The evaluation of the performance of investment managers is a much studied problem in finance. Based upon the model developed in Part I of this paper, the statistical framework is derived for both parametric and nonparametric tests of market-timing ability. If the manager's forecasts are observable, then the nonparametric test can be used without further assumptions about the distribution of security returns. If the manager's forecasts are not observable, then the parametric test can be used under the assumption of either a capital asset pricing model or a multifactor return structure. The tests differ from earlier work because they permit identification and separation of the gains of market-timing skills from the gains of micro stock-selection skills.