November 8, 2002

Monthly Mutual Fund Report

Statistics for September-October 2002

Sales and Redemptions

Total assets for all funds decreased in September by $329.2 billion, or 5.2 percent, to $6.1 trillion. Money market funds had a net cash outflow of $62.5 billion compared to an outflow in August of $38.7 billion. Other funds (equity, hybrid, and bond) had a net cash outflow of $0.8 billion, compared to an inflow of $14.9 billion in August. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $94.2 billion in September, down from $114.4 billion in August. The value of non-money market assets depreciated by $274.5 billion in September, following an appreciation of $28.1 billion in August.

Total assets of **equity funds** decreased by $275.0 billion, or 9.9 percent, to $2.51 trillion. There was a $16.1 billion net cash outflow from equity funds in September, compared with an outflow of $3.1 billion in August. Year-to-date, equity funds have a net cash outflow of $18.7 billion, compared to a $13.1 billion inflow for the same period in 2001. The market value of assets depreciated by $261.3 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 6.0 percent, or $19.4 billion, to $305.5 billion. In September, there was a $0.6 billion net cash outflow for these funds for a total of $8.3 billion in 2002, exceeding the inflow of $6.0 billion in the first three-quarters of last year.

Bond funds experienced a cash inflow of $15.9 billion, while their total assets increased by $25.4 billion, to $1.09 trillion. The market value of bond funds assets increased by $6.8 billion, after adjusting for net sales and reinvested dividends. The assets of both tax-exempt funds and taxable bond funds increased by 2.4 percent. There has been a net inflow into bond funds of $119.8 billion in 2002, compared to $69.2 billion in the same period in 2001.

Assets of taxable and tax-exempt **money market funds** decreased $60.2 billion, to $2.16 trillion, a decrease of 2.9 percent for taxable money market funds and 1.1 percent for tax-exempt funds. Compared to a net cash inflow of $266.2 billion in the first nine months of 2001, money market funds have an outflow of $157.6 billion so far this year.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased from 6.0 to 5.1 percent, while the ratio for equity funds increased from 5.0 to 5.1 percent (figure 4).

Weekly Flows

In October, there were outflows from equity funds of 0.7 percent of total assets, with returns of 6.7 percent. Bond funds had inflows of 0.2 percent and losses of 1.0 percent for the month.

Index funds had monthly inflows of 0.3 percent and returns of 4.1 percent. Aggressive growth funds had monthly outflows of 0.7 percent and returns of 6.0 percent. Small-cap funds had outflows of 2.3 percent and returns of 2.7 percent.

There were outflows from international funds in October of 0.2 percent of assets and returns of 4.5 percent. Latin America funds had outflows of 1.5 percent and returns of 0.6 percent. Japan funds had outflows of 15.9 percent and losses of 6.7 percent of assets for the month of October. Pacific funds that do not invest in Japan had outflows of 1.4 percent and returns of 4.6 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended October at 885.77, an increase of 8.6 percent from the beginning of the month. The 12-month loss was 18.8 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 25.5 percent.

The 12-month average return on the Citigroup (formerly Solomon Brothers) Bond Index was 5.8 percent for October. Volatility decreased to 3.99 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 to 22.4 percent, far above the 6.3 percent historical average annual growth rate. The trailing price-operating earnings ratio increased from 17.6 in the third quarter to 20.3 for the fourth quarter of 2002, while the forward price-operating earnings ratio increased from 15.1 in the third quarter to 16.5 during the fourth quarter (figure 9). During the third quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index decreased to 30.5 from 40.5.

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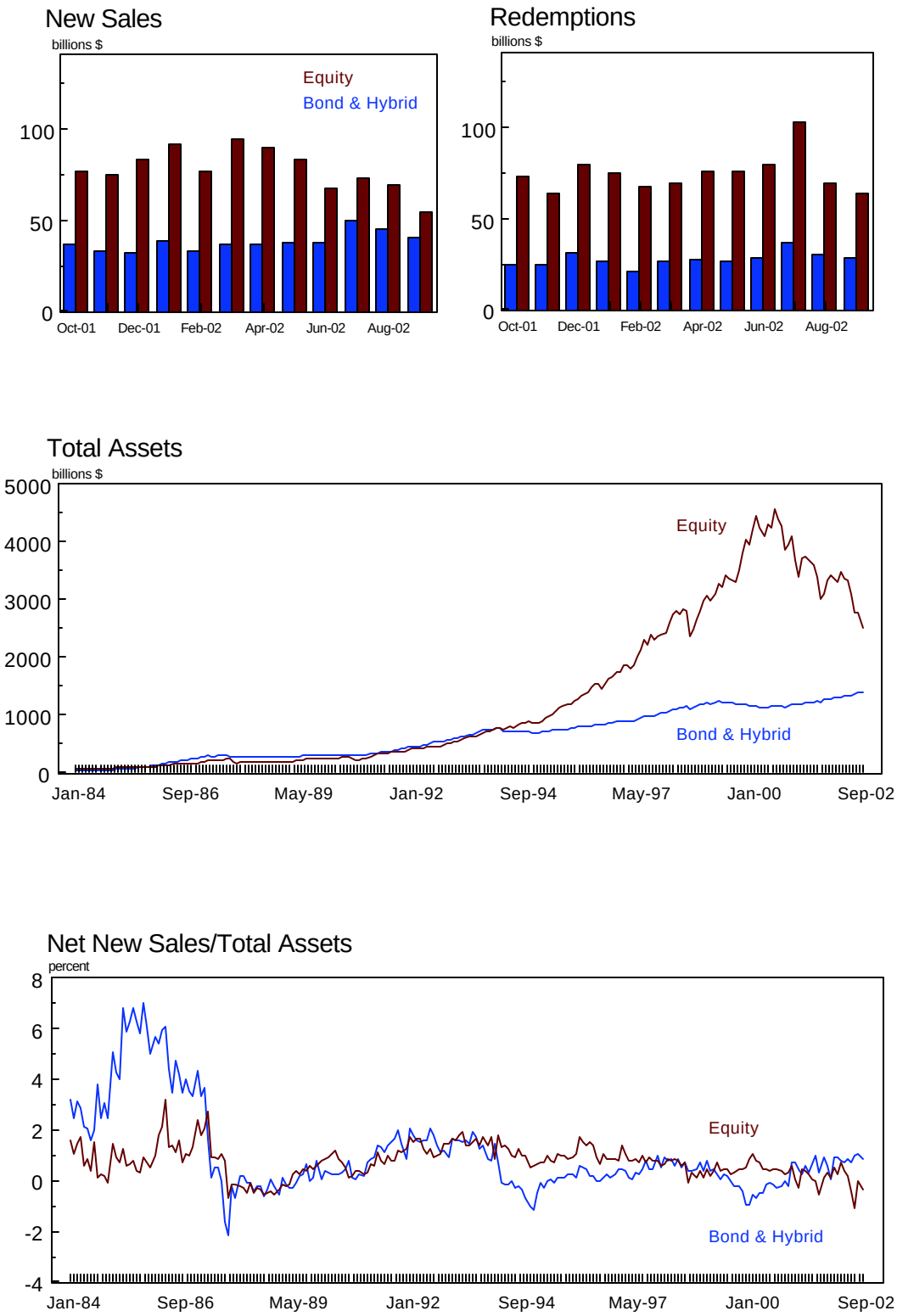
Figure 1

