



E Q U I T I E S

Acting on the Most Valuable Information: “Best Idea” Trades of Mutual Fund Managers

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Working paper

This paper proposes an ex ante proxy for the ranking of mutual fund trades. The most attractive trades — the “best ideas” — beat the benchmarks by up to about 0.30% per month and outperform other fund trades by even higher margins. Abnormal returns do not revert in the next six quarters, which suggests that the result is not driven by transitory liquidity effects. Interestingly, the value of “best ideas” is higher when they involve companies that did not experience large revisions in analyst EPS forecasts. It is thus possible that they reflect new information that is not yet available to sell-side analysts.

Best ideas are based on information shared by multiple managers who work for the same management company. Such information is likely to be generated by centralized research, which may include buy-side analysis or informal networks in which managers exchange their investment views.

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