

Analyze the relationship between mutual fund flows and stock market returns in United States and Taiwan.

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ABSTRACT

The main purpose of this study is to explore the relationship between mutual fund flows and stock market returns in United States and Taiwan. The empirical evidence from Granger causality test indicates that mutual fund flows lead stock market return in both countries but not true in vice versa. Therefore, investors can rely on the past performance of mutual fund flows to predict the behavior of stock returns in both countries. Furthermore, OLS regression leads to the conclusion that there existing positive long-term relations between TWMFF and TWSMR, between USMFF and USSMR and negative relations from USMFF to TWSMR, but it ' s very small impact. We also obtain the results from VAR suggested that stock return can be predicted by lagged fund flows in US case. Moreover, a significant one month lagged is retrieved from USMFF. Within two month lagged, USSMR is influenced by USMFF while there having a two-way feedback between TWMFF and TWSMR. The response to shock of TWMFF is stronger and longer than USMFF, indicate that United States is a more efficient Market than Taiwan from the aspect of mutual fund market.

Keywords : mutual fund flows, Stock market return, Granger Causality, VAR model, impulse response function, OLS.

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