February 4, 2000

Monthly Mutual Fund Report

Statistics for December 1999
Year – End Report

Sales and Redemptions

Total assets for all funds increased $392.5 billion, or 6.1 percent, to $6.8 trillion in December. Net new cash flow into long-term mutual funds, the dollar value of net new sales and net exchanges, was $6.3 billion, compared to $11.8 billion in November. New sales, the purchase of new shares excluding reinvested dividends, were $125.5 billion in December, up from $102.0 billion in November. The value of assets appreciated by $355.9 billion in December, compared with an increase of $208.9 billion in November. In 1999, net assets grew by $1.3 trillion, or 23.9 percent.

Total assets of **equity funds** increased by $364.8 billion, or 9.9 percent, to $4.0 trillion. Net cash flow into equity funds was $24.3 billion compared with $19.0 billion in November. The market value of assets appreciated by $304.4 billion. Cash flows for 1999 were $187.5 billion, 19 percent higher than the 1998 cash flows of $157.0 billion. Net assets of stock mutual funds grew 35.6 percent in 1999, an increase of $1.1 trillion. In 1998, the assets of equity funds increased 25.9 percent, or $613.3 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 1.9 percent, or $7.0 billion, to $383.8 billion. The net cash outflow from these funds was $4.5 billion in December. The net cash outflow from these funds in 1999 was $12.5 billion, compared to an inflow of $10.1 billion during 1998. Despite this net cash outflow, the assets of hybrid funds increased by 19.1 billion, or 5.2 percent in 1999, compared to a 15.1 percent increase of $48.0 billion during the previous year.

Bond funds experienced a cash outflow of $13.5 billion in December, as their total assets fell $15.5 billion, to $808.2 billion. The market value of bond funds' assets decreased by $32.7 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds decreased 0.1 percent, while the assets of tax-exempt funds fell 3.6 percent. In 1999, the cash outflows from bond funds of $5.4 billion contrasted distinctly with the 1998 inflows to these funds of $74.6 billion. During 1999, net assets of bond funds decreased by $22.4 billion, or 2.7 percent of total assets. In 1998, bond funds' assets grew $106.3 billion, or 14.7 percent.

Assets of taxable and tax-exempt **money market funds** increased $36.1 billion, to $1.6 trillion, an increase of 2.5 percent for taxable money market funds and 0.9 percent for tax-exempt funds. Net new cash flow to all money market funds was $193.9 billion in 1999, compared to $235.3 billion in 1998.

Liquidity Ratio

The liquidity ratio decreased for both bond and hybrid and equity funds during December. The ratio for bond and hybrid funds decreased from 3.9 to 3.8 percent, while the ratio for equity funds decreased from 4.6 to 4.3 percent, down from 4.8 percent in December 1998 (figure 4).

Weekly Flows

In January, flows were consistently positive, at 0.9 percent of total assets while returns were negative, at 2.8 percent for the month. Bond fund flows and returns were negative with a monthly outflow of 1.5 percent and return of –1.0 percent.

Flows to domestic sector equity funds were mostly positive, while small positive returns turned sharply negative in the final week of January. International funds had both positive returns of 3.8 percent and flows of 3.7 percent for the month. East Asia sector funds did not follow this pattern. Pacific funds which exclude Japan had outflows of 2.0 percent and negative returns of 9.2 percent. Japan funds had outflows of 5.0 percent, with negative returns of 5.1 percent of total assets.

Capital Market Returns and Volatility

The S&P 500 ended January at 1394.46, a decrease of 5.1 percent from the beginning of the month. The 12-month return was 13.0 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 18.6 percent.

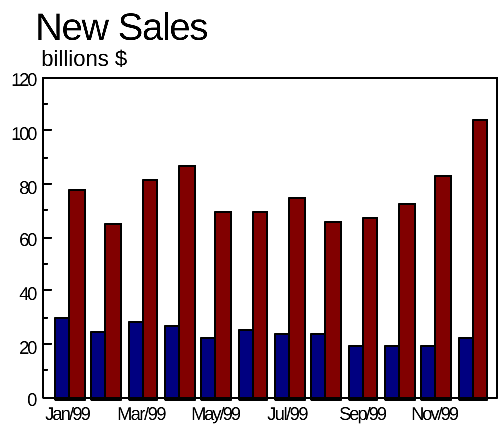
The 12-month average return on the Salomon Brothers Bond Index was -1.8 percent for December. Volatility decreased from the previous month to 2.5 percent (figure 8).

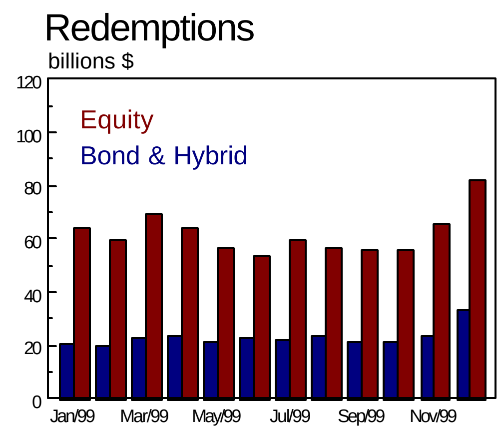
Price-Earnings Ratio

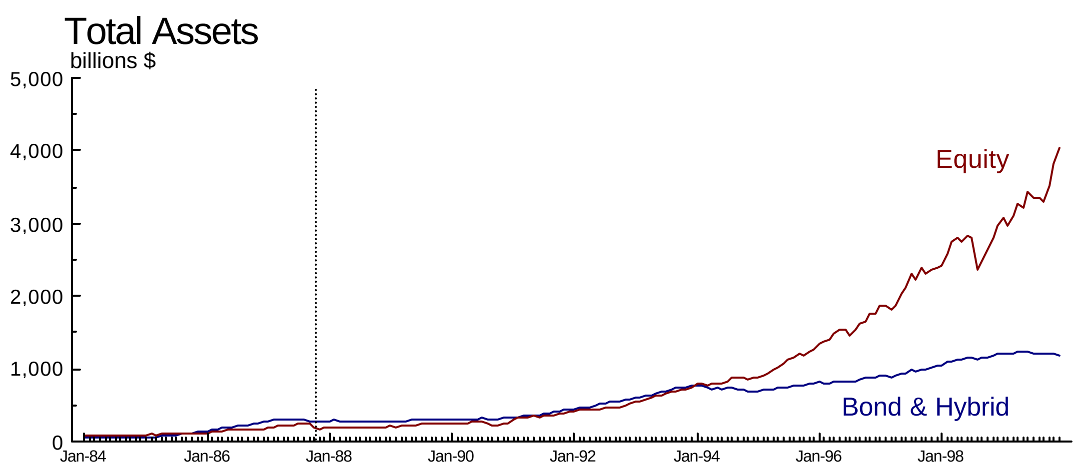
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have decreased from recent levels to 6.6 percent, around the historical average of 6.7 percent annual earnings growth. The trailing price-earnings ratio increased to 34.1 for the fourth quarter, rising from 31.9 in the third quarter.

