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Abstract
Funds of funds are an increasingly popular avenue for the fund investment. These funds were designed to achieve even greater diversification than traditional mutual funds and also stabilize the long-term fund performance by adjusting the underlying assets over time. However, the first approval fund of funds, FGIT Elite Fund of Funds, issued by FGIT in year 2003 April in Taiwan, but since then the market values of domestic funds of funds do not increase as expected. In this paper, we investigate the performance and diversification effect for the domestic funds of funds. We also test the self-interest behaviors for the funds of funds managers. The behavior indicates that the managers prefer to invest the funds that were issued by the same company, not the best component according to the investor’s requirements. Our sample includes 9 fund of funds in Taiwan for the period from August in 2003 to December in 2004.

To compare with the existed studies, in this paper, we try to discuss the effect to the risk diversification effect by investing the funds that were issued by the same company of funds of funds and industrial factors, and to analyze the risk adjustment process by the operating behavior in investing the funds that were issued by the same company.

From the empirical results, we find that the performances of funds of funds are not so well in the domestic market and the investment risks are still highly. We did not find those managers who are losers in the first 6 months of a year tend to increase their portfolio risks in the second half of the year to compare with winners. Most funds of funds managers tend to invest the funds for his company, not for the investors, and do not adjust the holding weight based on the market condition. Therefore, we conclude that the self-interest behaviors of the fund managers are obviously. It needs to pay attention to regulate the behavior. However, the self-interest behaviors of these investments on funds’ returns are not clear.
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