Sales of Mutual Funds



Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)

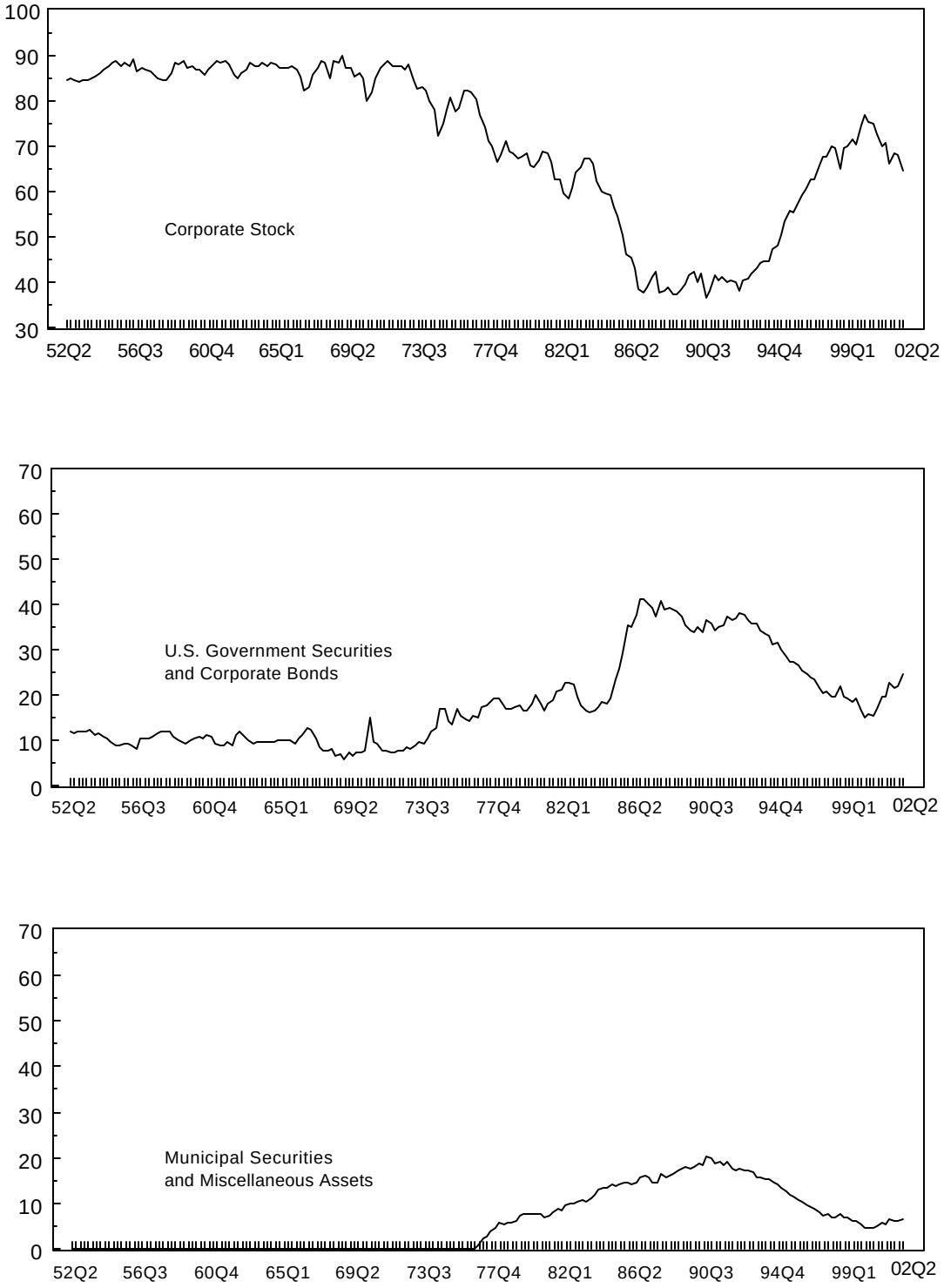
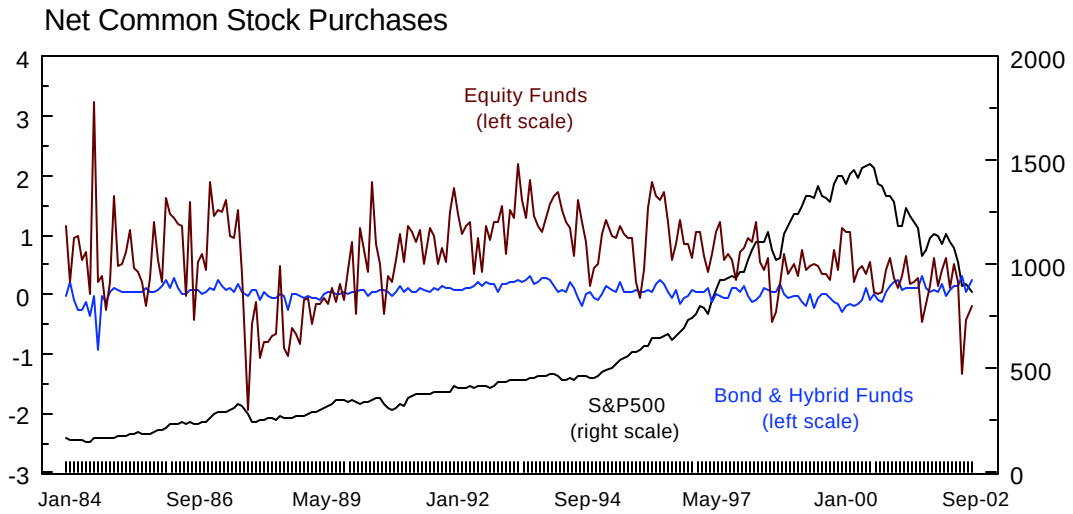


