

Comparative Review of Mutual Funds in Indonesia and in United States

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Abstract: *This study was conducted to compare the differences in the performance of equity funds in Indonesia and the United States. In the first study conducted in Indonesia researchers used a data analysis method using the Sharped and Treynor methods while in the second study conducted in the United States researchers used the Jensen method.*

Keywords: Mutual Funds, Indonesia Stock Exchange, United States Capital Market

1. Introduction

The Indonesian economy in the first quarter of 2017 gives an indication of positive growth. This is indicated by Indonesia's higher economic growth rate of 0.09% from the same quarter of 2016 at 4.92%, in addition to several other economic fundamentals that provide positive sentiment such as an inflation rate that tends to be controlled at around 4 % in accordance with government projections and export imports that have managed to get out of the deficit zone thus becoming a catalyst for the progress of the Indonesian economy.

Good economic conditions have a positive impact on the investment climate in Indonesia. This is a positive sentiment for investors to increasingly trust Indonesia as the right place to invest their assets. The breaking of the highest record in history of the Composite Stock Price Index which broke through 5,800 at the opening price on Monday, May 22, 2017 is a concrete proof of investor confidence to invest their money in Indonesia, this is because Indonesia is considered to have a more stable economy amid the economic turmoil that hit world.

Investors invest their wealth in various investment instruments, both provided by Bank Indonesia and investment instruments that are products of the Indonesia Stock Exchange. Investors have different investment profiles ranging from investing in investment instruments with the lowest risk level to the highest risk but providing a high return. Some of these instruments are Bank Indonesia Certificates (SBI), deposits, bonds, mutual funds, stocks, option contracts, futures contracts and other investment instruments.

Mutual fund investors in Indonesia as of August 2016 totaled 340,869 people from a total of 489,806 investors in Indonesia or equal to 71.75% of investors in Indonesia invested their assets in mutual funds. This figure is not a small number given the large capitalization value of the Indonesian capital market which reached IDR 6,018 Trillion in early 2017. The number of mutual fund investors is divided into five types, namely money market mutual fund investors, fixed income mutual funds, mixed mutual funds and stock mutual funds and index mutual funds.

The performance of mutual funds of each different type is influenced by various factors such as risk level, investment manager skills and political economy conditions and

government policies. The best performing mutual funds are stock mutual funds that provide the highest rate of return of all other types of mutual funds, this is comparable to the highest risk level of other mutual funds. Conversely, mutual funds with the lowest level of risk and return are money market funds.

The performance of a mutual fund can be assessed by several methods and one of them is by comparing the performance of mutual funds from one country to another. This comparison method provides a balanced assessment of mutual funds in a country without assessing how large the value of the mutual fund is but looking at the percentage of return from each mutual fund.

Researchers are interested in comparing mutual funds found in Indonesia with the United States. This is because there are still many local investors who consider the sentiment coming from the United States so that changes in the value of mutual funds in Indonesia are heavily influenced by these sentiments. The researcher would like to examine how much this sentiment affects the mutual fund market in Indonesia and the mutual fund market in the United States and which countries are more affected. Therefore, the researchers compiled this study entitled "Comparative Analysis of the Performance of Equity Funds in Indonesia and the United States".

2. Theory Basis

a) Mutual Funds

Mutual funds (mutual funds) are a collection of funds obtained by the public or investors to be managed by investment managers and invested in various types of investment portfolios or other financial products (Rahardjo, 2004: 2). Sunariyah (2003: 210-220) states that based on its legal form, mutual funds are divided into two forms, namely:

- 1) Corporate Mutual Funds The company's mutual fund issues shares that can be traded by investors.
- 2) Collective Investment Contract / KIK(Contractual Type)

Mutual Fund Mutual fund in the form of collective investment contract (KIK) is an instrument for collecting funds by issuing units of participation to the investor community, then the funds are invested in various types of investments both in the capital market and money market.

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Bapepam (www.bapepam.go.id/2015) states that the types of mutual funds seen from its investment portfolio are divided into 4 types namely:

1) Money Market

Mutual Funds Mutual funds that invest in debt securities with a maturity of less than 1 year. The aim is to maintain liquidity and maintain capital.

2) Fixed Income Mutual Fund This mutual fund invests

At least 80% of its assets in the form of debt securities. The aim is to produce a stable rate of return.

3) Mutual Funds Equity

Funds that invest at least 80% of their assets in the form of equity securities. The risk of this type of mutual fund is higher but results in a high rate of return.

4) Mixed Mutual Funds.

Mixed mutual funds invest in equity securities and debt securities.

b) Performance Evaluation

Portfolio performance evaluation will provide answers to portfolio performance that has been formed, namely the ability of portfolio to provide a relatively higher level of return compared to other portfolio returns in accordance with the level of risk borne.

1) Sharpe Method Sharpe

Method is one method of measuring mutual fund performance using the concept of

Remarks:

$\hat{\beta}$ = Treynor portfolio index

\bar{r}_m = average mutual fund return during the observation period

\bar{r}_f = average risk-free return rate during the observation period
 $\hat{\beta}$ = beta portfolio

Through Sharpe method and Treynor method, this study will provide the results of the performance of equity funds compared to the BI Rate as a risk-free investment. If the performance of equity funds is positive, investing in equity funds is more profitable than risk free investments. Furthermore, comparing the performance of stock mutual funds with the benchmark performance of the CSPI and will provide the results of the number and product of mutual fund that is able to outperform from the market (CSPI).

