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Portfolio Performance Measurement Using Higher-Order Moment and Nonlinear Asset Pricing Kernel Models

This paper uses higher-order moment and nonlinear asset pricing kernel models to estimate the risk-adjusted performance of a sample of Canadian equity mutual funds over the period, 1989-1999. (Un)conditional frameworks are developed that are suitable to perform evaluations of fixed-weight and dynamic strategies. The results show that the weak unconditional performance becomes positive and significant with nonlinear and conditional kernel-based benchmarks. A restriction on the mean of the asset pricing kernel not only affects the performance statistics and inferences but also reverses and mitigates the conditioning information-based large fund effect. The findings on the relationship between fund performance and fund characteristics suggest that risk-adjusted performance is related to the age and size of the fund and to a lesser extent to the fund load structure but is unrelated to management fees.