

March 7, 2003

Monthly Mutual Fund Report

Statistics for January-February 2003

Sales and Redemptions

Total assets for all funds decreased in January by \$57.8 billion, or 0.9 percent, to \$6.33 trillion. Money market funds had a net cash inflow of \$11.7 billion compared to an outflow in December of \$39.7 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$13.2 billion, compared to an outflow of \$0.8 billion in December. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$118.1 billion in January, up from \$100.3 billion in December. The value of non-money market assets depreciated by \$74.1 billion in January, following a depreciation of \$144.1 billion in December.

Total assets of **equity funds** decreased by \$69.7 billion, or 2.6 percent, to \$2.60 trillion. There was a \$0.5 billion net cash outflow from equity funds in January, compared with an outflow of \$8.3 billion in December and an inflow of \$19.4 billion in January 2002. The market value of assets depreciated by \$69.5 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 0.9 percent, or \$3.0 billion, to \$324.4 billion. In January, there was a \$0.9 billion net cash inflow for these funds, compared to an inflow of \$2.2 billion in January 2002.

Bond funds experienced a cash inflow of \$12.7 billion, while their total assets increased by \$13.3 billion, to \$1.14 trillion. The market value of bond funds assets decreased by \$2.2 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.9 percent, while the assets of tax-exempt bond funds decreased by 0.6 percent. Last January, the inflow to bonds was \$10.4 billion.

Assets of taxable and tax-exempt **money market funds** increased \$1.5 billion, to \$2.27 trillion, a decrease of 0.3 percent for taxable money market funds and an increase of 2.8 percent for tax-exempt funds. Compared to a net cash inflow of \$13.9 billion in January 2002, money market funds had an outflow of \$1.5 billion in the first month of 2003.



Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 5.90 to 6.64 percent, while the ratio for equity funds decreased from 4.61 to 4.45 percent (figure 4).

Weekly Flows

In February, there were outflows from equity funds of 0.5 percent of total assets, with losses of 1.1 percent. Bond funds had inflows of 0.6 percent and returns of 0.3 percent for the month.

Index funds had monthly inflows of 0.3 percent and losses of 0.6 percent. Aggressive growth funds had monthly outflows of 0.7 percent and losses of 0.4 percent. Small-cap funds had an outflow of 0.9 percent, and losses of 2.4 percent.

There were outflows from international funds in February of 1.8 percent of assets and losses of 4.1 percent. Latin America funds had inflows of 0.6 percent and losses of 4.9 percent. Japan funds had inflows of 2.8 percent and returns of 0.4 percent of assets for the month of February. Pacific funds that do not invest in Japan had outflows of 13.7 percent and losses of 4.5 percent of assets.

Capital Market Returns and Volatility

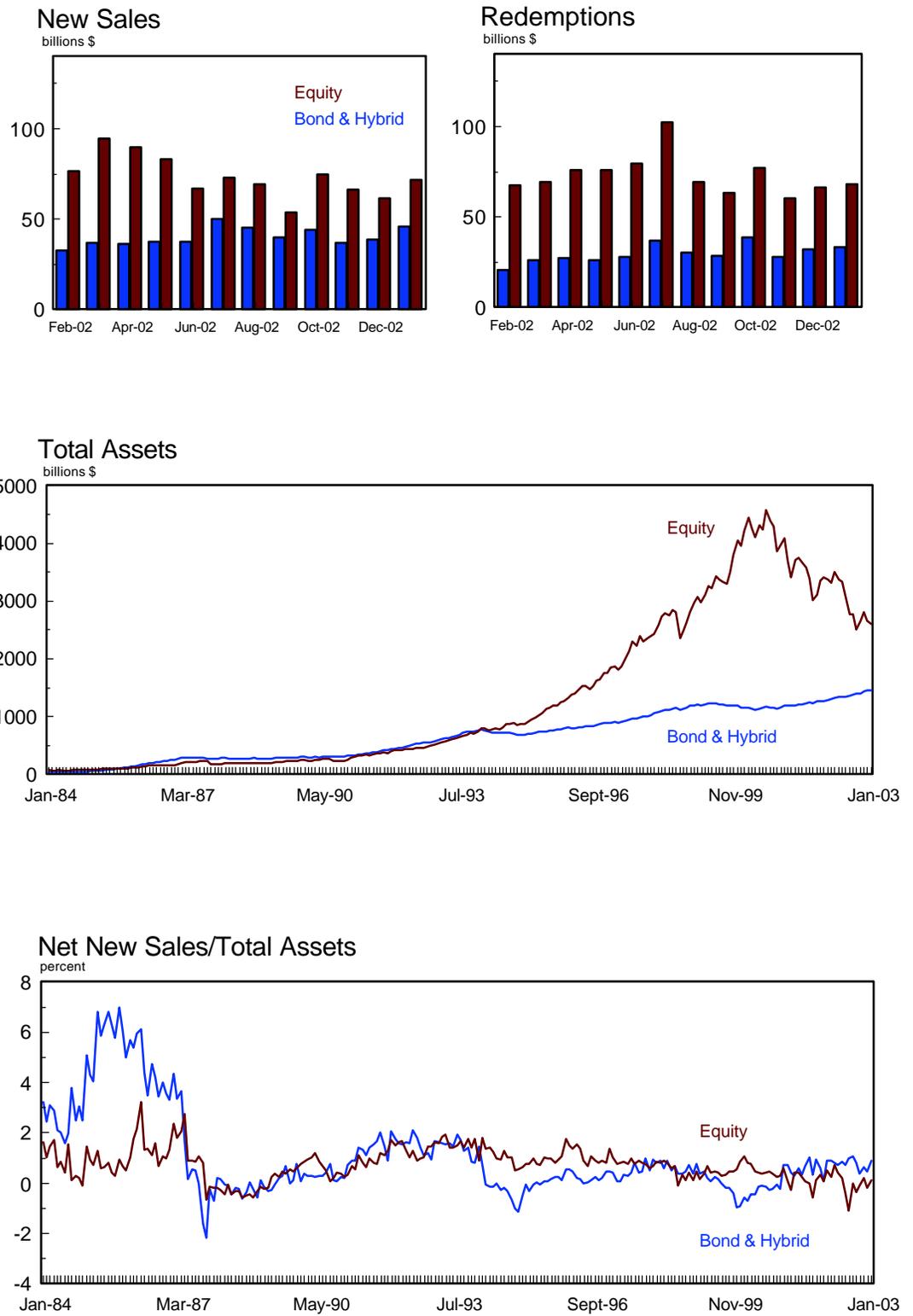
The S&P 500 ended February at 841.15, a decrease of 1.7 percent from the beginning of the month. The 12-month loss was 23.2 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 26.4 percent.

