August 9, 2002

Monthly Mutual Fund Report

Statistics for June-July 2002

In July, equity funds experienced the largest monthly outflow since we began tracking mutual funds in 1997, twice the outflow from June 2002, the previous worst month. In June and July, net cash outflows from equity funds totaled more than 3 percent. Meanwhile, bond funds have experienced an increase of 0.7 percent. Among equity fund sectors, only real estate funds have seen inflows in each of the last two months. In July, every fund type tracked in Figures 6a and 6b saw assets decrease.

Sales and Redemptions

Total assets for all funds decreased in June by $291.6 billion, or 4.2 percent, to $6.6 trillion. Money market funds had a net cash outflow of $43.4 billion compared to an outflow in May of $4.3 billion. Other funds (equity, hybrid, and bond) had a net cash outflow of $5.4 billion, compared to an inflow of $16.9 billion in May. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $104.5 billion in June, down from $120.7 billion in May. The value of non-money market assets depreciated by $358.7 billion in June, following a depreciation of $148.6 billion in May.

Total assets of **equity funds** decreased by $254.1 billion, or 7.6 percent, to $3.09 trillion. There was a $18.0 billion net cash outflow to equity funds in June, compared with an inflow of $4.9 billion in May. Year-to-date, equity funds have a net cash inflow of $54.0 billion, compared to a $49.3 billion inflow for the same period in 2001. The market value of assets depreciated by $238.6 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 4.2 percent, or $15.0 billion, to $341.3 billion. In June, there was a $0.4 billion net cash inflow for these funds for a total of $13.0 billion in 2002, exceeding the inflow of $6.7 billion in the first half of last year.

Bond funds experienced a cash inflow of $12.2 billion, while their total assets increased by $9.5 billion, to $1.0 trillion. The market value of bond funds assets decreased by $33.7 billion, after adjusting for net sales and reinvested dividends. The assets of tax-exempt funds increased by 1.3 percent while the assets of taxable bond funds increased by 0.8

percent. There has been a net inflow into bond funds of $50.8 billion in 2002, compared to $30.8 billion in the same period in 2001.

Assets of taxable and tax-exempt **money market funds** decreased $32.0 billion, to $2.2 trillion, a decrease of 1.4 percent for both taxable money market funds and tax-exempt funds. After a net cash inflow of $175.0 billion in the first half of 2001, money market funds have an outflow of $111.9 billion so far this year.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased from 5.4 to 4.6 percent, while the ratio for equity funds decreased from 5.1 to 4.7 percent (figure 4).

Weekly Flows

In July, there were outflows from equity funds of 2.3 percent of total assets, the largest monthly outflow since at least 1997, with losses of 6.8 percent. Bond funds had inflows of 0.7 percent and losses of 1.1 percent for the month.

Index funds had monthly outflows of 2.3 percent and losses of 4.6 percent. Aggressive growth funds had monthly outflows of 2.3 percent and losses of 1.1 percent. Small-cap funds had outflows of 4.3 percent and losses of 9.1 percent.

There were outflows from international funds in July of 1.1 percent of assets and losses of 10.2 percent. Latin America funds had outflows of 0.5 percent and losses of 10.0 percent. Japan funds had outflows of 1.6 percent and losses of 7.5 percent of assets for the month of July. Pacific funds that do not invest in Japan had inflows of 2.2 percent and losses of 6.0 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended July at 911.62, a decrease of 7.9 percent from the beginning of the month. The 12-month loss was 23.4 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 22.4 percent.

The 12-month average return on the Citigroup (formerly Solomon Brothers) Bond Index was 7.3 percent for July. Volatility decreased to 3.92 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 increased to 31.1 percent, and remain far above the 6.3 percent historical average annual growth rate. The trailing price-operating earnings ratio decreased from 22 in the second quarter to 19.1 for the third quarter, while the forward price-operating earnings ratio decreased from 18 in the second quarter to 16.3 during the third quarter of 2002 (figure 9). During the second quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index decreased to 40.5 from 44.6.

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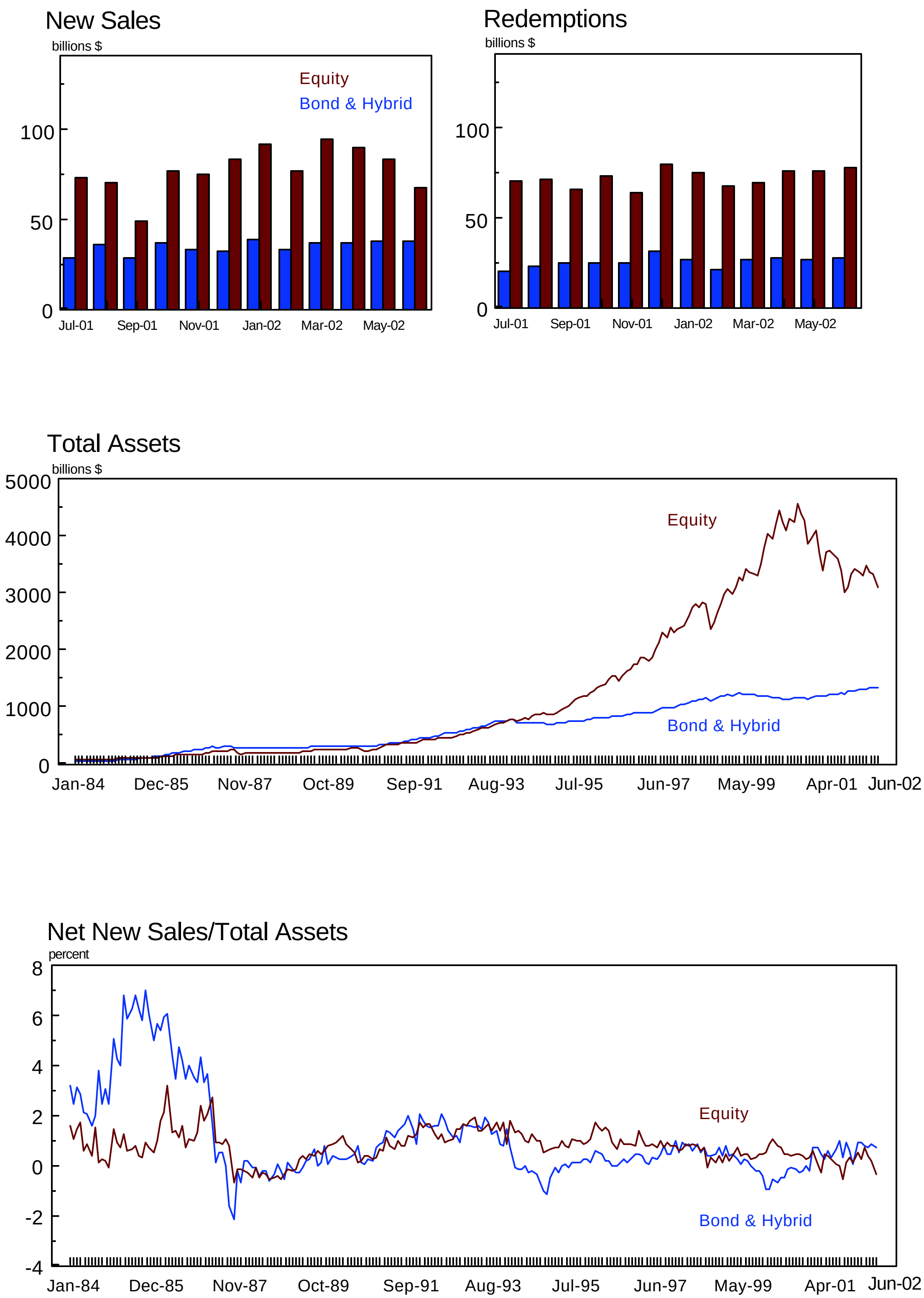
Figure 1

