

November 7, 2003

# Monthly Mutual Fund Report

## Statistics for September-October 2003

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### Sales and Redemptions

Total assets for all funds decreased in September by \$22.1 billion, or 0.32 percent, to \$6.95 trillion. Money market funds had a net cash outflow of \$49.7 billion compared to an outflow in August of \$20.3 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$15.2 billion, compared to an inflow of \$14.2 billion in August. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$115.8 billion in September, up from \$110.2 billion in August. The value of non-money market assets depreciated by \$3.2 billion in September, following an appreciation of \$98.4 billion in August.

Total assets of **equity funds** decreased by \$8.8 billion, or 0.3 percent, to \$3.23 trillion. There was a \$17.3 billion net cash inflow to equity funds in September, compared with an inflow of \$23.4 billion in August. Year-to-date, equity funds have a \$97.5 billion inflow, compared to an outflow of \$18.6 billion in the first nine months of 2002. The market value of assets depreciated by \$28.8 billion in September.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 1.5 percent, or \$5.9 billion, to \$388.2 billion. In September, there was a \$3.8 billion net cash inflow for these funds. Thus far in 2003, hybrid funds have a \$22.6 billion inflow, while there was a \$8.3 billion inflow through the same point in 2002.

**Bond funds** experienced a cash outflow of \$5.8 billion, while their total assets increased by \$21.6 billion, to \$1.23 trillion. The market value of bond funds assets increased by \$24.7 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.7 percent, while the assets of tax-exempt bond funds increased by 1.9 percent. The year-to-date inflow to bonds is \$38.3 billion; through September 2002, the year-to-date inflow was \$119.1 billion.

Assets of taxable and tax-exempt **money market funds** decreased \$40.8 billion, to \$2.10 trillion, a decrease of 1.9 percent for taxable money market funds and a decrease of 1.8 percent for tax-exempt funds. Compared to a net cash outflow of \$150.1 billion through September 2002, money market funds had an outflow of \$205.6 billion in the first three quarters of 2003.



### **Liquidity Ratio**

The liquidity ratio for bond and hybrid funds increased from 5.00 to 5.37 percent, while the ratio for equity funds decreased from 4.52 to 4.49 percent (figure 4).

### **Weekly Flows**

In October, there were inflows to equity funds of 0.1 percent of total assets, with returns of 3.6 percent. Bond funds had inflows of 0.2 percent and returns of 0.5 percent for the month.

Index funds had monthly outflows of 0.3 percent and returns of 4.0 percent. Aggressive growth funds had monthly inflows of 0.4 percent and returns of 3.3 percent. Small-cap funds had an outflow of 0.2 percent, and returns of 6.5 percent.

There were inflows to international funds in October of 0.4 percent of assets and returns of 4.9 percent. Latin America funds had outflows of 0.8 percent and returns of 4.9 percent. Japan funds had inflows of 0.6 percent and returns of 5.9 percent of assets for the month of October. Pacific funds that do not invest in Japan had outflows of 0.03 percent and returns of 4.3 percent of assets.