The 12-month average return on the Citigroup Bond Index was 9.8 percent for February. Volatility increased to 3.70 percent (figure 8).

Price-Earnings Ratio

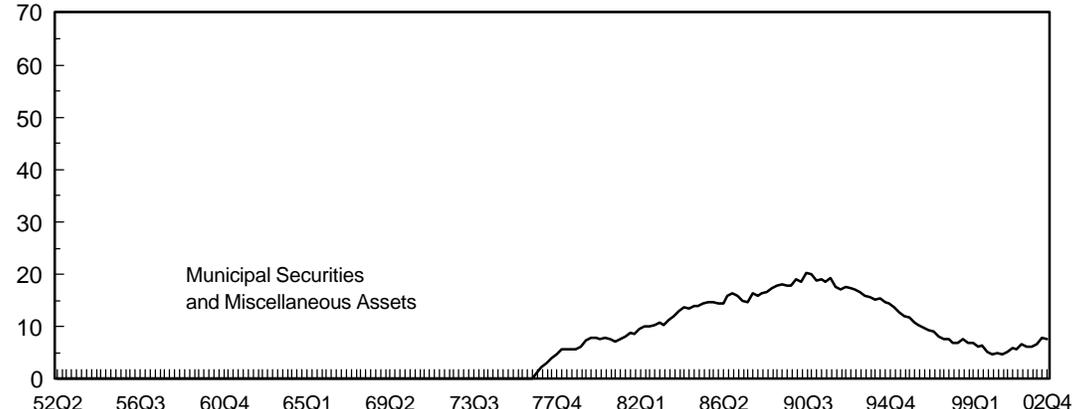
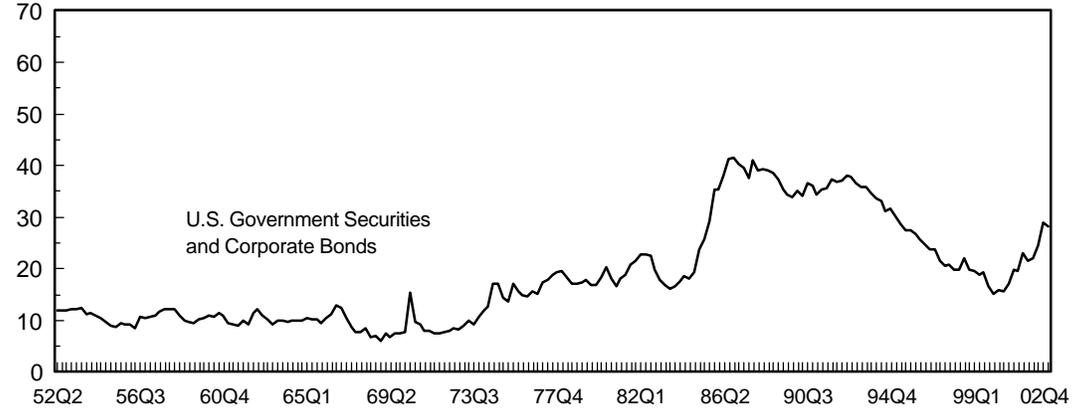
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have increased to 26.7 percent, above the 6.3 percent historical average annual growth rate. The trailing price-operating earnings ratio decreased from 20.6 in the fourth quarter to 20.3 for the first quarter of 2003, while the forward price-operating earnings ratio decreased from 17.2 in the fourth quarter to 15.4 during the first quarter (figure 9). During the fourth quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 26.8 from 30.5.

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 Analytics

Figure 3
Net Portfolio Purchases
 (percent of Total Assets)