Sales of Mutual Funds



Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)

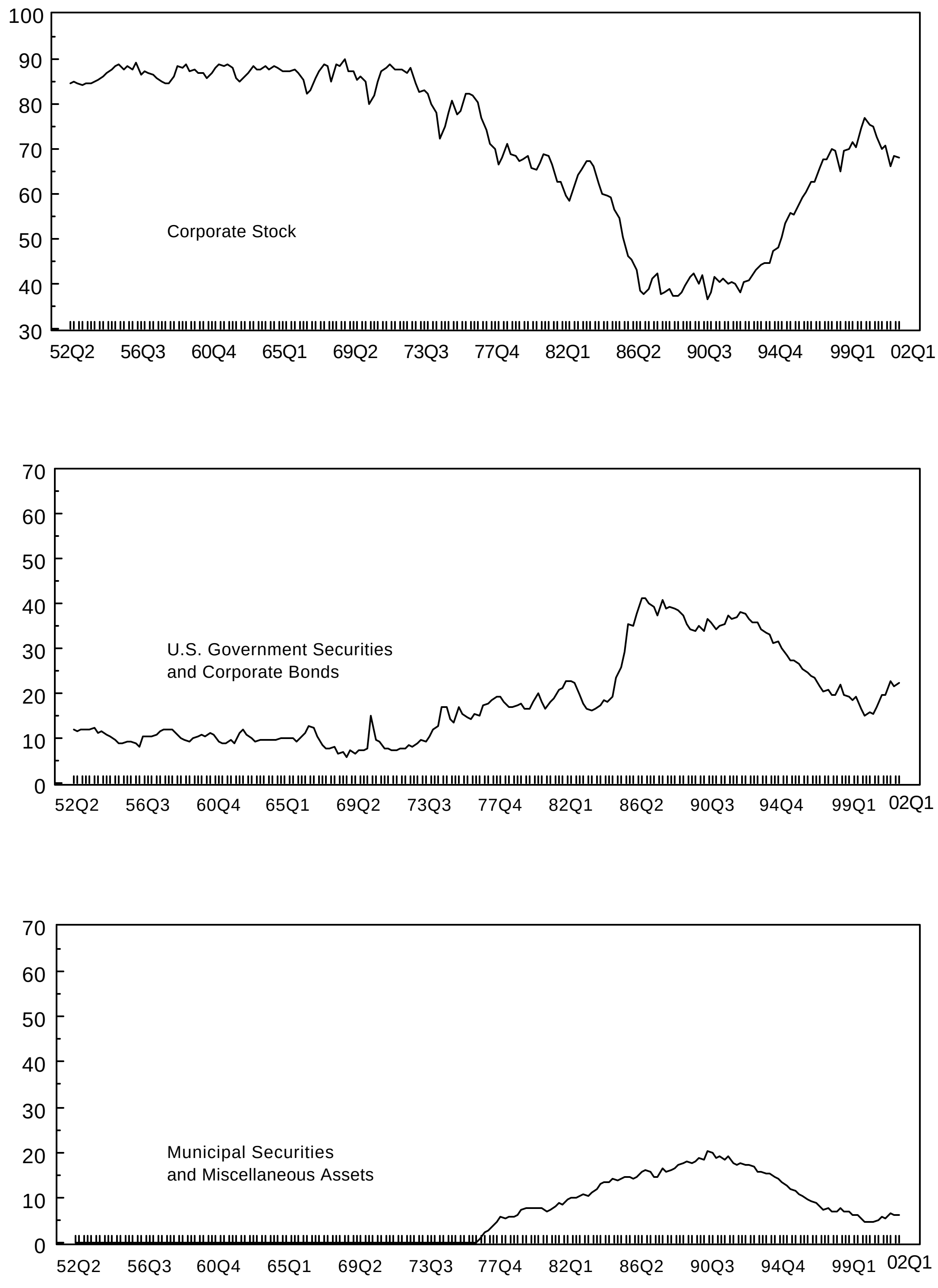


Figure 3

Net Portfolio Purchases

(percent of Total Assets)

