

April 8, 2005

# Monthly Mutual Fund Report

## Statistics for February 2005-March 2005

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### Sales and Redemptions

Total assets for all funds increased in February by \$123.7 billion, or 1.6 percent, to \$8.1 trillion. Money market funds had a net cash outflow of \$20.1 billion compared to an outflow in January of \$27.5 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$29.1 billion, compared to an inflow of \$19.9 billion in January. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$128.9 billion in February, down from \$140.3 billion in January. The value of non-money market assets appreciated by \$109 billion in February, following a depreciation of \$108.6 billion in January.

Total assets of **equity funds** increased by \$127.2 billion, or 3.0 percent, to \$4.4 trillion. There was a \$22.4 billion net cash inflow to equity funds in February, compared with an inflow of \$10.0 billion in January. The market value of assets appreciated by \$104.2 billion in February. Equity funds had an inflow of \$32.4 billion year-to-date, compared to an inflow of \$69.1 billion in the first three months of 2004.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 2.4 percent, or \$12.4 billion, to \$529.1 billion. In February, there was a \$4.3 billion net cash inflow for these funds, compared to an inflow in January of \$5.3 billion. Hybrid funds have experienced an inflow of \$9.6 billion year-to-date, compared to an inflow of \$10.5 billion during the same period in the previous year.

**Bond funds** experienced a cash inflow of \$2.3 billion, while their total assets increased by \$2.3 billion, to \$1.3 trillion. The market value of bond funds assets decreased by \$2.8 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.29 percent, while the assets of tax-exempt bond funds decreased by 0.15 percent. The 2005 inflow is \$7.0 billion, compared to an inflow of \$1.3 billion through February of 2004.

Assets of taxable and tax-exempt **money market funds** decreased \$18.2 billion, to \$1.87 trillion, a decrease of 1.37 percent for taxable money market funds and an increase of 1.09 percent for tax-exempt funds. The 2005 outflow of \$47.6 billion is greater than the outflow for the first two months of 2004, \$40.4 billion.



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### **Liquidity Ratio**

The liquidity ratio for bond and hybrid funds increased from 7.2 to 8.6 percent, while the ratio for equity funds decreased from 4.4 to 4.3 percent (figure 4).

### **Weekly Flows**

In March, there were outflows from equity funds of 0.4 percent of total assets, with losses of 2.7 percent (figure 6a). Bond funds had outflows of 0.4 percent and losses of 1.6 percent.

Index funds had monthly inflows of 0.9 percent and losses of 0.8 percent. Aggressive growth funds had outflows of 0.3 percent and losses of 2.6 percent. Small-cap funds had an inflow of 0.2 percent and losses of 2.7 percent.

Technology funds had an outflow of 1.6 percent and losses of 4.8 percent (figure 6b). There was an outflow to real estate funds of 1.3 percent and losses of 3.9 percent.

There were inflows to international funds in February of 0.3 percent of assets and losses of 2.6 percent. Latin American funds had outflows of 1.2 percent and losses of 9.6 percent. Japan funds had inflows of 0.2 percent and losses of 2.0 percent of assets. Pacific funds that do not invest in Japan had outflows of 0.2 percent and losses of 4.2 percent of assets. Emerging Markets funds had outflows of 3.4 percent and losses of 6.8 percent.

### **Capital Market Returns and Volatility**

The S&P 500 ended March 31 at 1180.6, a decrease of 1.9 percent from the beginning of the month. The 12-month gain was 5.8 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.7 percent.

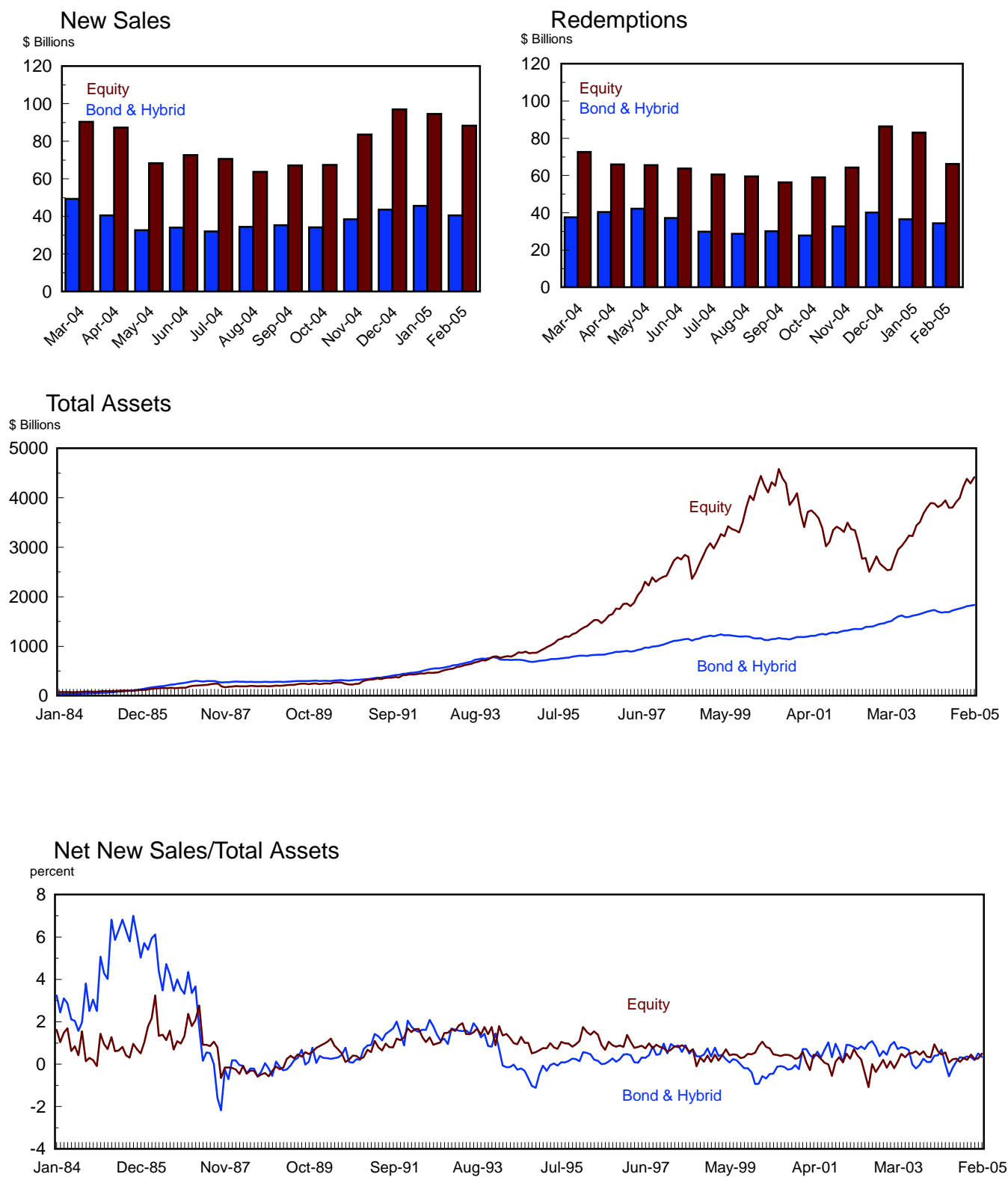
The 12-month average return on the Citigroup Bond Index was 1.2 percent for March. Volatility remained at 4.1 percent (figure 8).

### **Price-Earnings Ratio**

The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have decreased in the fourth quarter to 5.4 percent from current levels. The trailing price-earnings ratio increased from 18.9 in the fourth quarter of 2004 to 19 in the first quarter of 2005, while Thomson Financial/First Call's forward price-operating earnings is 16.3 during the first quarter of 2005, down from 17 in the fourth quarter of 2004. During the first quarter of 2005 the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 21.8 from 23.1 (figure 9).