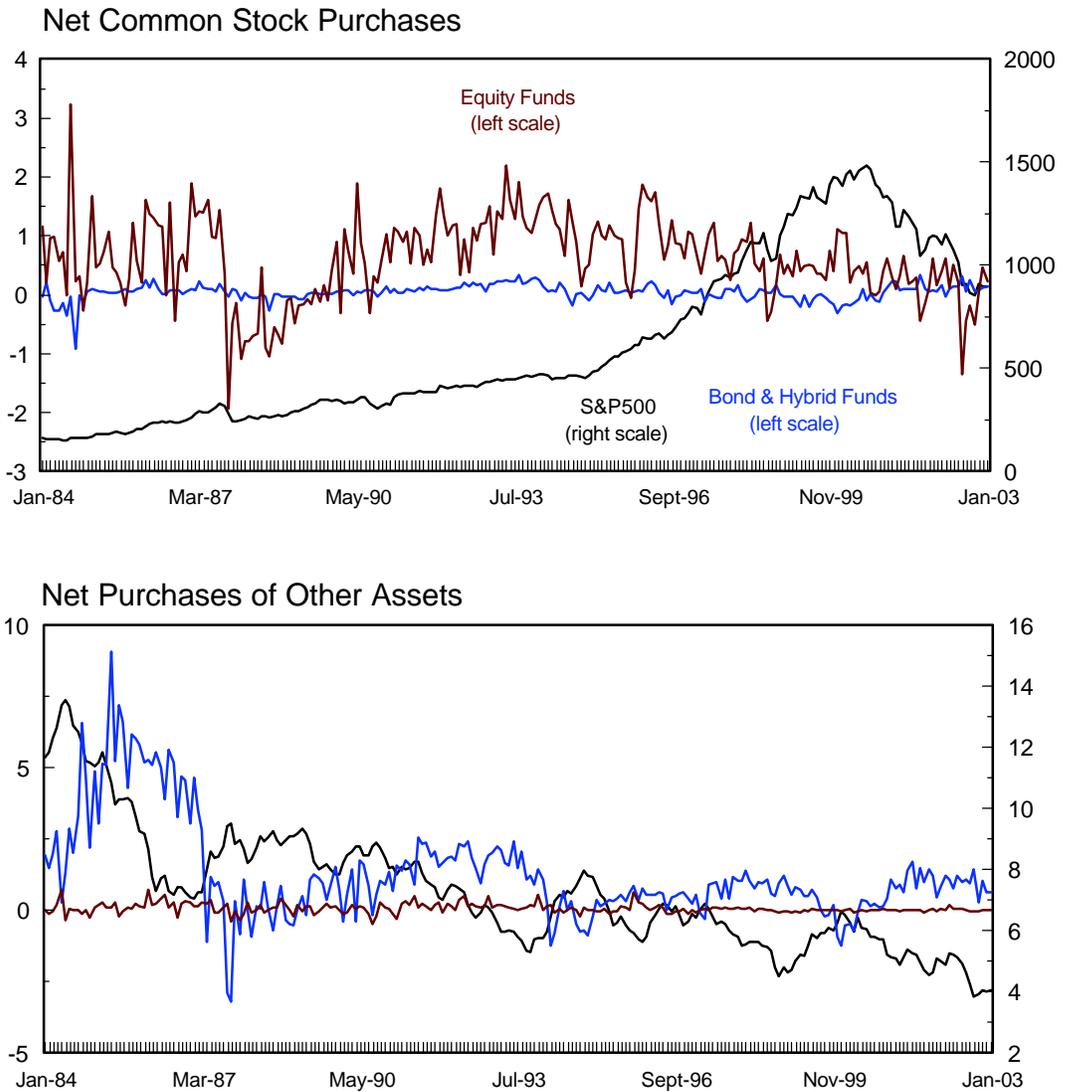
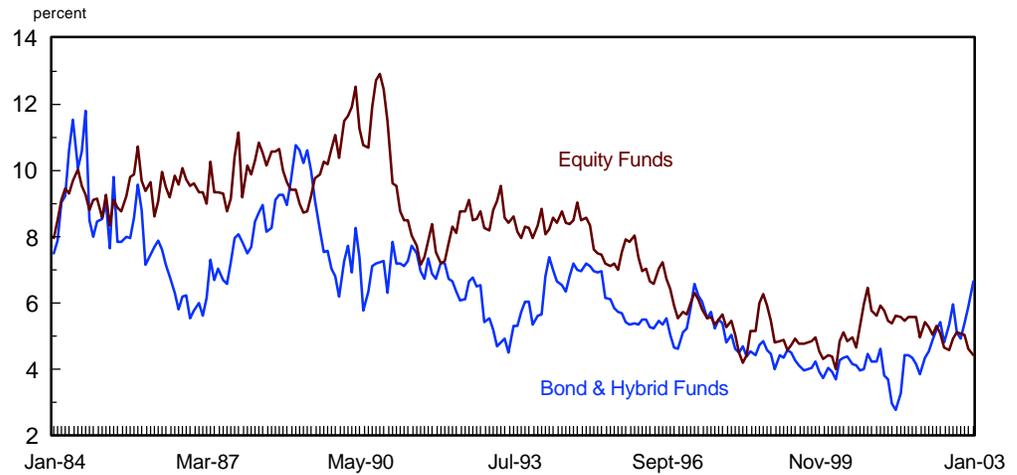
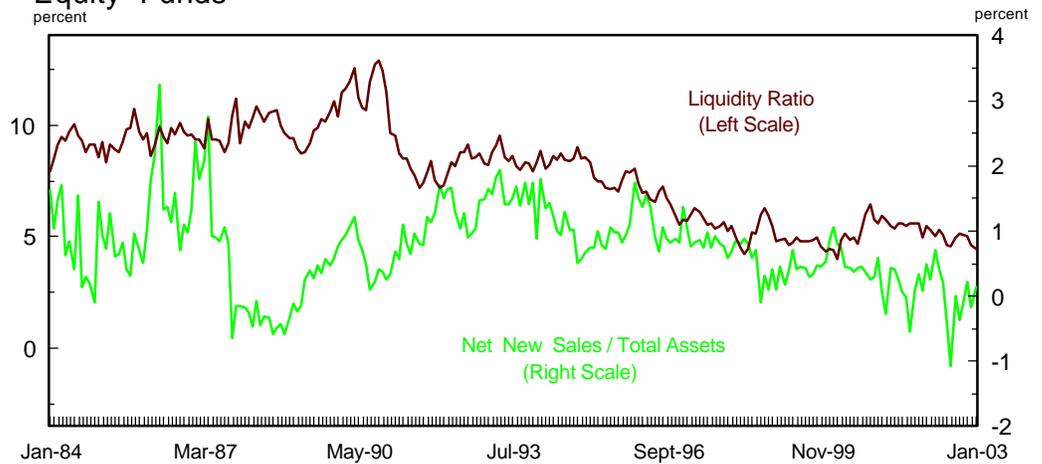


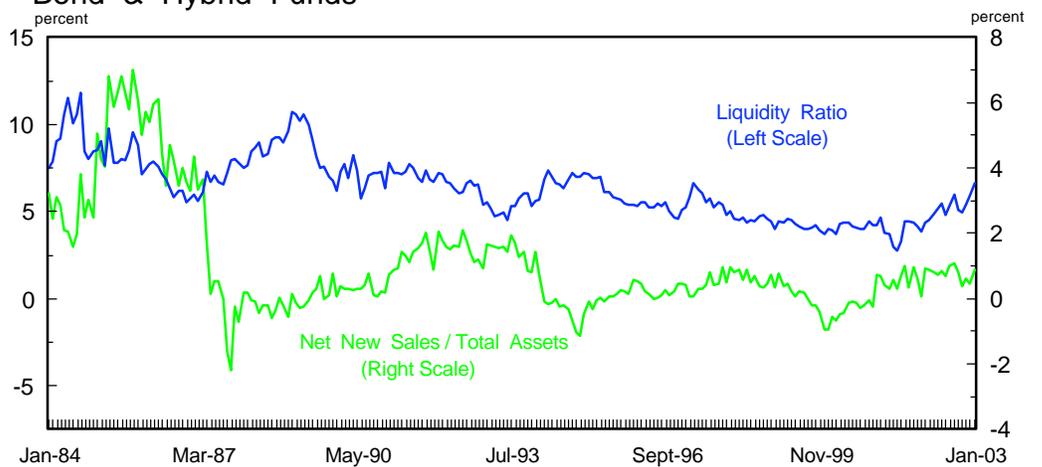
Figure 4
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



