

## Question 4: Flow Analysis

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### 1. Introduction

This question looks at several funds, their returns and the flows of capital to and from those funds. The key question is then, do short term successes have an effect of flow of funds? To answer this I calculate correlation between short term returns and flows. I then investigate whether there exists any notable correlation between these correlations, fund size and average returns.

6 Month	1 Year	3 Year
0.0528127	0.0806287	0.065543

The table above shows the average correlation between rolling returns and flows to a fund. As can be seen, very little correlation exists. The highest correlation is an 8% correlation for the 1 year rolling returns. This early result indicates that investors know that past wins do not mean future wins and as such don't flock to a fund that has been performing well recently.

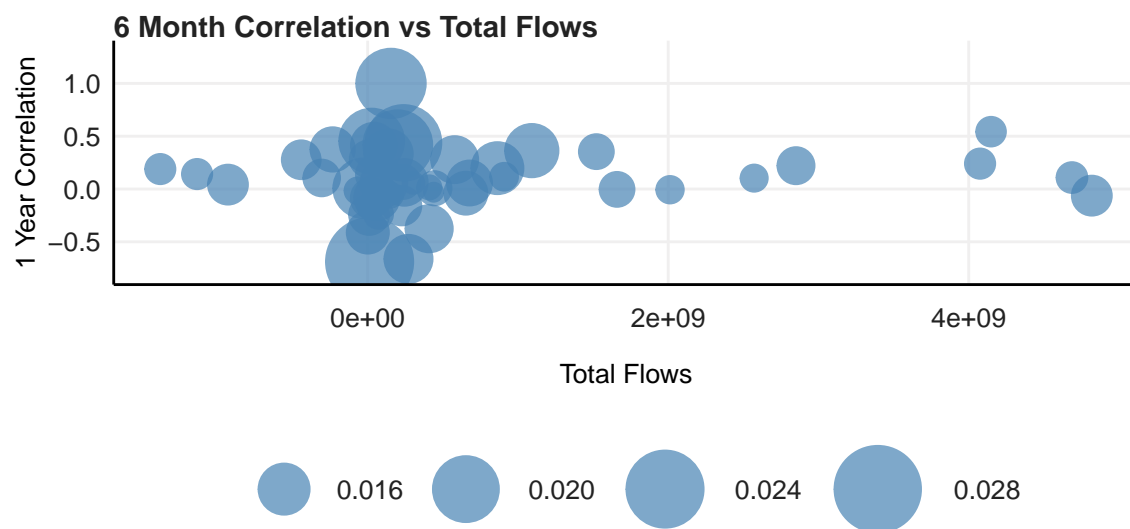


Figure 1.1: 6 Month Correlation vs Total Flows

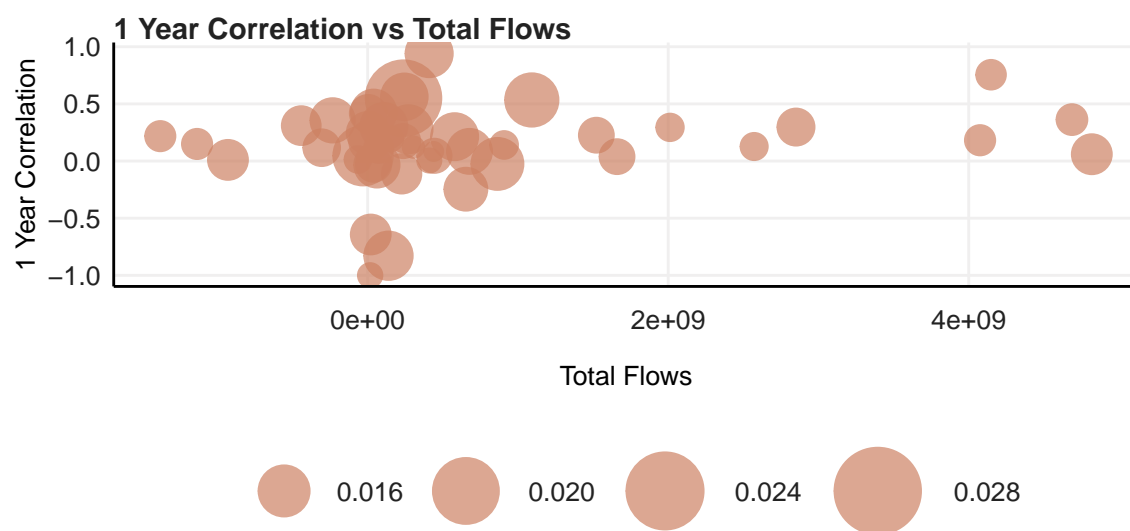


Figure 1.2: 1 Year Correlation vs Total Flows

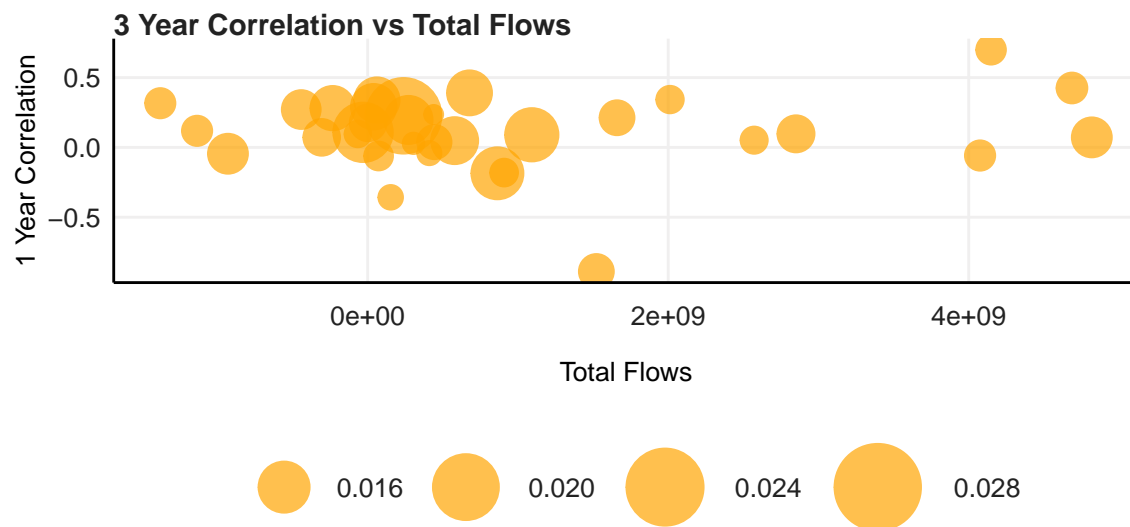


Figure 1.3: 3 Year Correlation vs Total Flows

The plots above shows scatter plots between total flows for each fund and the correlation of returns and flows. The size of the points are determined by the average returns for that fund. It is clear that no correlation exists. This means that the total flows a fund receive does not change the perception of investors. They still hold the belief that past successes don't predict future winners. The average returns of a fund also don't seem to have an effect. If it did we would see all the large points gather at either the top or bottom of the graph. This result holds for the 6 month, 1 year and 3 year correlations.