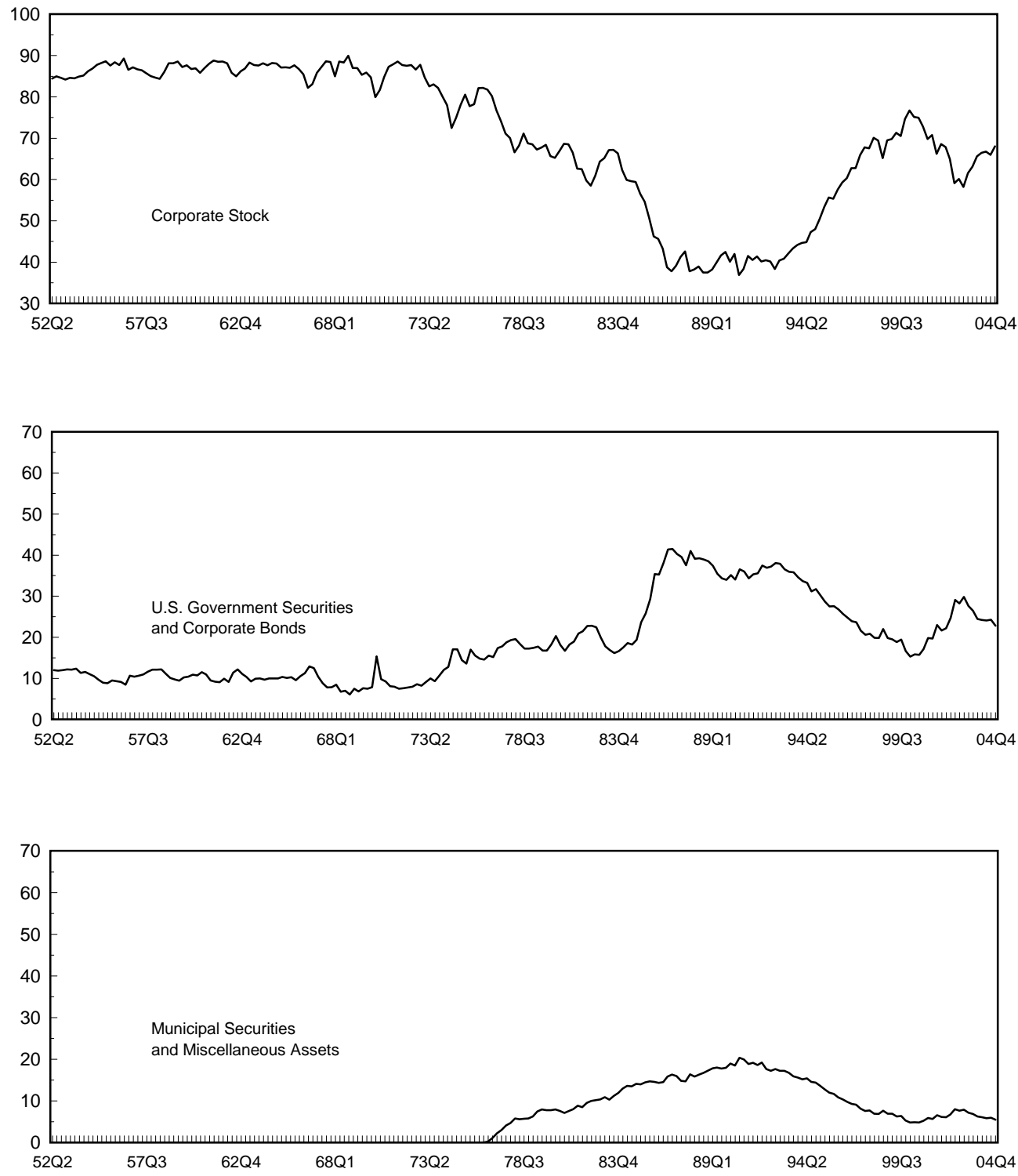
Please contact Maria  
Giduskova for questions  
and comments at  
Maria.Giduskova@bos.  
frb.org, or by phone at  
(617) 973-3198

Figure 1  
Sales of Mutual Funds



Source: Investment Company Institute

Figure 2  
**Composition of Mutual Funds' Financial Assets**  
(percent of Total Financial Assets)



Source: Flow of Funds, Haver Analytics0

Figure 3  
**Net Portfolio Purchases**  
 (percent of Total Assets)