3. Research Methods

Journal of Investment Performance Analysis in Equity Funds Using the Sharpe and Treynor Method.

In the first study, the type of research used in the study was descriptive. Descriptive research solely to reveal the situation as it is. This study uses a quantitative approach, which is research that emphasizes the use of numbers starting from data collection, interpretation of the data, and the appearance of the results (Arikunto, 2006: 12).

The population in this study were all equity funds that have been registered and active in Bapepam until December 2014,

namely 162 mutual funds. The sampling technique in this study uses a non-probability method, namely sampling that does not provide equal opportunities for each element or member of population to be selected as a sample. The number of equity fund products that meet all the sample criteria in this study is 41 equity funds. Analysis of the data in this first study used the Sharpe method and the Treynor Method

Data analysis in this study uses the Jensen calculation method. Jensen Measuring mutual funds is calculated by four sets of benchmark portfolios: balanced monthly return portfolio of all CRSP (New York and American Stock Exchange) securities, CRSP weight value indexes, 10 portfolio factors created by factor-Analytical procedures developed at Lehmann and Modest (1988), 5 and benchmarks of eight portfolios, formed on the basis of company size, dividend yields, and past profits developed in Grinblatt and Titman (1988).

4. Results and Discussion

a) Analysis and Interpretation

1) Equity Funds Results Calculation with Sharpe and Treynor Method a. Results of Calculation of Return and Average Return of Monthly Equity Funds

Calculating the monthly return of each equity fund requires data on Net Asset Value (NAV) per unit obtained through the official website of Bapepam, www.aria.bapepam.go.id. The formula used is as follows: $\bar{r}_m = \frac{1}{n} \sum_{i=1}^n r_i$ The following is an example of calculating the return of Axa Citra Dynamic stock funds in January 2010. $\bar{r}_m = \frac{2,890.37 - 2,835.48}{2,835.48} = 0.019$

This method is also used to calculate monthly returns for all samples (41 equity funds). Next calculate the average return on mutual funds. Calculating the average return of a stock mutual fund is to divide the amount of accumulated returns during the observation period by the number of observation periods. An example calculation of one of the equity funds, namely Axa Citra Dynamic Mutual Funds in 2010 is as follows: $\bar{r}_m = \frac{0.250012}{12} = 0.0209$

b) Return Calculation Results and Average Monthly Return Benchmark (CSPI)

IHSG monthly data as a comparison of the results of the performance of equity funds are obtained from the website (finance.yahoo.com). The first step to find the average JCI return is to calculate the monthly JCI return during the observation period. The formula used to calculate the JCI return per month is:

$R_m = \frac{JCI_t - JCI_{t-1}}{JCI_{t-1}}$ The following is an example of calculating JCI return in 2010. The JCI data used is the close price of JCI per month.

$R_m = \frac{2,610,80 - 2,534,36}{2,534,36}$

$R_m = 0,0302$

The results of the performance of mutual fund shares assessed using the Sharpe method and the Treynor method

during the observation period (2010-2014) produce the same results. Overall performance of equity funds has fluctuated over the past 5 years (2010-2014). The value of the performance of positive equity funds according to the Sharpe and Treynor method in 2010 was 97.56%, in 2011 was 29.26%, in 2012 was 75.61%, in 2013 was 9.76%, and in 2014 were able to perform more good that is equal to 97.56%. 2. A good mutual fund is one that is able to produce positive Sharpe and Treynor index values and is able to outperform compared to the benchmark (CSPI). The number of equity funds that outperformed from IHSG both with the Sharpe and Treynor method were: in 2010 there were 4 mutual funds (9.75%), in 2011 there were 14 mutual funds (33.3%), in 2012 there were 9 mutual funds (21.4%), in 2013 as many as 14 mutual funds (33.3%), and in 2014 equity funds were able to outperform from CSPI as many as 18 mutual funds (43.90%). 3. During the observation period (2010-2014) there were no mutual fund shares which yielded positive values according to the Sharpe and Treynor method. However, there are two mutual funds that have consistent performance among other mutual funds because they are able to outperform from the BI Rate for 4 years (2010,2011,2012 and 2014) and are able to outperform from IHSG (2010,2011,2013,2014). The two mutual funds are Panin Dana Prima and Panin Dana Maksima. Therefore Panin Dana Prima and Panin Dana Maksima are mutual funds that are worth investing in in 2015.

Journal 2 Mutual Fund Performance Calculation

This research is different from previous research on mutual fund performance . First, the sample of refunds consists of the estimated gross returns from mutual funds from the quarter portfolio ownership data entry. Second, comparisons are used to look for possibilities of a common passive strategy to lead to desired results.

Jensen measures, applying this comparison allows superior performance to be possible. Especially in aggressive growth and fund growth, and funds that have the smallest NAVs. It is very interesting that these funds have the largest burden so the actual return, net of all expenses, does not approach abnormal performance. This indicates that investors cannot take advantage of the superior capabilities of portfolio management by buying shares in mutual funds.

5. Conclusion

From the two journals above we can see that to calculate the performance of mutual funds we can use 3 methods, namely the Sharpe, Treynor, and Jensen methods. And the results of both studies are not much different the same two can find out the mutual fund performance

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