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MARKETS & FINANCE | INVESTING

As Markets Swooned, Pros Sold—and Individuals Pounced

Hedge funds have sold a net $1 trillion of shares this year, while 97% of Vanguard 401(k) investors avoided trading in early April

ILLUSTRATION: EMIL LENDOF/WSJ, ISTOCK

By Gregory Zuckerman Following *and Gunjan Banerji* Follow

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Key Points

What's This?

- Individuals bought stocks during the recent market drop, while hedge funds sold shares.
- Individual investors' commitment to stocks is notable, contrasting with selling in 2020.
- U.S. households hold 38% of the stock market, influencing market behavior during volatility.

In the market chaos of recent weeks, professional investors headed for the exits while individuals held steady.

It's a dynamic that upends the conventional wisdom on Wall Street about how investors behave during market turmoil.

So far this year, hedge funds have sold over $1 trillion more shares than they have purchased, even as individuals have made $50 billion a month in net stock purchases, "with little interruption," according to JPMorgan.

Wall Street has long derided everyday investors as "dumb money," prone to making decisions based on fear and greed. By contrast, hedge funds and institutional investors were dubbed "smart money," for their historic ability to lean on reams of data and analysis and ignore emotion-driven swings.

The popular notions of how those groups behave have been increasingly out of sync with reality. Recent turbulence is crystallizing that shift.

In recent years, big funds have become more likely to flee the market in a downturn to avoid potential losses. Amateur investors have altered their approach, too. The stampede into passively managed index funds, the growth of 401(k)s, and years of getting rewarded for buying every dip mean that—instead of running for the exits when markets get wild—many individuals now storm in or simply stay put.

"There are these huge pools of capital managed by retail investors that are acting in pretty sensible ways," says Victor Haghani, a former partner at hedge fund Long-Term Capital who now runs Elm Wealth, an advisory firm that manages the ELM Market Navigator ETF. "It's not shakable and it is pretty static."

A long list of investing gurus, including Jeremy Siegel, a finance professor at the University of Pennsylvania's Wharton School, and the late Vanguard founder John Bogle have preached the advantages of sticking with stocks, no matter the market. Given enough time, markets usually go up, the thinking goes.

It's unclear which group's bet will prove prescient. There's little indication that market swings are easing, and there's still uncertainty around the Trump administration's ultimate approach to global tariffs and any resulting economic ripple effect. After the 2000s dot-com implosion, it took nearly seven years for the S&P 500 to recover, bears note.

Dr. Gerald Rogan, a 78-year-old retired physician in Sacramento, Calif., has seen many market downturns and recoveries over the years. He frequently checks a watchlist with his stock positions in his Fidelity account. On big down days, he hunts for opportunities to scoop up more shares.

While the market swooned in early April, he says he made 10 buys in a single day, a record for him. He bought up shares of the pharmaceutical company Organon, United Parcel Service and Ford. He shies away from what he sees as riskier trades like options and cryptocurrencies, but says he poured thousands of dollars into the stock market this month.