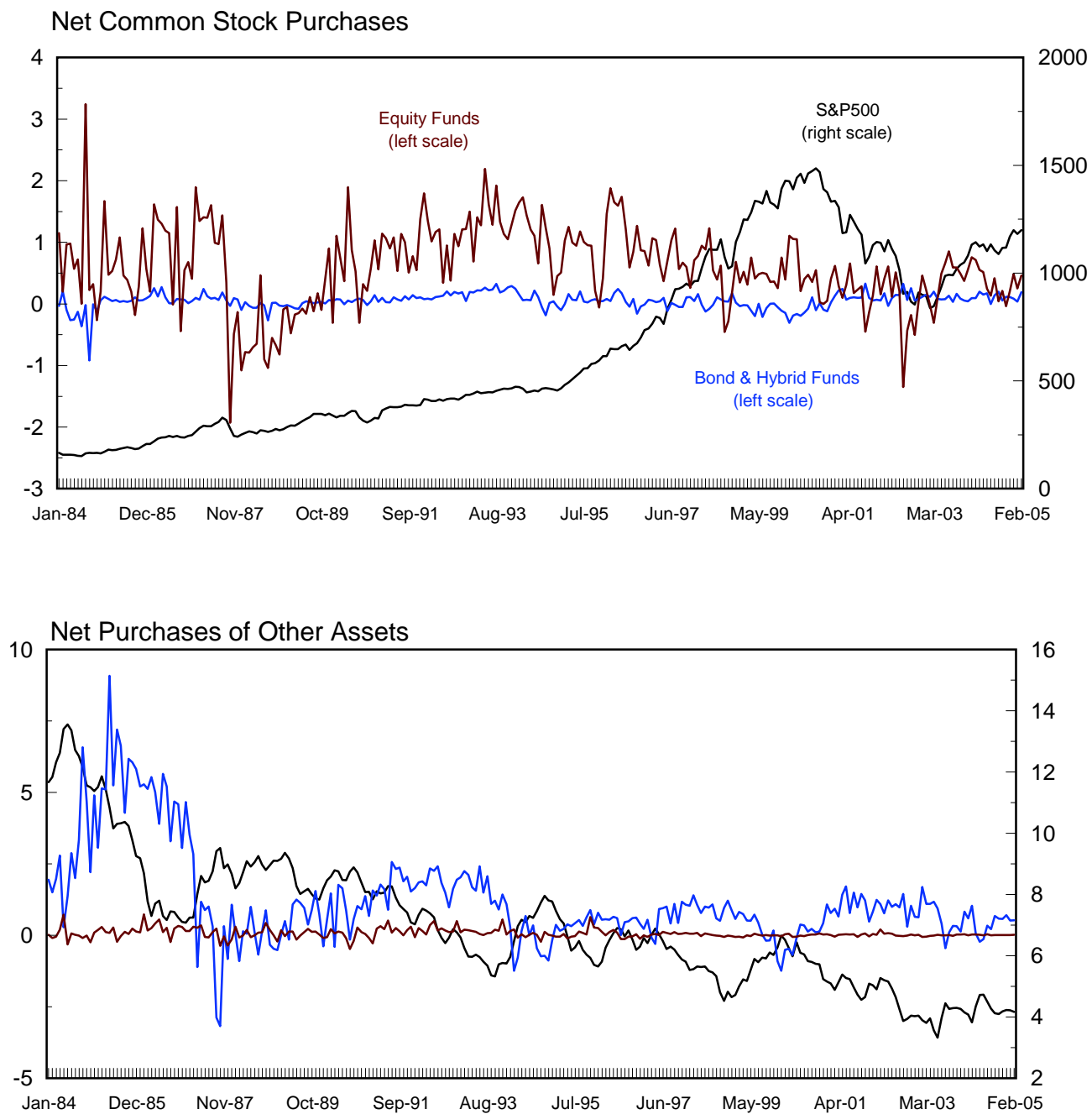
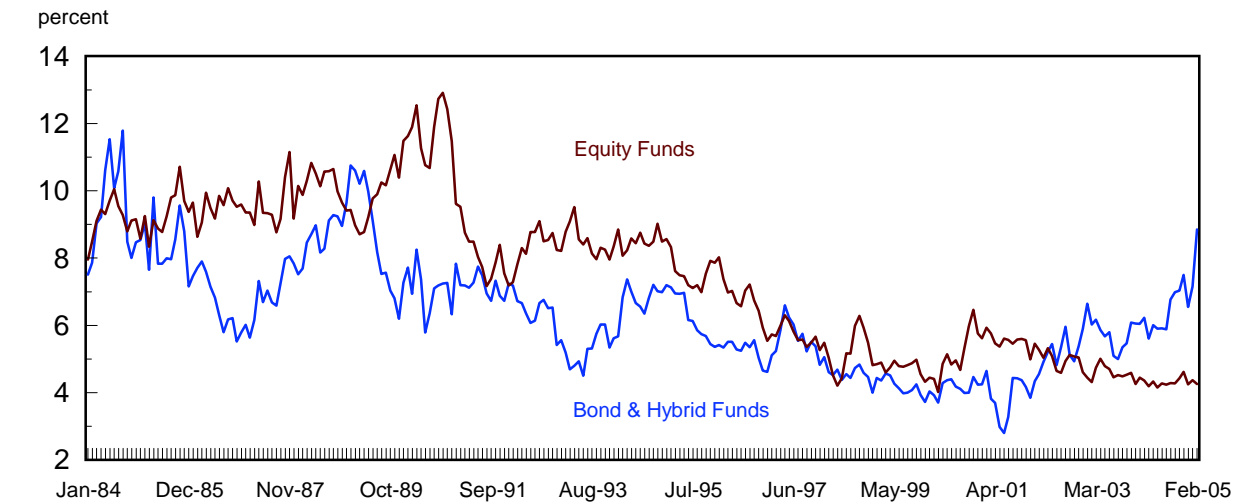
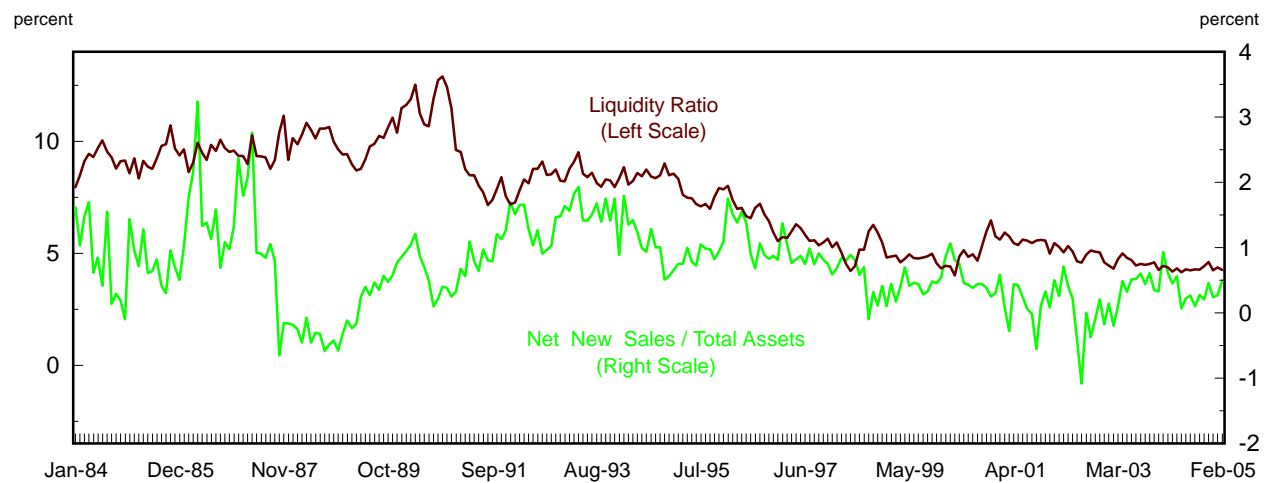


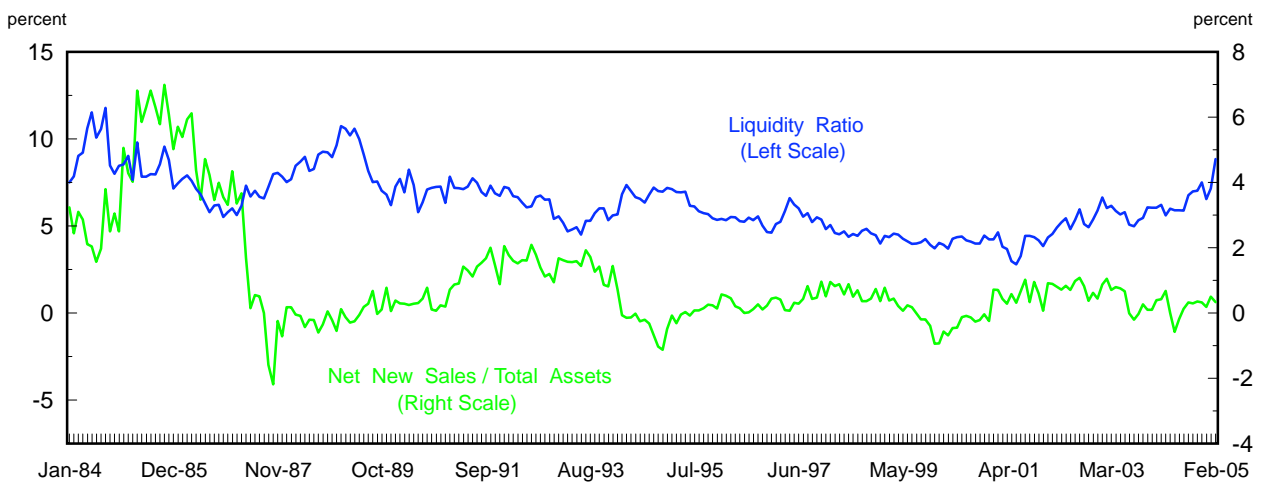
Figure 4  
**Liquidity Ratio\***



### Equity Funds



### Bond & Hybrid Funds

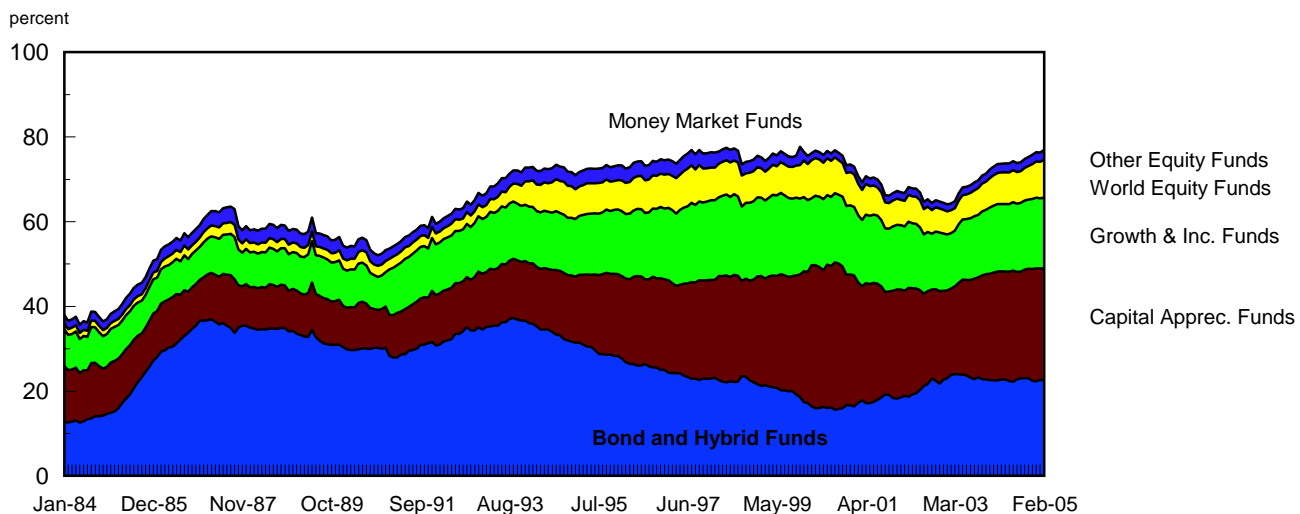


\*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.  
 Source: Investment Company Institute