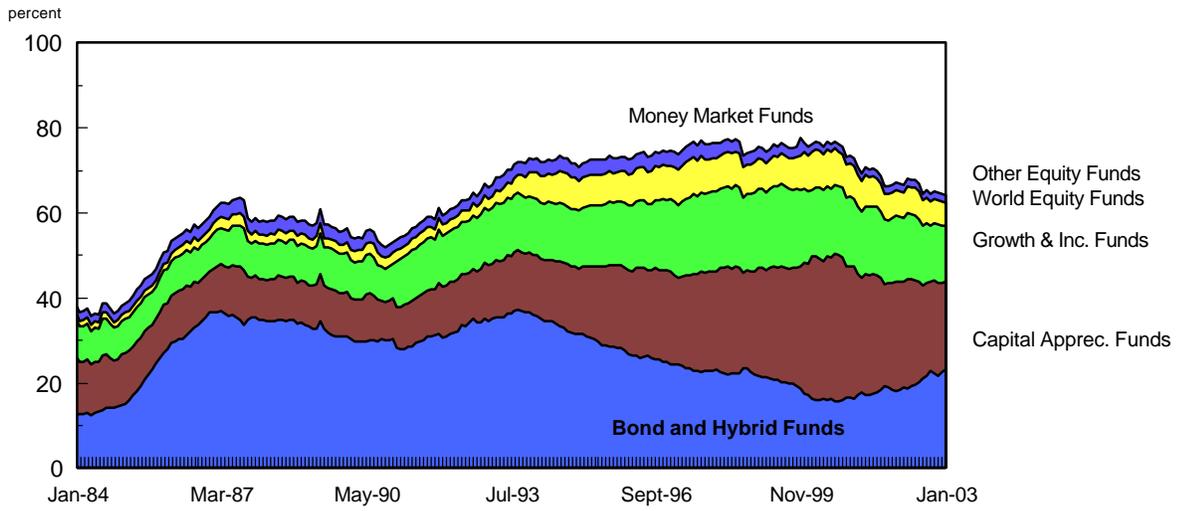
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

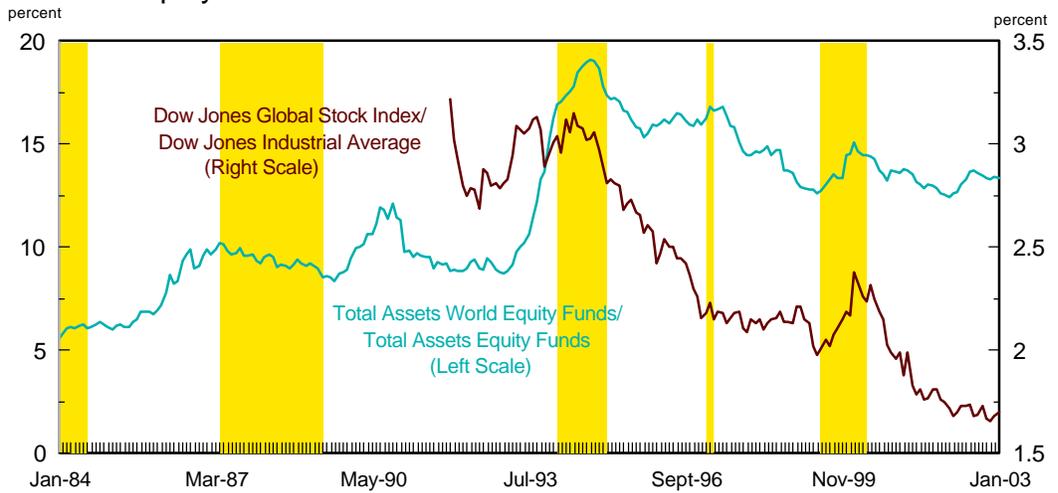
Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