Figure 3

Net Portfolio Purchases

(percent of Total Assets)



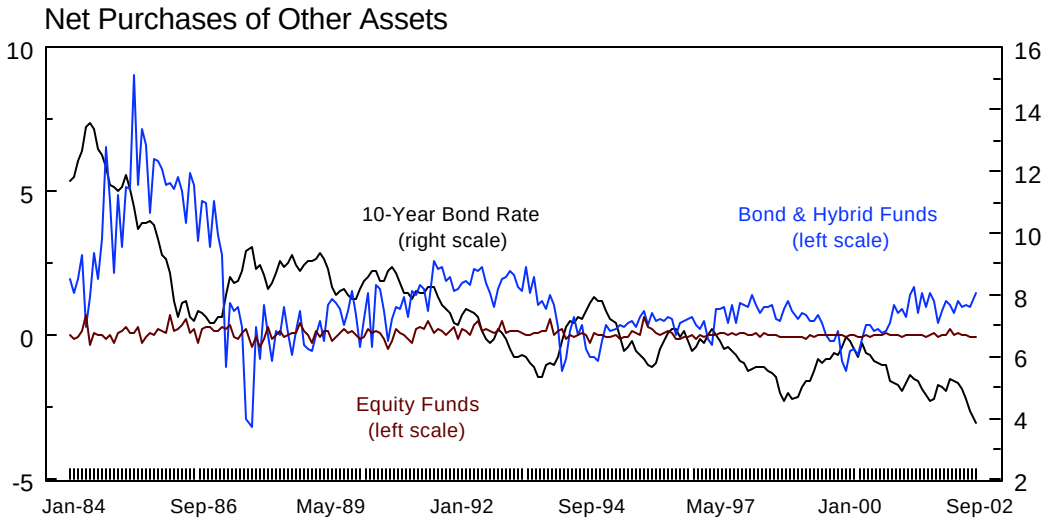
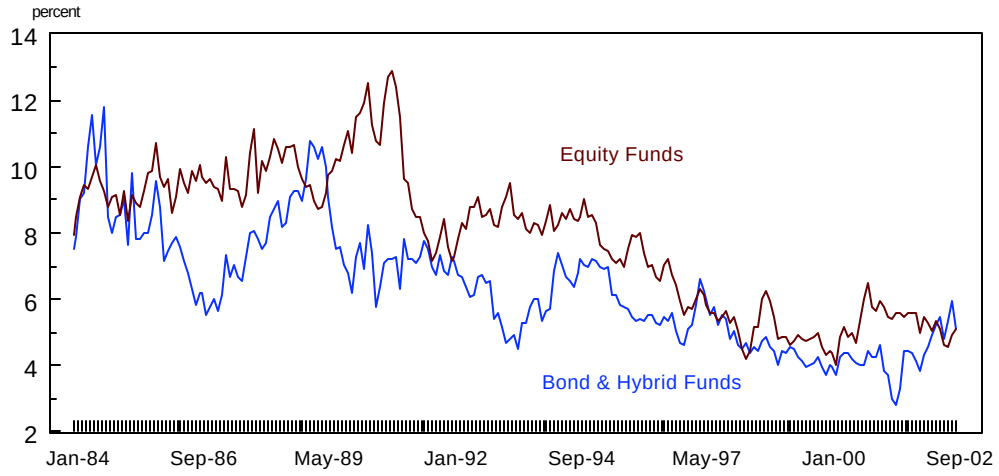
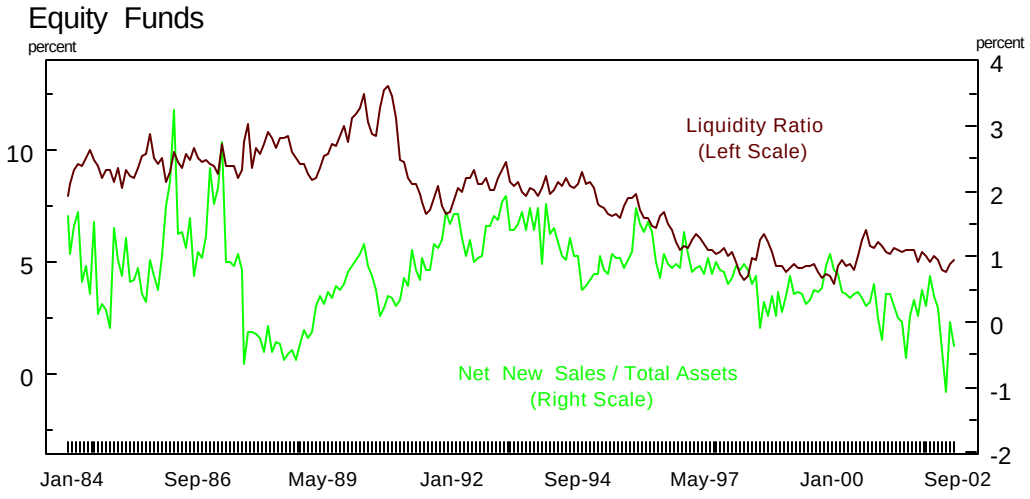
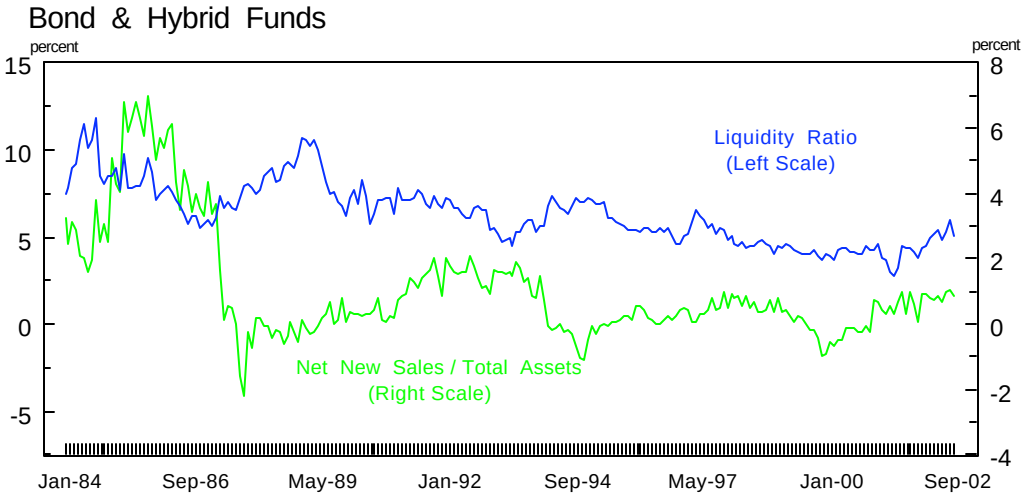


