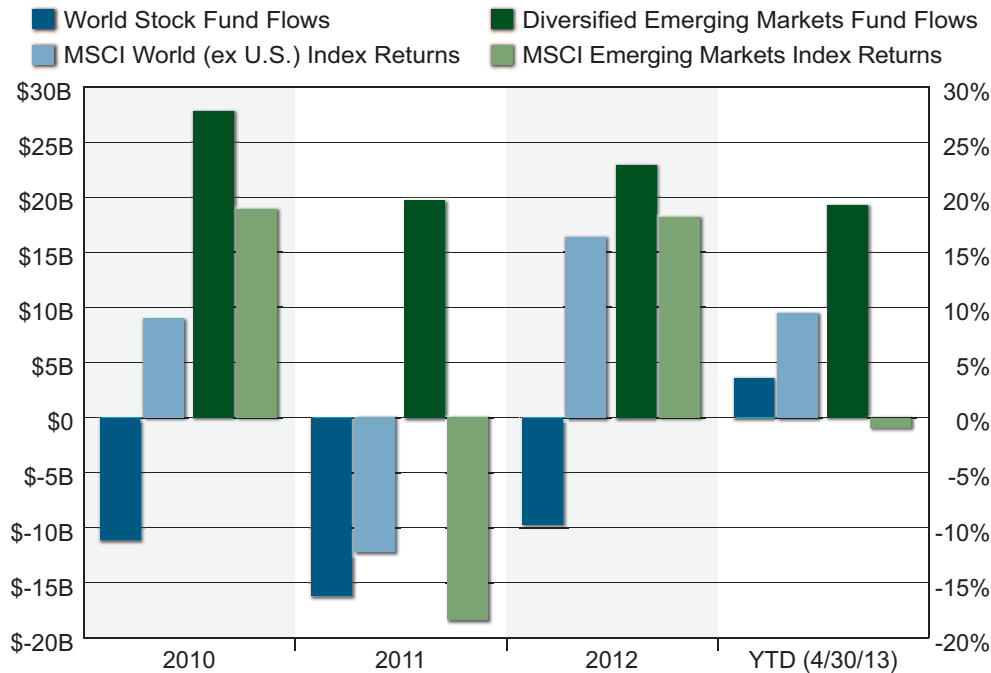


A Sight For Sore Eyes

Net Fund Flows To Foreign Stock Funds vs. Foreign Stock Index Returns



Sources: Morningstar & Bloomberg. Index returns are total returns in USD. Past performance is no guarantee of future results.

View from the Observation Deck

1. Each spring, Dalbar, a research firm based in Boston, releases the findings from its annual study ("Quantitative Analysis of Investor Behavior") measuring investor returns from mutual fund holdings.
2. One of the key takeaways through the years has been that individual investors are prone to moving their money in and out of the market at the wrong time, according to Louis Harvey, president of Dalbar.
3. For the 20-year period ended 2012, investors in U.S. stock mutual funds posted an average annualized return of 4.25%, compared to an annualized gain of 8.21% for the S&P 500, according to Dalbar.
4. Unfortunately, that means that the average investor in U.S. stock mutual funds has lagged the broader market's benchmark index (S&P 500) by 3.96 percentage points per year for the past 20 years.
5. The chart above features net cash flows and total return figures for equity mutual funds and corresponding indices invested in foreign stocks representing both developed and emerging/developing nations.
6. What we find most encouraging about the data is the consistency with which retail investors have committed capital to emerging markets equity funds, especially in 2011 when returns were poor.
7. The International Monetary Fund sees much faster growth in the "Emerging Market and Developing Economies" moving forward. It has a GDP growth rate estimate of 5.3% (2013) and 5.7% (2014) for this category.
8. Its estimates for "Advanced Economies" are 1.2% (2013) and 2.2% (2014).
9. Is it possible that retail investors are actually "playing this one by the book"? We'll keep an eye on it.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The MSCI World (ex-U.S.) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.