THE NEGATIVE EFFECT INFLATION INTERACTION BETWEEN STOCK SELECTION SKILL AND FUND SIZE TO MUTUAL FUND PERFORMANCE

This study explaning, performance of mutual funds to identify their capacity to provide investors with high returns by examining the detrimental impact of inflation interactions between stock selection skill and fund size on mutual fund performance in 2019–2021.

Introduction

- The negative effect of inflationary movements that interact on stock selection skills of investment managers reduces the level of performance of stock mutual funds, many stocks are affected by uncontrolled inflation which causes the market value of investment in stocks to fall, this is by investors only surviving, but it is also possible for investors who have sufficient funds to make purchases at the lowest stock prices that can provide high return expectations in the future.

- Investment managers should be able to immediately shift the fund size to be more liquid and profitable into other types of funds because the impact of increased inflation on the fund size owned by the mutual fund company interacts to reduce the performance of the mutual fund. The decrease in the size of the fund size which is affected by the negative impact of inflationary movements weakens the increase in NAV of mutual funds, which is an indicator of mutual fund performance.

Materials and Methods

- Investment, according to Tandelilin (2010), is a current financial commitment undertaken with the expectation of future financial gain.

- The form in portfolio theory, according to Azis et al, (2017), makes the assumption that future returns can be predicted, which may then be used to assess risk with changes in the current distribution. In essence, portfolio theory can boost future profits while lowering the risk associated with investment instruments.

- Freeman (2005), stakeholder theory is a theory that specifies which parties the company is accountable for in raising its value, which in this case is indicated by the rise in NAV value, resulting in a significant increase in the performance of the mutual fund

Materials and Methods

- Mutual fund performance is referred to as a portfolio that analyzes other variables in along with the level of return achieved, such as the amount of risk involved (Musdalifa et al, 2017). According to the following mathematical formula, the Sharpe Ratio is used in this research to determine how well mutual funds have performed:

$$\text{Sharpe Ratio} = (Rp-Rf)/\sigma\rho$$

- Which :

Rp: portfolio return or market rate of return

Rf: risk-free return risk-free interest rate

$\sigma\rho$: standard deviation of portfolio return over the observation period

Materials and Methods

- The skill of investment managers to select the appropriate securities for their portfolio in order to deliver high returns is known as stock selection skill. In this study, the Treynor-Mazuy Ratio is used to calculate Stock Selection Skill.

$$Rp - Rf = \alpha + \beta(Rm - Rf) + \gamma(Rm - Rf)2 + \varepsilon\rho$$

- which :

α : Intercept, an indication of a stock selection by the investment manager, is explained.

Rp: Average mutual fund return for time period t.

Rf: Average return on risk-free investments for time period t.

Rm: indicates for "average market return in period t.

β : regression coefficient of excess market return

γ : regression coefficient that indicates the market timing skill of the investment manager.

ep : represents for "random error."

Materials and Methods

- Using the funds in the managed portfolio and information from the securities portfolio, the mutual fund metric known as "Fund Size" is calculated (Chen et al., 2004). In this study Fund Size is calculated using the Treynor-Mazuy Ratio based on the calculation formula below:

Ln(NAV)

Description: NAV= Net Asset Value

- An economic condition known as inflation occurs when there is an imbalance between the supply and demand for a good, with the latter leading to a propensity for price increases (Putra & Yaniartha, 2014).

SAMPLE

" Purposive sampling was utilized as the sample strategy in this investigation. Using these parameters, 67 traditional stock mutual fund companies served as the samples for this study from 2019 to 2021. "

ANALYTICAL METHODS

- The two analytical methods used in this study are moderated regression and descriptive statistics. The following describes the study's model:

  - $Y = \alpha_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 * Z_1 + \beta_4 X_2 * Z_3 + e$

which :

Y: Constant Mutual Fund Performance;

B1: The correlation between stock selection ability and fund size;

B2: The correlation between fund size and inflation;

B3: Z1: Inflation (Modifying Variable);

X1: Stock Selection Skill;

