

## A SEEMINGLY UNRELATED REGRESSION ANALYSIS ON THE TRADING BEHAVIOR OF MUTUAL FUND INVESTORS

Nan-Yu Wang, Associate professor, Department of Business and Tourism Planning, Ta Hwa University of Science and Technology, Taiwan [nanyu@tust.edu.tw](mailto:nanyu@tust.edu.tw)

Sen-Sung Chen, Associate professor, Department of Risk Management and Insurance Feng-Chia University, Taiwan, [chenss@fcu.edu.tw](mailto:chenss@fcu.edu.tw)

Chih-Jen Huang, Professor, Department of Finance, Providence University, Taiwan, [cjh@gm.pu.edu.tw](mailto:cjh@gm.pu.edu.tw)

Shih-Heng Hsiao, Graduate student, Department of risk Management and Insurance Feng-Chia University, Taiwan, [hanks0608@cathaylife.com.tw](mailto:hanks0608@cathaylife.com.tw)

### ABSTRACT

This paper provides a comprehensive investigation on the causality relationship between fund performance and trading flows. We analyze if investors behave asymmetrically in fund purchasing and selling by seemingly unrelated regression which comprises several individual relationships that are linked by the fact that their disturbances or the error terms are correlated. The empirical result shows a significantly negative relationship between fund performance and purchase flows for domestic funds. The magnitude of domestic funds redemption negatively affects current return, but not for international funds. As previous fund return positively affects current net flows, the further lagged performances have no significant impact on the trading flows, revealing that fund investors are sensitive only to short-term past performance. Most importantly, while negative fund performance leads to the increases in redemption, positive performance contrarily leads to the decreases in purchase. The evidences strongly indicate an asymmetry behavior of fund investors in the return-purchase causality relations.

*Keywords: Fund performance, Fund flows, Seemingly unrelated regression, Trading behavior*

Nan-Yu Wang, Sen-Sung Chen, Chih-Jen Huang, Shih-Heng Hsiao,