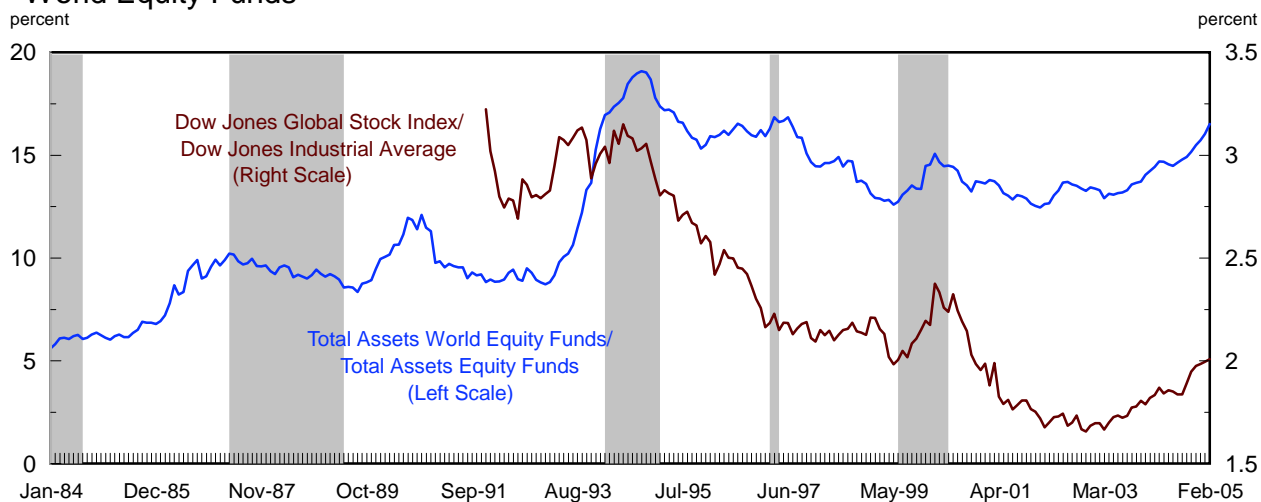
Figure 5

## Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



### World Equity Funds



### Capital Appreciation Funds

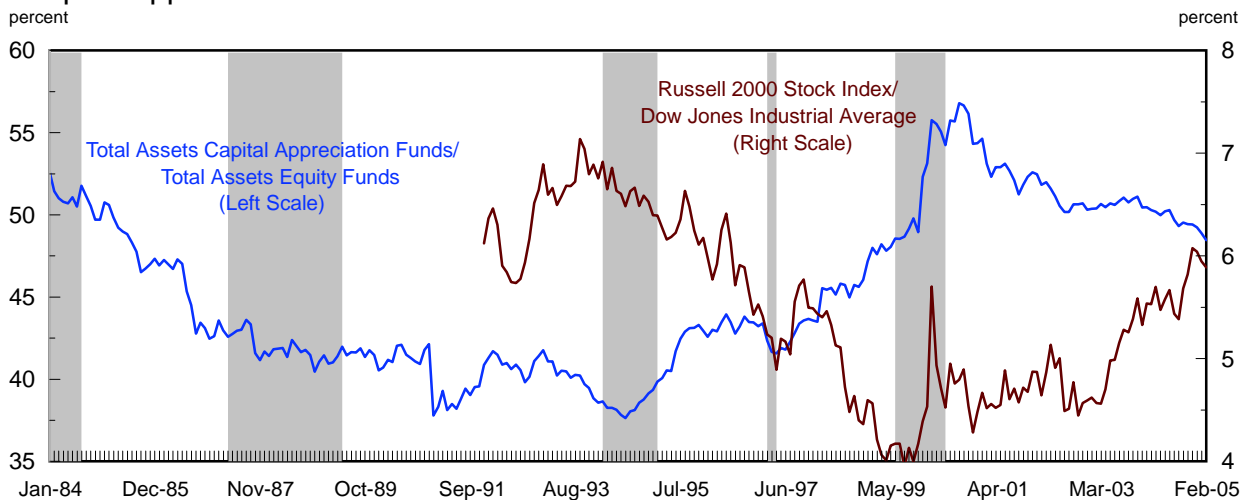
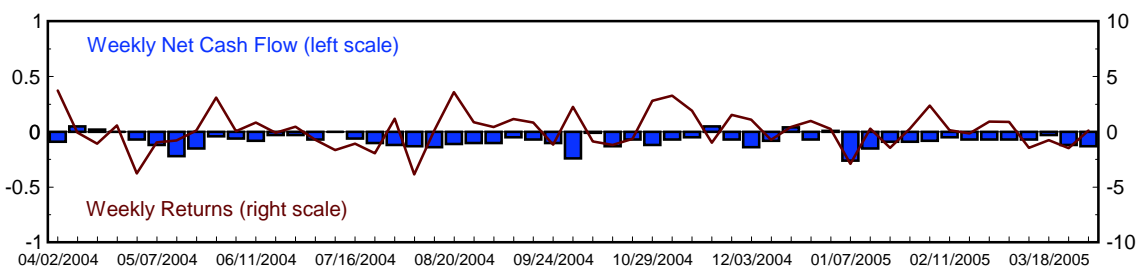


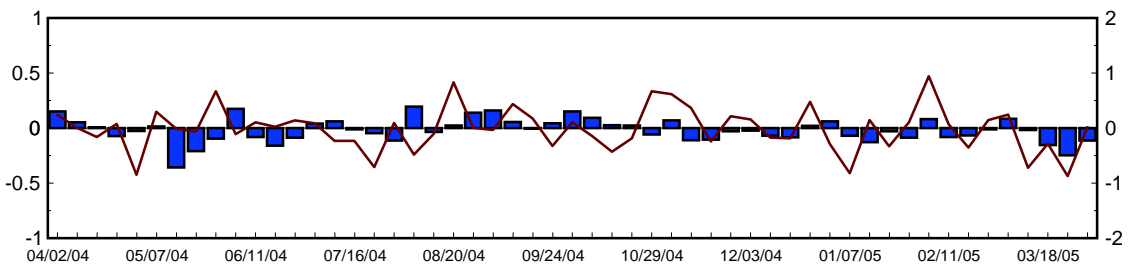
Figure 6a

## Weekly Flows into Mutual Funds

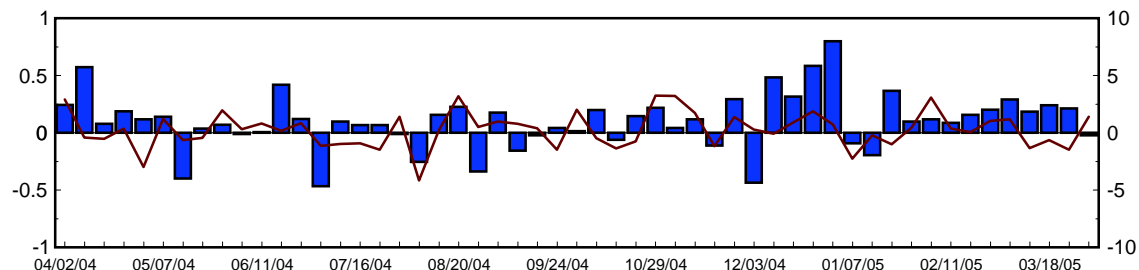
(percent of Total Assets)