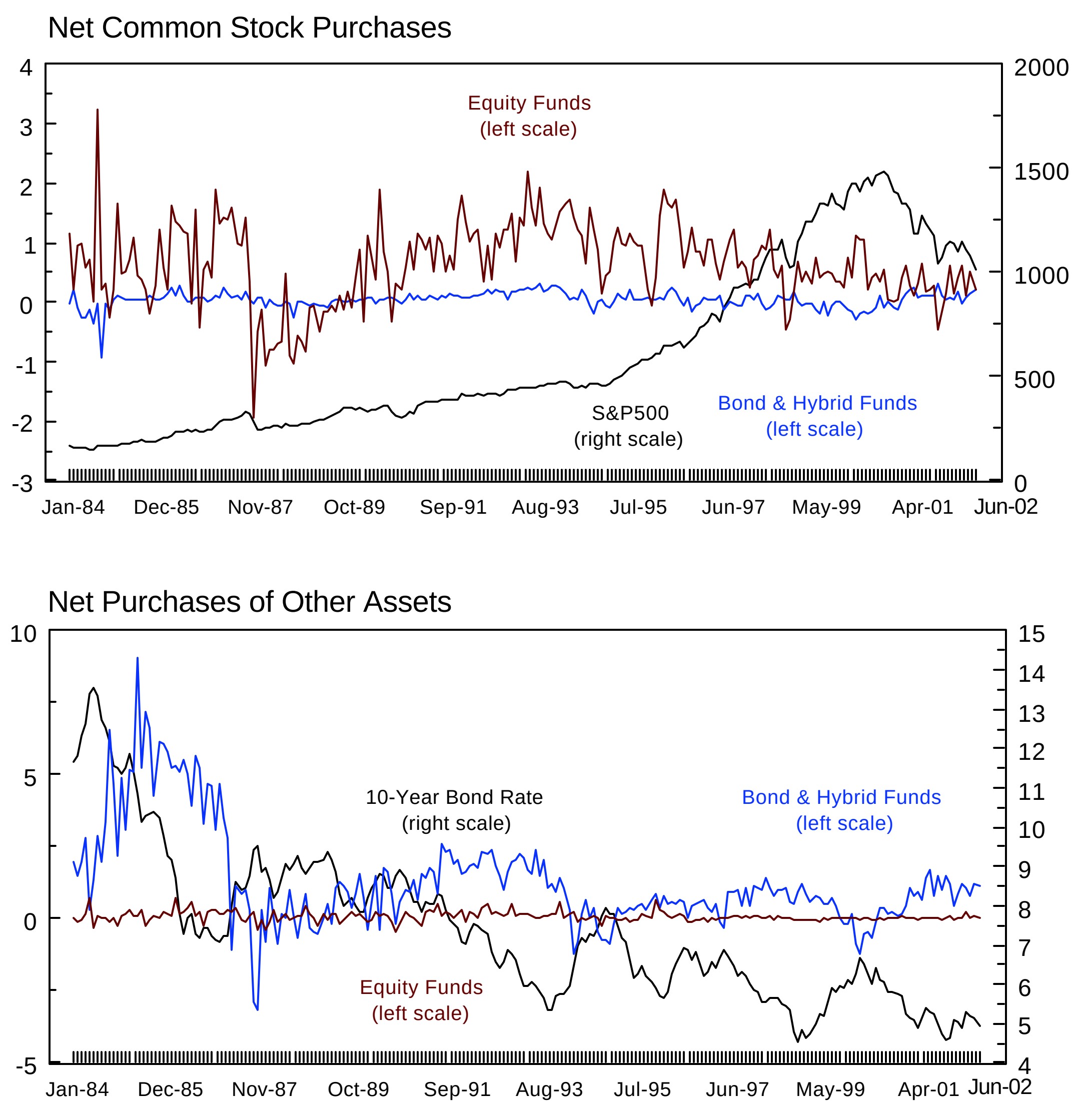
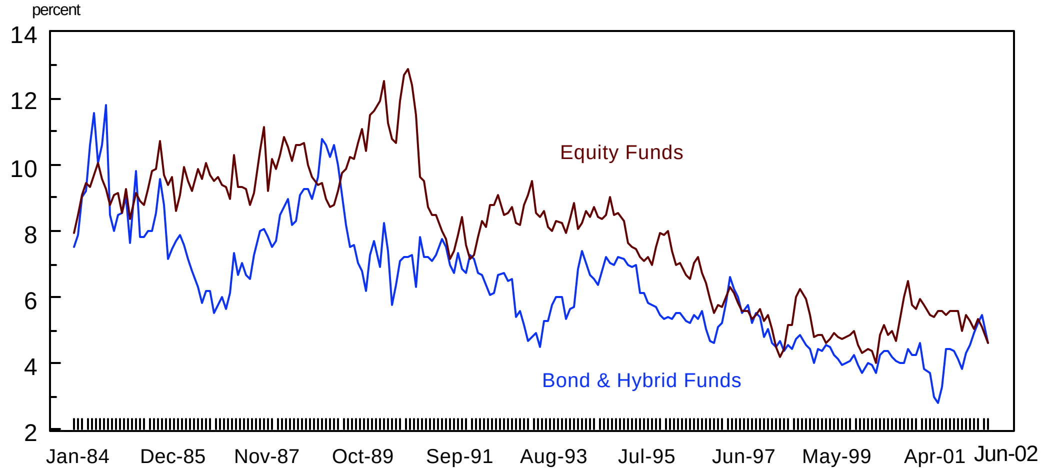
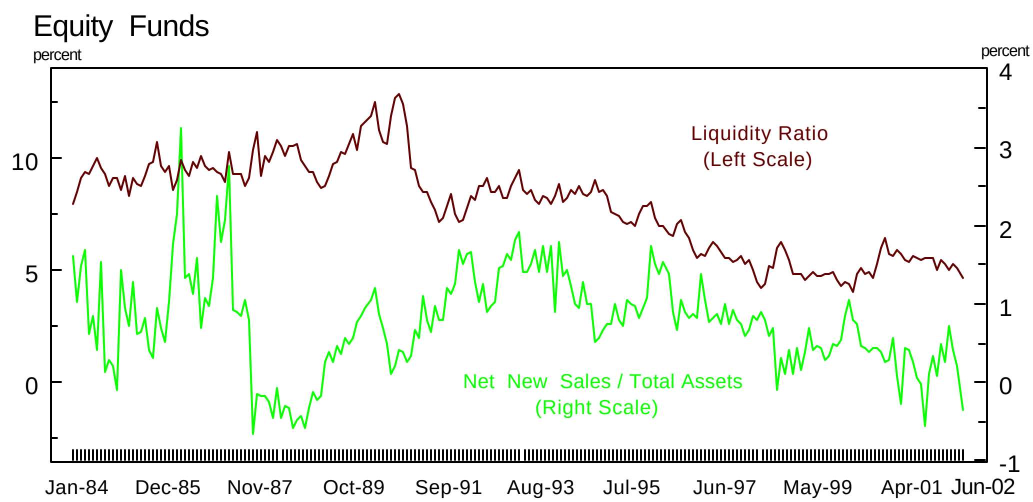
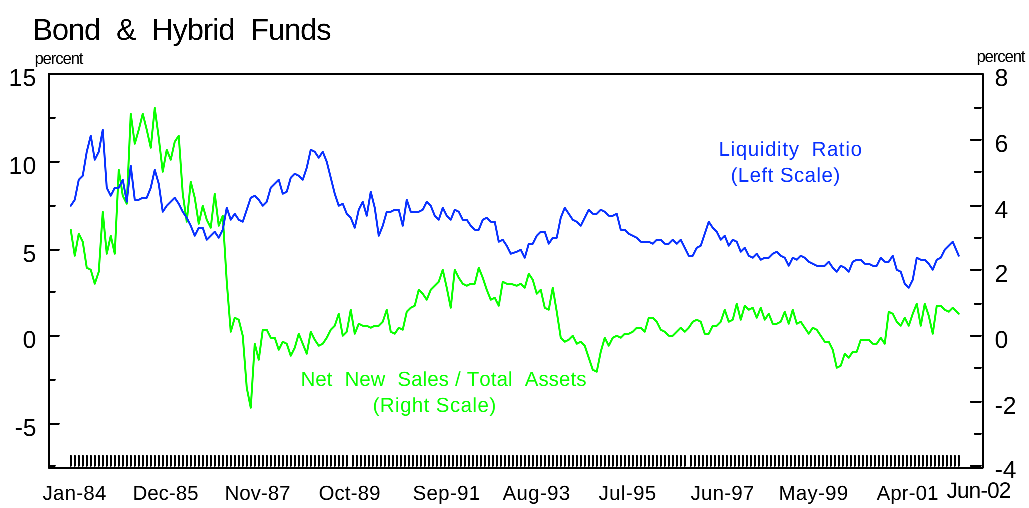


