



1-14-2013

R-Squared and Fund Selection

Steven D. Dolvin
sdolvin@butler.edu

Follow this and additional works at: <https://digitalcommons.butler.edu/jmdallchapters>



Part of the [Finance and Financial Management Commons](#)

Recommended Citation

Dolvin, Steven D., "R-Squared and Fund Selection" (2013). *All Chapters*. 54.
<https://digitalcommons.butler.edu/jmdallchapters/54>

This Blog Post is brought to you for free and open access by the JMD Investments Supplement at Digital Commons @ Butler University. It has been accepted for inclusion in All Chapters by an authorized administrator of Digital Commons @ Butler University. For more information, please contact digitalscholarship@butler.edu.

JMDinvestments

Monday, January 14, 2013

R-Squared and Fund Selection

R-squared is the correlation (i.e., r) of a fund to its benchmark index multiplied by itself (i.e., squared). R-squared measures how closely a fund tracks its respective index. A recent article ([see here, Wall Street Journal](#)) suggests that investors should search for actively managed funds with low R-squareds, as this suggests the manager is truly trying to add value by concentrating on specific sectors of the benchmark universe. However, doing so increases systematic risk. So, there is a tradeoff.

Related Chapters: Chapter 13