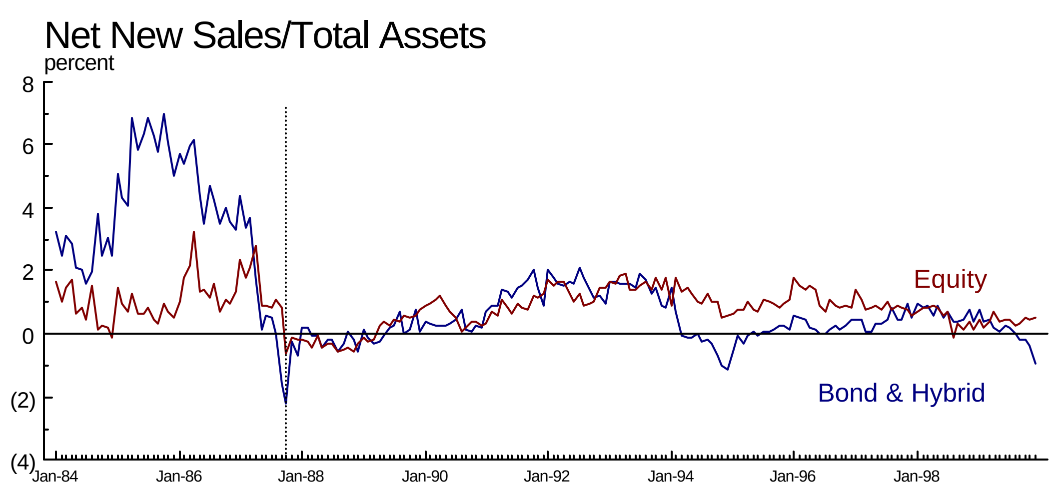
For more information please contact Richard Brauman (617) 973-3198

Figure 1
Sales of Mutual Funds









Source: Investment Company Institute

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

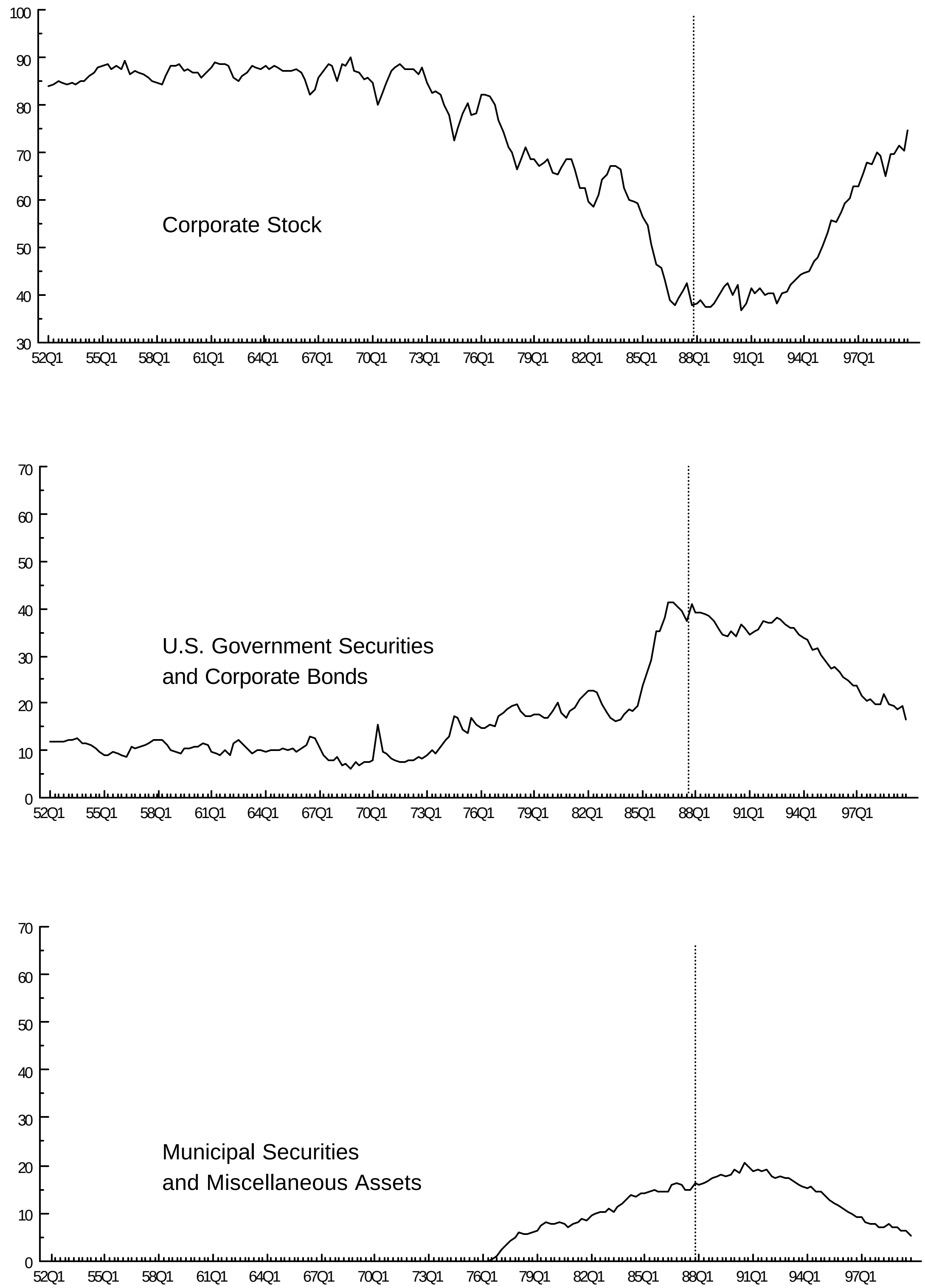
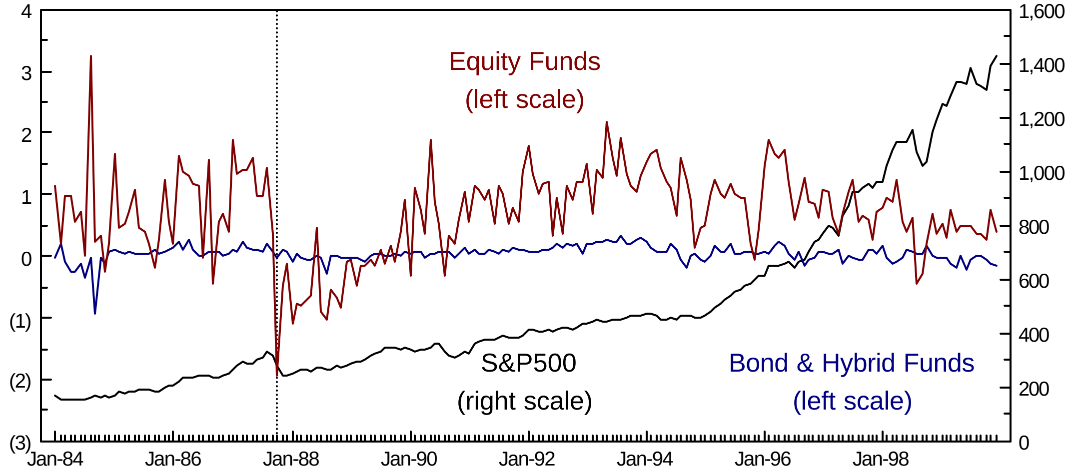