Figure 4

Liquidity Ratio*







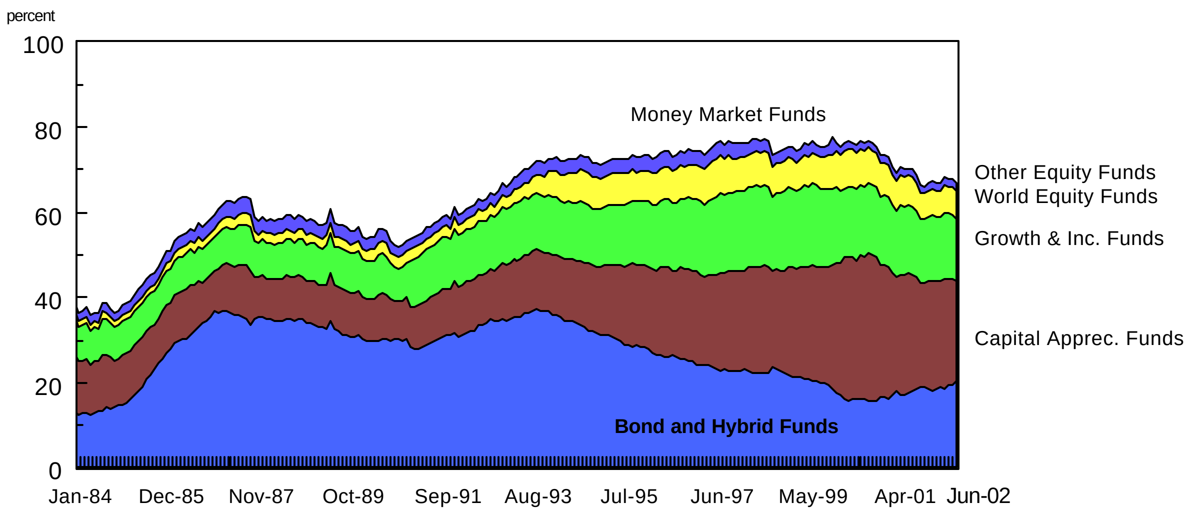
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

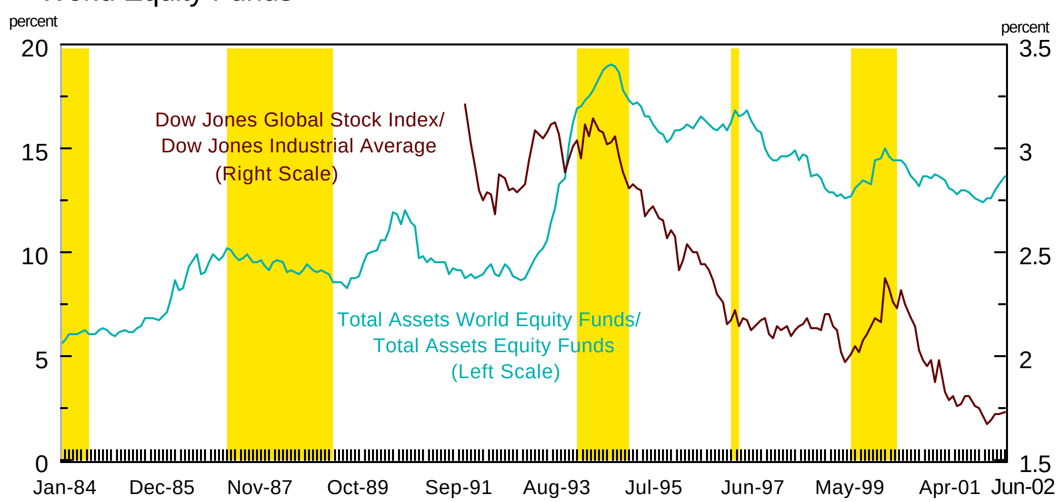
Figure 5

Industry Composition

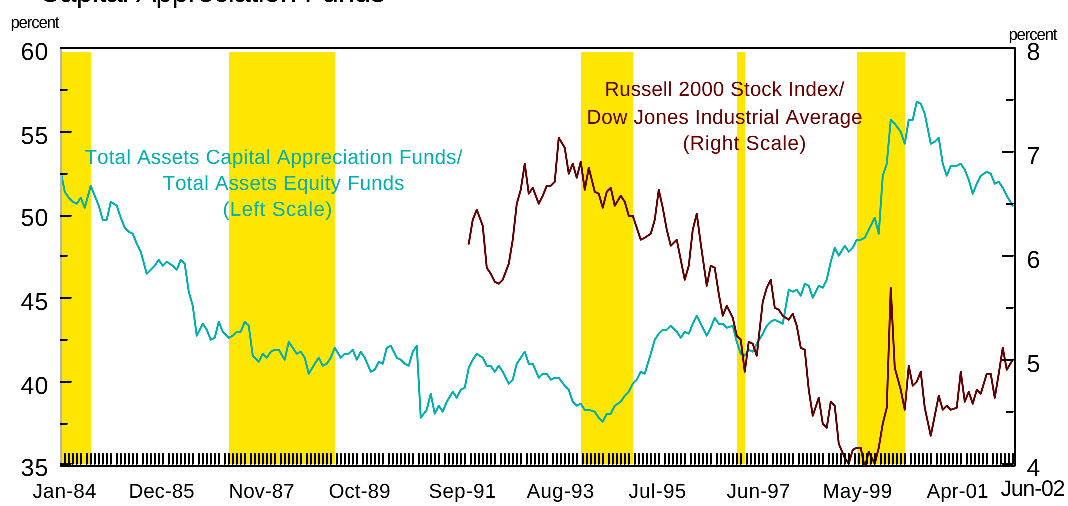
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

