

Fifty Shades of Active and Index Alpha

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Abstract

There is an ongoing debate about the benefits of active investing versus index investing. This paper will describe the different shades of alpha for active and index investing. It will differentiate across institutional and retail funds, before and after fees. It will also be benchmarked against one-factor, multi-factor and investable models, different markets, and different investment categories. In this paper, we create a robust test for the alpha that takes into account the often ignored time dependence in mutual fund returns. We find evidence that the hypothesis of a zero sum game after costs cannot be rejected for a vast majority of investment categories.

JEL classification: C12, C14, C22, G10, G14, G20, G21, G23

Keywords: active investing, index investing, mutual funds, robust alpha test

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