Figure 3

Net Portfolio Purchases

(percent of Total Assets)

Net Common Stock Purchases



Net Purchases of Other Assets

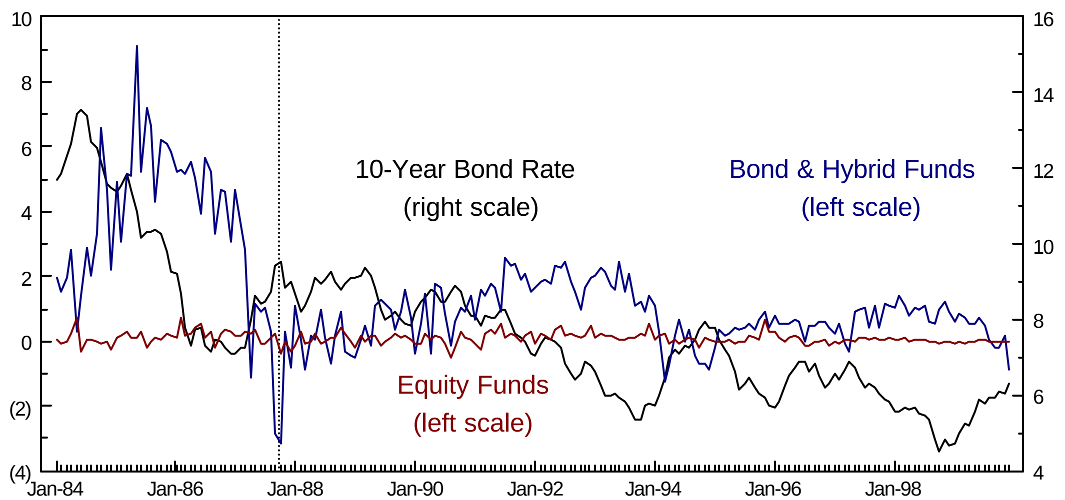
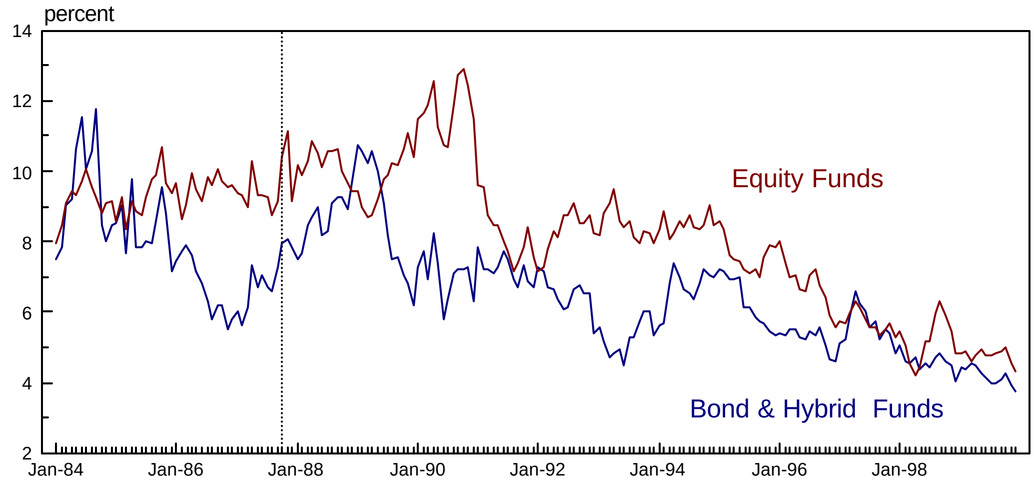
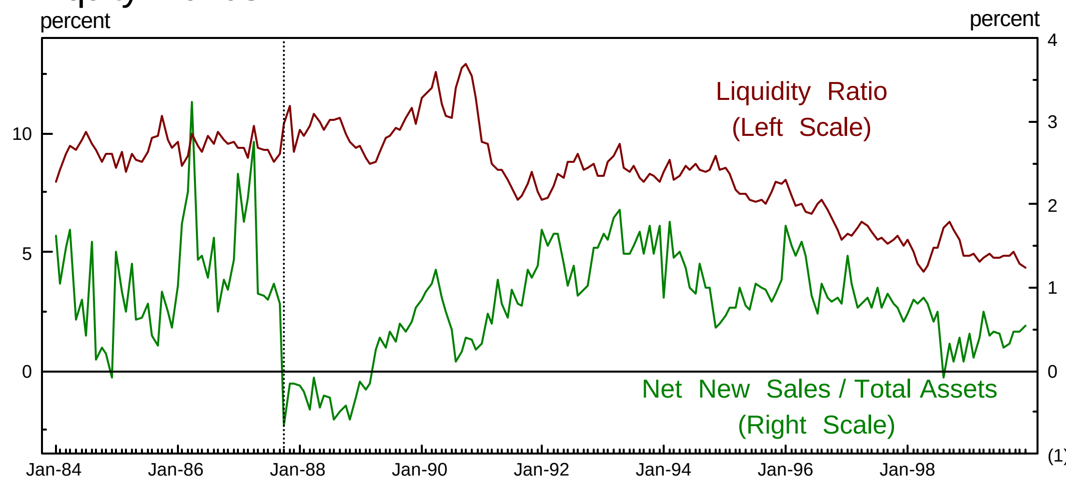


Figure 4

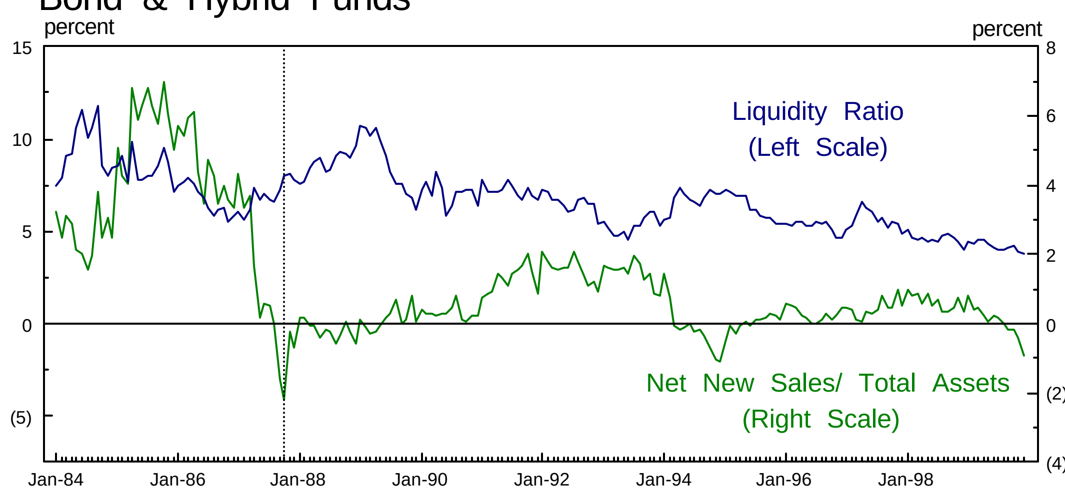
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



