



ELSEVIER

Journal of Financial Economics 43 (1997) 373-399

**JOURNAL OF
Financial
ECONOMICS**

Mutual fund styles

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(Received September 1995; final version received June 1996)

Abstract

Mutual funds are typically grouped by their investment objectives or the 'style' of their managers. We propose a new empirical to the determination of manager 'style.' This approach is simple to apply, yet it captures nonlinear patterns of returns that result from virtually all active portfolio management styles. Our classifications are superior to common industry classifications in predicting cross-sectional future performance, as well as past performance, and they also outperform classifications based on risk measures and analogue portfolios. Interestingly, 'growth' funds typically break down into several categories that differ in composition and strategy.

Key words: Mutual funds; Management style; Style analysis

JEL classification: G20; G23; G11

1. Introduction

Investment objectives and style classifications are widely used in the financial industry to characterize differences between money managers. Mutual funds, for

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The authors thank Michael Barclay, Ken French, Mark Grinblatt, Toshiyuku Otsuki, and Matthew Spiegel for helpful comments. We also thank participants in the 1995 WFA session on investment styles, the 1995 Conference on Finance and Accounting at the University of New South Wales, the 1995 Conference on Finance and Accounting, workshops at Berkeley, The City University of Hong Kong, University of California at Irvine, International University of Japan, University of Melbourne, Rutgers, Stanford, Princeton, Virginia Polytechnic, Washington University in St. Louis, the University of Washington, and the University of Wisconsin at Milwaukee, for their suggestions and comments. We also thank Morningstar, Inc. and Ibbotson Associates for providing data for analysis. All errors are the sole responsibility of the authors.