

@vincefernando

A hand-streamed pick of ideas

Vincent Fernando, CFA
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The @vincefernando twitter feed is a stream of research highlights and analysis related to markets, business and the economy – focusing on what's important and helping to bring multiple perspectives together. This blog-style newsletter is a selection of the feed's key recent content. Use it to stay informed and as a source of idea generation.

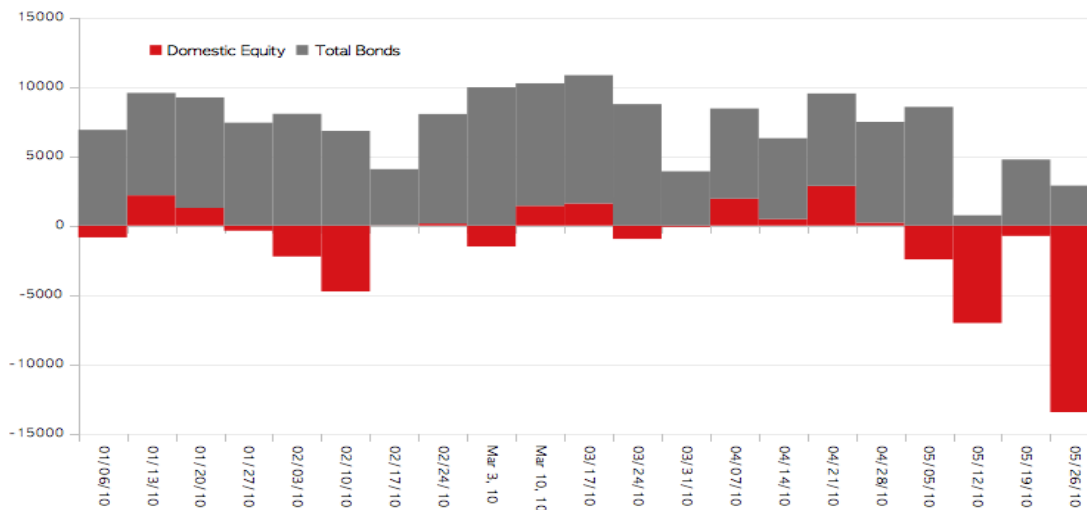
Investor panic in May was extreme, the most since Lehman collapsed.

1) Panic! Latest fund flow data from ICI shows how panicked investors have become. As seen below in red, there were enormous outflows from U.S. stocks in May, with \$13.4 billion of investors fleeing during the week of May 26th alone.

U.S. Equities Experienced Massive Investor Outflows In May

Weekly Fund Flows Into Long Term Mutual Funds (US\$Bn)

Source: Vincent Fernando CFA, Investment Company Institute
businessinsider.com/themoneygame