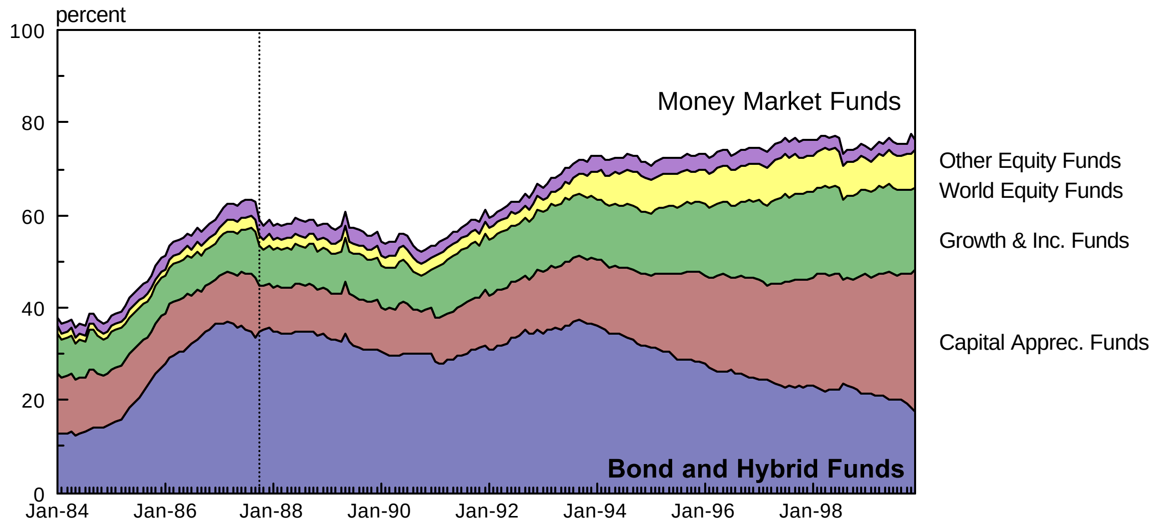
Source: Investment Company Institute

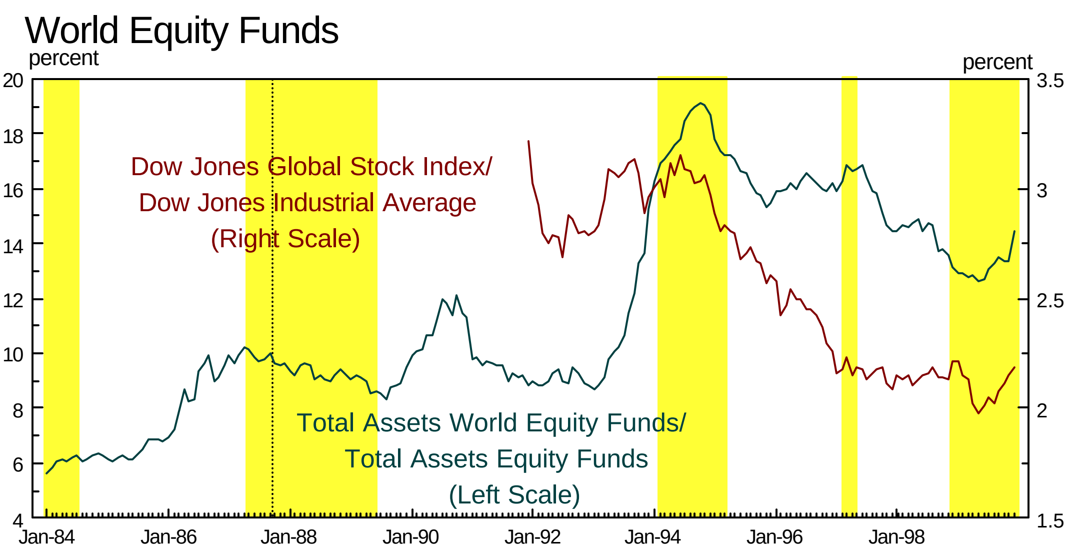
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

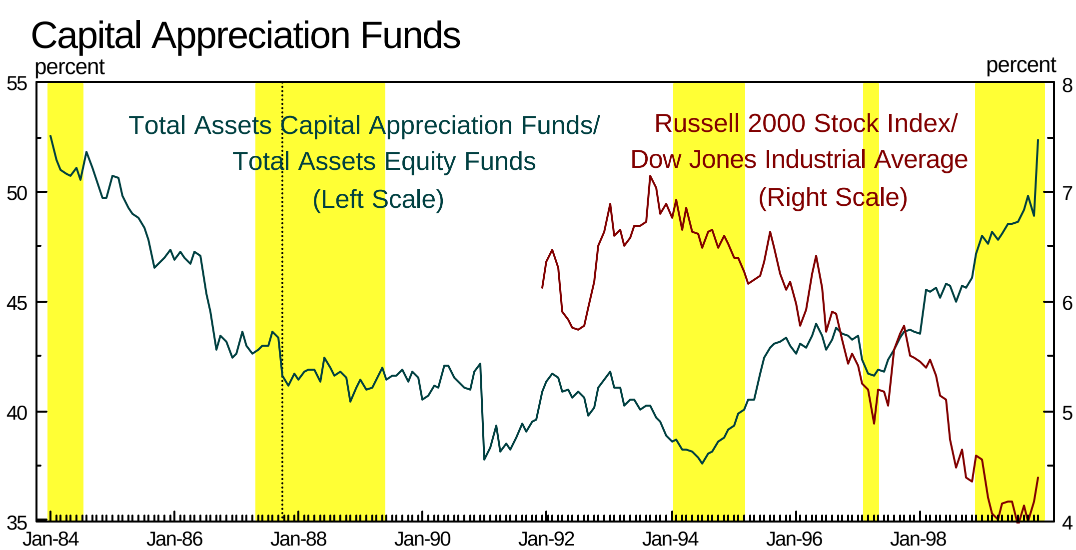
Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)