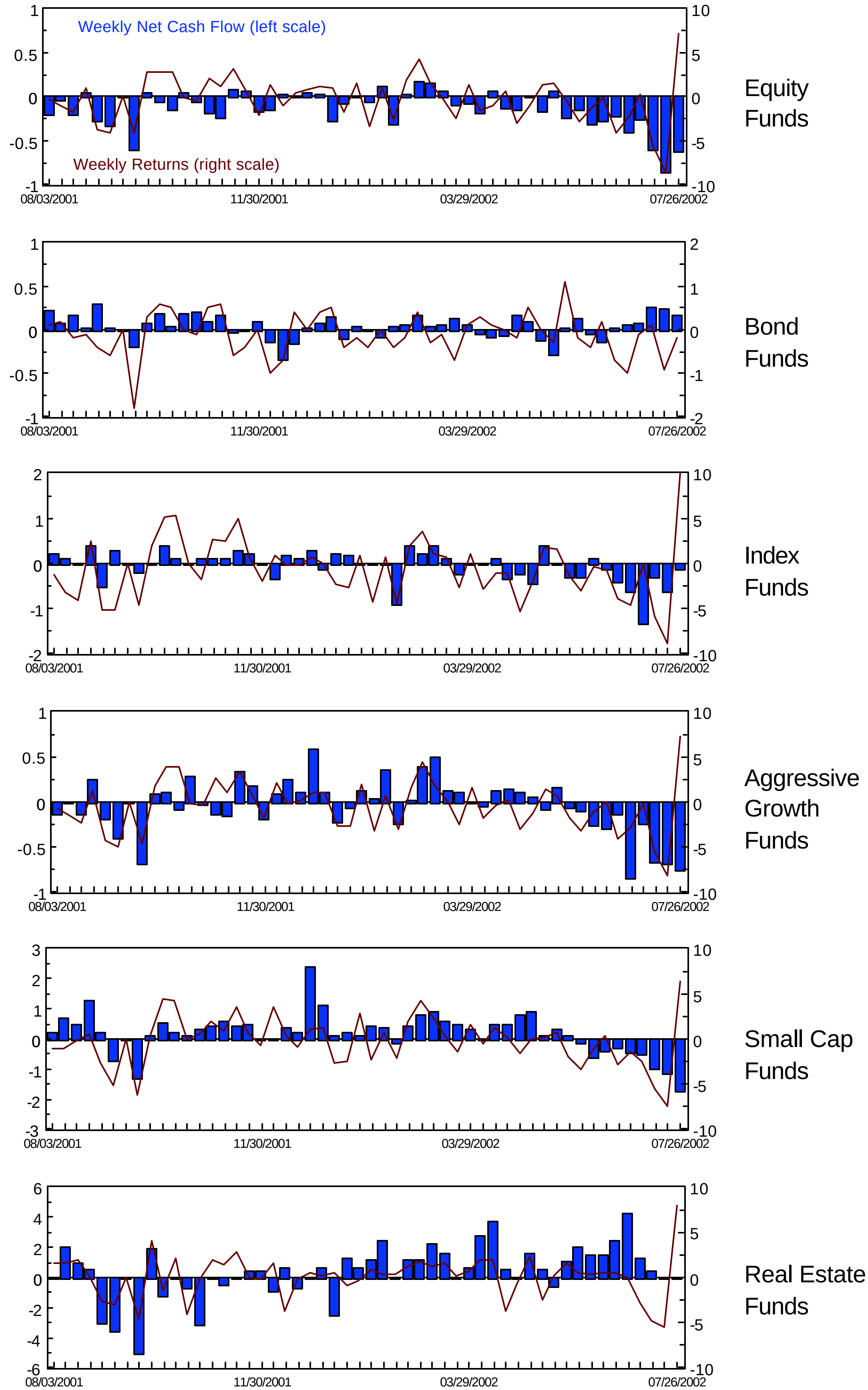


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

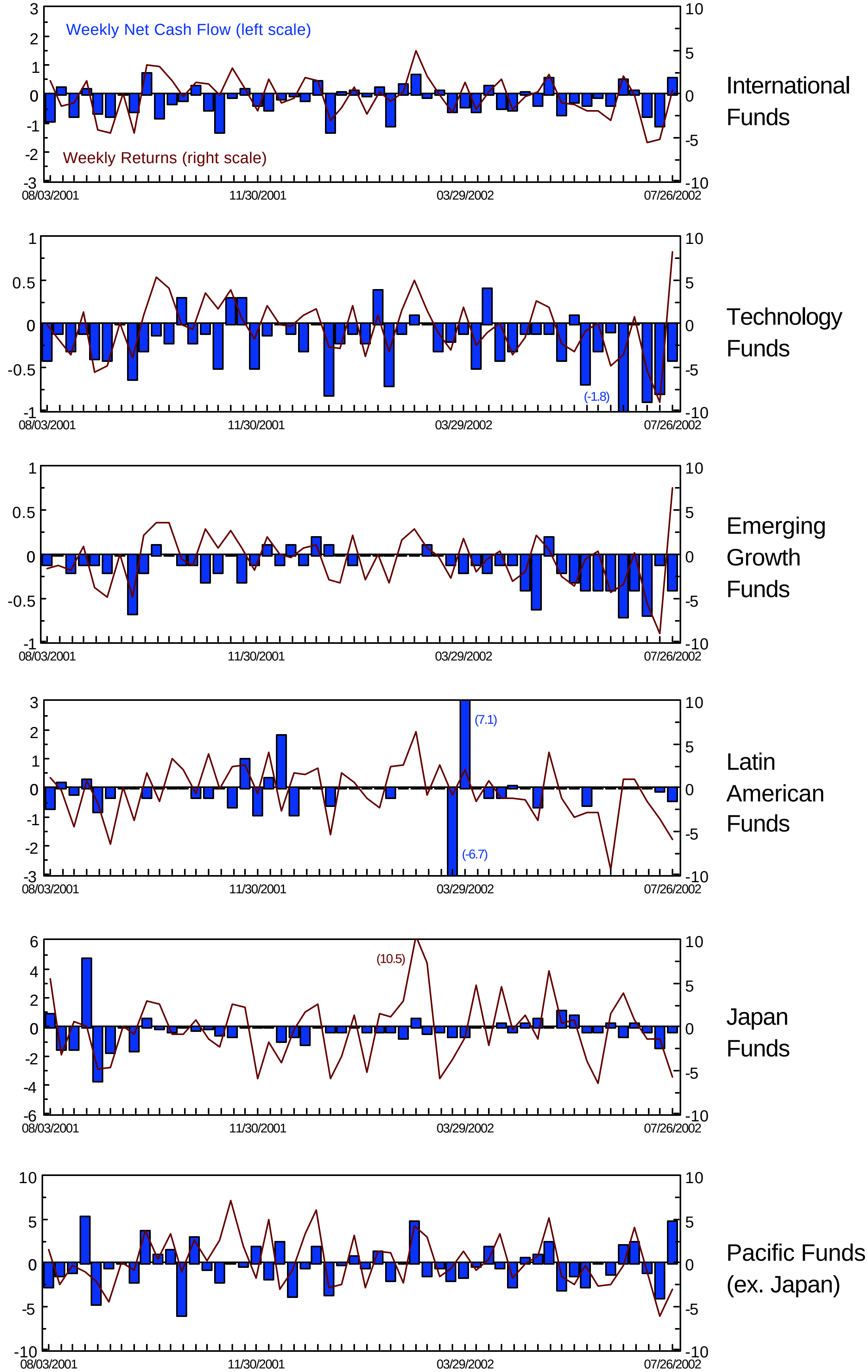


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

