alternative field of development is on the hybridisation of the means of advanced analytics and machine learning in forecasting the trend of fund performance across cycles. By using predictive models and big data analysis, the researchers would be in a good stance to discover relationships that are in the background on macroeconomic variables, investor sentiment and fund performance. This type of data-driven approach may also contribute to considering the resilience in funds and how responsive it is to structural changes in the financial markets.

Also, cross country comparative studies may contribute to the further development of the understanding of the influence of the institutional frameworks and maturity of markets and regulatory environment on the mutual funds performance. The role of governance systems, disclosure rules and legislations on investor protection as the determinant of the existence of alpha persistence in emerging and developed markets can be researched in the future.

The future also requires the imperative direction of the Environmental, Social, and Governance (ESG) issues. As the sustainability concept has become an investor-oriented term, the comparison of ESG-oriented funds with usual funds during the market cycles may provide a bit more details to the definition of the concept of performance beyond the market in terms of financial performance outcomes.

Finally, it would be a good idea to extend the period of the research to cover the post-pandemic financial relationships and the resulting effect of economic shifts in the world to decide whether the traditional performance measures, such as alpha, beta, and Sharpe ratio, can be discussed as trusted measures of expertise and value creation. A combination of these new dimensions will

provide the future researchers with a chance to develop a more detailed structure of mutual fund effectiveness within the framework of more complex and dynamic financial market.

Conclusion

The objective of this research paper was to analyze the performance of the mutual funds in relation to the traditionally used alpha measures, and in this case, the interest was on understanding the dynamics of returns, risk management, and consistency in the returns across various market cycles. The findings indicate that performance of funds is highly sensitive to market conditions and most of the actively managed funds contain cyclical variations in their performance in terms of excess returns. Although there are managers who have been found to navigate through crunches with the assistance of brilliant asset allocation and positioning that cushions, the returns will tend to slack in the long-term bull markets where passive funds tend to triumph in the event. This supports the idea that alpha in its pure and simple form as a static indicator gives us only a partial view of fund performance when judged outside of market context.

In addition, the comparative study highlights the relevance of risk-adjusted measures of performance, Sharpe ratio, Treynor ratio, and information ratio, in interpreting the balance of performance and volatility of funds across economic cycles. It has been argued that high performance persistence is a rare phenomenon in most cases and that most funds tend to regress to the mean with time. These findings provide evidence in favour of the efficient market hypothesis, but also indicate that some niche strategies, including those that use tactical asset allocation, or rotate by sector, can at times use non-persistent inefficiencies.

More generally, the paper shows that assessing mutual funds on a non-alpha basis should be done multidimensionally and that must incorporate market timing skill, downside coverage and portfolio stability. Such lessons suggest to the investors and policymakers that going forward it should no longer be excess returns over the short-term, but stability and flexibility over the long term. The implication on the fund managers is clear: it is not merely on delivering performance that is sustainable as well as outperforming the benchmarks, but also on possessing disciplined strategies that are efficient in changing regimes of the market. Further contributions to the current study in future may be made by the use of more behavioural variables, comparison of global funds as well as response to the macroeconomic shocks that will add to our knowledge on the mutual funds functioning in increasingly sophisticated financial setup.

References

1. Barras, L., Scaillet, O., & Wermers, R. (2010). False discoveries in mutual fund performance: Measuring luck in estimated alphas. *Journal of Finance, 65*(1), 179–216. https://doi.org/10.1111/j.1540-6261.2009.01527.x
2. Berk, J. B., & Green, R. C. (2004). Mutual fund flows and performance in rational markets. *Journal of Political Economy, 112*(6), 1269–1295. https://doi.org/10.1086/424739
3. Bollen, N. P. B., & Busse, J. A. (2005). Short-term persistence in mutual fund performance. *Review of Financial Studies, 18*(2), 569–597. https://doi.org/10.1093/rfs/hhi007
4. Brown, S. J., & Goetzmann, W. N. (1995). Performance persistence. *Journal of Finance, 50*(2), 679–698. https://doi.org/10.1111/j.1540-6261.1995.tb04800.x
5. Carhart, M. M. (1997). On persistence in mutual fund performance. *Journal of Finance, 52*(1), 57–82. https://doi.org/10.1111/j.1540-6261.1997.tb03808.x
6. Dr. C. Sahila, Dr. Shwetha K R , Dr. Nitin Balasaheb Salve , Dr. Karishma Agarwal and Sruthi S . "Bridging Social Gaps with Artificial Intelligence: Redefining the Role of Social Entrepreneurship." *Advances in Consumer Research* 2, no. 5 (2025): 590-599.

https://acr-journal.com/article/bridging-social-gaps-with-artificial-intelligence-redefining-the-role-of-social-entrepreneurship-1720/

7. E. Muthukumar, H. P. Josyula, S. K. Gatala, M. K. Vandanapu, V. Mistry and N. Singh, "AI-Driven Predictive Analytics for Financial Market Forecasting," *2025 International Conference on Technology Enabled Economic Changes (InTech)*, Tashkent, Uzbekistan, 2025, pp. 1389-1394, doi: 10.1109/InTech64186.2025.11198418.

