BUSINESS

US investment balances skyrocketing to historic highs

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The US investor is back in the markets with a vengeance.

And according to some analysts, it’s time for Ben Bernanke to moonwalk his taper all the way back.

In stunning new forecasts, these investment balances — already growing at a record pace — will skyrocket to historic highs within the next five years.

The latest data on US retail and institutional assets show that the markets have come a very long way from the financial trough of 2009.

As equity indices are reaching new all-time highs, the reports show the sky is the limit.

- US retirement assets have now hit $19.5 trillion, according to the Investment Company Institute. In 2008, the corresponding sum was $14.2 trillion. And 401(k) assets alone are forecast to surge from $2.23 trillion in 2008 to $4.7 trillion in 2017.
- Combined assets of US mutual funds today are $13.86 trillion. That’s a far cry from the lowly $9 trillion of February 2009.
- Fidelity Investments this summer said its average customer IRA balance reached a five-year high of $81,100 at the end of tax year 2012.
- Institutional assets are also looking up. Cerulli Associates last week estimated that assets in this category would climb to $19 trillion within five years, from $14.5 trillion last year.

This flood of cash into the markets should be a telltale sign that Fed Chairman Bernanke and his presumptive successor, Janet Yellen, don’t need to be injecting nearly $1 trillion a year through quantitative easing to buoy the market, unless its main objective is to be a backdoor bailout for the banks.

Retail and institutional investors (and the broader economy) don’t need Uncle Sam to lift them up with an unprecedented Fed stimulus, according to bank analyst Dick Bove of New York-based Rafferty Capital Markets.

“You are talking to someone who doesn’t believe in quantitative easing in the first place,” said Bove, referring to the Fed’s monthly $85 billion in bond purchases.

Wall Street volume and trading activity are certainly lower today than in past recoveries. That has hurt market morale and confidence.

But analysts say that there is no disguising the evidence of a robust spike in investors’ appetite since the near-death spiral of the US economy in 2008.

“You would think at this point, five years after the big crisis, the markets should be on their own,” said Michael Chadwick, CEO of Chadwick Financial Advisors of Unionville, Conn., referring to the financial crisis that prompted the Fed to engage in the expensive market interventions. These have resulted in a staggering $3.6 billion in assets being held by the Fed.

But retail and institutional investors can eclipse that.

"Fund flows recently have been pretty high, and 401(k) participation rates are growing," said Chadwick. "Unfortunately, the Fed feels the markets need training wheels."

Bove thinks the Fed's monetary shenanigans are a shambles.

Excess bank reserves held by the Fed, he points out, are at $2.14 trillion. Commercial banks reap billions from the friendly Fed in interest payments on these idle funds.

The payouts make up for the minuscule interest rate. At 0.25 percent, a bank, for example, can make $1 billion on every $400 billion held in reserves.

"It shows us virtually not a dime of quantitative easing went into assisting economic growth," Bove said. "It went into building excess reserves at the Federal Reserve."

"I think the Fed has boxed itself into a corner," said Chadwick. "The Fed owns one-third of the bond market in certain areas."

Wall Street's banks and brokers are not exactly complaining about the situation.

With stepped-up investing on top of bailouts, this high participation rate of investors further fattens Wall Street's bonuses and profits.

"Anything that is going to increase assets under management is going to be helpful to their business on Wall Street," said Kevin Chisholm, an analyst at Cerulli Associates.