


**...but watch for window dressing; [2 STAR Edition]**

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**Abstract** (Document Summary)

Academics at Pace University and Wake Forest University found that bond funds load up on government holdings during disclosure periods but put more of their money into riskier, higher-yield corporate bonds in periods when they don't have to tell the public what is in their portfolios.

Sean Collins, an economist for Investment Company Institute, said there are legitimate reasons to load up on government bonds at particular times of the year. Interest rates, which affect bond values, tend to fluctuate sharply in late December, when the U.S. calendar year ends, and in late March, when the Japanese year ends, two times when many funds disclose their holdings. As a result, fund managers may increase government holdings to reduce their exposure to uncertainty.

**Full Text** (359 words)

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NEW YORK - For investors in the \$7.5 trillion mutual fund industry, is what you see really what you get?

For years, speculation has circulated in the industry that some fund managers "improve" their portfolios by dumping more speculative investments and loading up on more presentable ones right before they disclose their holdings to investors twice a year.

The industry's main interest group, the Investment Company Institute, has argued that rumors of "window dressing" are greatly exaggerated, and that the Securities and Exchange Commission has never found enough evidence to bring a case asserting that kind of deception. But a new study suggests that the practice may be quite common in bond funds which account for \$1.6 trillion of the

industry's holdings.

Academics at Pace University and Wake Forest University found that bond funds load up on government holdings during disclosure periods but put more of their money into riskier, higher-yield corporate bonds in periods when they don't have to tell the public what is in their portfolios.

The study, which used data from a quarterly survey of funds conducted by the research firm Morningstar, found the effect was particularly pronounced in corporate high-quality bond funds, which put 40.6 percent of their holdings into government bonds during disclosure periods, on average - but only 35.6 percent during other periods, said co-author **Matthew Morey**, a finance professor at Pace.

"They're buying government bonds right before disclosure periods," he said. "It makes them look safer than they are."

The portfolio manager benefits in two ways: The fund gets a lower risk rating by holding government bonds during disclosure periods, yet it gets higher-than-expected returns because of its investments in riskier corporate bonds.

Sean Collins, an economist for Investment Company Institute, said there are legitimate reasons to load up on government bonds at particular times of the year. Interest rates, which affect bond values, tend to fluctuate sharply in late December, when the U.S. calendar year ends, and in late March, when the Japanese year ends, two times when many funds disclose their holdings. As a result, fund managers may increase government holdings to reduce their exposure to uncertainty.

Credit: Washington Post