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Parsing the Cash Piles: Bad Storm Rising or Stocking Up for a Sale?

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Managers of global mutual funds have upped their cash positions, on average, to 4.2%—a 45% increase from a year ago and the highest level in five years, according to research firm EPFR. Meanwhile, a new survey by TIGER 21, a network of investors with at least $5 million in investible assets, found its members had 13% of their portfolios in cash during the second quarter, up slightly from the previous quarter.

It isn't entirely clear what signals regular investors should take from these moves: Some pros say they are in cash in order to capitalize on what they expect will be bargains in stocks, while others say they simply fear a market downturn.

In any case, experts say, the activity highlights pros' increasing unease with the markets. Given the lack of significant progress in fixing Europe's debt problems, and mixed signs of economic improvement at home, many money managers expect another round of market volatility ahead.

But dives in the markets often represent opportunities, says Sam Stewart, chairman of Wasatch Funds. He increased the cash allocation in two of his funds—the $131 million World Innovators fund and the $42 million Strategic Income fund—from about 5% last year to 13% and 11%, respectively. "I want enough dry powder that I'm well stocked in event things get ugly here," he says, adding that he already started tapping that cash to pick up bargains like Herbalife Ltd., HLF -1.23% a nutrition and weight-management company.

Other investors, including Tom Forester, manager of the only stock fund to make money in 2008—the $236 million Forester Value fund—are raising cash as a protective measure. Mr. Forester, who raised his fund's cash to 25% from 17% last year, says many U.S. companies are lowering their earnings estimates, while corporate treasurers are hoarding cash rather than deploying it for hiring or investments. Both are bad signs for any recovery, analysts say.

Critics say such moves to cash are akin to market timing, which research has shown often leads to losses as investors pick the wrong times to move back into stocks.

But many raising cash levels say they have no choice: They don't see much worth buying. Abhay Deshpande, manager of the $35 billion First Eagle Global fund, says European stocks that are cheap now often also come with distressed balance sheets or businesses. "There has been no shock to dislodge the stock prices to a material discount," he says. As a result, the fund's cash exposure is up near 20%, about 5 percentage points higher than late last year.

Many financial advisers also are turning to cash. Michael Fein, managing partner of CIC Wealth Management, has raised the average cash position for clients to 22%, from about 10% last year, parking it mostly in high-rated, short-duration bonds earning between 1.3% and 2.5%. He says his clients understand they could miss out on bigger potential gains. "We are more focused on a need to preserve assets not hit home runs," Mr. Fein says.