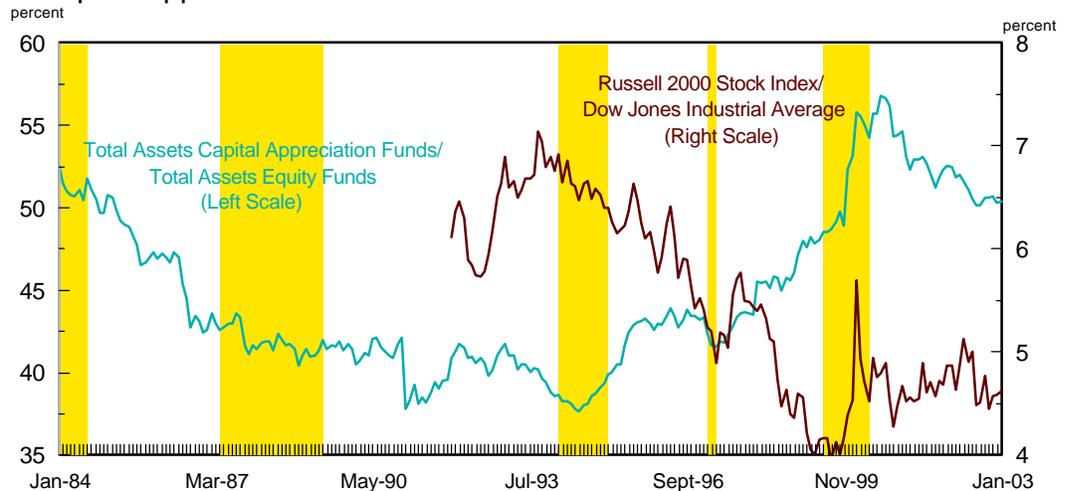
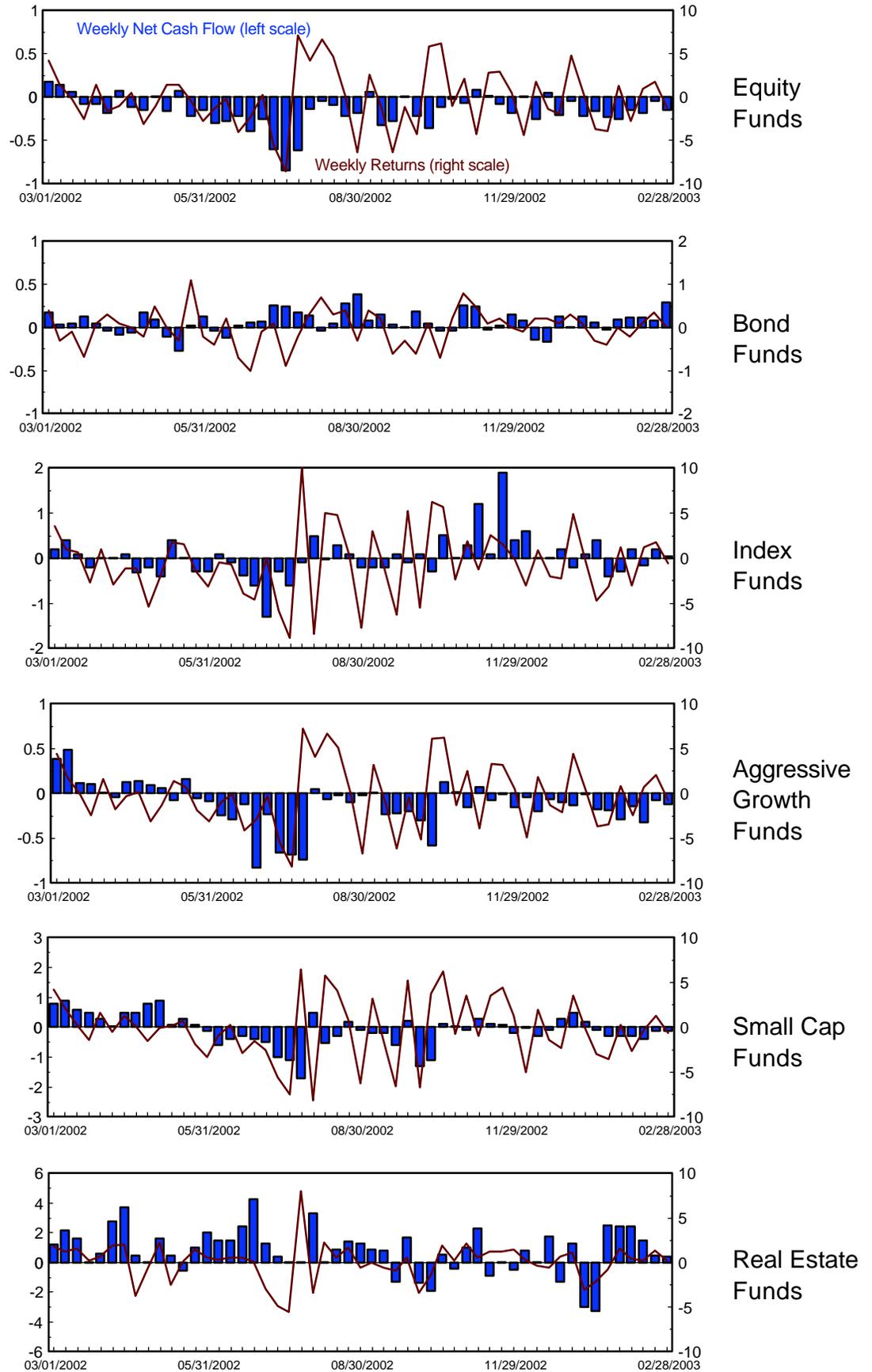


Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

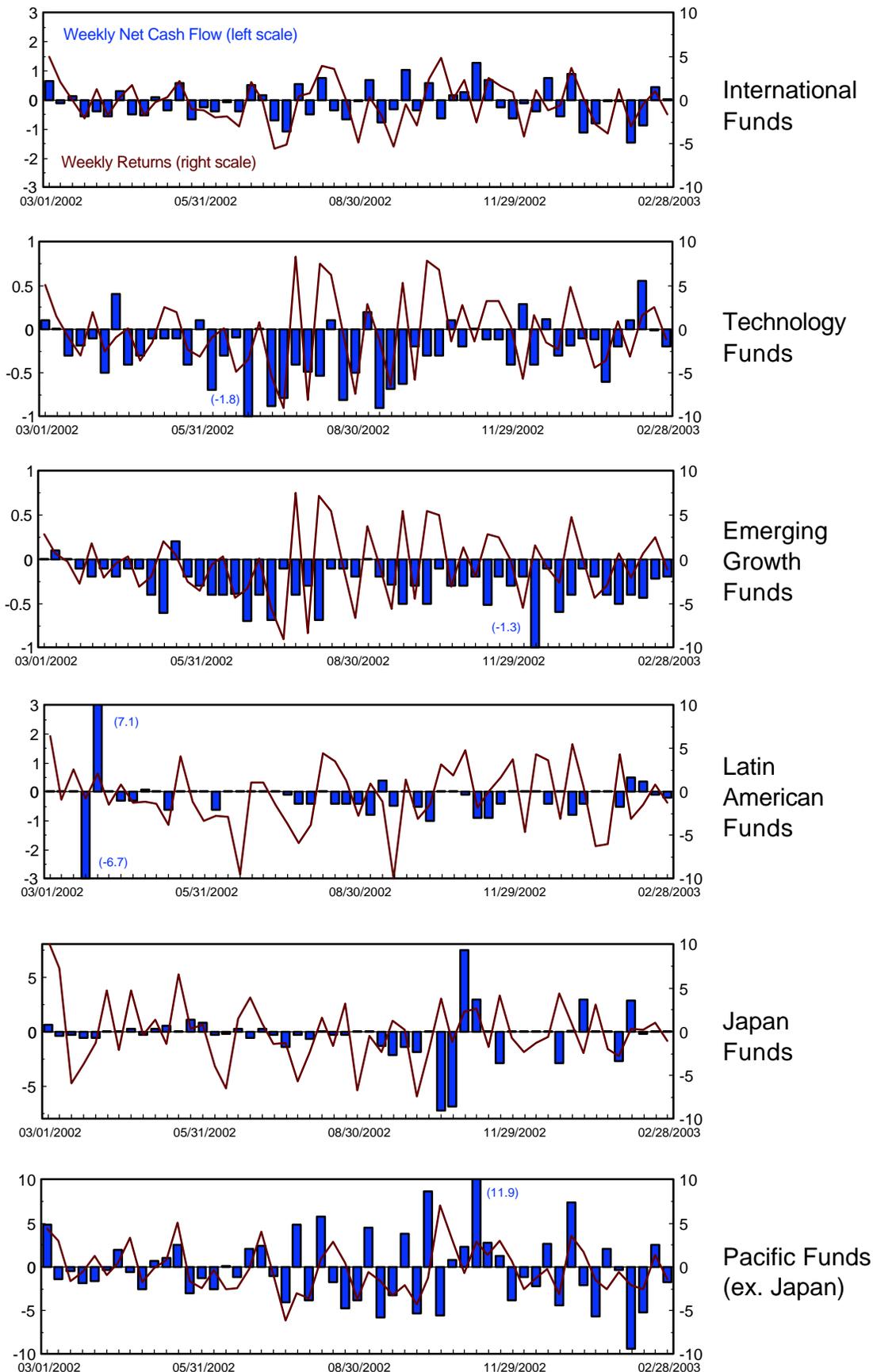


Source: Mutual Fund Trim Tabs

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)

