1. What is liquidity?
2. What different types of liquidity are relevant to the case and how do they relate? What is a “flight to quality” and how does it affect markets?
3. How does an open-end mutual; fund work? What are the pros and cons of allowing investors to redeem their shares for both managers and investors?
4. How does ReFlow’s service work? Can it help to address the shortcomings of open-end fund structure?
5. Characterize the three trading costs described in the case. How do they differ across the market capitalization of the funds (i.e., small versus large cap)? What is the intuition behind these differences? (Exhibit 2)
6. Edelen estimated that every $1 of mutual fund inflow (outflow) resulted in $0.63 ($0.76) of additional trading by the manager (Page 4).Why fund sales result in less trading than fund redemption?
7. How do they differ across the relative trade sizes of the funds (Large versus Small Trade Size)? What is the intuition behind these differences?
8. Let’s assume the fund doesn’t have cash holdings, estimate how much trading would be required each month to accommodate the observed fund flows. How do the estimates for 2008 compare to earlier years (Table 2 of Exhibit 2)
9. Should Madeline Annette use ReFlow’s service?