

VIDEO

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Market Volatility and Mutual Fund Investors

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During times of market volatility, common misconceptions about mutual fund investors routinely crop up, including the falsehood that mutual fund investors are flighty or panic-prone. Brian Reid, chief economist at ICI, appeared on CNBC's *Nightly Business Report* on August 24, 2015, after a bout of such market turbulence to dispel some myths about mutual fund investors and market volatility, and to discuss what the research shows.

Transcript

Sue Herera, Host of *Nightly Business Report*: We've recently seen a flight of investor money out of U.S. stock funds—that's according to the Investment Company Institute. More than \$100 billion has been pulled from mutual funds and ETFs [exchange-traded funds] so far this year. That's the most in four years. And in stock market selloffs, outflows may intensify, prompting funds to sell shares to cover the redemptions. It's a vicious cycle. Sometimes, investors should be concerned about that in this market. And what about bond funds? Here to answer all that, Brian Reid, chief economist at ICI. Good to see you, Brian.

Brian Reid, ICI Chief Economist: Thank you for having me on.

Herera: It does seem to be kind of a vicious cycle—redemptions, and then they have to raise cash to cover the redemptions. But what should investors do in a market cycle like this?

Reid: Well, as many of the folks who have been on your show tonight have been saying, the best thing to do is to do nothing. If an investor tries to move in this kind of market, all they're going to do is get whipsawed, and they're going to be paying a very heavy price for trying to get out at this point.

Sharon Epperson, *Nightly Business Report* Correspondent: Brian, what's interesting is, many research studies have shown that it's really investors' behavior, more than mutual fund performance, that determines how investors do long-term. Have you seen that with the data from ICI and, really, how have investors done, say, investing in an equity fund versus the S&P 500 over the last year or so?

Reid: It is important how investors behave. And keep in mind that trying to move in and out of the market is a sure way to just increase your costs and actually not perform up to the market. What we find is, actually, most people don't do anything. On a day like today, it'd

be a large move to have maybe ten hundredths of a percent of assets come out, and we'll see as many people coming in, almost, as people coming out. But it's a tiny fraction of the money that actually moves on a day like today.

Herera: What did you see today? Because I know that you at ICI are always monitoring the data flow, for lack of a better word. What did today look like?

Reid: Well, we don't get the data in until another few days here, but I have gone through and looked at market cycles for nearly 20 years during my career at the ICI, and we see the same patterns over and over. Even if you go back to the tough months of 2008 in the fall, to get outflows of more than a couple hundredths of a percent in a day is really unusual.

Epperson: What about bond investors? What are they doing right now? What should they be doing right now? And are you seeing money coming into bond mutual funds, coming out of it? What do you expect to see over the next couple days?

Reid: We've been seeing two major trends, really, throughout this year. The outflows that you mentioned earlier, that have been coming out this year, actually are investors moving into international equity funds. This has been a trend that's been in place for at least 10 years now, as they increase their diversification offshore. Bond funds have been growing in demand as well—that's largely because of Baby Boomers who are moving toward retirement, slowly allocating a portion of their portfolio into more fixed-income.

Herera: So, if I'm reading you correctly, right now, given the volatility that we see in this market, the best advice for investors is to sit tight and wait until things settle down.

Reid: Sit tight, wait until things settle down, and then if you want to talk to your financial adviser about the way that your portfolio is allocated, do it then. But don't make a decision in the midst of this.

Herera: Alright, Brian, thank you so much. Brian Reid, with ICI. And Sharon, thank you, as always.

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