THE WALL STREET JOURNAL.
WSJ.com

Advisers Pull Pimco Assets But Aren't Following Gross

Significant redemptions could harm some Pimco funds, advisers fear

By
DAISY MAXEY
Oct. 15, 2014 9:38 a.m. ET

Financial advisers are joining the exodus from Pacific Investment Management Co. funds in the wake of co-founder Bill Gross 's abrupt departure last month.

But they aren't following the so-called bond king to his new gig at Janus Capital Group Inc., instead investing client money in comparable drama-free funds.
Many advisers have pulled money from the flagship Pimco Total Return Fund because they fear current and future withdrawals could harm its performance. Also, advisers say the turmoil at Pimco is too much of a distraction for the firm's portfolio-management team.

“I still have faith in Pimco, but we’re not following Gross to Janus,” says Scott Snow, of Scott Snow Financial Advisors in Westlake, Ohio., which oversees more than $300 million. “I don’t want to have to bounce around and chase a manager. He’s 70 years old. Who knows when he’s going to retire?”

Mr. Snow advised clients to sell Pimco Total Return and another fund that Mr. Gross had managed, the Pimco Low Duration, and shift that money into Dodge and Cox Income and Vanguard Total Bond Index Admiral. Most of the assets were moved out last week, and since most were held in tax-deferred accounts, there were few tax consequences, he says.

Many advisers like Mr. Snow aren’t sure if the new managers of Total Return can replicate the market outperformance that Mr. Gross had managed for years. In fact, the $200 billion fund currently lags its benchmark and is suffering outflows.

“I know Pimco has a lot of people there, but he was on the firing line, and had the ultimate say over securities bought and sold,” says Mr. Snow.

Pimco Total Return Fund’s performance could suffer if firms that manage 401(k) plans remove the fund from plans or add options for plan investors. Meanwhile, Mr. Snow says some of his clients whose 401(k) plans hold the Total Return fund can’t replace it because it’s the only U.S. intermediate-term bond option available.

“I would think that the [401(k) plans] investment committees have a fiduciary obligation to now provide another investment option,” he says. “We’re kind of waiting for them to catch up here and figure out what they’re going to do.”

Investors withdrew a net $23.5 billion from Total Return in September, the fund’s largest monthly outflow ever. Most of that money flowed out the day Mr. Gross announced his planned departure.

Meanwhile, Mr. Gross’s new bond fund--Janus Global Unconstrained Bond Fund, took in a net $66.4 million in September, which includes just two business days in which Mr. Gross was at its helm, according to Morningstar Inc. The fund, whose performance advisers say they’ll be watching, now holds $79.1 million.
Outflows from Total Return are likely to moderate but will remain elevated for some time, says Jon Hale, director of manager research for North America at Morningstar.

Before Mr. Gross’s departure, investors were likely growing weary of Pimco as they fretted over the loss of investing pros and whether the large Total Return fund could quickly change investments to deliver its legendary performance, Mr. Hale says.

“It just makes sense for advisers to go into some other fund that doesn’t have any of those issues and has as strong, if not better, performance,” Mr. Hale says.

On the other hand, those who have replaced Mr. Gross on Pimco Total Return have very strong reputations, and its somewhat diminished size could make it easier to manage, he says.

Mr. Snow doesn’t plan to redeem clients’ investments in other Pimco funds, including Pimco Real Return, Foreign Bond and Pimco Emerging Markets funds, he says, but adds that he’ll react quickly if some of the funds’ managers or Pimco’s best researchers leave.

New York advisory firm Francis Financial Inc. has also shifted clients’ assets out of Pimco funds that were managed by Mr. Gross. Assets redeemed from Total Return were invested in Metropolitan West Total Return Bond. The firm also redeemed assets from Pimco Unconstrained Bond Fund, and hasn’t yet decided which funds will replace that investment.

Mr. Gross’s sudden departure “raises questions across the board in terms of the internal dynamics of Pimco and the direction of the funds he oversaw,” says Timothy Kim, an analyst at Francis Financial, which manages $104 million.

Most of the assets shifted were in tax-deferred accounts, says Avani Ramnani, director of financial planning and investment management at Francis Financial. In the few cases in which they weren’t, the risk factors in leaving the money at Pimco outweighed the tax consequences, she says.

Paragon Capital Management, a Denver advisory firm managing $700 million, pulled about $40 million from Pimco Total Return Fund for fear that big institutions and 401(k) plans will make significant redemptions. It’s also concerned the fund’s management team will be less willing to make big bets while in damage control mode, says Brian Goodstadt, an adviser at Paragon Capital Management.

Since most of the assets were in individual retirement accounts, and the investments in taxable accounts had minimal gains, it was an easier decision, he says.

Paragon Capital has placed the money in Vanguard Total Bond Market Index for now, and is considering where to invest it longer term. It’s possible a little will go to Mr. Gross’s fund at Janus, Mr. Goodstadt says

And, over time, some of the money could migrate back to Pimco Total Return, he acknowledges. But first, Mr. Goodstadt adds, Pimco will likely lose assets and may have to shed some employees.

“We’ll evaluate them from there,” he says.

Write to Daisy Maxey at daisy.maxey@wsj.com