X2: Fund Size;

e: Confounding Variable

Descriptive Statistics

	KR	SSS	FS	INF
Mean	-0.377622	-0.0136	1978.818	0.4533
Median	-0.374000	-0.0070	27.55252	0.4500
Maximum	2.043000	0.8190	63047.62	0.5700
Minimum	-3.204000	-0.8840	15.02170	0.3400
Std.Dev	0.495033	0.1398	7395.167	0.0941
Observations	201	201	201	201

Source: calculated with Eviews 8, (2022)

MULTICOLLINEARITY TEST

Variable	Collinearity Statistic		Annotation
	Tollerance	VIP	
SSS	0.021892	1.529607	Tidak Ada Multikolinearitas
FS	4.85E-12	1.185113	Tidak Ada Multikolinearitas
INF	2.28E-05	6.890031	Tidak Ada Multikolinearitas

Source: calculated with Eviews 8, (2022)

It is shown in table , that there is no multicollinearity issue. This is evident from the VIP value, which is below 10 (10).

HETEROSCEDASTICITY TEST

F-statistic	2.281860	Prob. F(4,202)	0.0619
Obs*R-Squared	8.943782	Prob. Chi-Square(4)	0.0625
Scaledexplained SS	291.4265	Prob. Chi-Square(4)	0.0000

Source: calculated with Eviews 8, (2022).

The probability value of Prob.Chi-Square is 0.0625 (higher than 0.05), which suggests that H0 is rejected and there is no heteroscedasticity issue, according to the estimation findings obtained using the white heteroscedasticity test.

AUTOCORRELATION TEST

" The test results reveal that the DW value of 0.712767 is between +2 and -2 where there is no autocorrelation, which means H1 is allowed. This is based on the calculation results of the Durbin Watson value of 0.712767, which then corresponds to the Durbin-Watson benchmark. Therefore, the autocorrelation in this research model is negative. "

REGRESSION

Dependent Variable	Variable	Regression Coefficients	t-count	Prob.	Direction	annotation
Kinerja Reksadana (KR)	Konstanta	-0.390059	-8.223376	0.0000		
	SSS	0.709535	9.002491	0.0000	(+)	Signifikan
	FS	1.01E-06	2.054448	0.0413	(+)	Signifikan
	INF	-0.001974	-0.415129	0.6785	(+)	Tidak Signifikan
	SSS*INF	-0.166452	-15.69585	0.0000	(-)	Signifikan
	FS*INF	-3.09E-06	-6.087925	0.0000	(-)	Signifikan
R–Square		0.826350				
Adjust RSquare		0.819115				
F-Statistics		114.2094				
F Significant		0.000000				

Source: calculated with Eviews 8, (2022)

SUMMARY

- The performance of mutual funds is positively and significantly impacted by stock selection skill. This encouraging result demonstrates that the level of performance that can be generated can be significantly higher the higher the level of ability or skill of the investment manager in selecting the securities to be included in the mutual fund portfolio, or what is known as the stock selection skill.

- The effect negative of inflation on mutual fund performance weakens the stock selection skill variable. If the increase in inflation is not stopped, investment managers must be able to maintain and develop their stock selection abilities to foresee dangers from inflation. Good stock selection skills will have a favorable impact on both the returns generated and the capacity to attract future investors.

Summary

- The performance of conventional stock mutual fund companies registered with the OJK from 2019 to 2021 is positively and significantly impacted by fund size. This encouraging outcome demonstrates that a mutual fund's performance will improve or its rate of return will increase the larger the fund that the investment manager manages.

- The effect negative of inflation on mutual fund performance weakens the fund size variable. This is because both big and little mutual funds in Indonesia are negatively impacted by inflation. Because an increase in inflation would result in higher costs for goods and services and lower profits for the company, corporations with both big and small fund sizes have a substantial impact on the performance of mutual funds. The distribution of profits to investors also declines as a result, which makes investments less appealing to investors because they cannot provide the anticipated return and lowers the value of net assets.

THANK YOU