Figure 2: Performance Persistence vs. Market Conditions

This figure depicts the three, six, nine, and twelve months performance of one-month alpha-sorted funds. Alpha is computed using a standard four-factor model, regressed over a 36-month period. Funds are sorted into five decile groups such that "Quintile 1" ("Quintile 5") refers to the worst (best) past alpha funds. The average alpha during the one month sorting period is reported as "Month 0". The upper panel shows the results for funds sorted following months in which $I(MKT_t = Up)$, which are defined as months in which the three-month average excess returns is higher than the 75th percentile of the historical three-month average of market excess returns. The lower panel shows the results for funds sorted following months in which $I(MKT_t = Down)$, which are defined as months in which the three-month average excess returns is lower than the 25th percentile of the historical market excess return. The data cover the period 1980 to 2005.