

The Determinants of Cash Flows in Greek Bond Mutual Funds

Christos Grose¹

Abstract

This paper examines the factors that affect inflows – outflows of capital in bond mutual funds that operated in the Greek market during the period 1997-2005. Investors in bond mutual funds do not seek for high gross returns in order to determine their investment decisions in contrast with investors in the stock market. The risk weighted returns however represent a crucial factor in investment decision making. Bond mutual funds that invest primarily in government bonds, appear to be more affected by commissions charged by mutual fund managers, since investors avoid mutual funds charging high commissions, while on the other hand investors that prefer corporate bonds show reduced sensitivity in the commissions charged by mutual funds. Investors in government bonds increase their investment positions when stock markets experience small or negative returns, a clue that shows they seek for safe heavens for their investments. This phenomenon is more evident when investors face a temporary period of low stock market returns and is not as strong when low returns in the stock markets are extended to a period of years. In these cases investment positions in bond mutual funds appear to be part of a more permanent investment policy where bond investments are considered to be an integral part of a diversified portfolio.

Keywords: bond mutual funds, commissions, fund flows

JEL Classification: G15, G11, G12

1. Introduction and literature review

The evaluation of the returns characteristics of investments in bond mutual funds is a topic of increasing interest when taking into account the size of the invested funds in this investment category.

There are a number of factors that render the research presented in this paper important. The first and most apparent one is the size of this market in Greece, given that it exceeded the 5 billion euros margin during the period under consideration, constituting approximately 3 percent of Greek GDP, and 30 percent of the total of funds invested in

¹ Kavala Institute of Technology, Department of Accounting, Agios Loukas 65404, Kavala, Greece, e-mail: christosgrose@gmail.com