

Perspectives - On Business

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Perspectives on Mutual Funds

As you likely have read in the press, there are allegations that early in the year 2000, some money managers used their personal accounts to trade rapidly in and out of mutual funds that they managed, and that a few other employees made similar trades in funds they did not manage. While we don't happen to have any clients invested in the mutual funds implicated, we believe it is important to be informed on issues in the investment community.

Market timing refers to frequent movements in and out of funds to try to attain short-term gains. This type of rapid in-and-out trading of the funds' shares may increase trading costs and may adversely affect long-term investors in the funds.

Market timing is legal for traders, but is illegal if a company prohibits the practice but then allows privileged clients to engage in it. The allegations are that, although the companies in question prohibit the practice, they allowed some of their employees and some pensions to do it. Such short-term trades could cause detriment to the fund by potentially increasing the fund's costs and by diluting gains.

Some investors have wondered if the negative publicity of these companies could cause their fund values to drop. Please remember that the net asset value of an open-ended fund is the sum total of the various securities owned by the fund. Individual stocks and bonds should not be affected by this news.

Our decision to hold or sell *any fund* has to be weighed in light of the costs of moving as well as any possible tax consequences. Such a decision also ought to be made on a rational evaluation of the facts as they emerge, rather than on a knee jerk reaction to news reports.

Financial Planning Perspectives has up to date statements and information on the progression of these proceedings, as well as companies' response to them. If you know someone who would appreciate an objective third-party to discuss their concerns with, please feel welcome to send them to us. Initial consultations are always free. We may be able to bring some clarity to their issues.

Thanks to friends like you who refer new business to us, our practice continues to grow.

As always, your comments and reactions are welcome. Please feel free to share this newsletter with others you think may find it interesting or useful. We respect your privacy and will not share your address with others. Click [here](#) to send a comment, to subscribe, or unsubscribe.

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