

Answer on Question #39763 – Writing – Management

Assignment

Funds flow analysis represents a stock to flow linkage - justify

Solution

Fund flow is the net of all cash inflows and outflows in and out of various financial assets. Fund flow is usually measured on a monthly or quarterly basis. The performance of an asset or fund is not taken into account, only share redemptions (outflows) and share purchases (inflows). Net inflows create excess cash for managers to invest, which theoretically creates demand for securities such as stocks and bonds.

Investors and market analysts watch fund flows to gauge investor sentiment within specific asset classes, sectors, or for the market as a whole. For instance, if net fund flows for bonds funds during a given month is negative by a large amount, this would signal broad-based pessimism over the fixed-income markets.