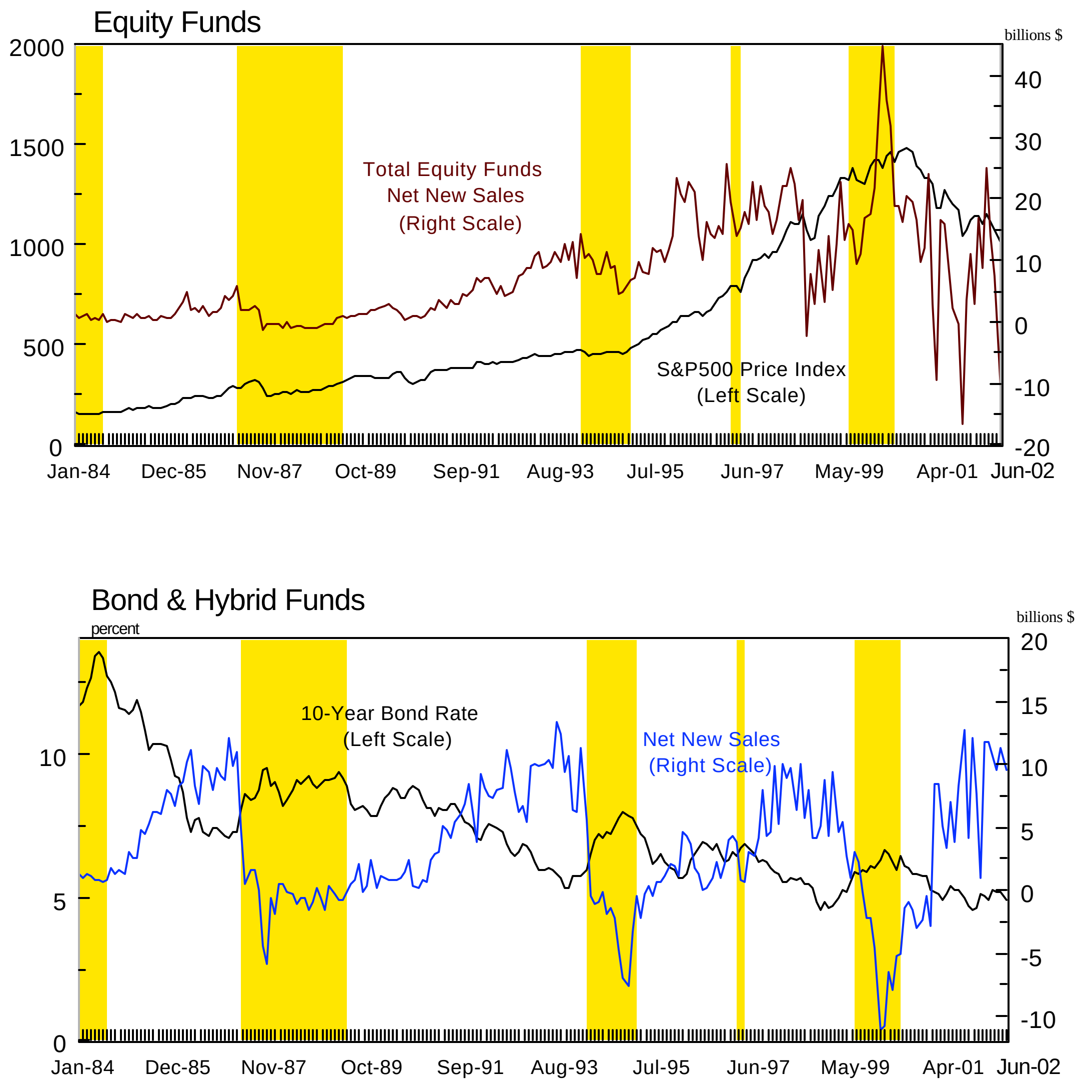


Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

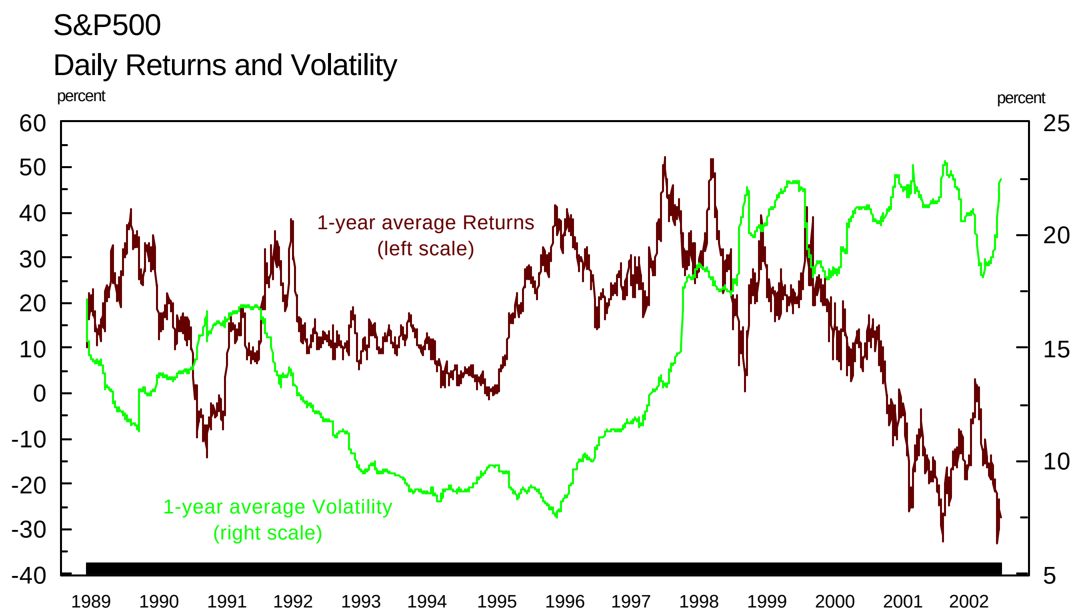
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility