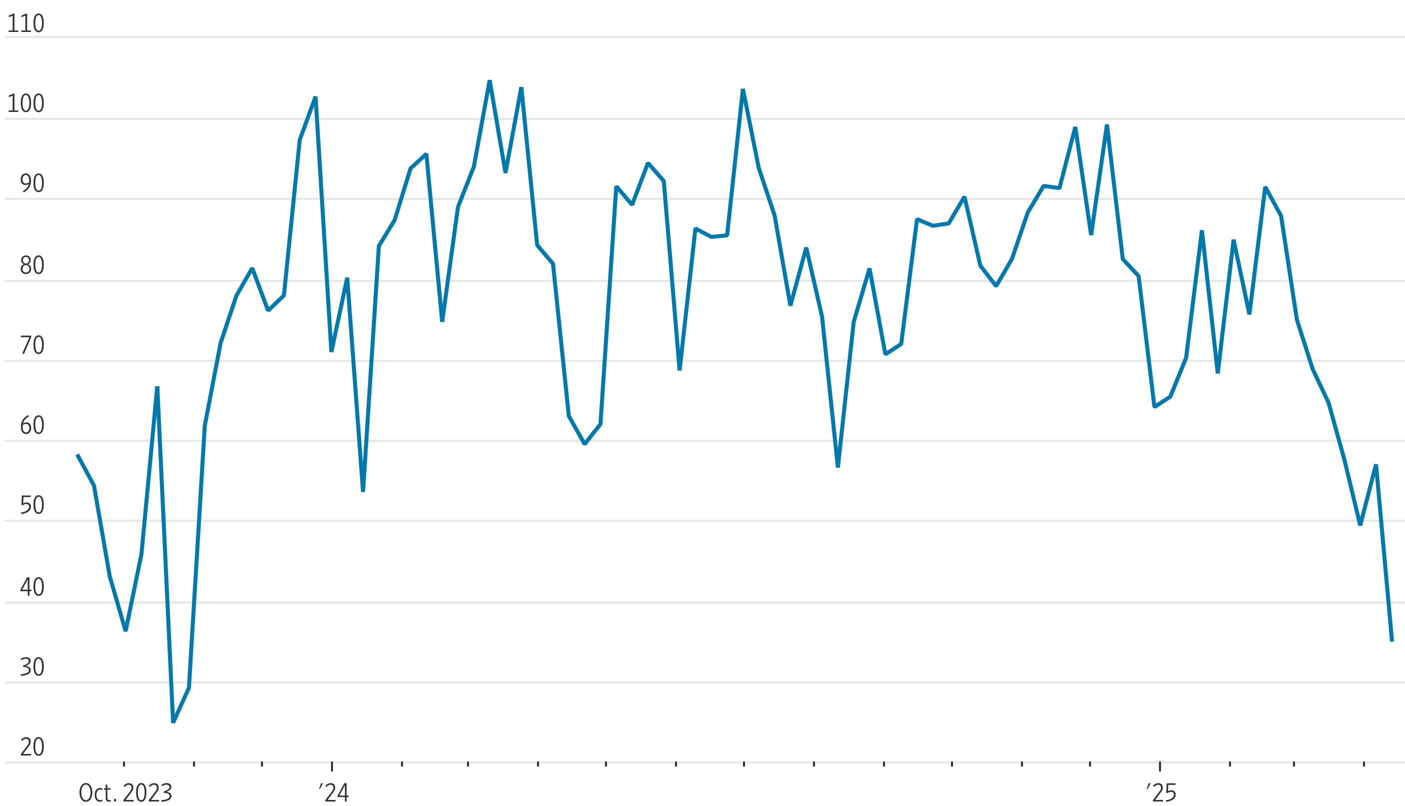
“When the market goes down, things are on sale,” Rogan said. “I don’t get pessimistic.”

More employees these days are offered 401(k)s rather than pension plans, and individuals have learned it often makes sense to avoid adjusting investment portfolios amid market chaos. For the first time, half of private-sector workers are now saving in 401(k)s.

As news of President Trump’s tariffs roiled the markets, Vanguard estimates that more than 97% of investors in its 401(k) retirement plans didn’t make trades through mid-April. Around a fifth of investors increased their saving rate.

Big investors reduced their stock holdings this year

Index tracking money managers’ exposure to U.S. equities



Source: NAAIM

In contrast, hedge-fund clients of Goldman Sachs sold more stocks on April 3 and April 4 than any other two-day period in 15 years, while an index measuring big institutional investors' exposure to the stock market tumbled this month to its lowest level since late 2023.

As the pros sold, individual investors pounced. They picked up more than $4.5 billion worth of stocks and ETFs on April 3, when the S&P 500 plunged almost 5%, making it their strongest buying day on record, according to a JPMorgan analysis of retail brokerage data.

Their commitment to stocks during the recent chaos is striking. In 2020, for example, some of the darkest days for the market were typically met with selling among individuals, according to JPMorgan's Emma Wu. This time, there's evidence that everyday investors have been more eager to buy than ever before.

Exchange-traded and mutual funds tracking stocks, which are often owned by households, recorded around $50 billion of inflows in one week in early April, the biggest haul of the year, according to Deutsche Bank.

