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## Even in Bear Markets, Equity Fund Investors Stay the Course

By Shelly Antoniewicz

With the S&P 500 on a downward trajectory since early October, we've seen many headlines in the financial press of an impending bear market in US stocks and the potential for retrenchment by investors. But just as we showed that bond investors aren't stampeding the exits in another recent *ICI Viewpoints*, "[Debunking Assumptions About Bond Mutual Funds' Flows and Bond Sales](#)," equity fund investors' reactions to substantial declines in stock prices are less dramatic than the popular belief would suggest.

### Do Equity Fund Investors Redeem Heavily During Large Stock Market Declines? No.

Based on ICI's weekly combined mutual fund and exchange-traded fund (ETF) [flows report](#) published December 19, domestic equity funds experienced estimated net redemptions of \$12 billion for the week ended December 12 and cumulative net redemptions of \$25 billion since October 1.

As mentioned in our previous posting, a focus on dollar flows alone often leads to misimpressions that fund investors are fleeing or running from the markets. The appropriate lens to gauge investors' reaction is to look at the outflows' share of the total assets in the funds. When viewed through this lens, the outflow since October 1 is small. The \$25 billion in net redemptions represents only 0.2 percent of the assets held by domestic equity mutual funds and ETFs as of September 30.

This kind of mild reaction is not a new phenomenon. Looking at the past four bear markets in the S&P 500 index, we see that most investors stayed the course and remained invested in US stocks even when prices were in a protracted decline (see table). For example:

- During the global financial crisis and subsequent recession, the S&P 500 index contracted nearly 57 percent from its peak in October 2007 to its trough in March 2009. During this period, domestic equity mutual fund and ETF investors redeemed only 1.4 percent of the assets they held in these funds as of September 2007.
- Contrary to conventional wisdom regarding the flightiness of fund investors, they **added** to their holdings of domestic equity mutual funds during the bursting of the dot-com bubble in the early 2000s.
- The stock market crash of 1987, with a 33.5 percent decline in the S&P 500, didn't spook domestic equity mutual fund investors.
- During the double-dip recession in the early 1980s, domestic equity mutual fund investors redeemed only 1.4 percent of assets.

For further information on fund investors reactions to other market events in the United States and around the world, see [Regulated Fund Shareholders' Reactions to Market Turmoil, 1944–October 2018](#)."

For more than seven decades, retail fund investors overwhelmingly have pursued long-term financial goals, such as saving for retirement and their kids' college educations. They also have been told time and again: "don't try to time the market"; "make a plan and stick to it"; "dollar-cost averaging works to your advantage." Maybe it's time to stop assuming they are panicky and flighty when the data clearly show they haven't been—and still aren't.

### Even in Bear Markets, Investor Redemptions from Domestic Equity Funds Are Mild

Time period	Percentage change in S&P 500 <sup>1</sup>	Cumulative flow (\$ billions)	Percentage of total net assets <sup>2</sup>
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October 2018 to December 2018	-15.7%	-\$25.2	-0.2%
October 2007 to March 2009	-56.8%	-\$74.2	-1.4%
March 2000 to October 2002	-49.1%	+\$199.4	+5.6%
August 1987 to December 1987	-33.5%	-\$5.8	-2.8%
November 1980 to August 1982	-27.1%	-\$0.6	-1.4%

<sup>1</sup> Calculated using day with highest close and day with lowest close in the period.

<sup>2</sup> Cumulative monthly flow over the period as a percentage of domestic equity fund assets at the month-end prior to the start of the period. Data for mutual funds and ETFs are included in the October 2018 to December 2018 period and the October 2007 to March 2009 period. Data prior to October 2007 include only mutual funds.

Source: Investment Company Institute

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