

Looking behind the churn rates

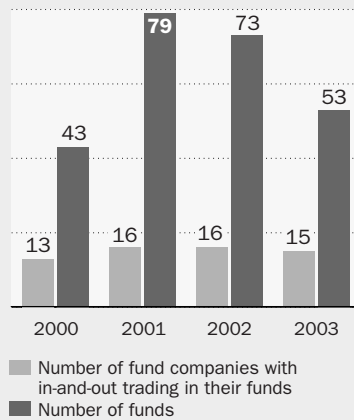
Transfers in and out account for the lion's share of activity in those funds with churn rates exceeding 100 per cent, while sales and redemptions account for a much smaller portion of the cash flows. This is a strong indication of market timing. By contrast, action in the benchmark funds of Fidelity Investments Canada and TD Asset Management is more evenly spread. Fidelity and TD were chosen for the benchmark because for several years each company has had procedures in place to dissuade market timers.

The yearly breakdown for funds with churn rates exceeding 100 per cent.

	Sales	Redemptions	Transfers in	Transfers out	Churn
2000	30.8%	13.9%	116.4%	112.6%	273.0%
Benchmark	25.0	11.7	13.1	12.7	62.5
2001	17.5	18.2	102.7	107.4	245.5
Benchmark	14.9	14.3	6.1	8.7	44.2
2002	7.9	14.0	162.5	166.3	352.0
Benchmark	13.1	15.5	4.0	8.3	40.9
2003	12.1	19.4	93.1	96.6	221.2
Benchmark	11.0	16.7	8.4	8.5	44.5

In-and-out trading

The pace of in-and-out trading rose steadily through to 2002, when 73 funds had churn rates exceeding 100 per cent. A churn rate of 100 per cent means that cash equal to a fund's average assets changed hands during the course of a year.



High stakes

The dollar value of rapid in-and-out trading peaked in 2002, falling off after September, 2003, when U.S. authorities launched a crackdown on market timing and other questionable practices.

