

The Efficiency of Mutual Fund Families: Insights from the Spanish Market

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By

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I want to dedicate this book to my wife Doris and my sons, Nicolas and Juan Diego; their love and unconditional support were essential to fulfill this project. Thank you God for being present in our lives and allowing us to have so many blessings.

I also want to dedicate this achievement to my mother and my father (†2017); without the adventurous vision that they gave me, I could not have fulfilled my dreams.

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About the Author

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Preface

The mutual fund industry has witnessed remarkable growth worldwide during the last decade. A significant effect on the savings patterns of the countries has been promoted by investment alternatives offered by mutual funds. Mutual fund management companies have suffered both great expansion and contraction periods in the same manner as other financial institutions. The need to analyze the efficiency of financial institutions has instigated an important line of research in the financial literature using alternative approaches. However, the emphasis of these studies has been typically on the banking and insurance industry rather than other specific companies related to the investment business. In addition, research on the mutual fund industry has been primarily focused on mutual funds rather than on their management companies. For that reason, this book aims to fill this gap in the empirical knowledge of the efficiency obtained by mutual fund management companies. In this sense, within the practical part the book will contrast the efficiency level achieved by companies in the management and distribution of mutual funds to establish their core competence. The book analyzes the potential interaction between this core competency and the overall efficiency results obtained by the fund company. In the empirical sections, the book shows research that analyzes the Spanish case, which is one of the most relevant fund industries in the Euro market. Therefore, to better understand the rationale behind the mutual fund industry, this study offers new insights into issues that have not been studied before in the European market.

This book develops an innovative model that considers the different management stages of mutual fund families, also known as mutual fund companies in the context of study, thereby overcoming the traditional dispute between the different approaches used in banking and insurance research. However, the variables considered in this model are unique and specific to mutual fund

companies rather than a mere replication of the variables used in the banking and insurance literature.

Data Envelopment Analysis (DEA) is the methodology used to evaluate this model. This frontier method is one of the most widely used methods in studies of technical efficiency, but the specific technique used in this study is one of the most recent innovations in this field and overcomes the problem of the high market concentration in the Spanish mutual fund industry. Specifically, this book is one of the first empirical applications of slacks-based measure (SBM) variations, which represents an important and recent contribution to DEA methodology. Additionally, the persistence analysis of the efficiency achieved by the different management stages considered in the fund company model is revealed to be an original contribution. Moreover, non-parametric statistics based on contingency tables have been developed based on an innovative cluster analysis of efficiency scores.

The book consists of two parts. The first part initially includes the basic concepts, a brief explanation of the basic DEA models, and a review of the most important applications to financial institutions. We then formulate the multi-management stage model and the unique set of fund industry-specific variables used in this research. Subsequently, the efficiency of Spanish mutual fund families is evaluated using the SBM approach. Finally, this part concludes and summarizes the major findings of the efficiency analysis.

The second part of the book reviews the major concepts of the variations in the original SBM approach and the more accurate empirical results of these SBM variants in the Spanish mutual fund industry. Subsequently, this part illustrates the persistence phenomenon to further determine whether any relevant factors may drive the efficiency results previously obtained. Finally, the second part presents conclusions and a summary of the major findings.

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