

VIDEO

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What Mutual Funds Investors Should Be Watching from Washington

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In a February 8, 2017, appearance on *Nightly Business Report* with Sue Herera, ICI Chief Economist Brian Reid discusses the latest fund trends and how changes in Washington could affect fund investors.

Transcript

Sue Herera, host of Nightly Business Report: Well, while investors have been pouring a lot of money into ETFs [exchange-traded funds] since the election, Brian Reid is here and he says he's seeing a return to normalcy in mutual funds. He is chief economist at the Investment Company Institute, and he joins us to talk more about this. Good to see you again, Brian, welcome back.

Brian Reid, ICI chief economist: Thank you.

Herera: What do you mean by a return to normalcy?

Reid: Well, after the election I think there was an expectation that we would have some very quick changes in Washington, and people were exuberant—putting money into domestic funds, both ETFs and mutual funds. We're seeing now a return to a period where investors have slowed down those purchases of domestic stock funds and gone back to where they were before, putting money into bond funds and into global stock funds.

Herera: And how much of that do you think will continue if, indeed, things move a little bit more slowly in Washington than everybody—as you pointed out—anticipated at first.

Reid: I think we're going to return back to some of the strong demographics that have been driving investor demand. They're taking their focus off of Washington—which is probably a good thing—and they're focusing on their own futures, their retirement, and what they need to do to build for their own future retirement plans.

Herera: There may be some changes under this new administration. One is this fiduciary rule governing how brokers give retirement advice to their customers, which we've been covering here on NBR. The Labor Department late today sought to stay the legal challenge to that rule. What does that mean, and what would this rule mean for investors?

Reid: What the rule was trying to do was make sure that when you went to your financial

adviser, they were making decisions for you that are in your best interest. One of the challenges, I think, has been how to implement this—it's been very complicated. So putting a stay on this would give us a little more time to make sure that no investors are hurt in the process of getting to that new standard.

Herera: Could it cause some market volatility, do you think, or not? It's been in the market for a while.

Reid: Yes, it's been in the market. I think it's more about, are you going to continue to be able to go to your adviser and get the help that you need? The rule is such a significant change that we want to make sure that there's enough time for everybody to implement it, so that they can continue to work in your interest but doing so without being disruptive.

Herera: You mentioned that bond fund flows have increased. What does that tell you about the mindset of the individual investor?

Reid: I think what it really tells me about the mindset is, they're looking for income in retirement. So we a lot of Baby Boomers who have all of those 401(k) balances, and they're shifting a little bit away from stocks, putting it into bonds, making sure there's a little more stability in their portfolios. And this is what you would expect when people are entering the retirement phase.

Herera: One of the things that you're keeping a very close eye on—and you recommend our viewers keep a close eye on—is the tax-reform possibilities. Tell me more about that.

Reid: So, we don't really know quite where this is going to go. But let's say if you had a reduction in tax rates—that would actually make taxable bonds look more attractive. Municipal bonds, which have a tax preference, would look a little bit less attractive because the yield on them wouldn't be as attractive relative to those taxable bonds with the lower rates.

We could also see potentially some carving back of the special treatment for the municipal bond income. And that would make municipal bonds less attractive. So, we saw, right after the election, investors pulling back from municipal bond funds. We're seeing money come back in, I think, again, because they think Washington works in its own way.

Herera: Well, it's going to be interesting to see whether we have that stability throughout the year as Washington continues to work. Brian, nice to see you again.

Reid: Nice to see you.

Herera: Appreciate it. Brian Reid with the Investment Company Institute.

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