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ReFlow Ponders Continued Volatility in Fund Flows

Changes in the mutual fund distribution landscape are causing both inflows and outflows to increase, according to a new [study](#) from service provider **ReFlow**.

Paul Schaeffer, president of San Francisco-based ReFlow and the principal author of the paper, told *The MFWire* that mutual fund distribution has moved more through intermediaries, such as financial advisors and plan sponsors, over the past few years. This phenomenon means that individual investors, who once found it difficult to buy and sell funds, now have the means to make more frequent trades.



Paul Schaeffer
ReFlow
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"There's a shift in the way the advisors add value," he said. "Originally you went to them for transactions. Now there's emphasis on wealth management services."

With advisors making decisions for many investors, rather than investors making decisions for themselves, larger amounts of assets can move at one time in a particular direction.

Compounding this effect is the growth of no-load funds over the past 10 years. Because there are no sales charges on no-load funds, investors have less incentive to follow a buy-and-hold strategy. The end result is that assets more easily move in and out of funds.

Monthly flows began steadily increasing in volatility in 2006 (see chart provided with press release), before share price volatility spiked with the recent market crisis.

The increased inflows and outflows could put a drag on fund performance. For one, the funds have to hold extra cash to accommodate unexpected redemptions; and the larger amount

of trading the funds would need to do keep up with flows could increase transaction costs as well as produce other performance-draining effects.

Schaeffer told *The MFWire* that while the near future of fund distribution should not hold too many surprises, the industry might see a rise in technology-driven resources further down the horizon.

"I think in the near term it will continue to be as it is," he said of fund distribution. But five or ten years down the line, "will the Internet intermediate the intermediary?"

As the information superhighway accumulates ever more traffic, he explained, Web resources could replace financial planners as a primary investment advice source for individuals. For funds, this "could lead to further dynamic flows," Schaeffer said, because investors would find even more opportunities to trade.

Schaeffer advises distributors to consider future developments but not to abandon current methods.

"They have to continue to focus on their legacy channels," he said. "They also need to begin to look ahead at how technology is changing those channels and creating new channels."

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