Investors Continue To Favor Passive Funds Over Actively Managed Funds

Estimated Net Flows to Mutual Funds and ETFs in $Millions
(12-Month flows through February 28, 2017)

Category	Active	Passive
U.S. Equity	(264,339)	284,937
Sector Equity	(29,697)	57,669
International Equity	(68,838)	91,841
Allocation	(44,151)	787
Taxable Bond	87,305	166,942
Municipal Bond	23,239	6,055
Alternative	(12,921)	1,371
Commodities	2,036	4,005
All Long Term	(307,366)	613,608

Source: Morningstar Direct Asset Flows. Includes liquidated and merged funds.

View from the Observation Deck

1. Those investors directing capital into mutual funds and exchange traded funds (ETFs) favored passive investing over active management for the 12-month period ended February 2017.
2. Passive mutual funds and ETFs reported estimated net inflows totaling $613.6 billion, compared to estimated net outflows totaling $307.4 billion for those actively managed (see chart).
3. The one area of the market where investors actually sought out active management was municipal bonds.
4. Over the past 12 months, investors funneled the most money into bond funds. Estimated net flows to the Taxable Bond and Municipal Bond categories totaled $283.5 billion (see chart).
5. Ironically, huge amounts of capital have flowed into bond funds despite the fact that the Federal Reserve is hiking interest rates, inflation is rising and the yield on the benchmark 10-year Treasury note increased from 1.74% on 2/29/16 to 2.39% on 2/28/17, according to Bloomberg.
6. Here is a link (click here) to a recent blog post showing that the bias toward passive investing has been growing for the past nine years.
7. We intend to monitor net flows moving forward.

This chart is for illustrative purposes only and not indicative of any actual investment.