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Active Managers Are Acquitting Themselves Well Amid Stock Tumult

- Growth funds perform best with little damage from FANG carnage
- BofA clients buying single stocks at pace not seen for 2 years

By Lu Wang

(Bloomberg) -- Through the dark days of the 2018 stock selloff, there have been rays of light for active fund managers.

While not quite overwhelming, the evidence has been consistent. Growth managers somehow emerged unscathed by the Faang selloff in March. They did the same in the first week of February, beating benchmarks across the board. Even individuals have shown signs of preferring an active bent during the volatility of the last three weeks.

“It’d be a better year for active if volatility continues to stay high,” said Todd Fungard, who oversees $1.2 billion as chief investment officer of McQueen, Ball & Associates Inc. “When the market is just going up, you have a lot of passive flows. But when volatility picks up, that’s where active managers can add value.”

A few weeks is nothing to peg a reversal on and active funds face a herculean task in making up ground against passive. Years of steady gains have handed anyone who bought an exchange-traded fund tracking the S&P 500 an annualized return of almost 20 percent since 2009, and total assets in index funds and ETFs have soared to $6.6 trillion.

But to the extent stock pickers said they’d be in demand when the going got rough, the performance is at least encouraging. Last month, when Facebook and Amazon sparked a plunge in the Faang group of tech giants over regulation concerns, mutual funds with a tilt toward faster growth were spared. About 68 percent of growth funds beat their benchmarks in March, faring better than all other categories, data compiled by Bank of America show.

The reason: when others crowded into those darling stocks, growth funds didn’t. Their holdings in the five largest tech firms were on average 423 basis points below these stocks’ representation in the benchmark index, according to an analysis by Goldman Sachs Group Inc.

Growth funds weren’t alone shining amid the market swoon. Thanks to differentiated bets on stocks, 57 percent of all large-cap mutual funds beat benchmarks in the first three months of the year, the best first quarter since 2009, BofA data showed.

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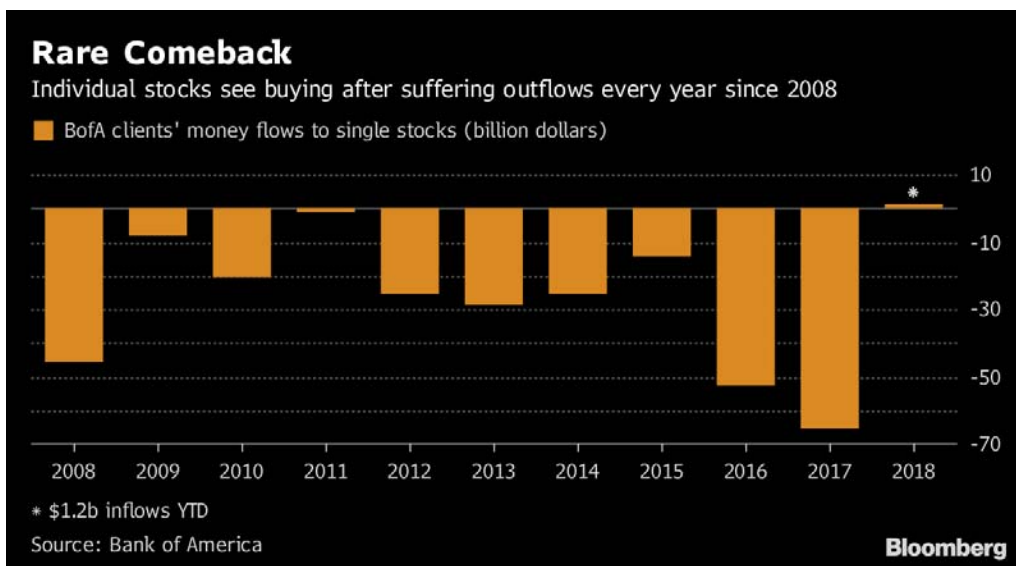
Money managers tracked by Goldman Sachs largely showed similar improvement in performance. Almost half of large-cap core funds have topped benchmarks this year, up from 32 percent in 2017. At 65 percent, the hit rate for growth funds almost doubled from last year. While more value funds have lagged behind, the majority still beat the market.

Their favorite bets are working, with a Goldman Sachs basket of mutual funds' most-loved shares beating the S&P 500 by almost 4 percentage points this year. At the same time, the stocks that they shunned have trailed the market.



Equity turbulence has not only made winners out of stock pickers, but also is shaking investors out of their passive trance. According to BofA's data on client flows, investors last week exited ETFs for the first time in two months and snapped up individual stocks instead. It's the third straight week of discrete buying of shares, a stretch not seen since early 2016.

"Clients similarly saw this dip as a buying opportunity despite concerns around global trade," BofA strategists including Jill Carey Hall and Savita Subramanian wrote in a note Tuesday.

Since January, BofA clients have added more than $1 billion to individual shares. While that's only one 10th of their total equity buying, it's a rare departure from the past decade, when single stocks were dumped every year.

At the same time, signs of investor aversion to passive funds are starting to surface in the broad market. According to data compiled by Credit Suisse Group AG, ETFs focusing on U.S. equities experienced more than $12 billion of withdrawals in March, bringing the two-month outflows to the biggest since 2008.

To contact the reporter on this story:
Lu Wang in New York at lwang8@bloomberg.net

To contact the editors responsible for this story:
Jeremy Herron at jherron8@bloomberg.net
Chris Nagi

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