

## **Cash is king as enthusiasm cools for US stock funds.**

By Cal Mankowski

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NEW YORK, May 17 (Reuters) - Investors who poured money into stock mutual funds earlier this year have done an about-face as soaring oil prices dim the outlook for stocks.

TrimTabs Investment Research - a fund research firm based in Santa Rosa, California - estimates that investors will pull about \$3 billion from stock funds this month if present trends continue.

The biggest beneficiaries of outflows from equities are usually bond funds. However, this time around investors are moving money to cash as the prospect of higher interest rates is scaring away the usual pack of bond fans.

Research firm AMG Data Services estimates that certain stock funds that provide weekly data saw net outflows of \$2.4 billion in the week ended May 12, the largest in more than a year. AMG also said investors put a net \$16.7 billion into money market funds.

On a monthly basis, stock funds have not seen outflows since February of 2003. Although the monthly flows are tiny in relation to fund assets, they are still significant as they provide signs of shifting investor sentiment.

"Last week, we saw big outflows from REITs, gold funds and from high-yield and all sorts of bond funds," said Charles Biderman, chief executive of TrimTabs Investment Research.

Bond funds had only recently started to attract investor money after months of outflows.

"People are going to cash because they have been told that the best way to protect themselves is not to be in long-term bonds," said Pran Tiku, president of Peak Financial Management in Wellesley, Massachusetts. When interest rates rise, bonds decrease in value.

Tiku sees panicky behavior on the part of investors who he says may be missing the fact that the bond market has already priced in a rate hike by the Federal Reserve. When the Fed moves, possibly as soon as June, the bonds may not do much of anything, he said.

Tiku said the decline in stocks is not a major surprise, as they have been doing well for a long time and a downward correction was overdue.

"Typically, the market in the short run will over-react, in this case on the downside," said Mitchel Shapiro, a Baltimore-based financial planner with Smart Financial Advisors.

While the stock market has been spooked by the talk of higher interest rates, Shapiro says that higher oil prices and an unstable geopolitical background have resulted in increased volatility.

Shapiro says investors who are skittish about the bond market could consider alternatives

like bank loan funds and stable value funds.

Biderman, who considers not only fund flow activity but a range of stock market liquidity factors, says he is "cautiously bearish" when he puts all the pieces together.

He says cash takeovers by corporations have slowed considerably, and while the unsettled stock market has put a damper on initial public offerings, there is an enormous backlog of deals that would put new stock on the market when conditions improve.

The outflows from stock funds are moderate at this point, Biderman said. If investor flight from stock funds picks up, he would regard it as a sign of a market bottom.

"Individuals were extremely bullish in January, February and March when the market was topping out," Biderman said. "Typically, they are most bullish at the top and most bearish at the bottom."