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

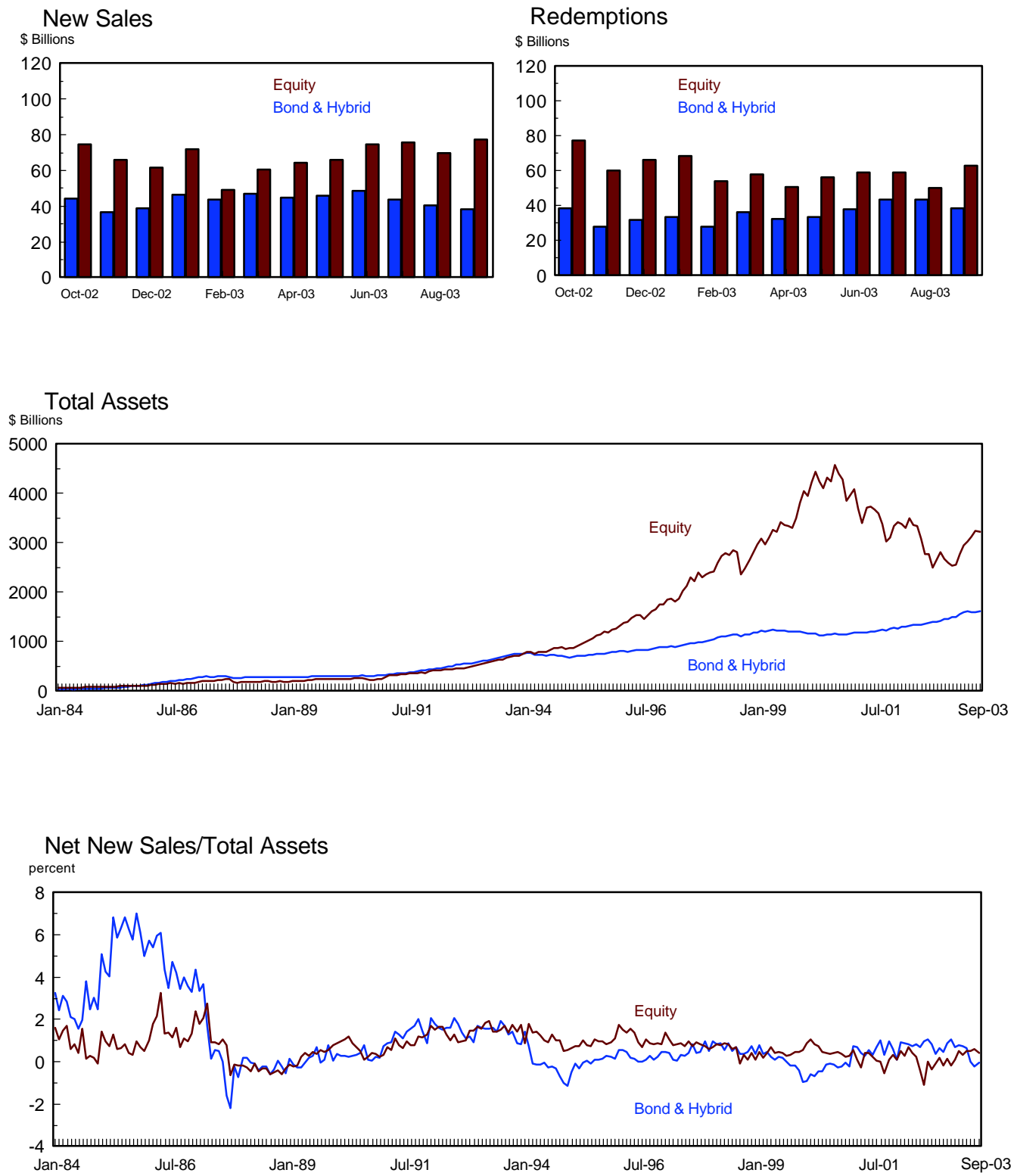
The S&P 500 ended October at 1050.71, an increase of 5.5 percent from the beginning of the month. The 12-month gain was 19.6 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 18.5 percent.

The 12-month average return on the Citigroup Bond Index was 5.0 percent for October. Volatility increased to 5.54 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 in the third quarter to 16.4 percent, and still above the 7.1 percent historical average annual growth rate. The trailing price-earnings ratio decreased from 28.0 in the second quarter to 26.7 for the third quarter, while Thomson Financial/First Call's forward price-operating earnings increased from 17.2 in the third quarter to 17.5 in the fourth quarter (figure 9). During the third quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 29.6 from 30.5.