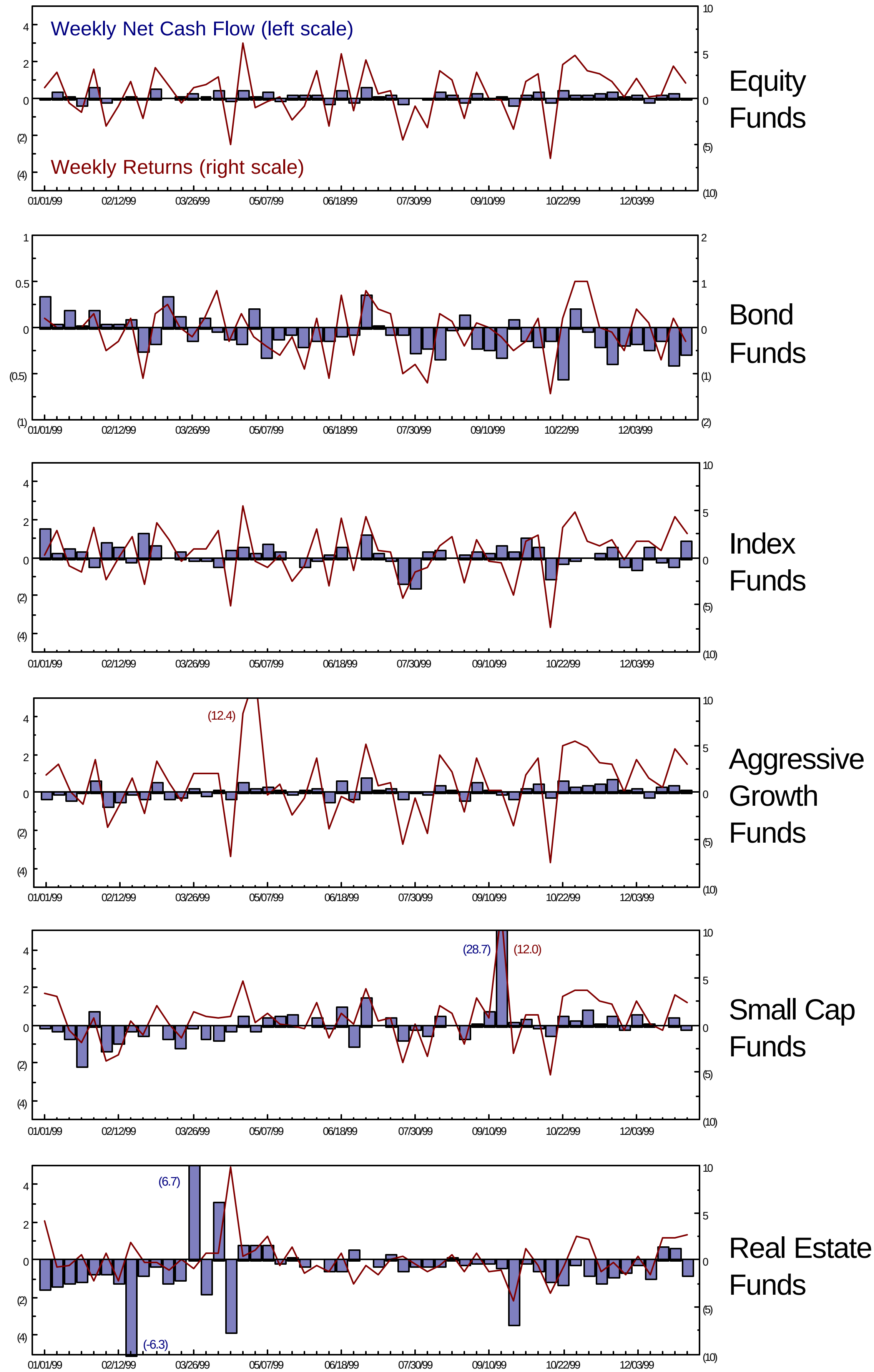


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

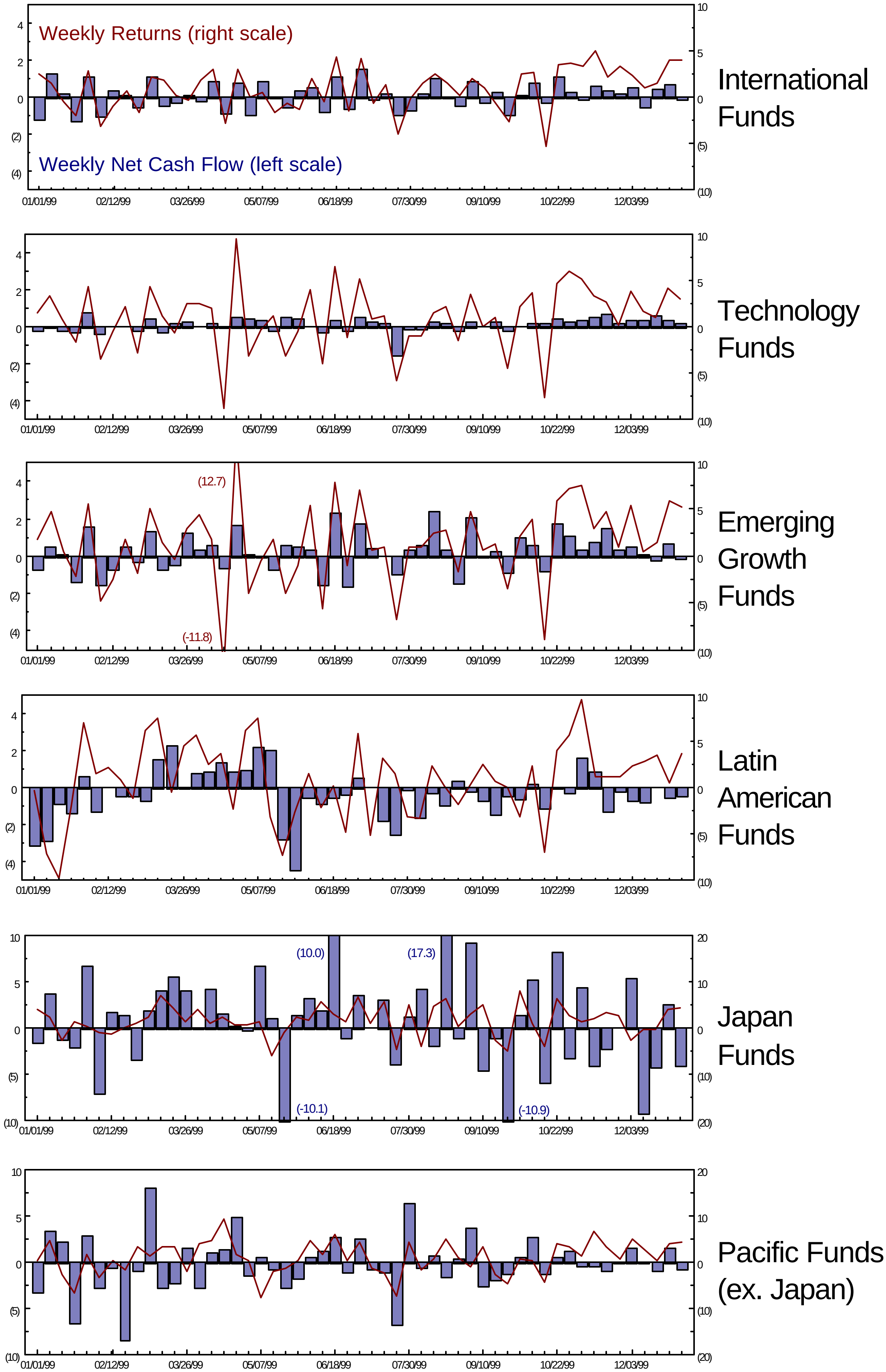


Source: Mutual Fund Trim Tabs

Figure 6b

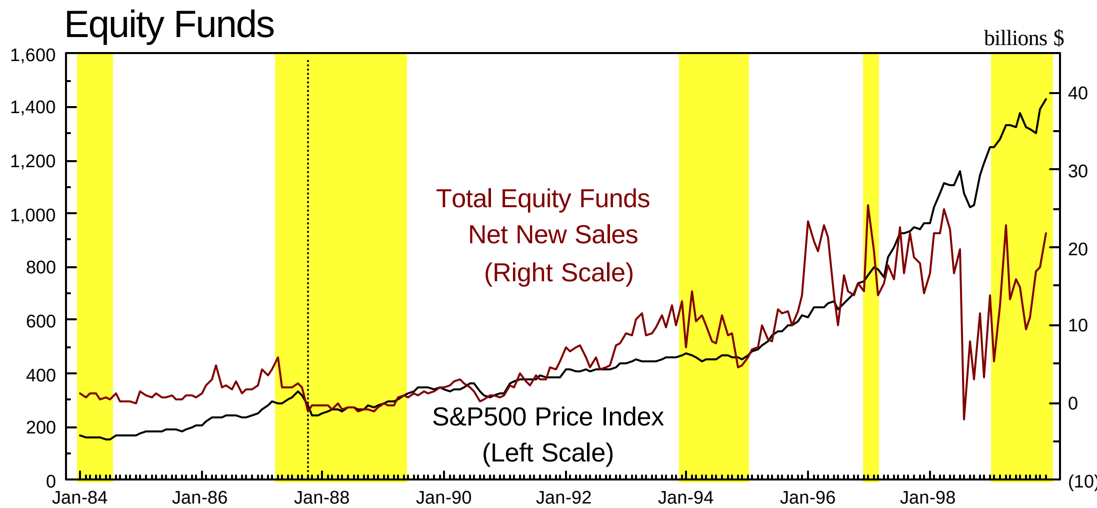
Weekly Flows into Mutual Funds

