Equity funds gain record $352bn; bond funds lose record $86bn

By Kerry Pechter *Thu, Jan 9, 2014*

“The Fed finally succeeded last year in its long-running campaign to coax fund investors to speculate. The ‘great rotation’ that some market strategists long anticipated is under way,” said Davd Santschi, CEO of TrimTabs Investment Research.

Equity mutual funds and exchange-traded funds (ETFs) listed in the U.S. enjoyed a record net flow of $352 billion in 2013, nominally breaking the previous record inflow of $324 billion in 2000, according to TrimTabs Investment Research.

Of the record flow, U.S. equity mutual funds and exchange-traded funds received a net $156 billion in 2013, while global equity mutual funds and exchange-traded funds received $195 billion. For U.S. funds, it was the first net inflow since 2007 and the biggest since the record of $274 billion in 2000; for global equity funds and ETFs, the flow exceeded the previous record inflow of $183 billion in 2006, TrimTabs reported.

“Retail investors are particularly enthusiastic about non-U.S. stocks, which should make contrarians wary,” said David Santschi, CEO of TrimTabs.

“Global equity mutual funds took in $137 billion last year, which was more than seven times the inflow of $18 billion into U.S. equity mutual funds. These highly disproportionate inflows occurred even though non-U.S. stocks as a whole badly lagged U.S. stocks.”

Meanwhile, U.S.-listed bond mutual funds and ETFs redeemed a record $86 billion, nominally topping the previous record outflow of $62 billion in 1994.

“The Fed finally succeeded last year in its long-running campaign to coax fund investors to speculate. The ‘great rotation’ that some market strategists long anticipated is under way,” Santschi said in a release.

“Bond funds have suffered seven consecutive months of redemptions for the first time since late 1999 and early 2000,” noted Santschi. “Nevertheless, the outflow of $196 billion in the past seven months reverses just a fraction of the inflow of $1.20 trillion from 2009 through 2012.”

Hedge fund thrive

Hedge funds took in $17.5 billion (0.9% of assets) in November, the highest inflow in six months and the second highest in the past two years, according to BarclayHedge and TrimTabs Investment Research.

“The hedge fund industry has taken in a net $66.9 billion in 2013, a healthy turnaround from an outflow of $8.2 billion in the same period in 2012,” said Sol Waksman, president and founder of BarclayHedge. Hedge funds had net inflows in nine of the first 11 months of 2013.

Industry assets climbed to a five-year high of $2.1 trillion. “Assets are up 17% in 2013 but are still 14%

below the all-time peak of $2.4 trillion in June 2008," Waksman said.

The monthly *TrimTabs/BarclayHedge Hedge Fund Flow Report* said:

- The hedge fund industry gained 0.8% in November, underperforming the S&P 500, which gained 3.1%.
- Equity Long Only hedge funds gained 2.3%, adding to October's 1.9% gain.
- Equity Long Bias funds gained 1.6%, down from a 2.3% gain in October.
- Funds of hedge funds took in $1.9 billion (0.4% of assets) in November, reversing course after redeeming $1.1 billion October.
- Funds of funds added assets in just three of the past 24 months.
- The hedge fund industry posted inflows in 15 of the past 24 months.

The monthly *TrimTabs/BarclayHedge Survey of Hedge Fund Managers* finds a plurality of managers bullish on the S&P 500's prospects for January. Bearish sentiment is at a three-month high, while bullish sentiment is at a three-month low. Nearly two-thirds of respondents expect equities to outperform bonds and precious metals over the next six months, and a similar proportion expects developed markets to outpace emerging and frontier markets in the same period.