Big outflows from bond funds persist

By Editor Test *Thu, Sep 19, 2013*

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Redemptions from bond mutual funds and exchange-traded funds reached $20.3 billion in September through Friday, September 13. September's outflow is already the fifth-highest in any month on record. Bond funds have redeemed $138.4 billion since the start of June, TrimTabs said.

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"We've seen unprecedented redemptions from bond funds since the start of the summer," said David Santschi, chief executive officer of TrimTabs. "The outflow of $68.6 billion in June was the biggest ever, and the outflow of $37.4 billion in August was the third-biggest ever."

"The yield on the 10-year Treasury note has jumped 120 basis points since the end of April, which is an enormous move," said Santschi. "We think the backup in yields has been driven partly by repayment of cheap European Central Bank loans that were used to buy Treasuries and partly by investor fears of 'tapering' by the Federal Reserve."

TrimTabs argued that bond fund redemptions have been so large and so swift because retail investors commonly regard bond funds as safe.

"Many investors who loaded up on bonds in recent years didn't fully understand the risks of what they were buying," said Santschi. "Now that they're suffering losses in funds they thought were low-risk, they want out fast. The exodus suggests 'tapering' could be more disruptive than Wall Street thinks."