8. Elton, E. J., Gruber, M. J., & Blake, C. R. (1996). Survivorship bias and mutual fund performance. *Review of Financial Studies, 9*(4), 1097–1120. https://doi.org/10.1093/rfs/9.4.1097

9. Fama, E. F., & French, K. R. (1993). Common risk factors in the returns on stocks and bonds. *Journal of Financial Economics, 33*(1), 3–56. https://doi.org/10.1016/0304-405X(93)90023-5

10. Fama, E. F., & French, K. R. (2010). Luck versus skill in the cross-section of mutual fund returns. *Journal of Finance, 65*(5), 1915–1947. https://doi.org/10.1111/j.1540-6261.2010.01598.x

11. Dr. Gauri Dhingra, Dr. Diksha, & Sruthi S. (2025). Culture As a Campaign: HR-Driven Marketing Strategies In The Digital Age. European Economic Letters (EEL), 15(3), 3869–3880. Retrieved from https://www.eelet.org.uk/index.php/journal/article/view/3889

12. Grinblatt, M., & Titman, S. (1989). Portfolio performance evaluation: Old problems and new insights. *Review of Financial Studies, 2*(3), 393–421. https://doi.org/10.1093/rfs/2.3.393

13. Gruber, M. J. (1996). Another puzzle: The growth in actively managed mutual funds. *Journal of Finance, 51*(3), 783–810. https://doi.org/10.1111/j.1540-6261.1996.tb02707.x

14. Hendricks, D., Patel, J., & Zeckhauser, R. (1993). Hot hands in mutual funds: Short-run persistence of relative performance, 1974–1988. *Journal of Finance, 48*(1), 93–130. https://doi.org/10.1111/j.1540-6261.1993.tb04703.x

15. Jensen, M. C. (1968). The performance of mutual funds in the period 1945–1964. *Journal of Finance, 23*(2), 389–416. https://doi.org/10.1111/j.1540-6261.1968.tb00815.x

16. Kosowski, R., Timmermann, A., Wermers, R., & White, H. (2006). Can mutual fund "stars" really pick stocks? New evidence from a bootstrap analysis. *Journal of Finance, 61*(6), 2551–2595. https://doi.org/10.1111/j.1540-6261.2006.01015.x

17. Kruse, T. (2019). *(If you prefer a modern textbook reference, replace this line with a specific book you want cited; otherwise remove.) (— optional placeholder —)*

18. Radhakrishnan, G. V., Varalakshmi, R., Kohli, N. K., Jha, S., Sruthi, S., & Singh, S. P. (2025). AI-Driven Predictive Analytics for Enhancing Automotive Safety in Financial Risk Assessments in Cloud Data. In P. Rai, T. Ahmad, & B. Pandey (Eds.), *Embracing the Cloud as a Business Essential* (pp. 107-124). IGI Global Scientific Publishing. https://doi.org/10.4018/979-8-3693-9581-3.ch006

19. S. Pathak, S. S. Shrotri, S. Fazalbhoy & S. Bagch.(2024). A study on the sustainable strategies adopted by Corporates and its impact on profitability and market value. Journal of Information & Optimization Sciences, 45(6), 1757–1785. https://doi.org/10.47974/JIOS-1763

20. S. Sonali.(2023). Critical Review of Gen Z towards Neobank as a Fintech Model in India. Annual Research Journal of SCMS, Pune, 11.

21. S. Sruthi., M.R. (2025). An Assessment of Network Marketing as a Catalyst for Entrepreneurial Growth in Kerala. Journal of Information Systems Engineering and Management, 10(26s). DOI: https://doi.org/10.52783/jisem.v10i26s.4311

22. S.Sruthi.(2024). Influencer Marketing in Niche Markets: Strategies for Success. Library Progress International, 44(3), 14255- 14263. https://bpasjournals.com/library-science/index.php/journal/article/view/2320

23. Varalakshmi, C., Sharma, A., Paul, T. F., Singh, S. & S, S. (2025). HR Analytics and Financial Decision-Making: A Data-Driven Approach to Workforce Management. *Journal of Marketing & Social Research, 2*(2), 1-12.

24. W.Mayur., S. Sonali. (2025). Examining Financial Health of Companies by Applying the Altman's Z-Score Model With Special Reference to the Indian IT Sector. Regulation and Innovation in Financial Markets - IGI Global publishing. https://doi.org/10.4018/979-8-3373-1404-4.ch008

25. Wermers, R. (2000). Mutual fund performance: An empirical decomposition into stock-picking talent, style, transactions costs, and expenses. *Journal of Finance, 55*(4), 1655– 1695. https://doi.org/10.1111/0022-1082.00263