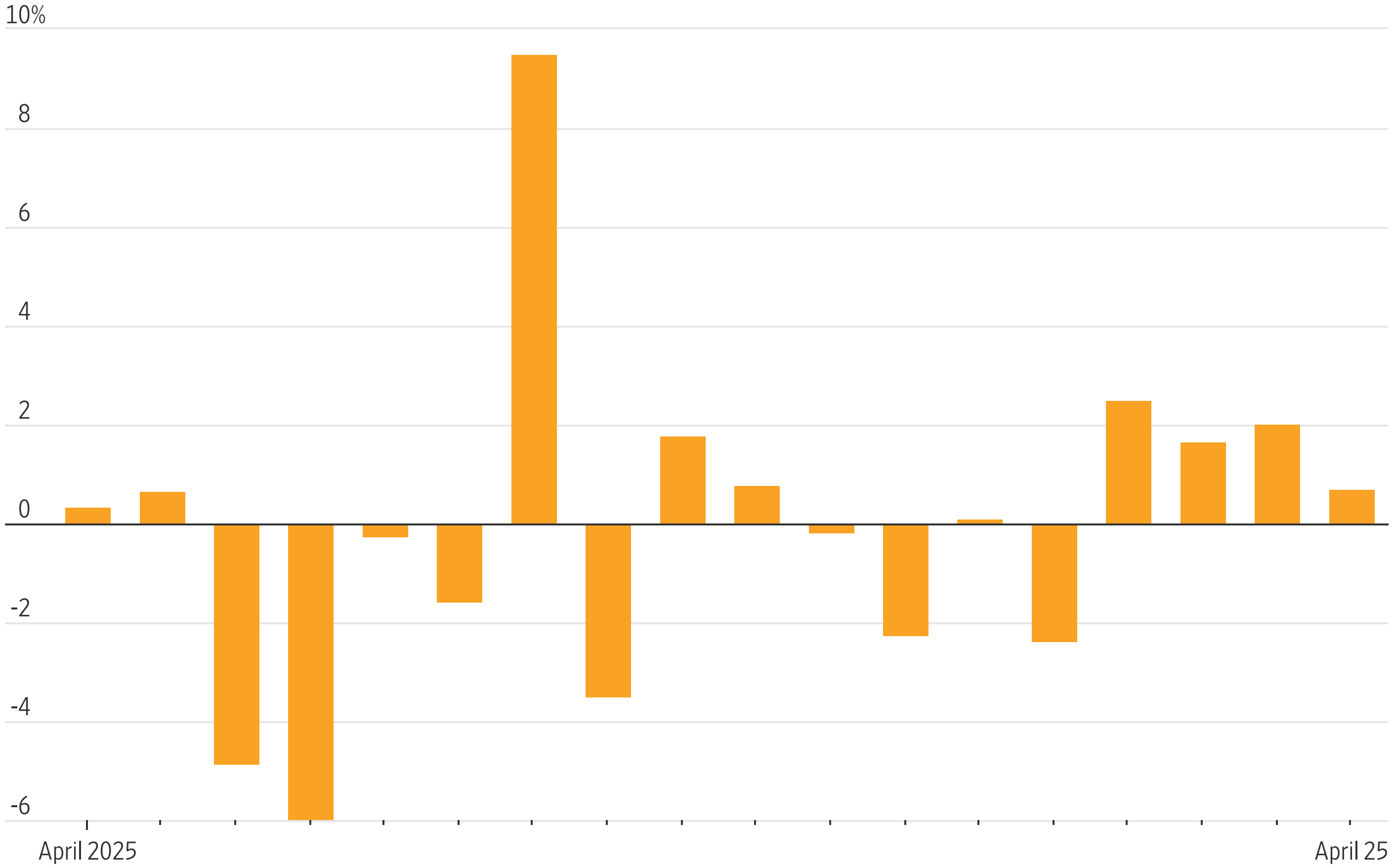
U.S. households collectively hold at least $35 trillion in stocks, or 38% of the market, making them the largest owners of American equities and giving their behavior incredible heft in the market, according to Federal Reserve and Goldman Sachs data.

“There is a distinct difference in behavior,” says Michael O'Rourke, chief market strategist at JonesTrading. Over the past decade or so, he says, big investors have tended to sell more than normal during a market setback, and individual investors have become accustomed to buying market dips.

Hedge funds aren't the first out the door necessarily because they panic or get weak in the knees. These funds usually rely on leverage, or borrowed money, to juice their returns. When stocks fall, the collateral they've given their lenders to back these loans drops in value, forcing them to come up with quick cash to cover the hole. So they do some selling to raise this money.

And more funds than ever rely on predetermined limits on how much they are willing to lose. So-called multimanager firms have soared in size, dominating the industry by promising steady returns. When they incur even 5% losses, many begin selling, to avoid deeper losses.

S&P 500, daily percentage change



Source: FactSet

Some traders said that at times in April it seemed like investors were looking to get out of their bets at any price. "We're not in the business of riding out markets," said the head of one hedge fund.

Another reason hedge funds are so active amid the turbulence is their clients expect them to search for opportunities, the funds say.

Adam Schwartz, who runs Black Bear Value Partners, a Florida hedge fund, has been buying and selling lately. He has been especially active betting against companies he believes don't have pricing power or other means to handle high tariffs, and buying those that do.

The market's turmoil "is an awesome opportunity to take advantage of sellers who have their hair on fire," he told his clients earlier this month. "It is often the most uncomfortable environments that provide the best opportunities."

His fund is down less than 1% this month and down 1.5% for the year, according to an investor.

Arthur Conlan, a 67-year-old retiree in Palm Beach, Fla., said he was astonished to see the value of his portfolio drop so quickly in recent weeks. He has typically poured most of his investment money into the stock market and avoided bonds, but that has given him little cushion during the selloff. The aggressive selling that swept markets made him uncomfortable and dinged his holdings like Apple. Still, he says he didn't sell any stocks.

"I'm trying to be like Buffett," Conlan said, referring to the legendary Berkshire Hathaway CEO. "You have to learn to be patient."

Write to Gregory Zuckerman at Gregory.Zuckerman@wsj.com and Gunjan Banerji at gunjan.banerji@wsj.com

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