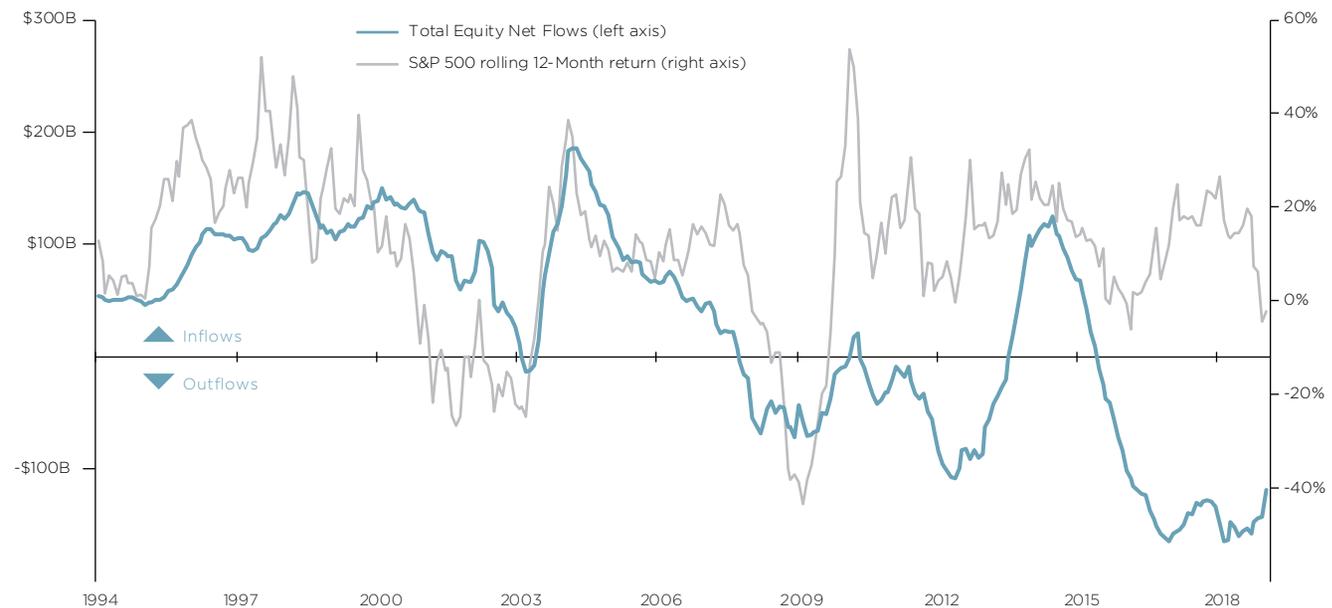


Less love as the bull market turns 10



The bull market had a birthday party, but retail investors decided not to come.

Correlation between stock returns and equity fund flows
1994 through 2018



Source for chart data: FactSet

March 9 marked the 10th anniversary of the U.S. stock bull market, with the S&P 500® Index returning more than 400% on a cumulative basis. For much of this run, investors have been fleeing stock funds. Typically, there's a tight correlation between equity market returns and equity mutual fund flows, but since 2014 this relationship has broken down. (See chart above.)

What's driving this aversion to risk? There are several possible explanations: Baby Boomers de-risking their portfolios ahead of retirement; millennials acting more risk averse than prior generations, despite their long time horizons; and the lasting scars from two painful bear markets over the past 20 years may have shifted many risk tolerances.

Share buybacks in recent years have masked much of the outflows from retail stock investors. If the bull market is to continue, it will require participation by retail investors. Contrarians may see widespread nervousness as a positive indicator. Legendary investor John Templeton put it well: "Bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria."



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S&P 500® Index: An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance.

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