Figure 4

Liquidity Ratio*







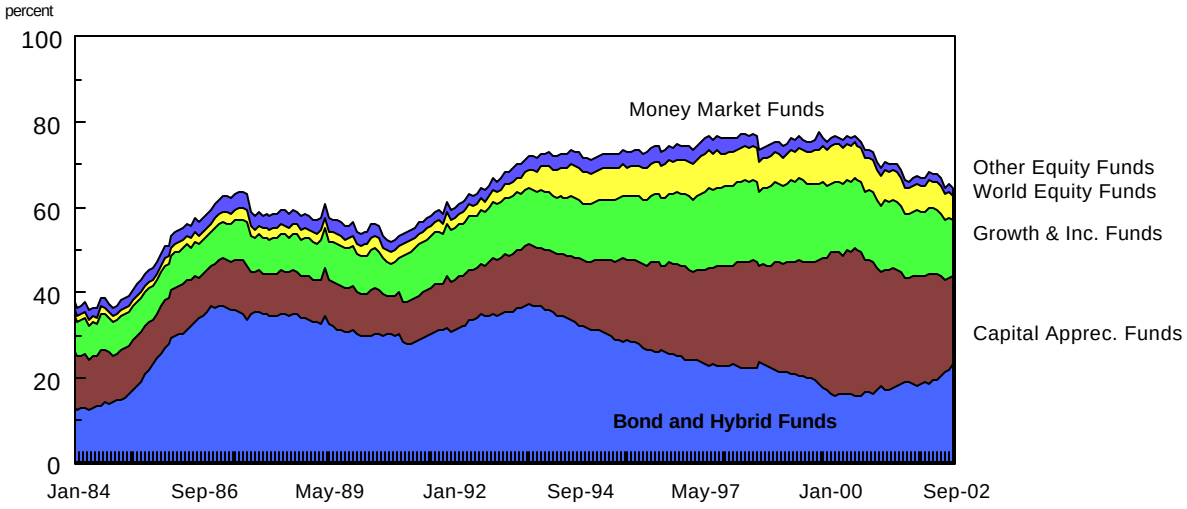
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

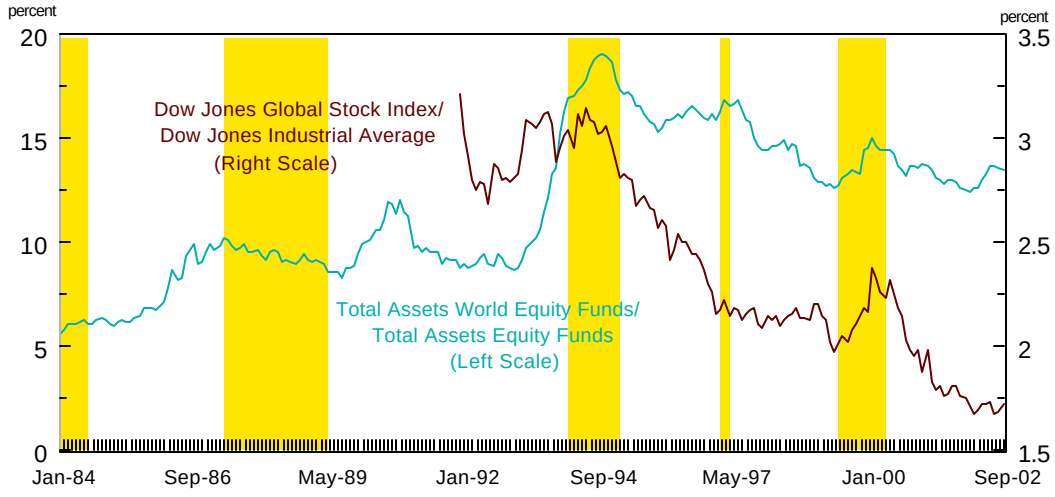
Figure 5

Industry Composition

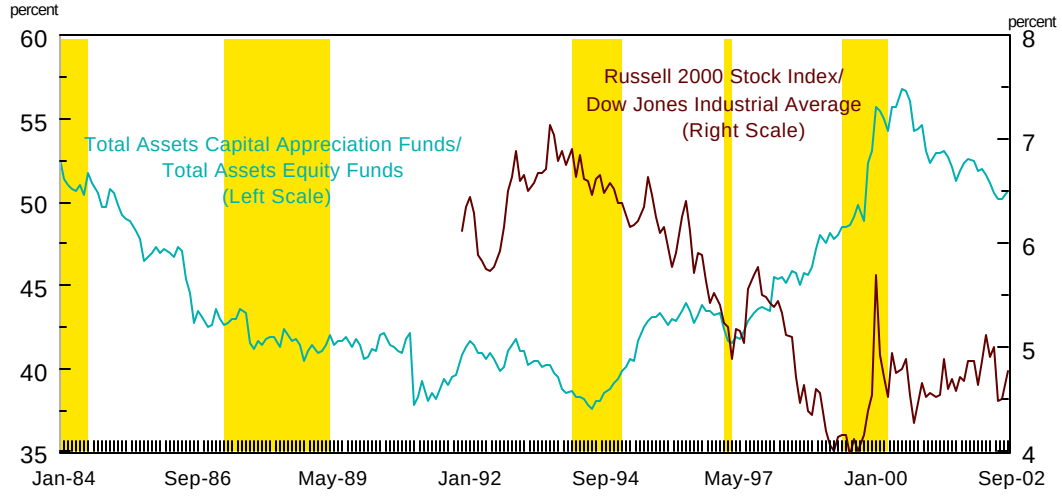
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

