For Many Investors, Ten-Year Returns Are Less Than Zero

By Editor Test *Wed, Oct 13, 2010*

"About half of U.S. equity mutual fund investors are sitting on paper losses of more than 25% even though the S&P 500 stands exactly at its 10-year average," TrimTabs' weekly bulletin said. "This helps to explain persistent equity fund outflows despite the recent rally."

The exodus of assets from domestic equity funds has been a big story this year. But TrimTabs Research notes that a lot of that outflow is finding its way into global equities, thus refuting the conventional wisdom that aging Boomers aren't losing their risk appetite.

"Global equity mutual funds have posted an inflow of $72.2 billion since the end of March 2009, roughly matching U.S. equity fund redemptions of $65.2 billion," according to TrimTabs September 22 fund flow report.

"In other words, there seems to be a specific disdain for U.S. stocks. We believe this is mostly because U.S. equities have been a terrible investment in the past decade."

But TrimTabs confirmed another piece of conventional wisdom: that retail investors tend to buy high and sell low. Mis-timing the market apparently made the past decade even worse for many people than the S&P's point-to-point net-zero performance in the Naughts Decade implies.

During the past decade, the S&P 500 ranged from a high of 1,565 in October 2007 to a low of 676 in March 2007. But the "flow-weighted purchasing price" was 1,434. That's worse timing than a chimpanzee could achieve by throwing rubber darts at a Bloomberg screen. "If investors had bought randomly, their flow-weighted purchasing price should be 1,171—the average closing price of the S&P 500 in the past decade," TrimTabs reported.

As a result, "about half of U.S. equity mutual fund investors are sitting on paper losses of more than 25% even though the S&P 500 stands exactly at its 10-year average," the weekly bulletin said. "This helps to explain persistent equity fund outflows despite the recent rally. Some mutual fund investors are so deep underwater that rallies are essentially meaningless to them. Also, many investors might be selling simply to harvest losses on their underwater positions."