Journal of Financial Management Strategy
Alzahra University
Vol. 13, No. 48, Spring 2025

pp. 27-30

Research Paper

Analysis of Investors' Intelligence in Mutual Funds in The Periods of Recession and Boom in the Capital Market[1]

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Received: 2024/02/13 Accepted: 2025/03/03

INTRODUCTION

This research aims to examine the ability of mutual fund investors to predict fund performance and select higher-yielding funds. To assess this, data from 34 funds were collected for the period 2012 to 2020, enabling an evaluation of investor cash flow intelligence.

Market booms and downturns were differentiated to determine if investor behavior varied across these periods. Additionally, individual and institutional investors were analyzed separately to evaluate the distinct performance of each group. The Carhart four-factor model was used to calculate risk-adjusted fund returns and assess investor intelligence.

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1. doi: 10.22051/jfm.2025.42896.2786

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The results indicated that investors demonstrated intelligent behavior by entering funds during market booms and exiting during downturns. These findings contribute to a better understanding of investor behavior and decision-making in financial markets.

MATERIALS AND METHODS

The research population comprised all active mutual investment funds supervised by the Tehran Stock Exchange Organization. The research sample was selected from this population using a systematic elimination method. Funds meeting the following criteria were included:

- The fund was either a mixed or equity investment fund, regardless of size.
- The fund had obtained its operating license and commenced operations prior to 2012.
- The fund remained active throughout the study period (2012-2019), with all necessary information available on the Stock Exchange Organization's website.
- Other investment fund types, such as index funds, fixed income funds, and real estate funds, were excluded.

This study employed a multivariate linear regression model, using both time series and panel data, to test the research questions. Data analysis was conducted using Eviews software. The alpha coefficient served as a measure of investor intelligence in selecting higher-performing funds.

RESULTS AND DISCUSSION

The estimation results of the research model, aimed at predicting smart money during market booms, revealed that the alpha coefficient for both individual and institutional investors was positive and statistically significant at the 99% confidence level. This indicates that during boom periods, fund performance exceeded market performance, suggesting that investors acted intelligently during these times.

Conversely, the estimation results for predicting smart money during market downturns showed that the alpha coefficient for both groups of funds, with positive liquidity flows from individual and institutional investors, was negative and statistically

significant at the 95% confidence level. This suggests that investment fund performance during market downturns was weaker than the market, and these funds were unable to generate superior returns for their investors.

CONCLUSION

This study's findings, derived from segmenting the market into boom and recession periods, reveal notable insights during market booms. The research model indicates that investment funds experiencing liquidity inflows outperformed the market and overall index during boom phases. The alpha coefficients for both individual and institutional investor groups were statistically significant at the 99% confidence level, demonstrating the ability of these funds to achieve superior returns during thriving market conditions. Consequently, investors injecting new capital into investment funds during market booms acted wisely, securing better returns than the overall index.

These results align with early studies on investor intelligence by Graber (1996) and Zheng (1999), as well as Salang's (2012) finding that investors perform better in boom periods. The observed intelligent performance of both investor groups during booms also resonates with Kiyosaki and Stollin's (2008) emphasis on investor vigilance. Conversely, investors withdrawing capital during market booms acted unwisely. Both individual and institutional investor groups exhibited statistically significant unwise behavior at the 99% confidence level. Notably, institutional investors showed a larger coefficient during withdrawals, suggesting weaker performance compared to individual investors, contradicting the common belief that they are more astute.

During market recessions, the study found that investment fund performance was weaker than the market and overall index. Investors failed to achieve higher returns, indicating unintelligent investment performance in actively managed funds. These results are consistent with findings by Farazani and Lamont (2008) and Feng, Zhou, and Chan (2014), which highlight investor unawareness and poor fund performance. However, investors who withdrew capital during recessions acted intelligently by exiting funds with lower returns than the market. This action demonstrates a sound understanding of market conditions and effective decision-making during challenging times.

Keywords: Cash Flow, Intelligence of Investor, Mutual Fund, Economic Prosperity, Legal Investors, Real Investors.
JEL Classification: G23, G11, G10.

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