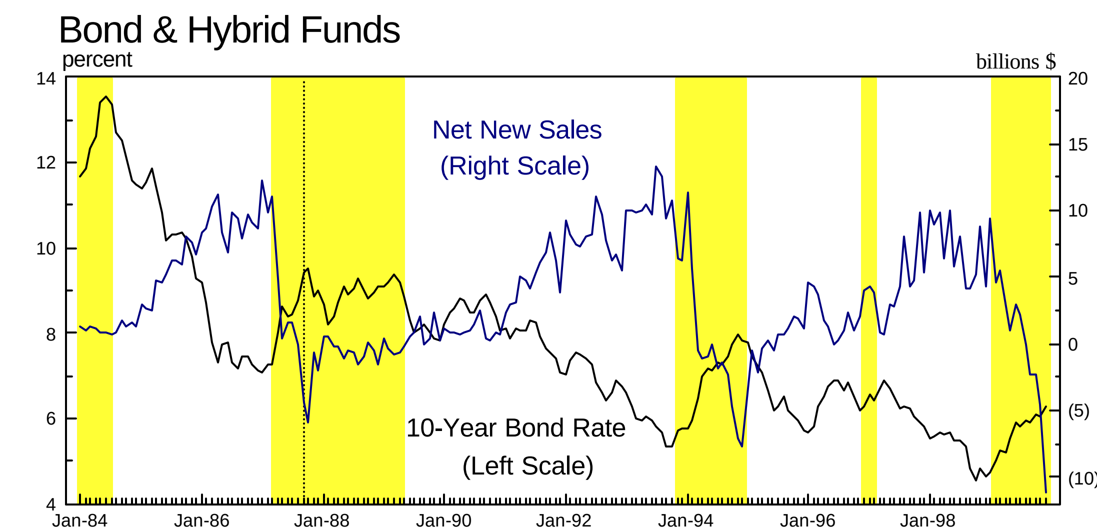
(percent of Total Assets)



Source: Mutual Fund Trim Tabs

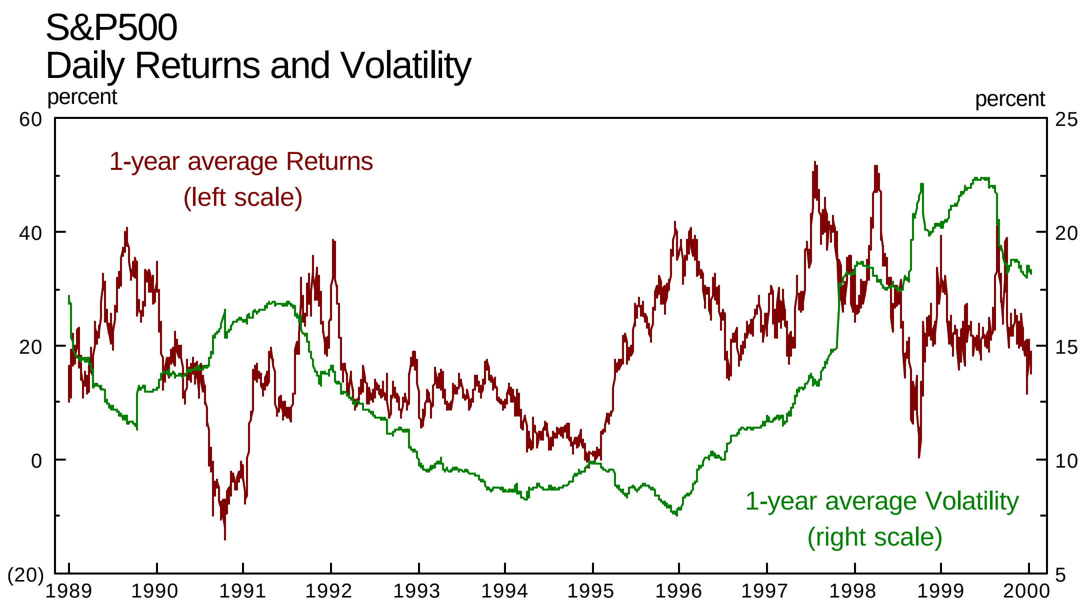
Figure 7
Net New Sales By Investment Objective
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)