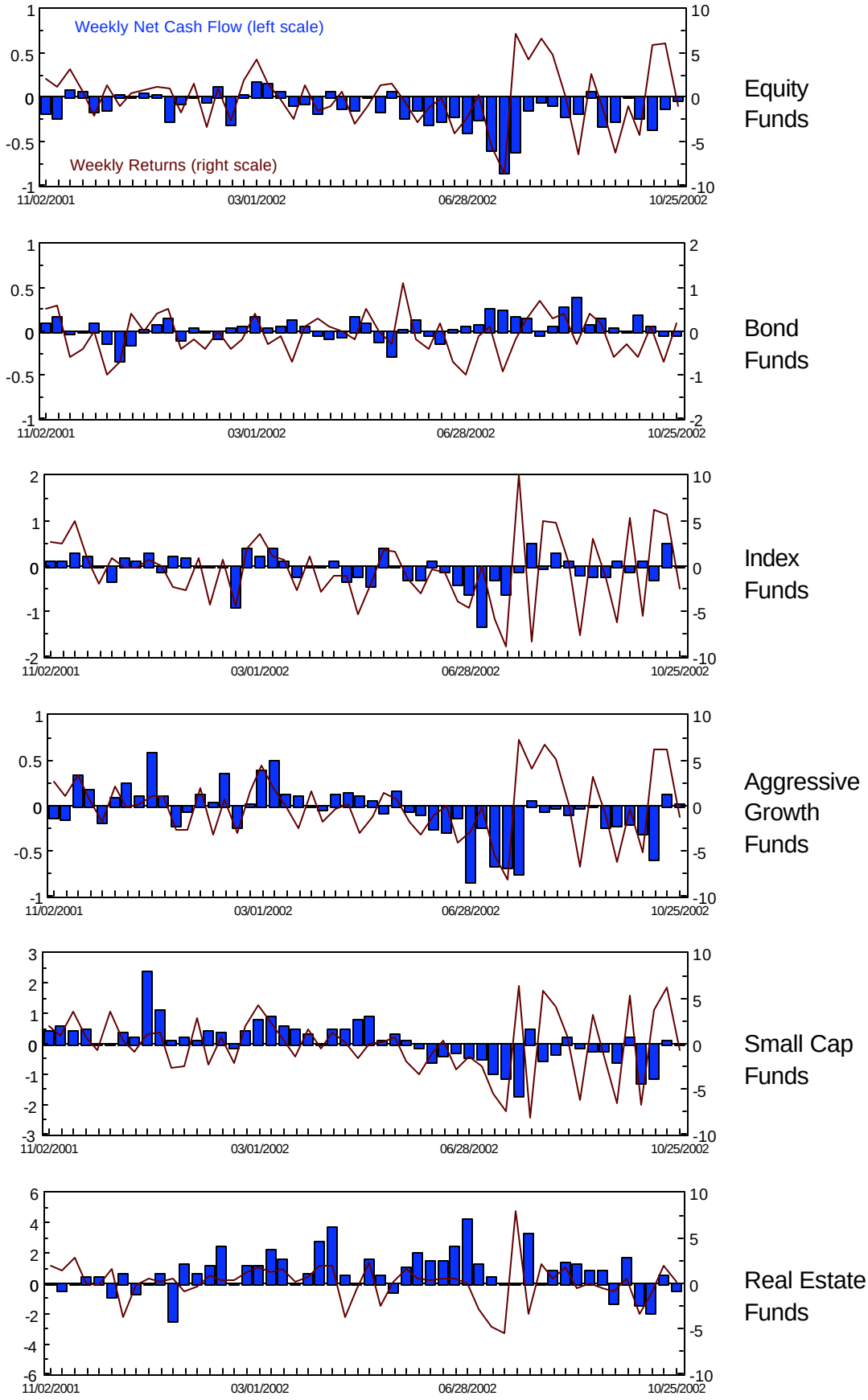


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

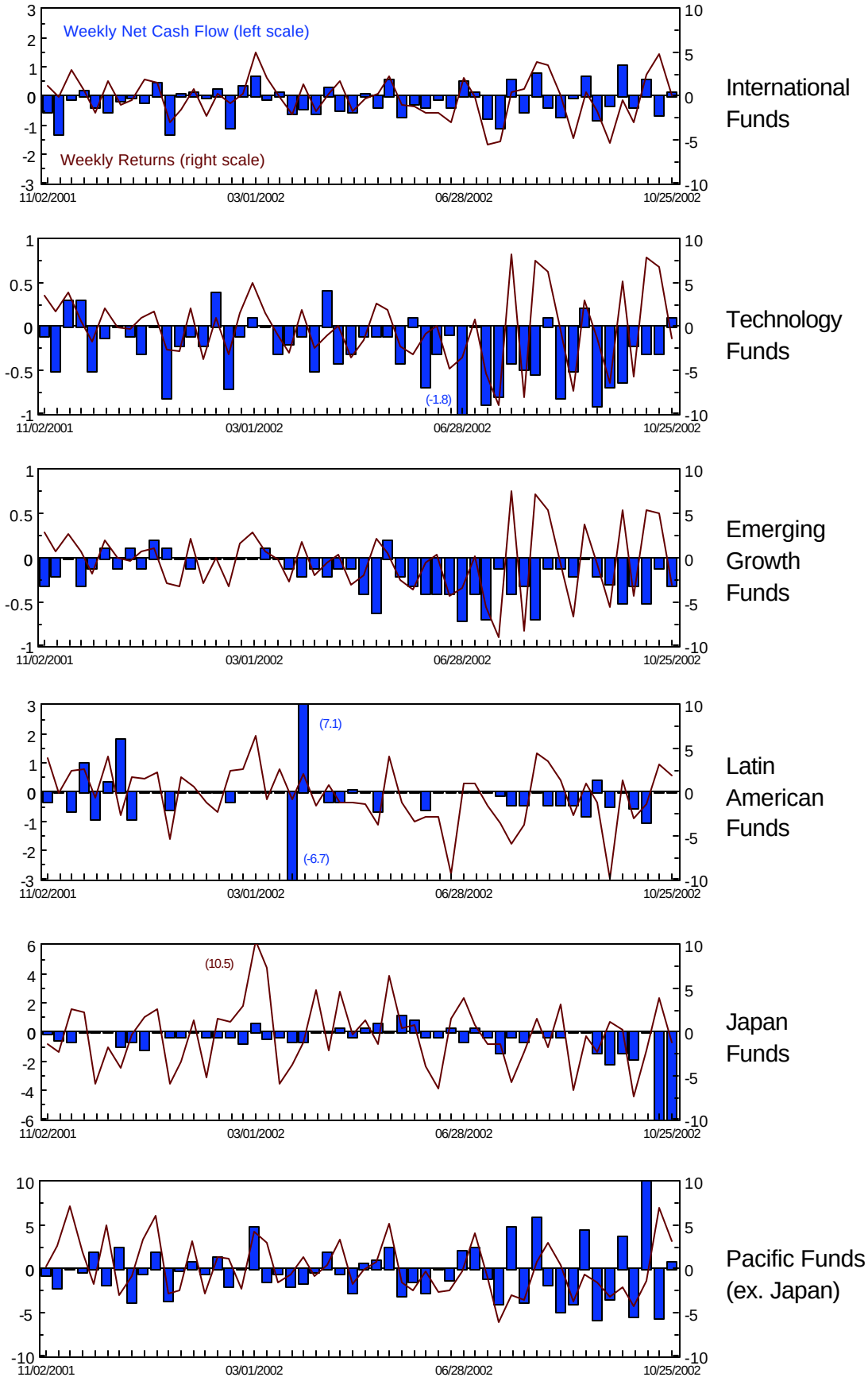


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

