

POLICY BRIEF

PORTFOLIO PUMPING IN SINGAPORE: MYTH OR REALITY?

A 2004 case involving portfolio pumping led to the [successful prosecution of a fund manager](#) in Singapore in 2010. In response, we commenced a [study of "portfolio pumping" activities](#) on the Singapore Exchange (SGX) to gain insight into the degree of market manipulation on the exchange, and to understand whether the existing enforcement framework is effective in dealing with such activities. Portfolio pumping (also known as marking the close) occurs when the price of a stock is bid up artificially at the end of the day (typically at quarter ends), and thereafter reverts down to its market equilibrium level the following day.

STUDY FINDINGS

- Although our findings found excess returns at the year ends, it did not find evidence that these were due to portfolio pumping activities. The study also found limited evidence of window dressing activities (window dressing occurs when poor-performing stocks in the portfolio are sold and replaced with well-performing stocks. This typically occurs at the end of the year in an effort to paint a favorable picture of the fund manager's portfolio when it is published in the annual report).
- We suspect that these results were due to the combination of the signaling effects of enforcement actions and relevant reforms in the regulatory framework, making portfolio pumping activity an expensive affair.
- The study also identified common characteristics of Singapore-listed companies that might merit further analysis.

CFA INSTITUTE VIEWPOINT

- Despite media reporting on the prevalence of window dressing activities during year-end cycles, our findings indicate that this is not the case. Although excess returns were evident at year ends, there was limited evidence that it was due to window dressing activities. To prevent possible investor confusion, regulators should work to increase awareness and education among mainstream media on what constitutes window dressing in practice.
- By generating greater awareness of the multitude of factors that can create temporary price anomalies, journalists will paint a more accurate picture of the current capital markets regulatory landscape for their readers.
- Given the statistically significant evidence pointing towards the successes of enforcement action and reforms in SGX's regulatory framework in dealing with portfolio pumping, we recommend other bourses to adopt and refine some of these measures.
- With a profile of companies susceptible to potential portfolio pumping based on our analysis of Singapore now available, we hope that regulators can use this information in their own market surveillance activities.