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# Americans Miss $200 Billion Abandoning Stocks

Americans have missed out on almost $200 billion of stock gains as they drained money from the market in the past four years, haunted by the financial crisis.

Assets in equity mutual, exchange-traded and closed-end funds increased about 85 percent to $5.6 trillion since the bull market began in March 2009, trailing the Standard & Poor's 500 Index's 94 percent advance, according to data compiled by Bloomberg and Morningstar Inc. The proportion of retirement funds in stocks fell about 0.5 percentage point, compared with an average rise of 8.2 percentage points in rallies since 1990.

The retreat shows that even the biggest gain since 1998 failed to heal investor confidence after the financial collapse that wiped out $11 trillion in U.S. equity value was followed by record price swings in equities, a market breakdown that briefly erased $862 billion in share value and the slowest recovery from a recession since World War II. Individuals are withdrawing money as political leaders struggle to avert budget cuts that threaten to throw the economy into a new slump.

"Our biggest liability in the stock market has been the total destruction to confidence," James Paulsen, the chief investment strategist at Minneapolis-based Wells Capital Management, which oversees about $325 billion, said in a telephone interview. "There's just so much evidence of this recovery broadening."

**Weekly Gain**

The S&P 500 climbed 1.2 percent to 1,430.15 last week, extending the 2012 gain to 14 percent, led by financial stocks and consumer companies. The benchmark index from American equity has risen from a low of 676.53 on March 9, 2009, though it is still 8.6 percent below its record high on Oct. 9, 2007. Futures on the gauge dropped 0.6 percent to 1,417.9 as of 8:37 a.m. in London today.

Now, much of the damage to investors is self-inflicted as U.S. growth improves and companies whose earnings are most tied to economic expansion reap the biggest rewards. Of the 500 companies in the benchmark index, 481 are higher now than they were in March 2009 or when they entered the gauge.

Expedia Inc. (EXPE), the Bellevue, Washington-based online travel agency, rallied 577 percent, leading consumer discretionary companies to the biggest advance from 2009 through the third quarter. Capital One Financial Corp. rose 39 percent this year as the Mclean, Virginia-based lender posted profit that beat projections by 19 percent last quarter.

PulteGroup Inc. (PHM), the largest U.S. homebuilder by revenue, more than doubled this year after the Bloomfield Hills, Michigan-based company had its biggest annual earnings increase in 2012 and the housing market rebounded.

**Stock Allocation**

Individuals are selling into the rally, cutting the proportion of assets in stocks to 72 percent from 72.5 percent in 2009, according to 401(k) and IRA mutual fund data from the Washington-basedInvestment Company Institute compiled by Bloomberg. The data is for all equities, bonds and hybrid funds, and excludes money markets. Investors are lowering the proportion of stocks they own in retirement funds during a bull market for the first time in 20 years.

The percentage of households owning stock mutual funds has also fallen, dropping every year since 2008 to 46.4 percent in 2011, the second-lowest since 1997, according to the latest ICI annual mutual fund survey.

The technology bubble in the 1990s saw equity mutual funds expand twice as much as the S&P 500. Stocks' representation in 401(k) and individual retirement account funds rose to about 90 percent in 2000 from 77 percent in 1992.

**Fed Policy**

Money has gone to the relative safety of fixed-income investments. Managers who specialize in corporate bonds and Treasuries have received nearly $1 trillion in fresh cash since March 2009, ICI data show. Federal Reserve Chairman Ben S. Bernanke's zero percent interest-rate policy and the lowest inflation in almost 50 years have helped spur a 29 percent rally in debt securities since Obama's first term began, according to the Bank of America Merrill Lynch's U.S. Corporate and Government Index through the third quarter.

Outflows from stocks muted gains as reduced demand kept companies from going public or expanding through mergers and acquisitions, according to Paul Zemsky, head of asset allocation for ING Investment Management, which oversees $170 billion.

