Market Timing Skill of Foreign Portfolio Investors in India

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Abstract
This study examines the market timing skill of foreign portfolio investors (popularly called foreign institutional investors or FIIs) in India as a group. A simulated portfolio was constructed which invest in market index replicating the patterns of aggregate net FII flow. Similar portfolios are constructed replicating the trading behaviour of domestic institutional investors (DIIs) and investors of other categories. The performance of these portfolios is compared with the performance of two benchmark portfolios constructed based on buy-and-hold strategy and systematic investment strategy respectively.
The results based on bootstrapping of modified internal rate of return (MIRR) of investment portfolios suggest that the FII portfolio does not outperform the benchmark portfolios. On the contrary, the average returns of benchmark portfolios are significantly higher than the average return of FII portfolio. FII portfolio also does not outperform the portfolios representing investment strategies of DIIs and other investors. Therefore, our results show that the FIIs as a group do not a superior market timing skill.

Key words: Foreign portfolio investors, market timing skills, Modified Internal Rate of Return, Bootstrapping

JEL Classification: C12, G10, G23