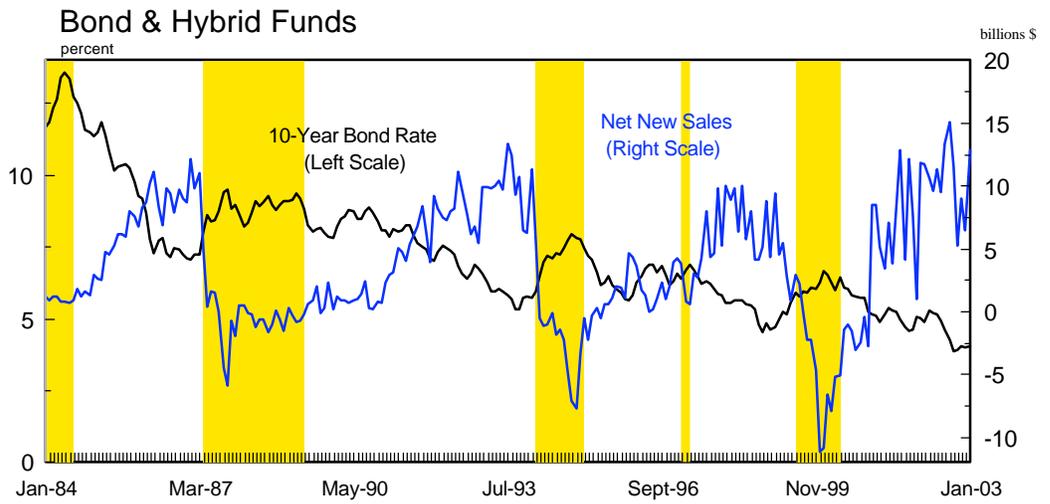
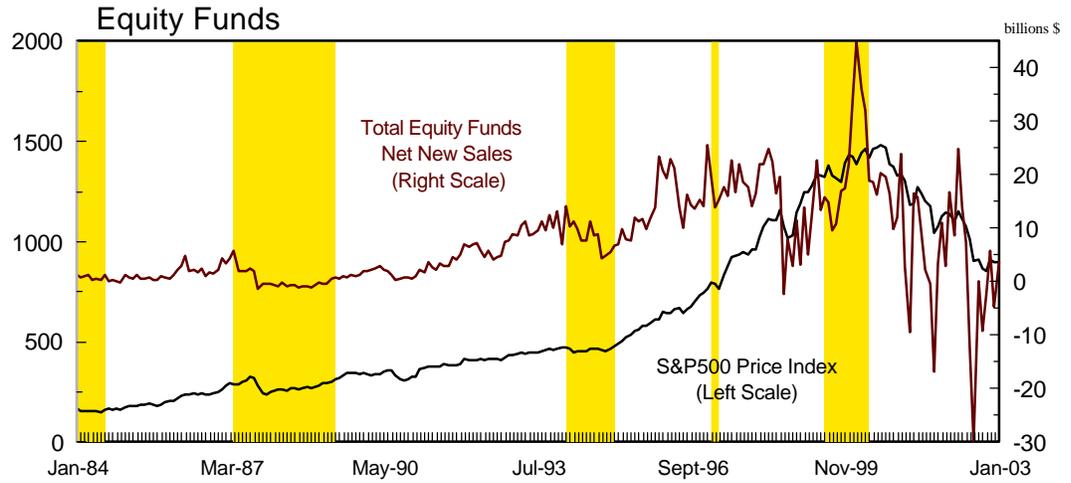


