

MEMO# 17810

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REPORTS OF "PORTFOLIO PUMPING" BY MUTUAL FUNDS: A CLOSER LOOK

[17810] July 26, 2004 TO: BOARD OF GOVERNORS No. 49-04 CEOS PRIMARY CONTACTS - MEMBER COMPLEX No. 73-04 ACCOUNTING/TREASURERS COMMITTEE No. 23-04 RESEARCH COMMITTEE No. 14-04 SEC RULES MEMBERS No. 106-04 RE: REPORTS OF "PORTFOLIO PUMPING" BY MUTUAL FUNDS: A CLOSER LOOK The Investment Company Institute has added an online publication to its website entitled Research Commentary that will be used to respond to research-related articles and documents. The first publication, Reports of "Portfolio Pumping" by Mutual Funds: A Closer Look, addresses a recent article by Mark Hulbert of CBS Marketwatch.com suggesting that mutual funds were marking-the-close on June 30, 2004. Marking-the-close, also called portfolio pumping, is the illegal practice of purchasing securities in an effort to fraudulently drive up a fund's NAV.
<http://cbs.marketwatch.com/news/story.asp?siteid=google&dist=google&guid=%7B3D83BEF C-3D1D-4F75-9615-33EB2B04FD38%7D> The Research Commentary by ICI Senior Economist Sean Collins shows that mutual funds have little motive for undertaking activity and that a closer look at the data in Hulbert's article, in fact, provides no basis for suggesting mutual funds engaged in the practice on June 30, 2004. Furthermore, SEC examinations of trading activity of mutual funds and other institutional investors since 2000 have resulted in no enforcement actions to date involving inappropriate trading or market manipulation by mutual funds, although actions have been brought against others including at least one hedge fund operator. John D. Rea Vice President - Research & Chief Economist
Enclosure

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