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Categorizing Canadian Mutual Funds: An application of Machine Learning Classifiers

Mutual funds and exchange-traded funds (ETFs) are some of the most popular options for investors who are looking to diversify their financial portfolios. The popularity of these instruments has increased the competition intensely among fund providers, who manage a variety of funds and strive to outperform their peers. Given the growth of this market, classifying similar funds has become more important than ever and also a complex problem. The vendor-provider categorization developed by Morningstar is considered the most reliable in the Canadian and US markets. This methodology relies not only on data but also on a qualitative screen performed by a team of human experts, which is likely to add emotional biases to the process. The existing literature on fund categorization has been focused on unsupervised clustering. In this talk, however, we aim to learn a well-regarded categorization system using supervised machine learning algorithms, creating, therefore a fully data-driven method to classify Canadian Mutual funds.