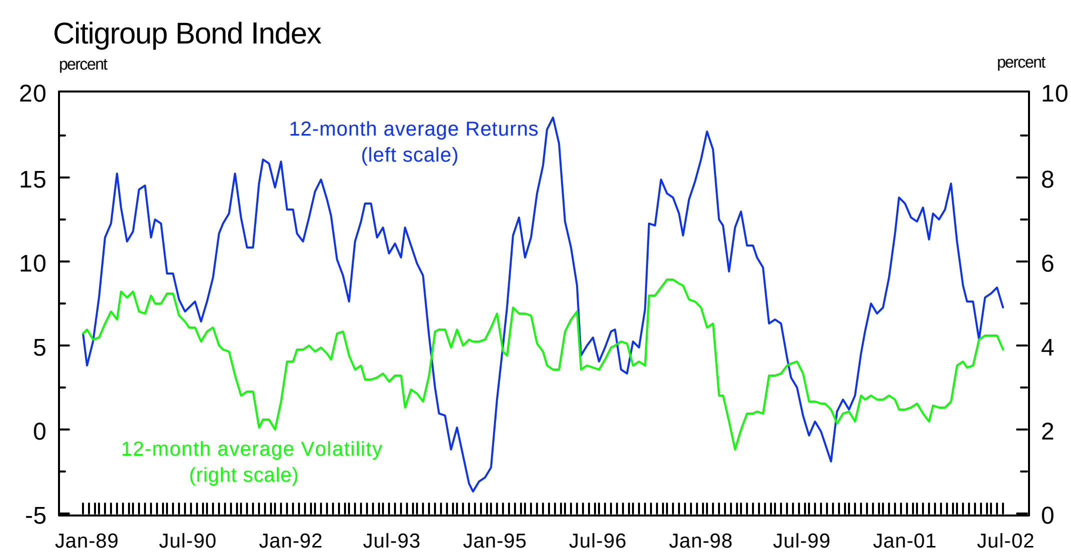
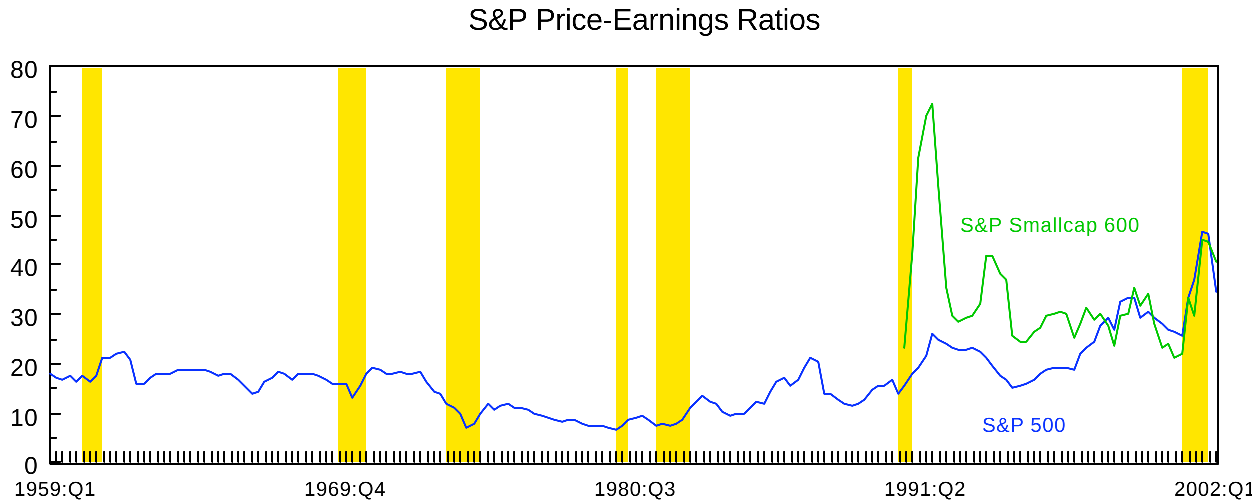
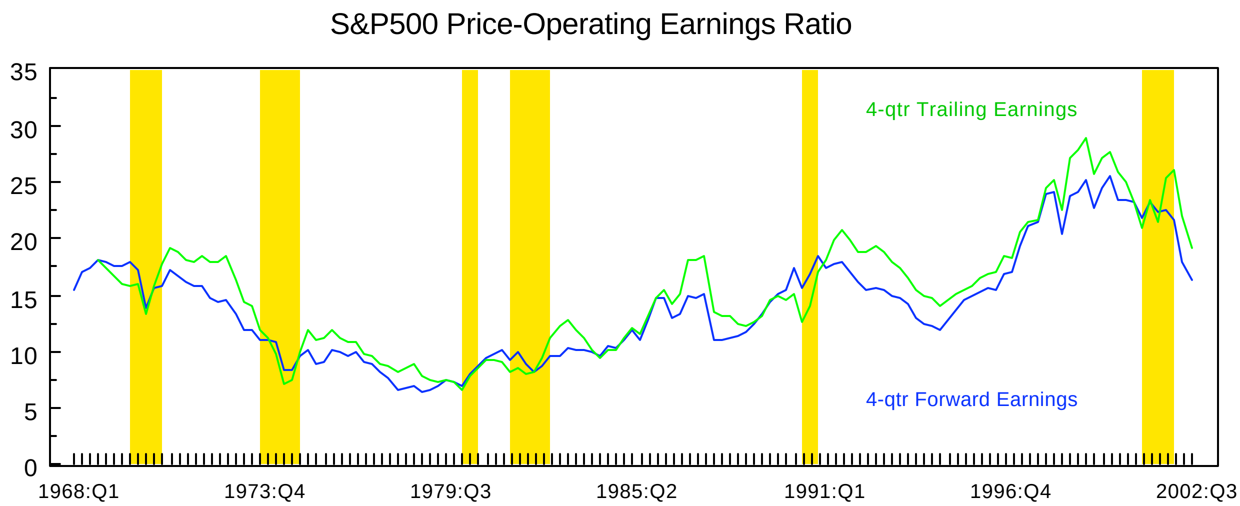
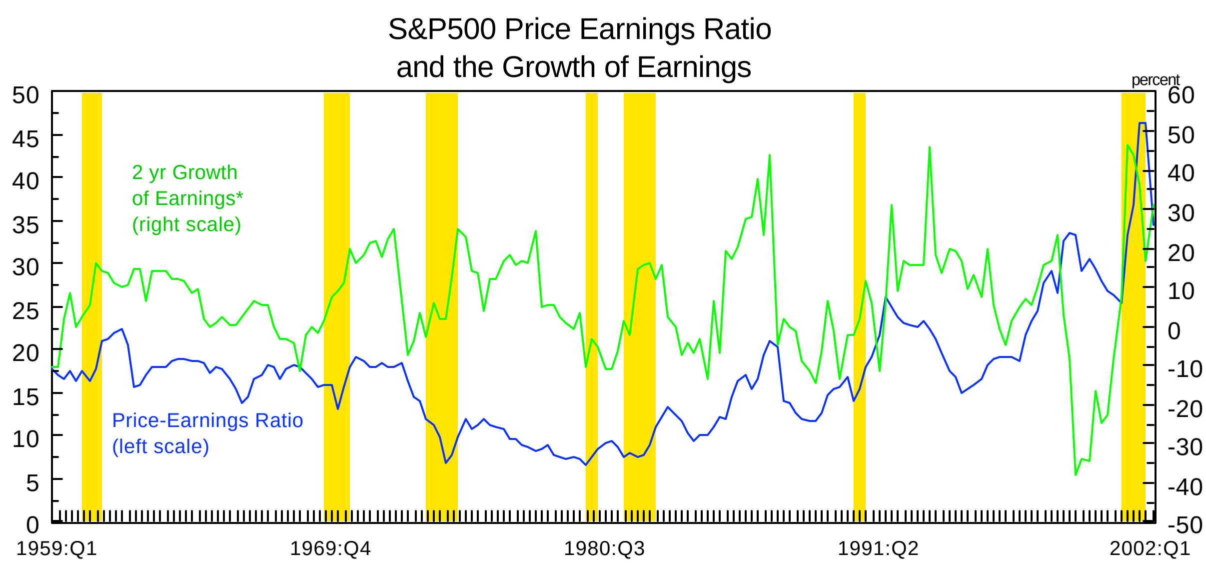


