ICI VIEWPOINTS

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Mutual Fund Investors Remain Steady Despite Volatile Market

By Brian Reid and Chris Plantier

Each month, ICI reports definitive long-term mutual fund flows, made up of stock, bond, and hybrid funds. The Institute also provides an estimate of weekly flows for those funds. It's important to consider both weekly and monthly data when interpreting the activity of fund investors. Despite sizable August outflows, more-recent weekly data suggest that investors remain cautious but steady.

Events Contribute to Investor Caution

Incoming macroeconomic data this summer have led many economic forecasters, including the International Monetary Fund, to revise down their economic outlooks for the United States and global economy. The increased uncertainty about U.S. economic growth prospects, especially after Standard & Poor's downgrade of the long-term sovereign credit rating on the United States of America to AA+ from AAA on August 5, as well as ongoing concerns about debt sustainability in Europe, have caused investors to reassess and adjust their portfolio holdings.

Outflow Activity Was Concentrated in Early August

This reassessment shows up in our monthly flow data for August, which show a total of $36.8 billion in net outflows from long-term funds. Most of these outflows were concentrated in early to mid-August.

One factor here was a rapid increase in stock market volatility in early August, as measured by the Chicago Board Options Exchange (CBOE) Volatility Index. This volatility caused many investors to reassess and adjust their portfolios. The CBOE volatility index spiked on August 4, peaked on August 8, and has remained elevated since that time.

Consistent with that timing, most of the August outflow from equity funds appears to have occurred in the week ended August 10. While there were outflows in the week ended August 3, a portion of those flows would have occurred in the final days of July. For the week ending August 10, equity funds saw estimated outflows close to $30 billion—including almost $23 billion from domestic equity and $6.8 billion from foreign equity funds. Bond funds saw estimated outflows of $3.5 billion for the week ending August 10, including almost $2.4 billion from taxable bond funds and $1.1 billion from municipal bond funds.

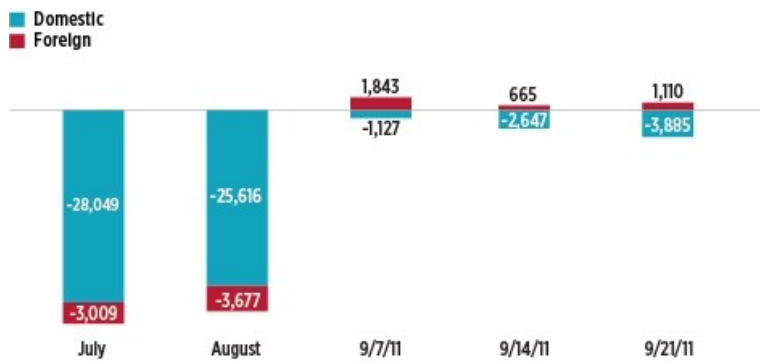## September: Bond Fund Inflows, Equity Outflows Subside

On Wednesday, we released our weekly flow data for the week of September 15–21, showing an estimated total of $386 million in net inflows into long-term funds. Weekly cash flows are estimates that are adjusted to represent industry totals, based on reporting covering 95 percent of industry assets.

Bond funds started receiving inflows in September, roughly in line with average bond inflows since early 2008. Moreover, it is worth noting that equity outflows have averaged less than $1 billion a week since August 10, slightly less than the average weekly outflow from equity funds observed since early 2008.

What the recent flow data show is that mutual fund investors remain cautious in terms of their overall asset allocation, but are not fleeing equity funds by any means. In fact, despite a rapid increase in stock market volatility in August, the vast majority of mutual fund investors stayed the course with their investments, as evidenced by the weekly flow data since August 10.

Net New Cash Flows to Equity Mutual Funds

Millions of dollars, recent monthly and September weekly data

Domestic
Foreign

	July	August	9/7/11	9/14/11	9/21/11
Foreign (top)			1,843	665	1,110
Domestic	-28,049	-25,616	-1,127	-2,647	-3,885
Foreign (bottom)	-3,009	-3,677			

Source: Investment Company Institute

Net Net Cash Flows to Bond Funds

Millions of dollars, recent monthly and September weekly data

Taxable bond
Municipal bond

	July	August	9/7/11	9/14/11	9/21/11
Municipal bond (top)	29		424	610	
Taxable bond	9,816	-3,055	4,436	4,110	569
Municipal bond (other)		-1,006			1,184

Source: Investment Company Institute

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