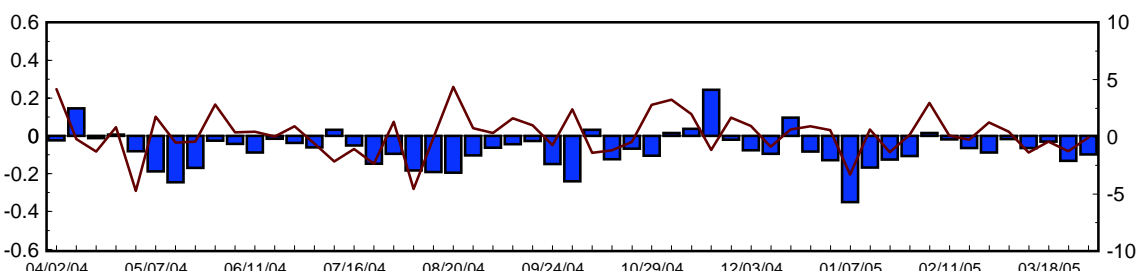
Equity Funds



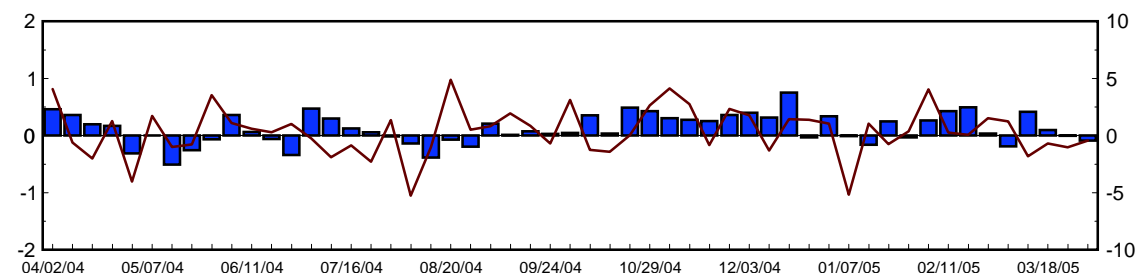
Bond Funds



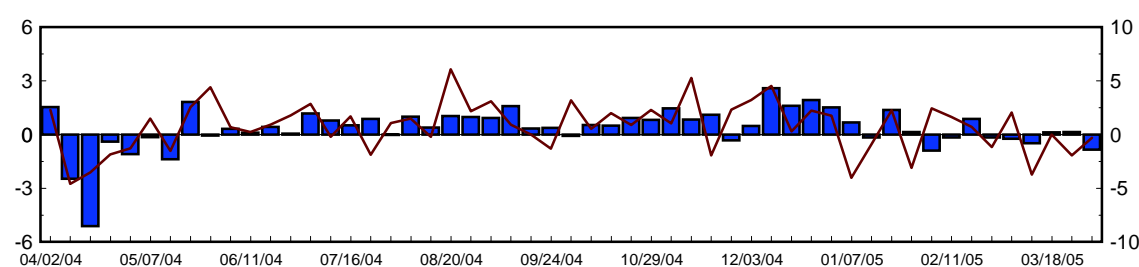
Index Funds



Aggressive Growth Funds



Small Cap Funds



Real Estate Funds



Figure 6b

**Weekly Flows into Mutual Funds**  
(percent of Total Assets)

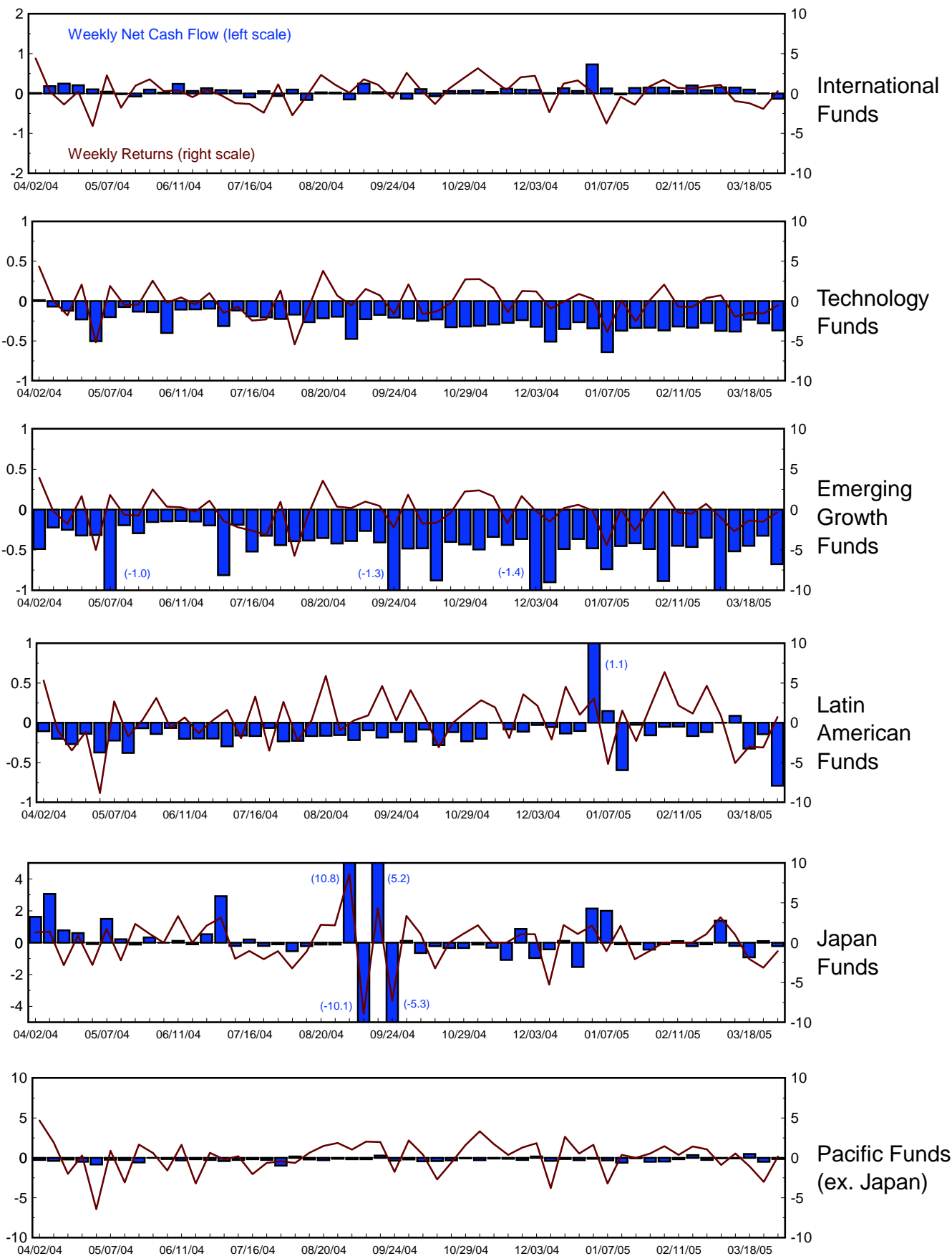


Figure 7

## Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

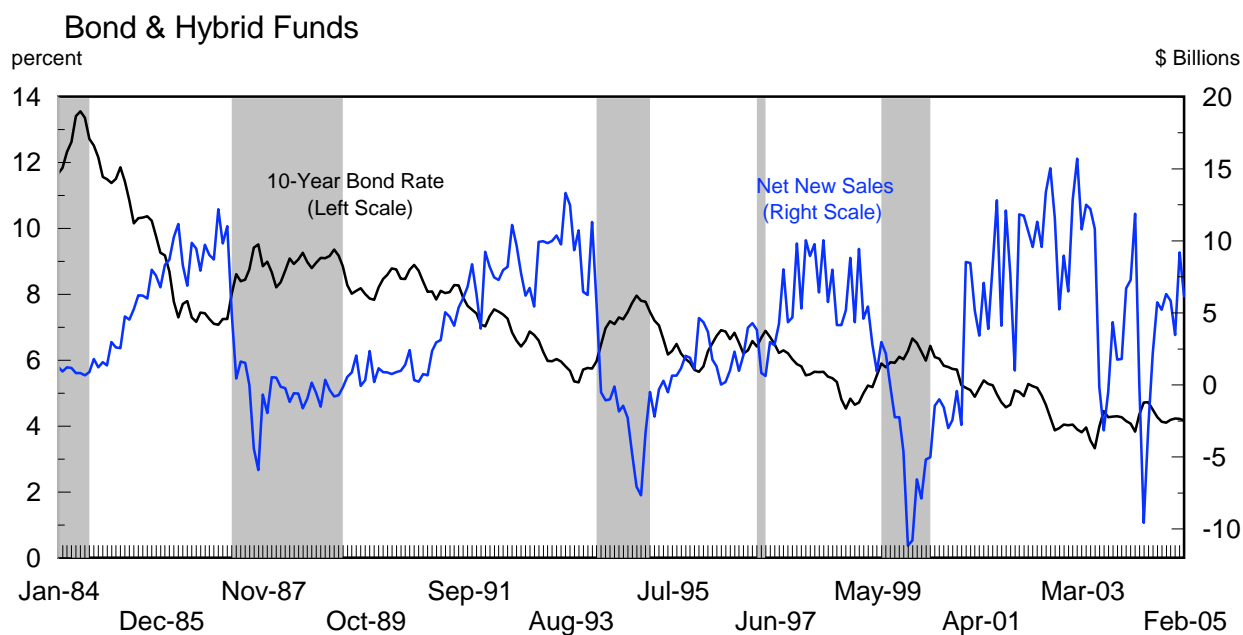
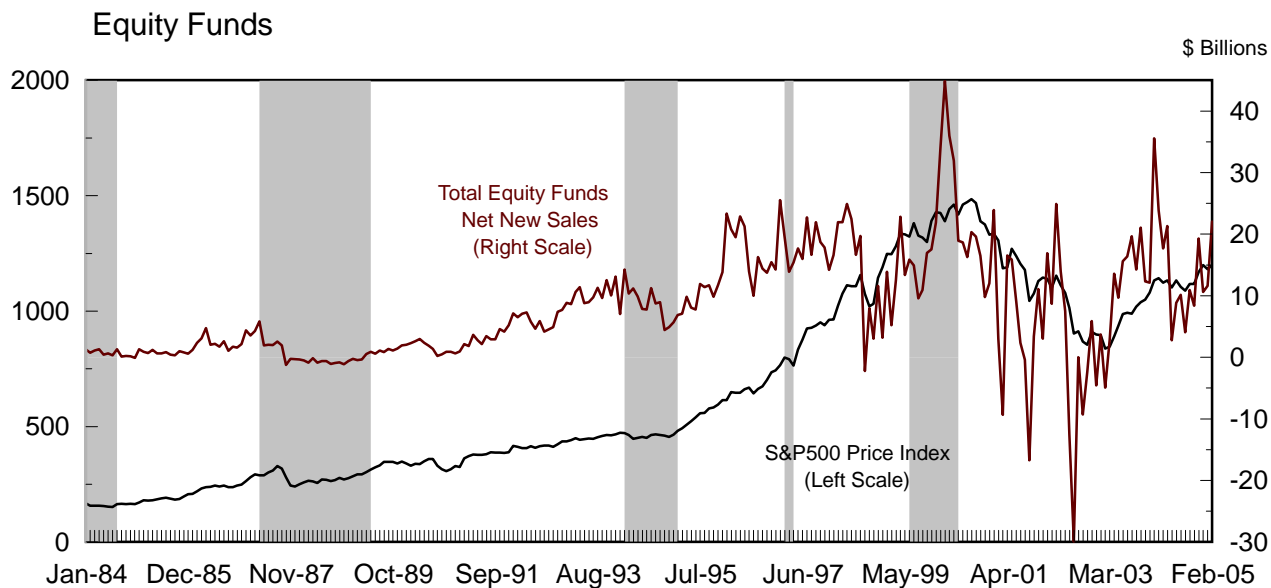


