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No End in Sight to Investors Fleeing Stocks

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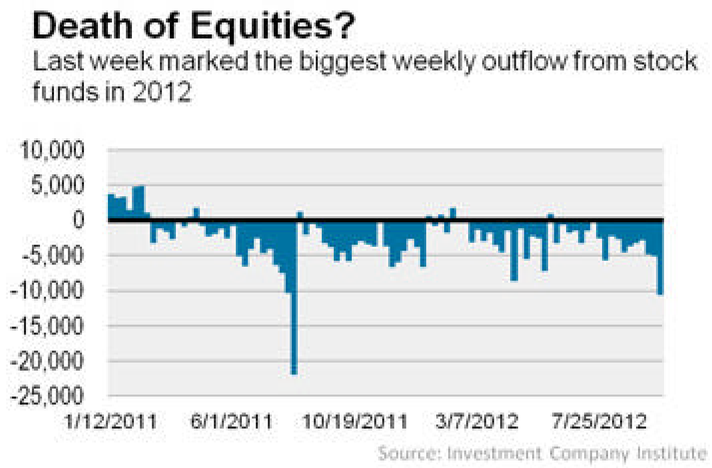

Not only have investors been pulling cash out of stock funds all year, but the pace of the outflows has picked up considerably.

As we noted earlier today, investors pulled $10.6 billion out of stock funds in the week ended Oct. 3, according to the Investment Company Institute. That was the biggest weekly outflow of the year and the largest since August 2011, when spooked investors pulled cash from stock funds in droves immediately after S&P downgraded the U.S. credit rating.

So what's behind the latest outflow?

"Surely some of this has to do with investors selling funds with October fiscal-year ends," says Dan Greenhaus, chief global strategist at BTIG.

But he notes the recent outflow was considerably higher than year-ago figures, suggesting there's more to the story.

In fact, this has become a years' long trend. As our colleague E.S. Browning wrote in aPage One story last week, many people refuse to be lured back into the stock market, even though it has recovered most of the losses from the financial crisis and is trading around multi-year highs.

Investors have been pulling money out of stock funds ever since the March 2009 market low. As Browning reported, this is the first time frame since 1981 that investors have been yanking money out of these funds for more than a year at a time. From Browning:

> The signs of disaffection are widespread. The percentage of American families who say they own stocks or stock funds slumped to 46% in 2011 from 53% in 2001, according to the Investment Company Institute. Only a quarter of households with retirement plans were willing to take above-average investment risk in 2011, down from 33% in 1998, an ICI survey found.
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> Mutual funds, predominantly owned by individuals, widely reflect the investment patterns of ordinary people. Whether they made profits or losses after exiting the funds depends on when they bought. Regardless, it is now a cliché that small investors are less interested in the return on their money than in the return of their money.

The trend of flows transferring from stock to bond funds doesn’t look like it will end anytime soon, and if this little selloff the market has experienced this week gets any worse, expect the trend to get even more pronounced.