Source: Investment Company Institute

Figure 8
Capital Market Returns and Volatility



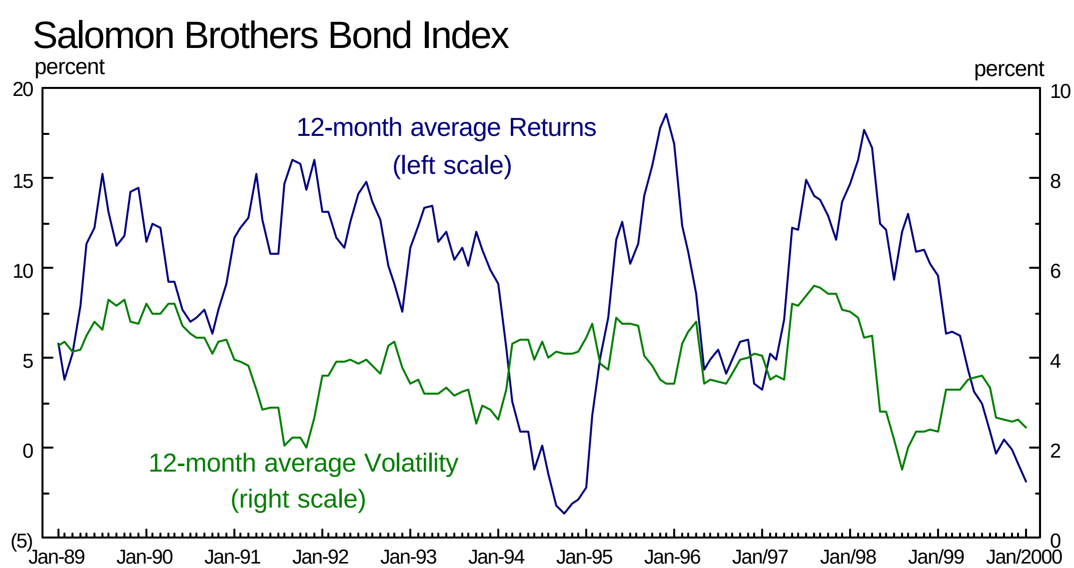
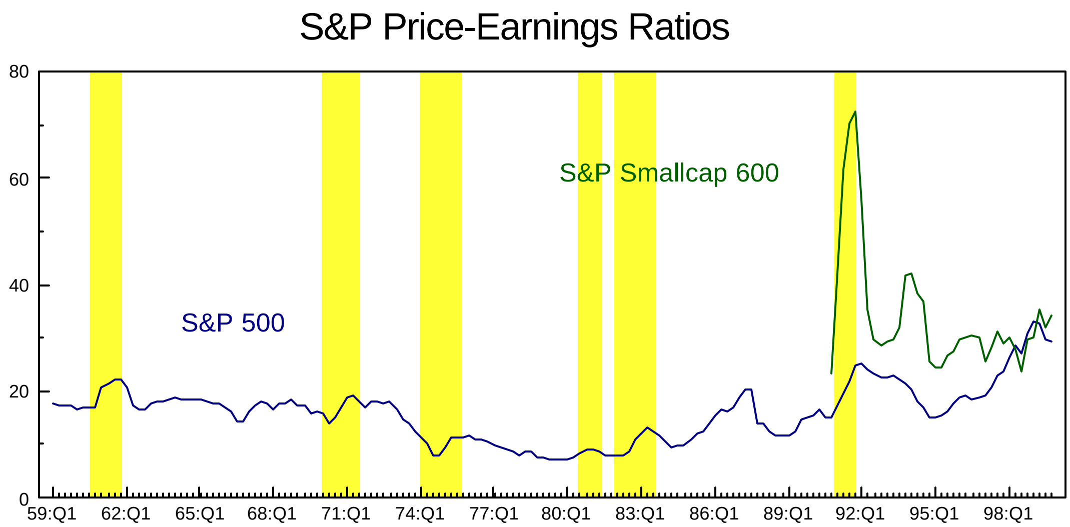
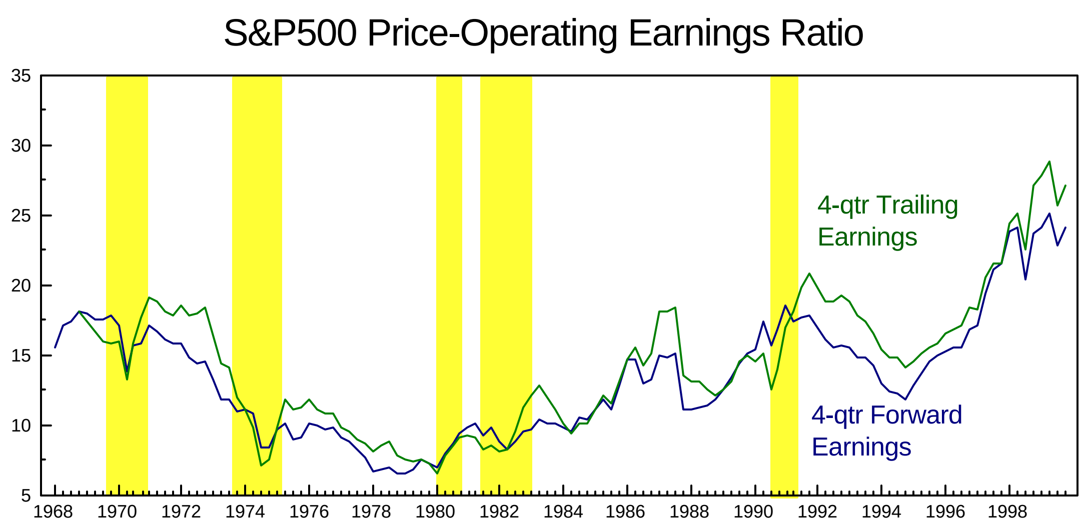
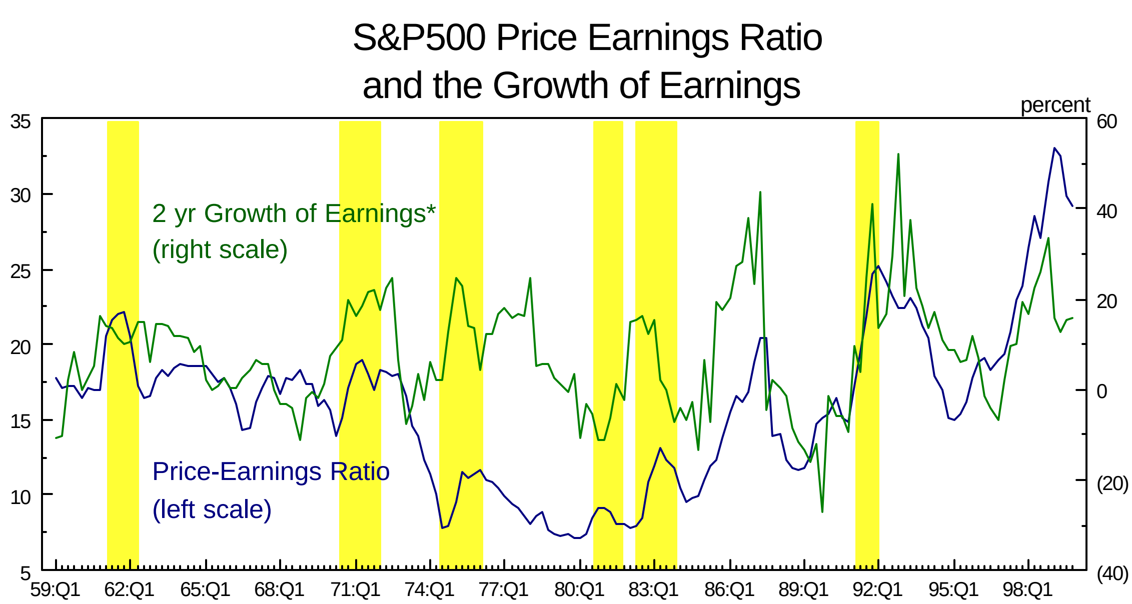