Figure 8  
**Capital Market Returns and Volatility**

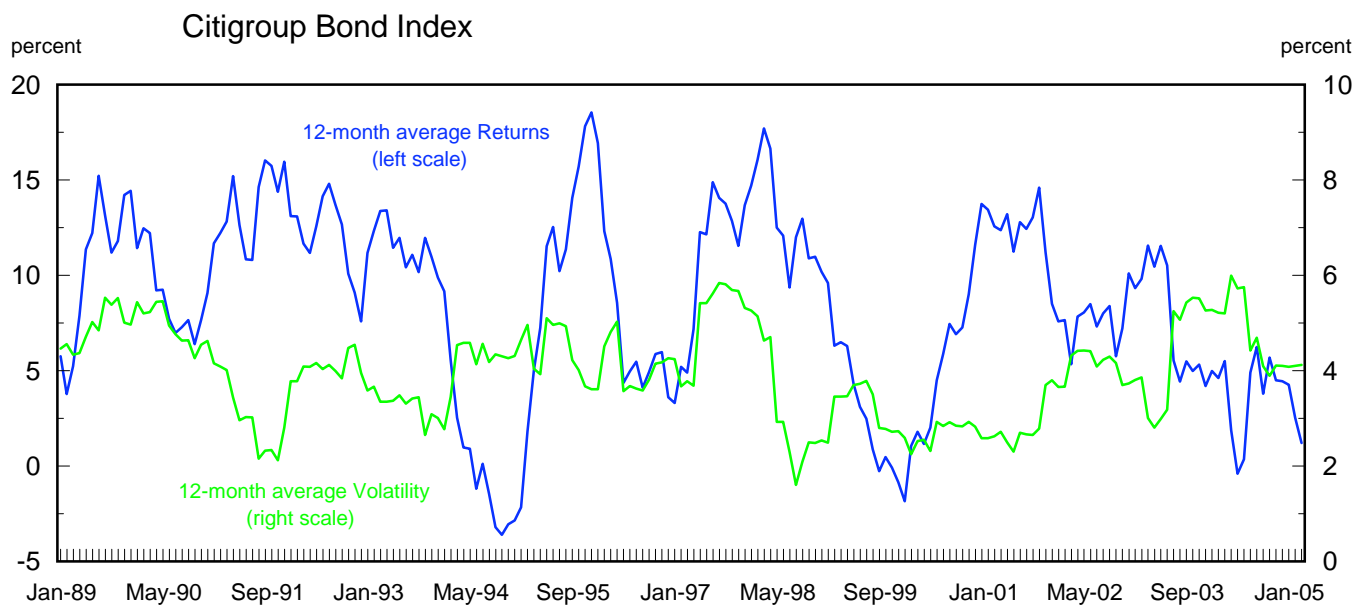
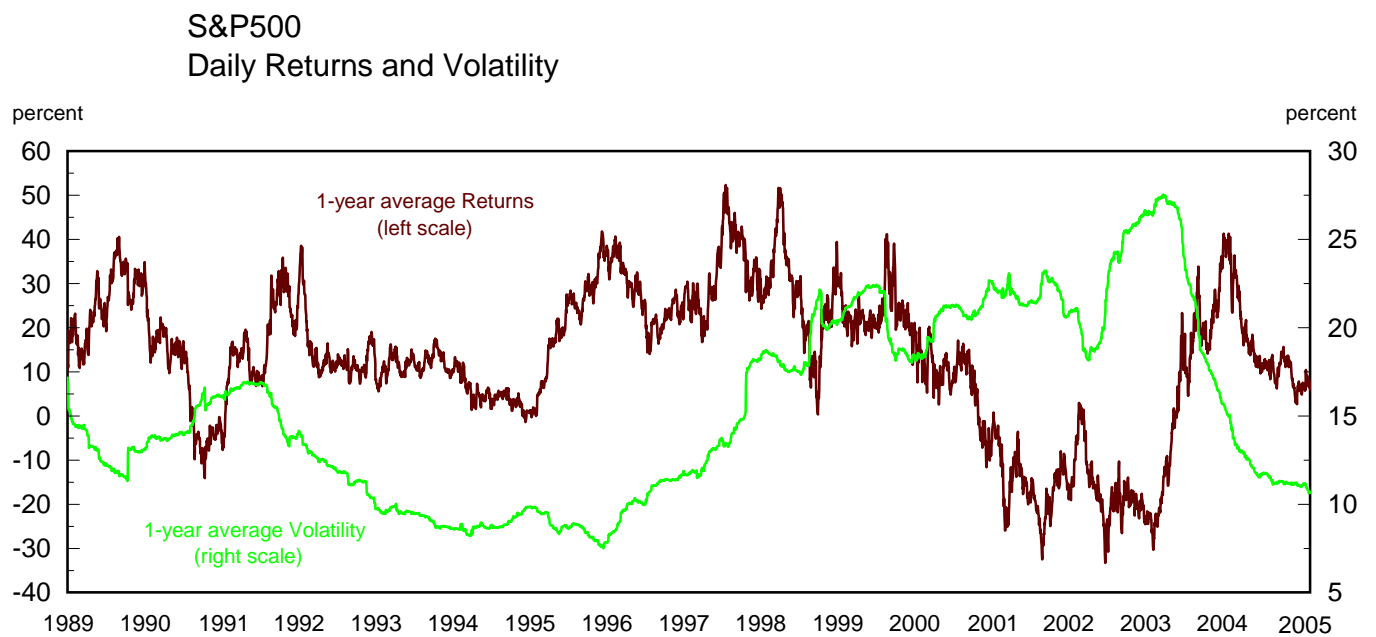