Figure 8
Capital Market Returns and Volatility

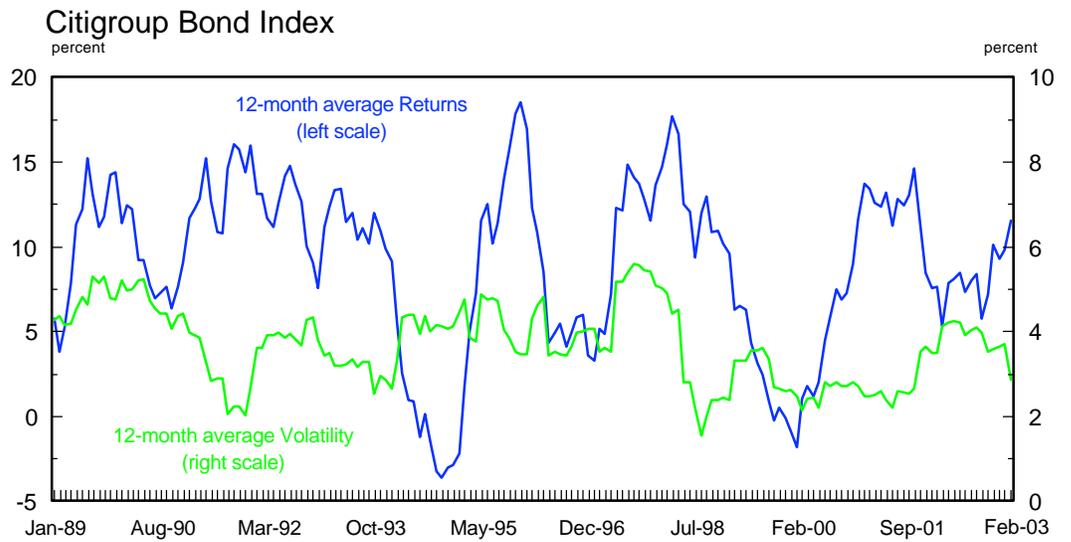
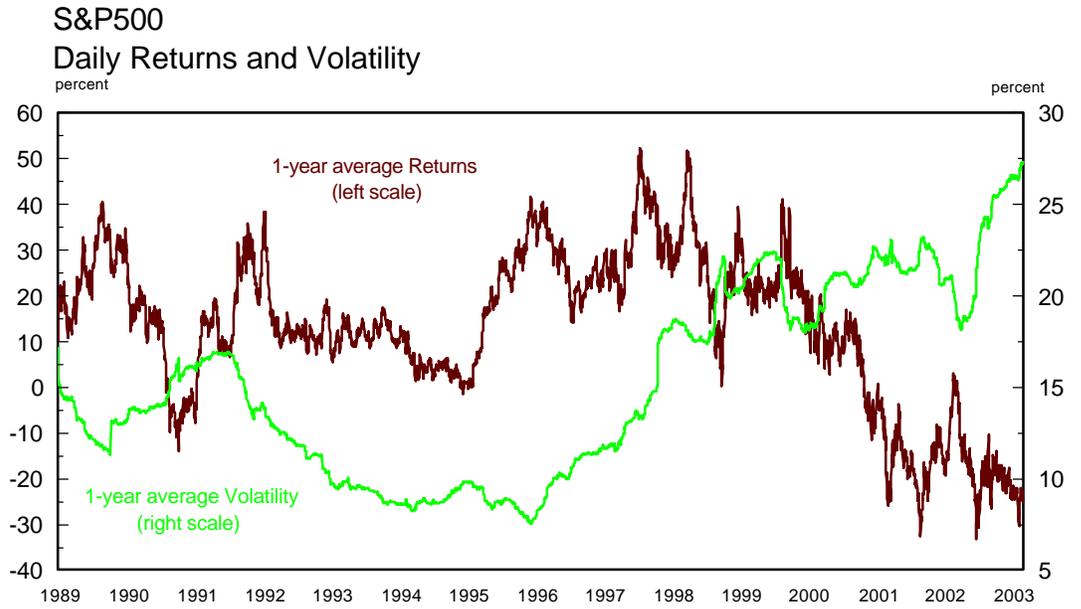
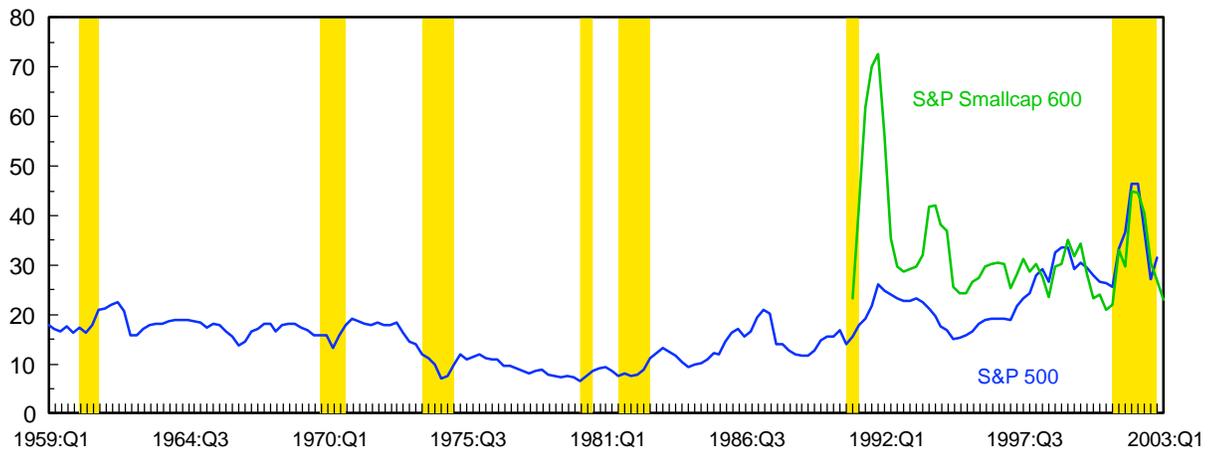
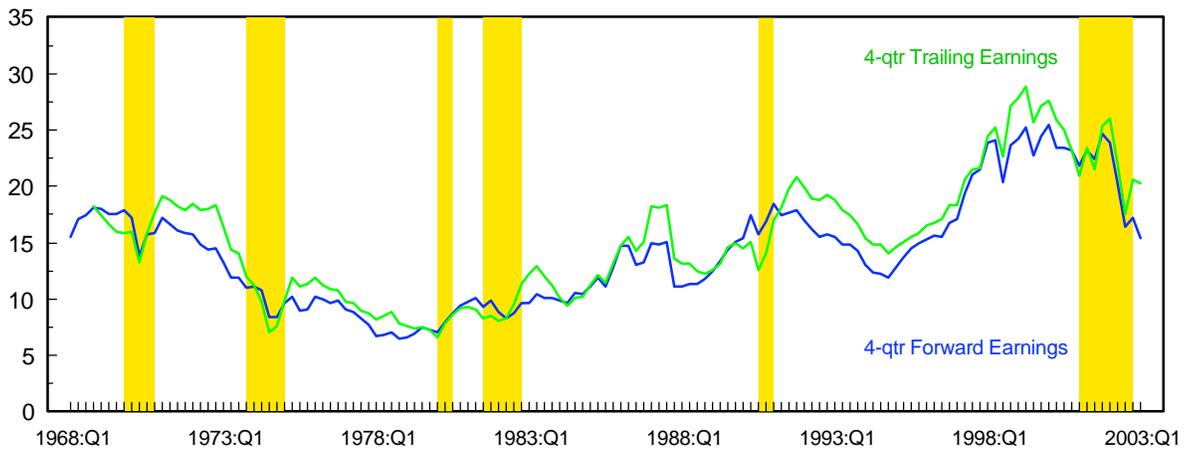


