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**MARKET TIMING, SELECTIVITY, AND FUND PERFORMANCE—A  
COMPARISON OF AGGRESSIVE, MODERATE, CAUTIOUS, AND  
FLEXIBLE ALLOCATION STRATEGIES****Abstract:**

Morningstar discovered that the investment goal stated in a fund's prospectus did not always fully reflect how the fund really invested. Morningstar Category classifications addressed this issue by grouping portfolios into peer groups based on their holdings. The categories assist investors in identifying top-performing funds, assessing possible risk, and building well-diversified portfolios. In this paper, we compare the relative risk-adjusted performance of aggressive allocation funds, cautious allocation funds, flexible allocation funds, and moderate allocation funds. We find that, on average, aggressive, cautious, flexible, and moderate allocation strategies did not outperform U.S. equities. We also found that aggressive and flexible allocation produced a negative alpha and portfolio managers, on average, actually did worse than they should have given the required return of the portfolio. Also, allocation strategies did not exhibit market timing skills. Instead, portfolio managers exhibited poor security selection skill in aggressive allocation and cautious allocation strategies.

**Keywords:**

portfolio performance, allocation strategies, mutual funds

**JEL Classification:** G11, G19