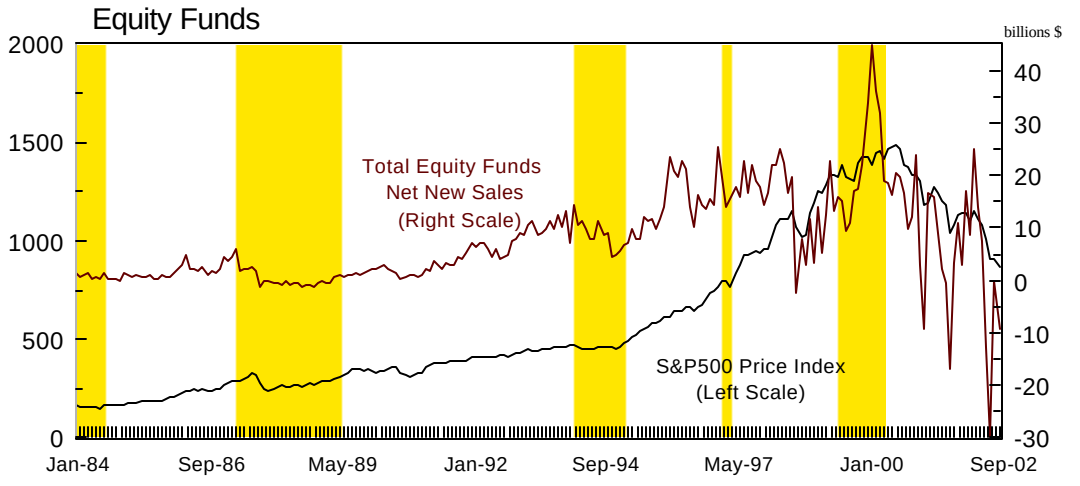


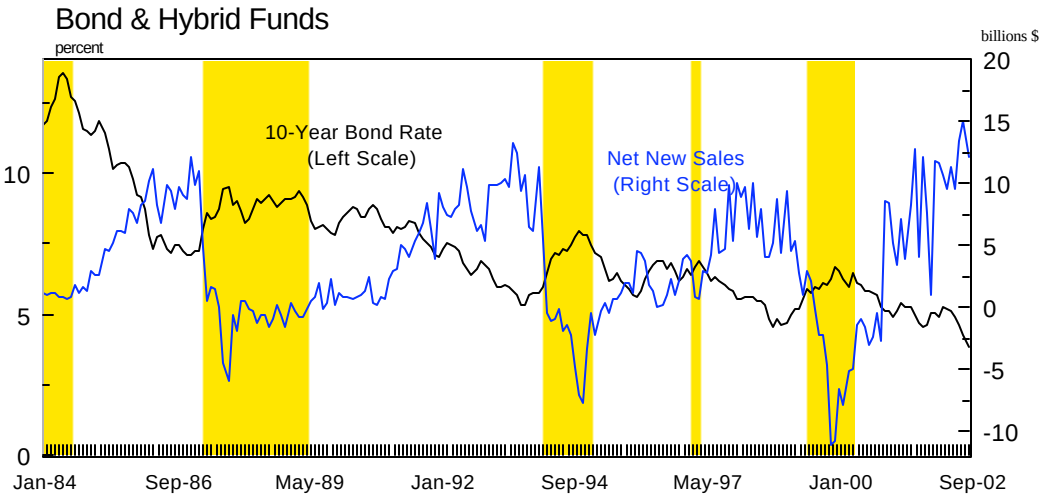
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