Figure 9

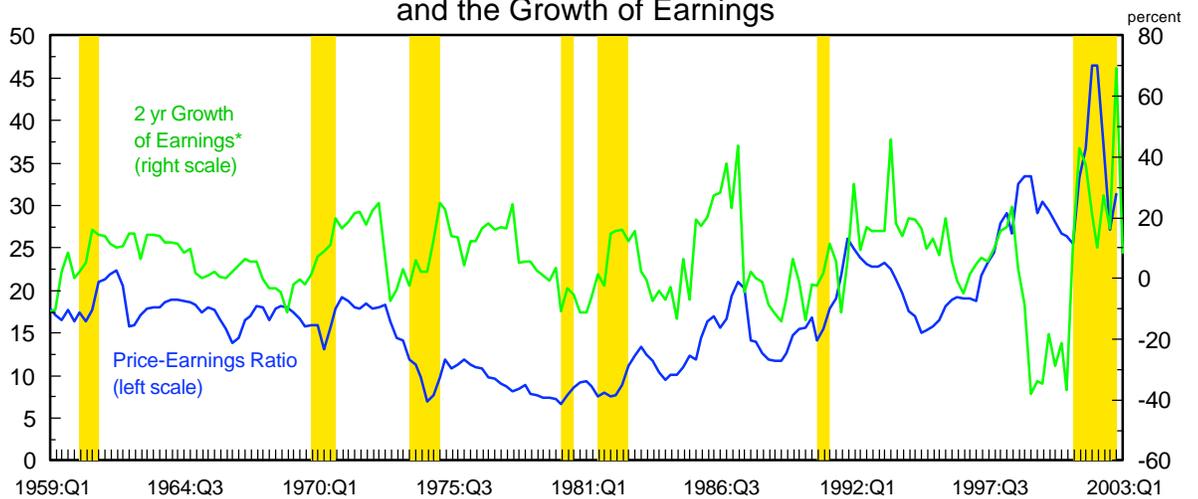
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio and the Growth of Earnings

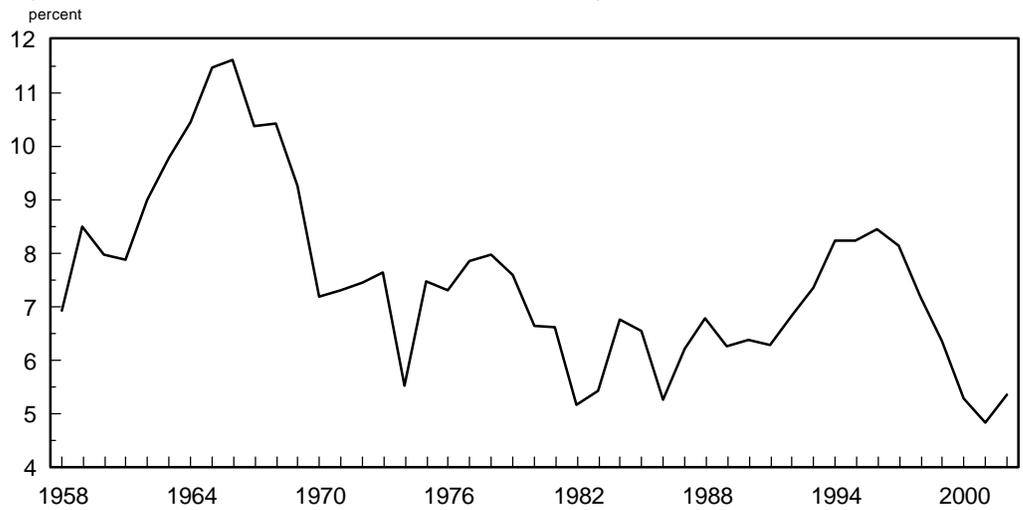


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

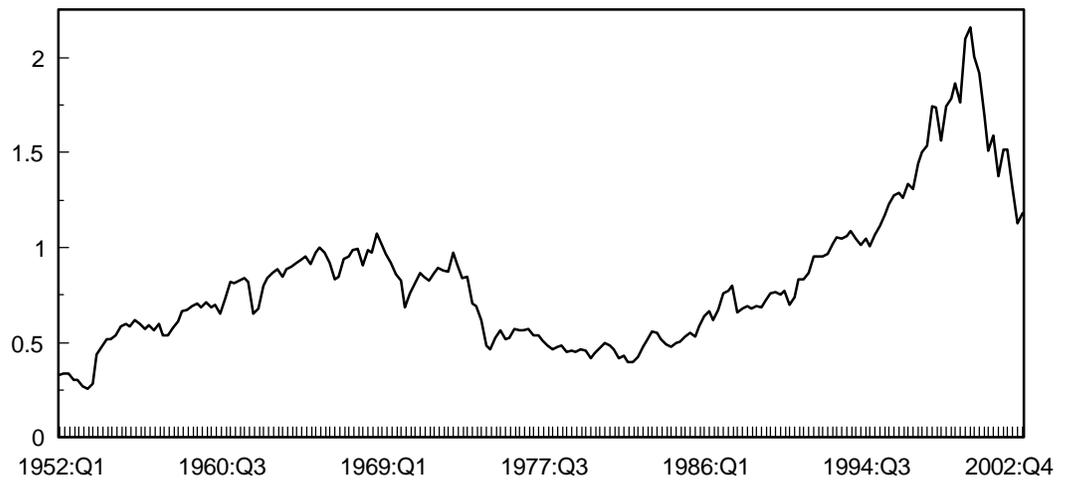
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

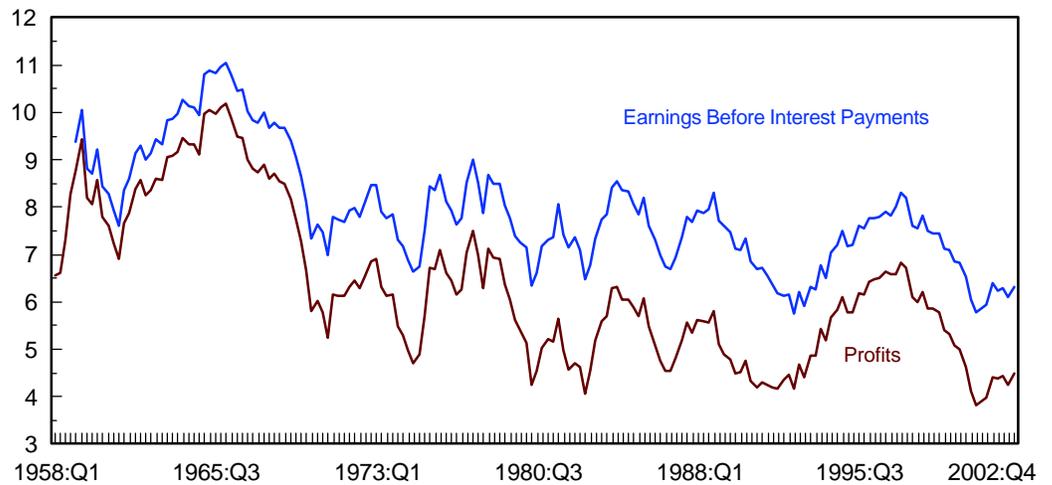
Real Rate of Return on Nonfinancial Corporate Equity (from National Income and Flow of Funds Accounts)



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