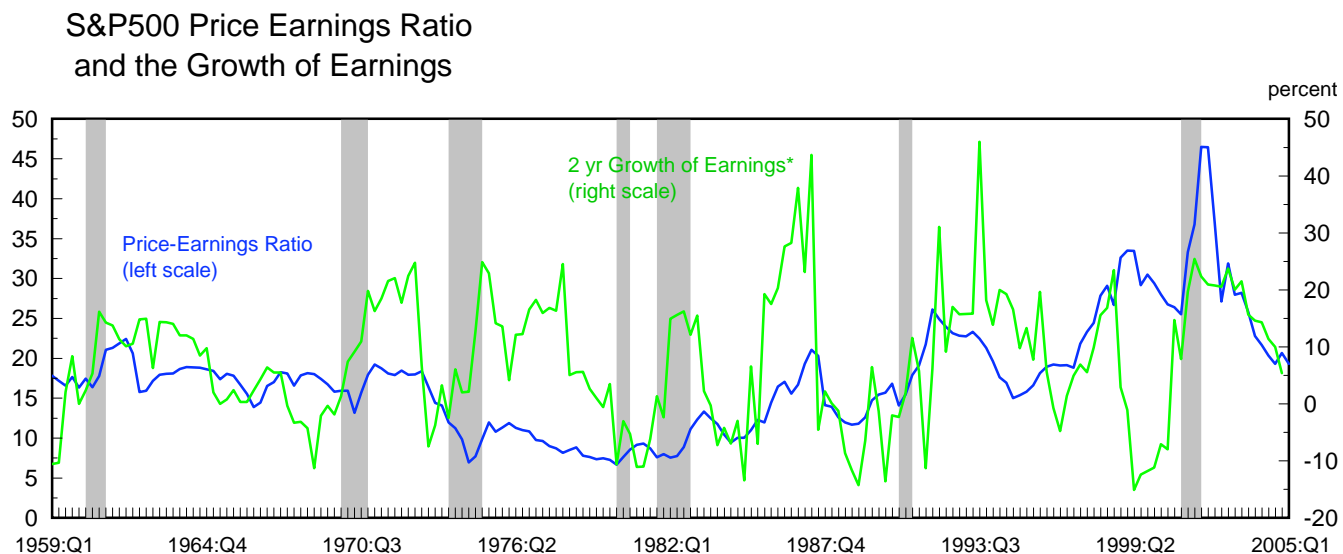
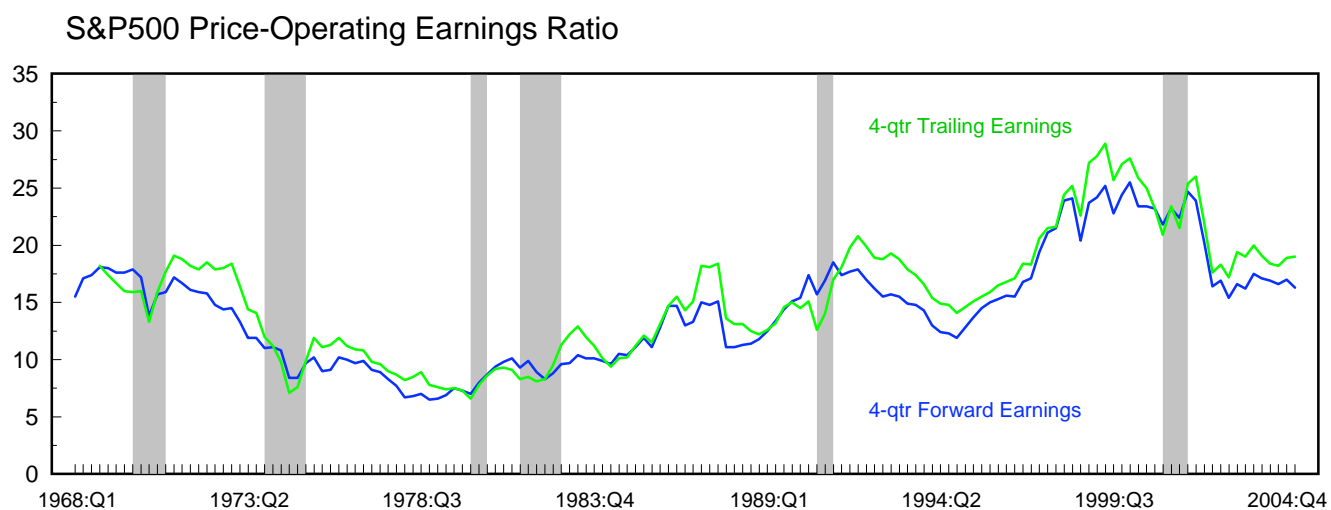
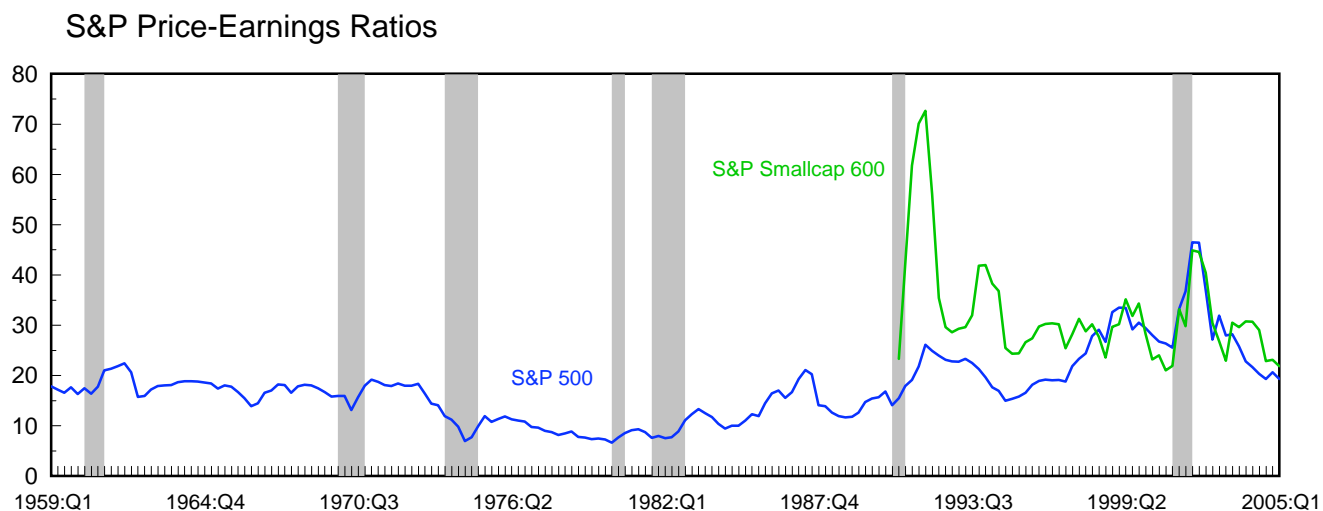