"Imagine where we could be if we had had positive inflows," New York-based Zemsky said in a phone interview. "It would be very helpful to get those flows reversed and have that money come out of bonds and into stock funds."

**IPOs, Takeovers**

U.S. initial public offerings have raised about $41.2 billion this year, about 28 percent below 2007's $57 billion, data compiled by Bloomberg show. Takeovers announcements have totaled about $524 billion in the U.S. this year, down from $585 billion at the same point in 2011, data show.

IPOs have been most prevalent when economic growth is strongest. Companies raised $96.8 billion through public offerings in 2000, the most in the past 13 years, as the economy expanded 4.1 percent. The lowest year for initial capital was 2009, when the U.S. shrank 3.1 percent, data compiled by Bloomberg show.

While unemployment dropped to 7.7 percent in November, it's still higher than the 5.8 percent monthly average since 1948, data compiled by Bloomberg show. The housing market stagnated until this year, and policymakers have yet to reach an agreement on the so-called fiscal cliff of more than $600 billion in tax raises and spending cuts automatically scheduled to hit in January. Republican leaders canceled a vote on the budget, sending talks deeper into turmoil last week.

**Record Cash**

Companies holding a record $1.03 trillion of cash on their balance sheets are failing to lure individuals to investment funds even though valuations have been stuck below the average since 1954 for the longest stretch since Richard Nixon was president and bond yields have fallen to near record lows. The S&P 500 trades at 14.5 times reported earnings, a 12 percent discount to the six-decade average.

By reducing yields on fixed-income securities, Bernanke's has been trying to push investors into riskier assets. Companies in the S&P 500 cut interest to the lowest level in at least a decade, paying 2.39 percent of sales to cover borrowings in the 12 months ended Sept. 30 on average, data compiled by Bloomberg show.

"What investment options do they have? Not many," James Butterfill, who helps oversee $64 billion as head of global equity strategy at Coutts & Co. in London, said in a telephone interview. "Corporates are still very attractive, they are the most underleveraged since the early 1990s."

**Daily Swings**

Even investors who were rewarded by sticking with stocks have had to endure record daily price swings and three so-called corrections of at least 9.9 percent. In August 2011, after S&P stripped the U.S. of its AAA credit rating, the Dow Jones Industrial Average (INDU) alternated between losses and gains of 400 points or more on four consecutive days, the longest streak on record, data compiled by Bloomberg show.

Daily swings in the S&P 500 averaged 1.74 percent in 2008, the most for any year since the Great Depression. The index rose or fell 1.58 percent on average in 2009, the third-biggest year on record for volatility, while 2011's 1.24 percent average moves made it the seventh-biggest, data compiled by Bloomberg show. Volatility is down to an average daily move of 0.59 percent so far this year, data show.

"We've had all of this crazy risk-on/risk-off day-to-day fluctuation based on headline stories,"John Carey, who helps oversee about $200 billion at Pioneer Investments in Boston, said in a phone interview. "There's been attractive income for stocks but certainly at the price of some volatility."

**Flash Crash**

Individuals have also seen evidence that computerized trading is making stock markets less reliable. An equity rout temporarily sent the Dow down almost 1,000 points on May 6, 2010, causing investors to question the stability of market mechanics and the effectiveness of regulators.

Botched IPOs for Facebook Inc. (FB) and Bats Global Markets Inc. earlier this year led to concern about trading and exchange technology, while Knight Capital Group Inc. nearly went out of business in August after it bombarded U.S. equity exchanges with erroneous orders in the wake of improperly installed software that malfunctioned.

“Whether it’s the flash crash, the low-growth economy, unemployment, uncertainty about jobs -- those things just don’t engender any desire to risk money,” Walter “Bucky” Hellwig, who helps manage $17 billion of assets at BB&T Wealth Management in Birmingham, Alabama, said in a phone interview. “Investors say: The stock market? I don’t have a clue as to how it works anymore.”

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