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ICI VIEWPOINTS

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ICI Economists Provide Long-Term Mutual Fund Flow Analysis

All eyes were on the markets in early August just after Standard & Poor's Corp. downgraded the long-term sovereign credit rating on the United States of America to AA+ from AAA and as Europe's ongoing fiscal challenges dominated the news.

ICI provides weekly data on long-term mutual fund flows, made up of stock, bond and hybrid funds. Today, we released the flow data for the week of August 4-10, showing a total of $40.2 billion in outflows from long- term funds. This timeframe includes some of the more significant stock market moves in early August and, given all the attention to the recent market volatility, we'd like to provide our analysis of the data and some context for the flows.

Total equity fund outflows are sizeable but are small relative to stock fund assets and stock market trading volumes

The data for the week ending August 10 show that total equity funds saw outflows of $30 billion – including $23 billion from domestic equity and $6.5 billion from foreign equity funds. During this same timeframe, the data show investors withdrew a total of $4 billion from bond funds.

At a glance, the equity outflow numbers are eye-catching, but these outflows are a small percentage of stock fund assets. The equity fund outflows from this period amount to half a percent of stock fund assets. Furthermore, any stock trades occurring due to these outflows would have been small compared to the overall $2.6 trillion in trading on the U.S. stock exchanges during that period.

The key takeaway is that in the midst of a historically volatile week, the vast majority of mutual fund investors stayed the course with their investments and did not try to time the markets – both sound financial practices.