



Forbes Newsletter Watch

Market Timing Misnomer

John Dobosz, 09.10.03, 4:56 PM ET

Readers of this column are accustomed to us tracking the moves of well-known market timers like Michael Burke of Investor's Intelligence. Recently there has been a maelstrom of bad press about market timing because a handful of fund families permitted the Canary Partners hedge fund to make intraday trades, which are unavailable to ordinary fund shareholders.

But what Canary and the other mutual fund groups--**Janus** (nyse: [JNS](#) - news - people), **Bank of America** (nyse: [BAC](#) - news - people), **Bank One** (nyse: [ONE](#) - news - people) and Strong--were allegedly doing was not market timing. They bought into mutual funds at net asset values (NAV) that didn't reflect up-to-date pricing from foreign markets in an effort to make quick profits on intermarket inefficiencies.

[Click here to download Forbes Gurus' latest buy list: "Five Funds For Fall 2003."](#)

Dan Sullivan's The Chartist has been the No. 1 technical analysis newsletter for the past 20 years. His recent Yahoo! recommendation is up 35%. To get Dan's complete list of relative-strength winners, click here.

The market timing covered in most investment newsletters, on the other hand, involves using technical analysis to determine whether stocks are likely to go up or down. Advisers who specialize in market timing are currently cringing because the media's lexicon is lacking.

"That wasn't market timing. What they were doing was really arbitrage--exploiting three-to-four-hour quirks in market pricing," says Bill Ragsdale, editor of [Good Fortune](#), a market-timing newsletter that recommends portfolios of Fidelity-only funds.

In order to discourage the kind of short-term scalping (and even some legitimate market timing), Fidelity has imposed redemption fees on shares of many of its funds held for less than 30 or 90 days, and generally allows only four switches in and out of most of its popular funds. Fidelity also practices "fair value pricing" which adjusts the NAV of funds to reflect news that will affect holdings when trading resumes in those shares. Fund companies don't like quick in-and-out trades because it increases transaction costs and forces managers to hold higher levels of cash--or even sell assets--to meet redemptions. This hurts performance.

Internet, small-cap, and emerging market funds were the best-performing mutual funds in the first half of 2003. Find out which funds Janet Brown sees coming on strong for the second half. Check out NoLoad Fund*X risk-free today.

Marvin Appel, coeditor with his father of [Gerald Appel's Systems and Forecasts](#), is also a market timer who specializes in mutual funds and exchange-traded funds. He claims that many less actively managed funds are more geared toward market timers. The Rydex funds, for example, can be traded intraday, as can ETFs. The advantage of intraday trading for someone who uses a technical service like Appel's is the ability to execute stop and limit orders, which play important roles in traditional market timing, particularly if a technician picks up a change in trend. Right now, Appel is bullish on ETFs tracking the **Nasdaq 100 Trust** (amex: [QQQ](#) - news - people) and the **Russell 200 Index** (amex: [IWM](#) - news - people). As a sell stop, Appel uses 1% below the 21-day moving average.

Investors who plan to hold for the long term have an interest in buying funds that don't have a lot of in-and-out trading. In [Morningstar's Fund Picks & Pans](#), Russell Kinnel recommends several international funds that have stern policies discouraging return-robbing rapid trades by hedge funds. These include **Fidelity Diversified International** ([FDVIX](#)), **Vanguard European Stock Index** ([VEURX](#)) and **Putnam International Equity A** ([POVSX](#)). He recommends that investors avoid Bank of America's Nations Funds.

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