Figure 9

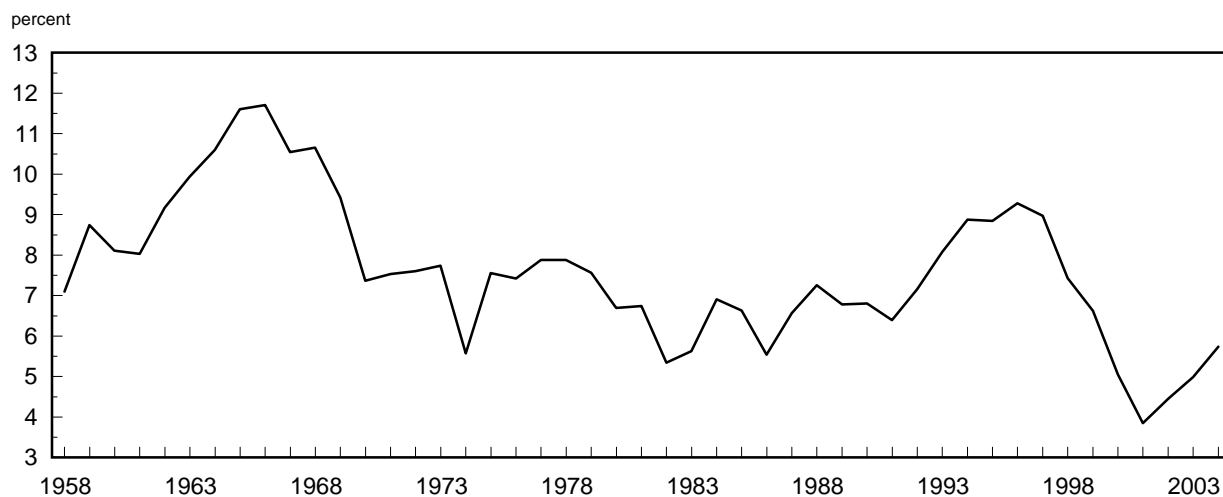


\* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

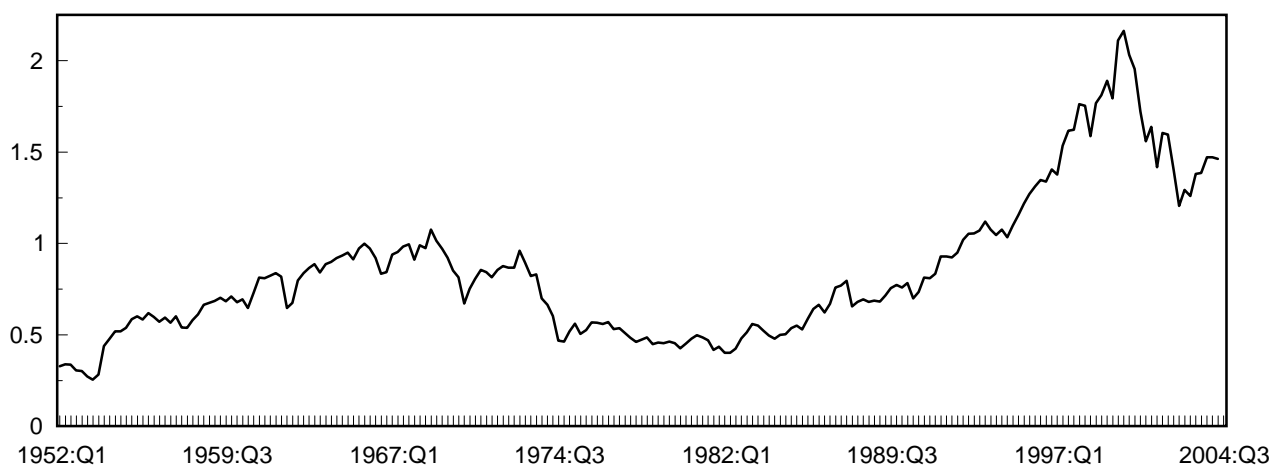
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

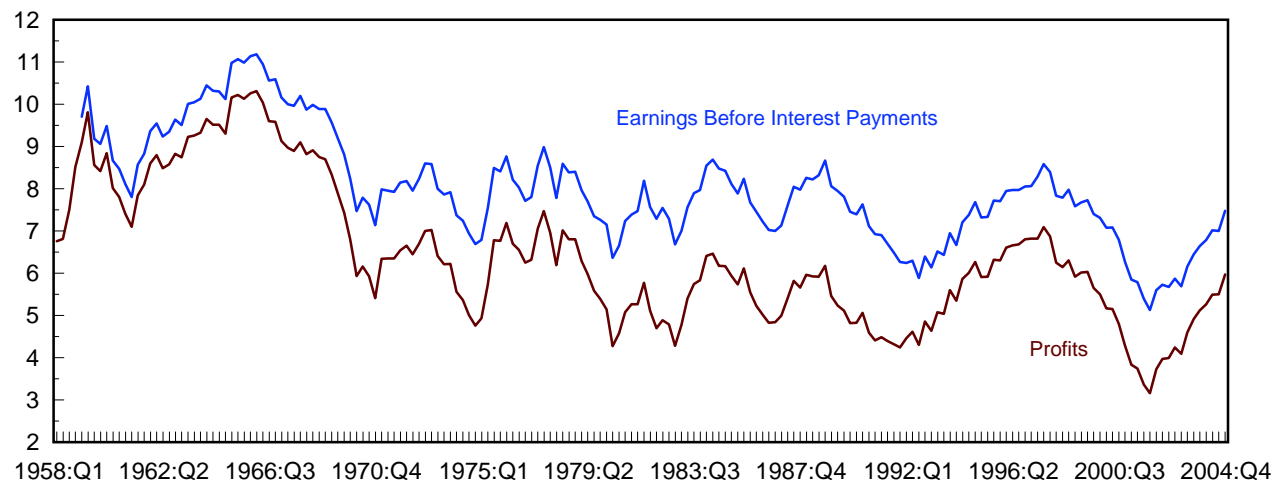
# Real Rate of Return on Nonfinancial Corporate Equity (from National Income and Flow of Funds Accounts)



## Tobin's Q\*



## Profits of Nonfinancial Corporations (percent of GDP)



\* Market Value of Equity plus Net Interest Bearing Debt / Current value of Land, Inventories, Equipment, and Structures

Source: Flow of Funds, Haver Analytics