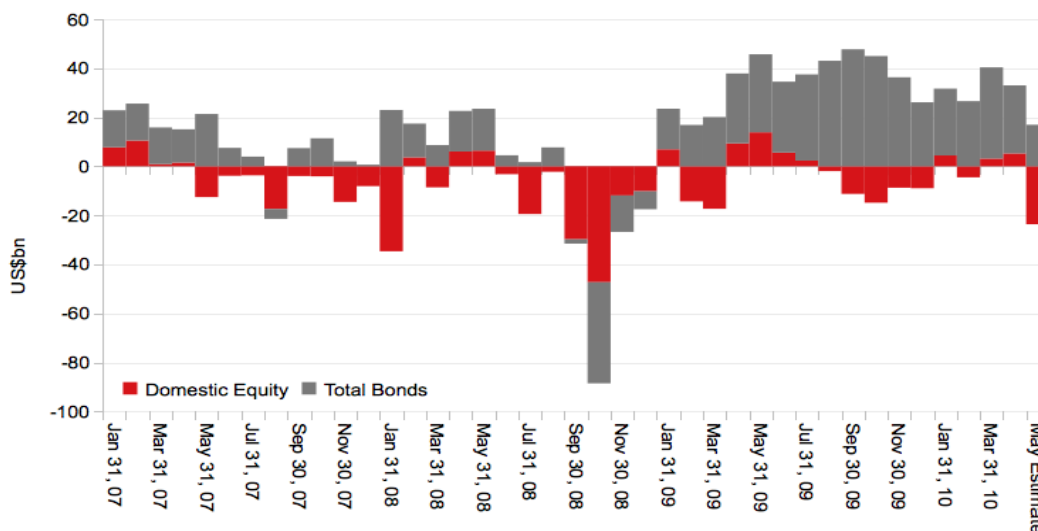


2) It's a surprise that stocks didn't fall further. In fact, outflows over the last four weeks were the worst since Lehman collapsed at the end of 2008, as shown below in red:

May Was The Worst U.S. Equities Fund Flow Month Since Lehman

Monthly Fund Flows Into Long Term Mutual Funds (US\$Bn)

Source: Vincent Fernando CFA, Investment Company Institute
businessinsider.com/themoneygame



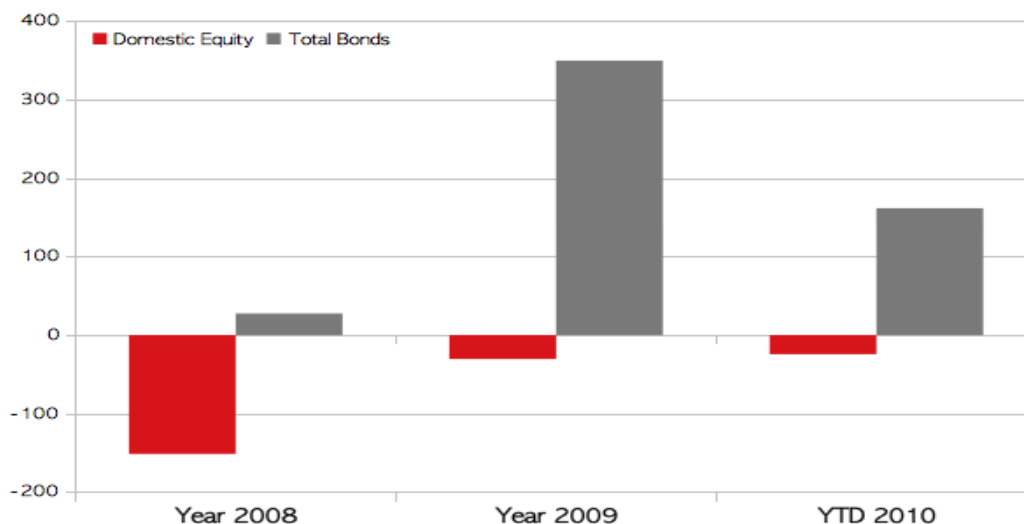
3) This was not a reversal of hype, but rather a deepening of extreme investor negativity. Recent outflows should not be viewed as a reversal of 'overhyped' sentiment or a reversal of government-supplied 'liquidity' that pumped up the market. Many like to make such pronouncements, but fund flow data shows how the recent panic was rather a continuation and exacerbation of the long-term American investor flight out of U.S. stocks.

Why can't you say that government liquidity or hype pumped up U.S. stocks recently? Because net mutual fund flows have been negative for 2008, 2009, and even year-to-date, as shown below by negative bars in red.

2008, 2009, and Now YTD 2010 Have All Seen Net Outflows From U.S. Stocks

Fund Flows Into Long Term Mutual Funds (US\$Bn)

Source: Vincent Fernando CFA, Investment Company Institute
businessinsider.com/themoneygame



Note: ICI data is comprised of flow estimates derived from data collected covering more than 95 percent of industry assets and are adjusted to represent industry totals.

4) It's a contrarian signal. The level of panic recently has been extreme, even by crisis standards. On a multi-year view, investors have simply been pulling more and more money out of stocks... for years. Recent fund flow activity should be read as a contrarian signal of excessive panic.

Best Regards,

Vincent

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