Figure 9





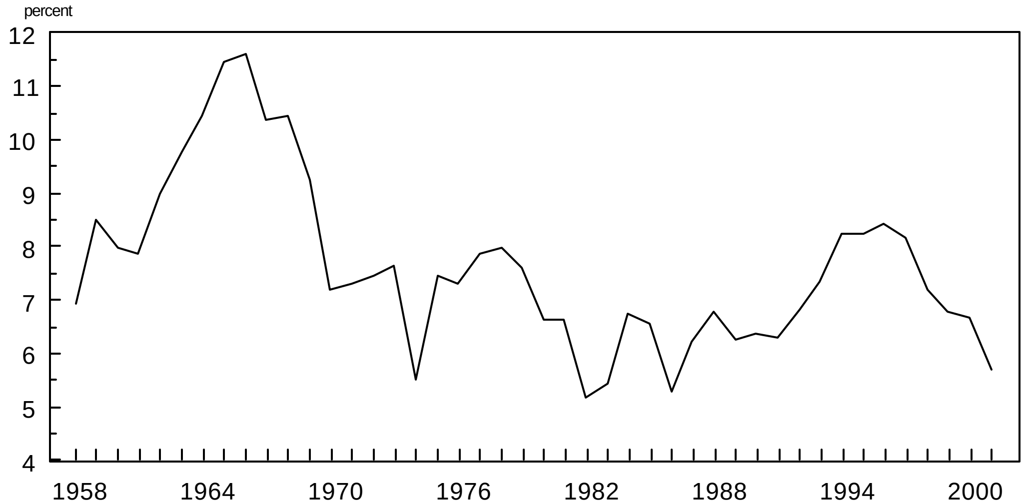


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

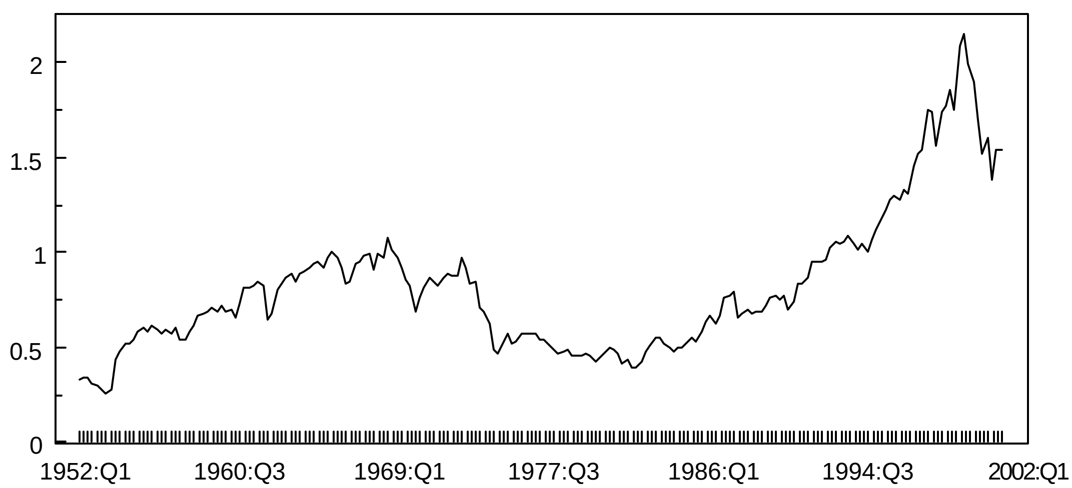
source: First Call, DRI, Bloomberg

Figure 10

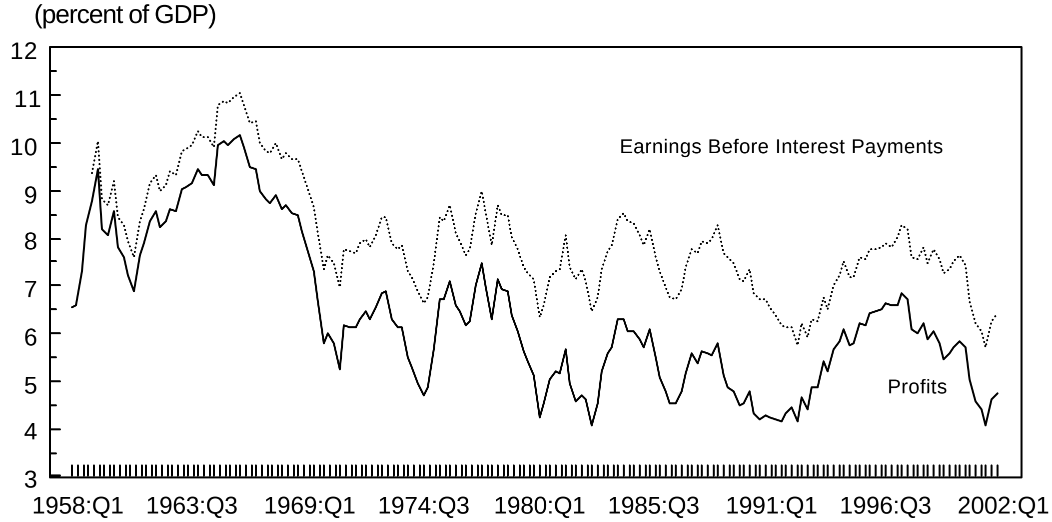
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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