Figure 9







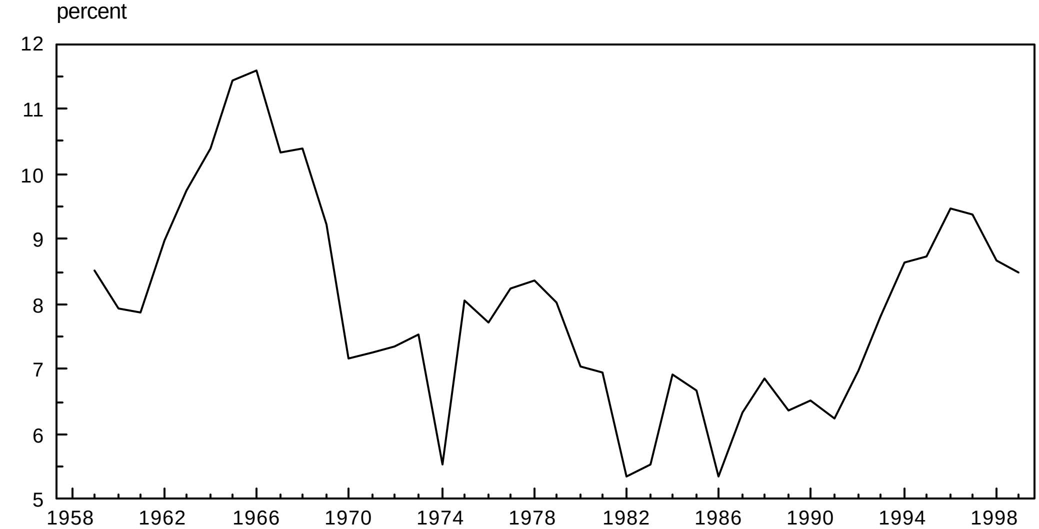
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

source: First Call, DRI, Bloomberg

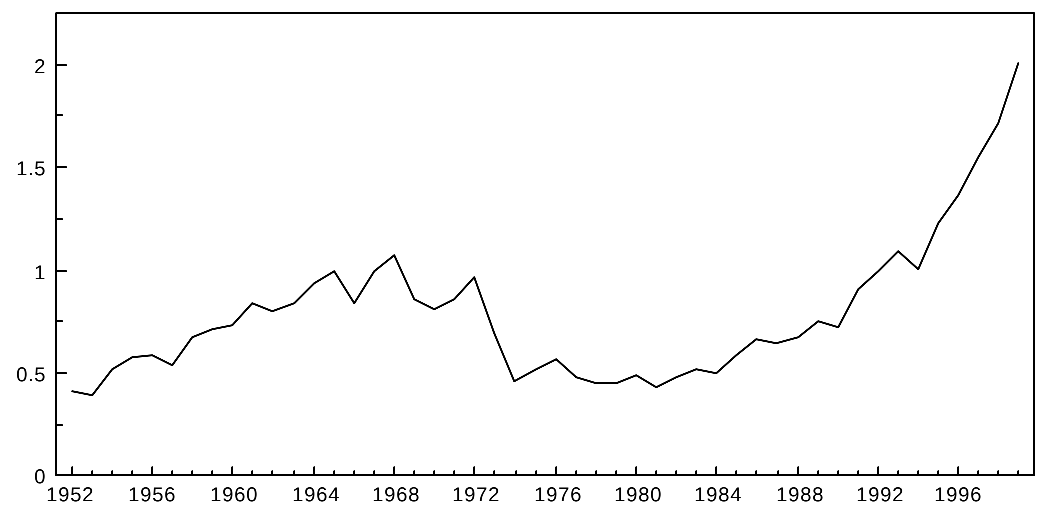
Figure 10

Real Rate of Return on Nonfinancial Corporate Equity

(from National Income and Flow of Funds Accounts)

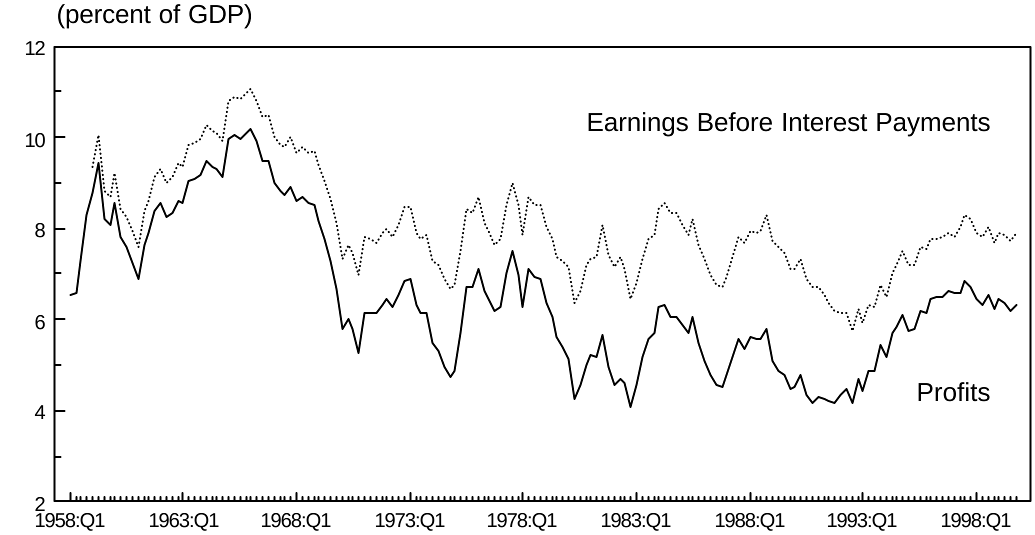


Tobin's Q*



Profits of Nonfinancial Corporations

(percent of GDP)



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