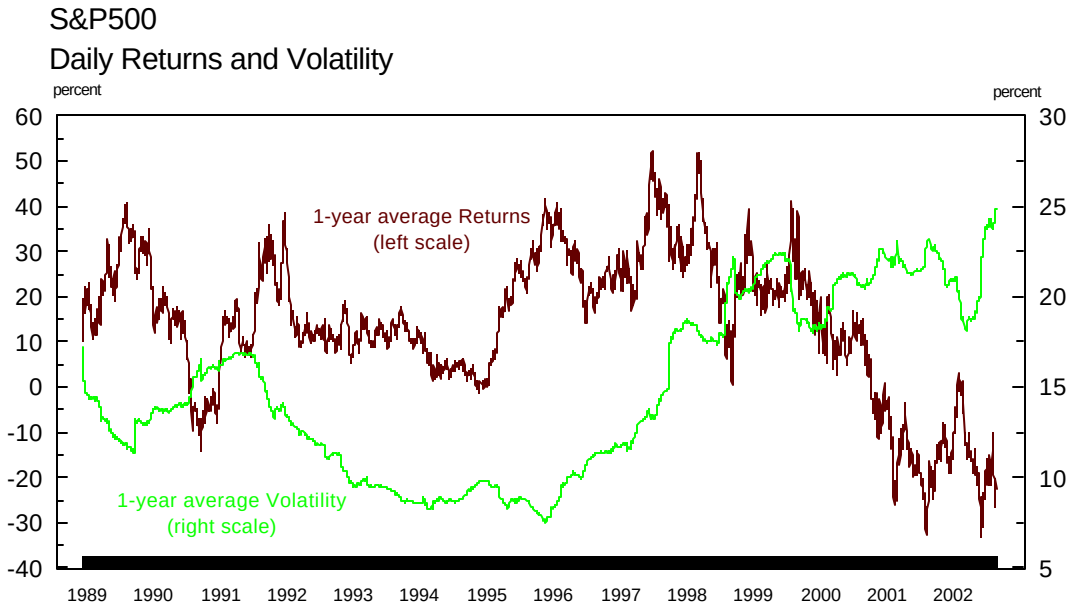




Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility



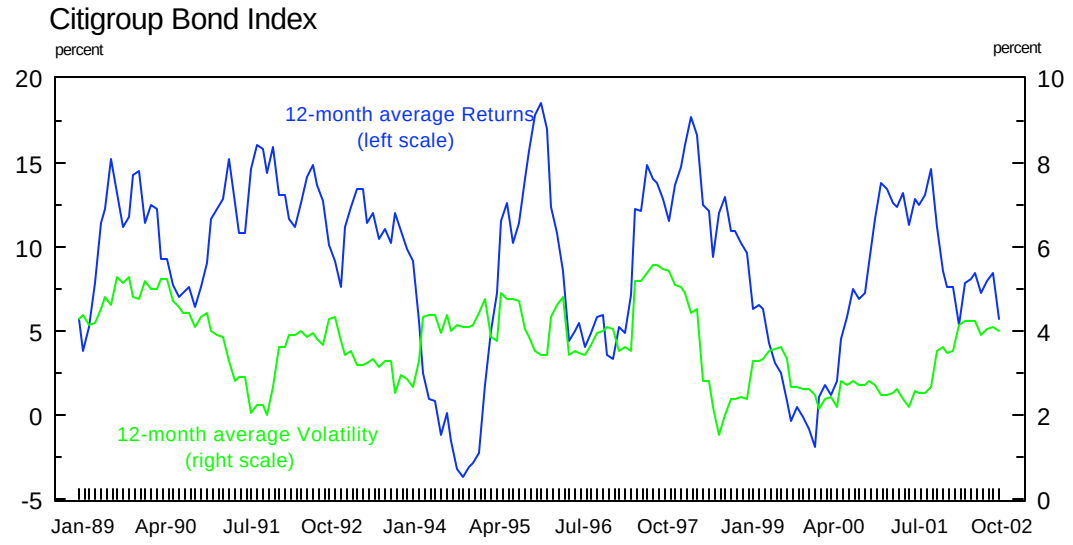
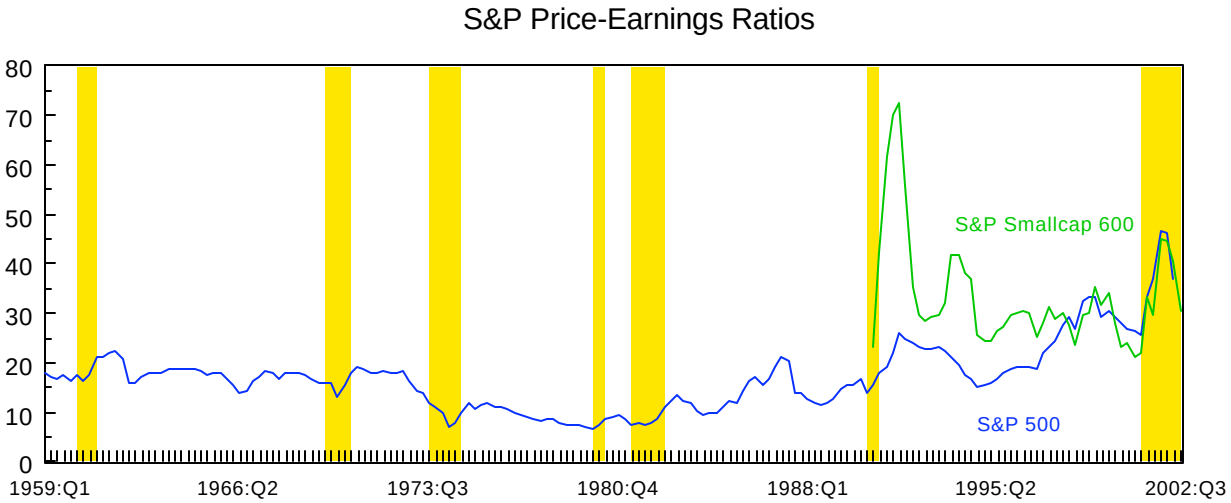
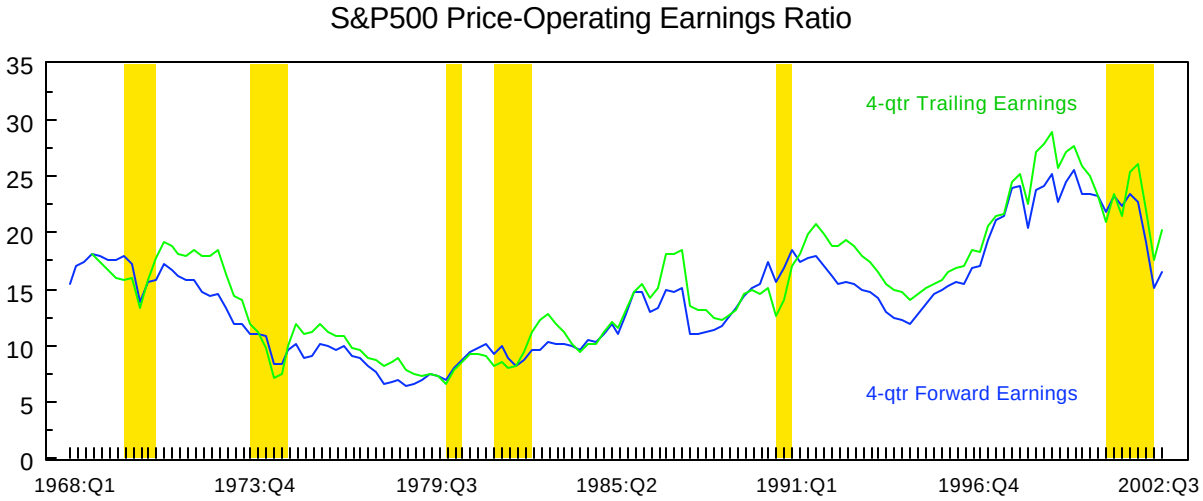
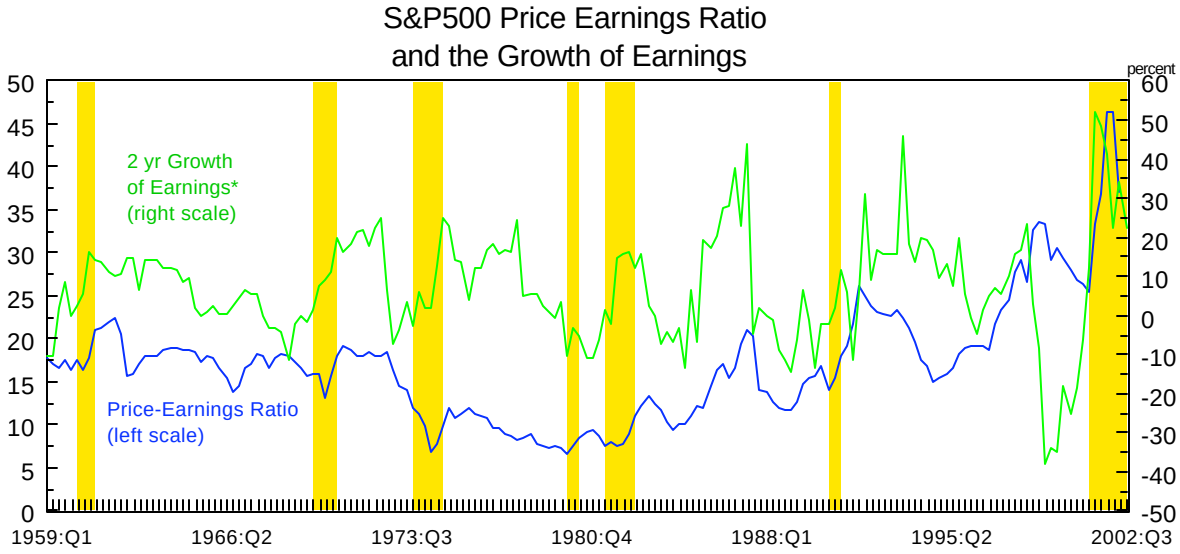


