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Fund investors throw in towel

By Jeff Benjamin

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Mutual fund investors are running for cover.

During the four-week period ended Aug. 24, estimated net outflows from stock funds totaled $44.5 billion, making it likely that August will earn the dubious distinction of becoming the biggest month for net outflows from such funds since October 2008.

Bond funds, meanwhile, experienced estimated net outflows of $10 billion, meaning August likely will mark the end of a six-month streak of inflows into the category, according to figures released last week by the Investment Company Institute.

Fund flows for the final week of August will be reported Wednesday, and the outlook is not any better.

“I'm sure the fund flows for the last week of August will be negative, too,” said Kevin McDevitt, an analyst at Morningstar Inc. “There has just been a general reduction in investor appetite for risk, and that flight to quality is not terribly surprising.”

To be sure, August was a tumultuous month for investors. The contentious debt ceiling debate, the Standard & Poor's downgrade of the nation's credit rating and the release of one dismal global economic report after another sent the markets reeling. In the end, the S&P 500 fell 5.7% last month and the Dow Jones Industrial Average fell 4.36%.

For investors, last month may have been too reminiscent of late 2008, when the markets swooned and many watched the value of their portfolios plummet, said Ted Wright, director of research at Genworth Financial Asset Management Inc.

“August was a reminder of 2008, and it conjured up fears all over again of a double-dip recession and a new credit crisis,” he said. “A lot of investors have bounced off the bottom and recovered, and now they don't want to take a chance of losing it again.”

Indeed, some clients are panicked.

“I've had a couple of newer clients ask me to stop dollar cost averaging their money into the markets, and I agreed to slow down but not stop,” said **Jennifer Murray,** owner of **Stonebridge Financial Advisors LLC**. “I don't think investors see a safe harbor anywhere right now, but going to cash results in a negative return after inflation.”

Ms. Murray isn't the only adviser at odds with clients.

“I'm telling clients that there were no technical reasons for the market to go down last month; it was all hype out of Washington and Europe,” said Theodore Feight, owner of Creative Financial Design. “The way the media and the Internet is now set up, people can get information and get fearful faster than ever before.”

Mr. Feight said he has been talking with one prospective client who has half of a $2.5 million portfolio parked in cash.

“He's fearful,” Mr. Feight said. “But this market is likely to recover so fast that by the time most people get their money back in, it will be too late.”

At the same time money was moving out of mutual funds, retail money market funds added $29.4 billion. Banks, which offer Federal Deposit Insurance Corp. protection, also extended a pattern of rising assets.

Total bank savings and money market account assets crested the $5.9 trillion mark Aug. 15, up $150 billion from six weeks earlier, according to the board of governors of the Federal Reserve System.

“Ever since the Fed said they won't be changing rates for at least the next few years, people have been looking for any kind of alternative yield, and banks are now flush with deposits,” said Eric Lansky, director of StoneCastle Partners LLC, a cash management firm.

As a cash management alternative, the national average yield for an FDIC-insured money market account is 57 basis points, compared with 4 basis points for comparable six-month Treasuries and 2 basis points for money market mutual funds.

But even if banks offer the best cash alternative, the flight from stocks and bonds is frustrating advisers and hurting investors, according to Lydia Sheckles, chief investment officer at Wescott Financial Advisory Group LLC.

“Investors do not tend to be rational during times like we've had in the past few weeks,” she said. “We believe in buying low and that's one of the hardest things for people to execute on.”

Email Jeff Benjamin at Jbenjamin@investmentnews.com