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Fundamental driver of fund style drift

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- **Authors**
- **Authors and affiliations**

- Giuseppe Galloppo
- Giovanni Trovato

- Giuseppe Galloppo
  - 1
  - 2
- Giovanni Trovato
  - 1

1.Ceis FoundationUniversity of Rome Tor VergataRomeItaly
2.DEIM DepartmentUniversity of Tuscia ViterboViterboItaly

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Abstract

Starting from a review of 500 firms included in the Sp500 US Equity Index and by running a mixture model we built equity portfolios. In particular, the main objective of the present study is to examine the style drift effect during the 2007–2012 global financial crises, and what fundamental variables can contribute to this effect. Overall, there is a transition between Value and growth components among the pre-crisis and crisis periods. This is a passage (Drift) from one style to another. We consider three categories of variables in order to understand what hides behind this drift, namely: firm profitability, financial health and financial analyst information. We also take into account earnings per share (EPS), which means company's attitude to distribute dividends. In general, it is interesting to note that variables connected to financial health, except for the Current ratio in style transition, tend to have little explanatory power. Our results concerning Analyst information report say that while expectations of market analysts relating to corporate profits are more coupled with the Value component, Analysts' recommendations, on average, are crossed both for Value and growth factors.

Keywords

investment style fundamental factors capm mixture model financial crisis

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