Figure 9





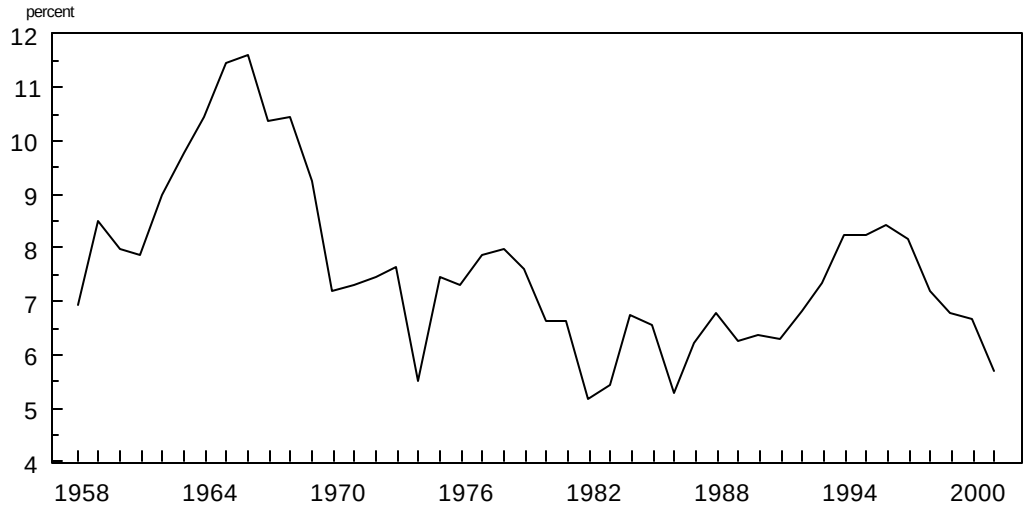


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

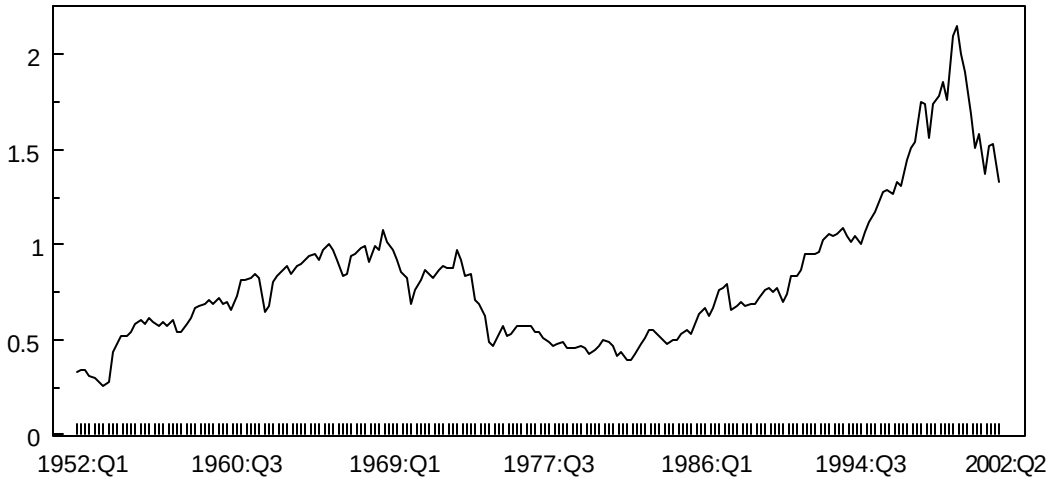
source: First Call, DRI, Bloomberg

Figure 10

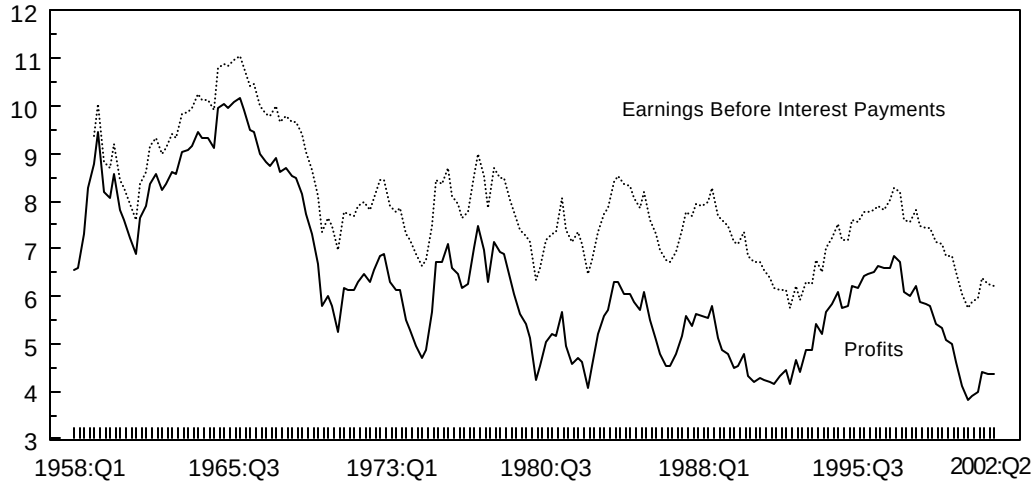
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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