Figure 1  
Sales of Mutual Funds

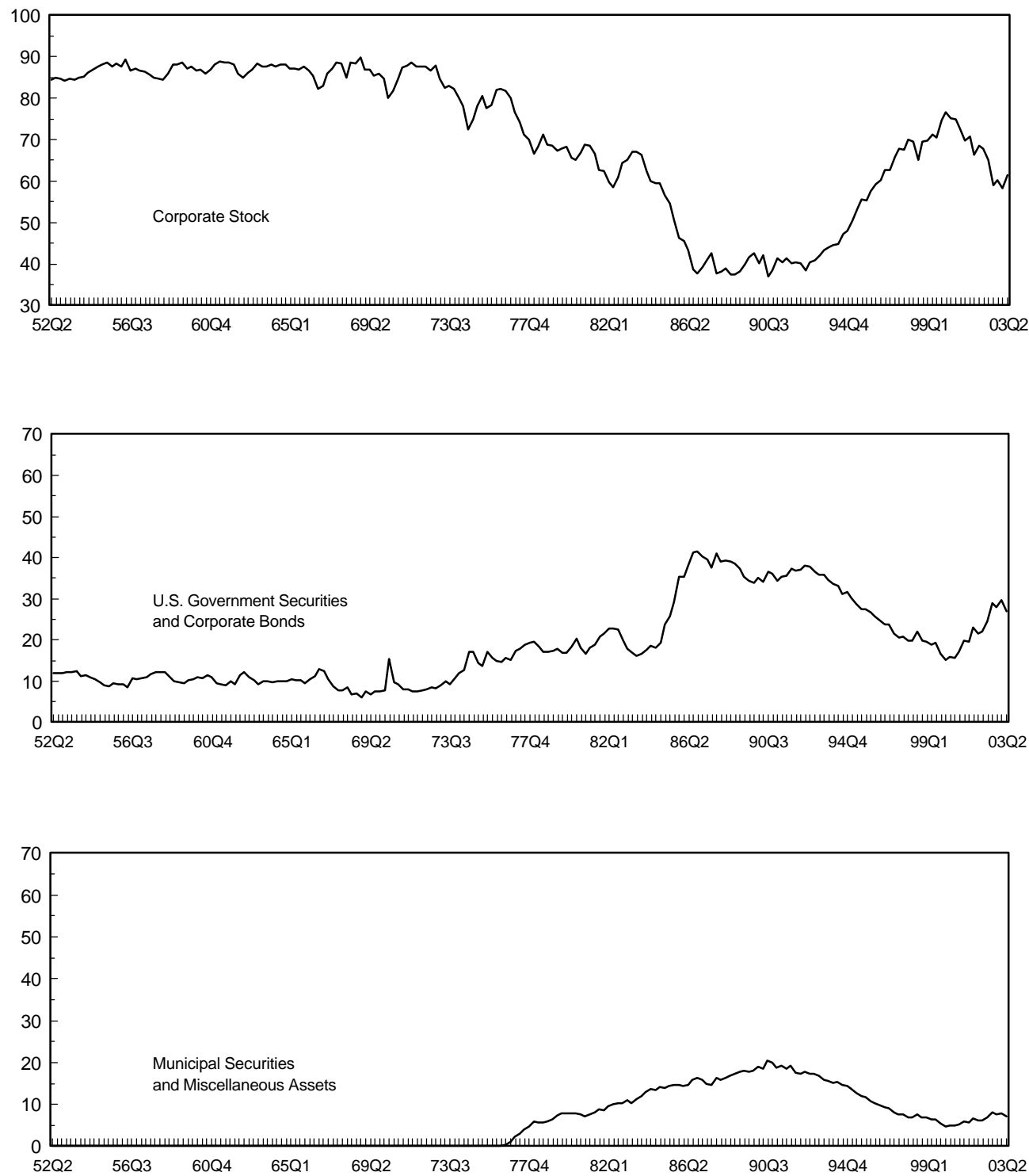


Source: Investment Company Institute

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)

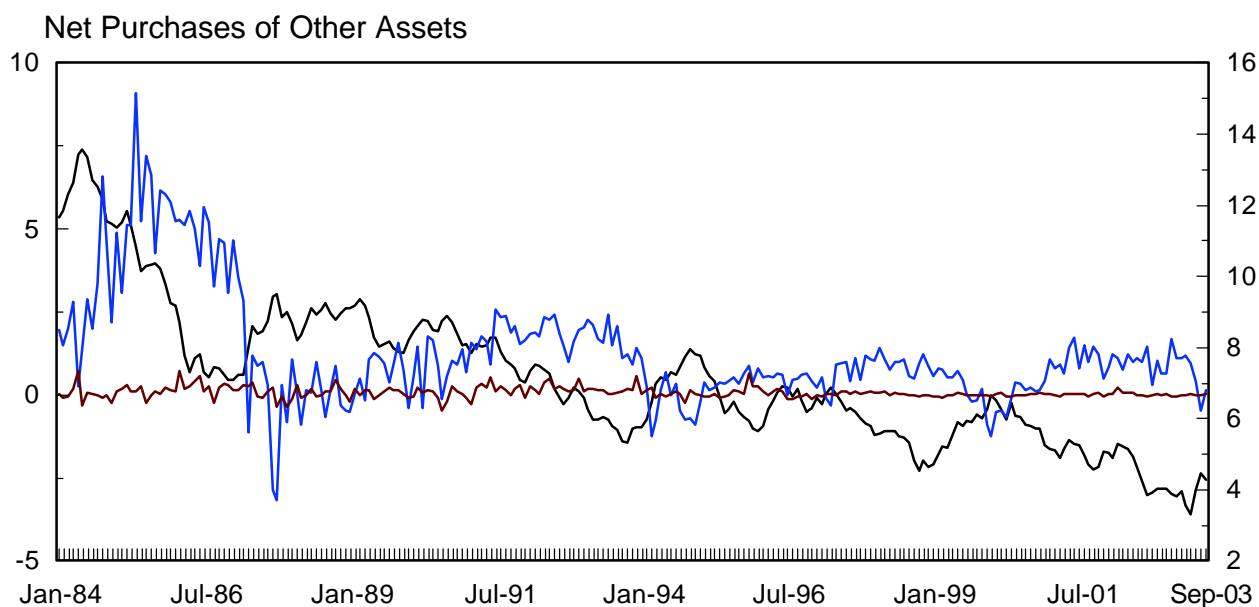
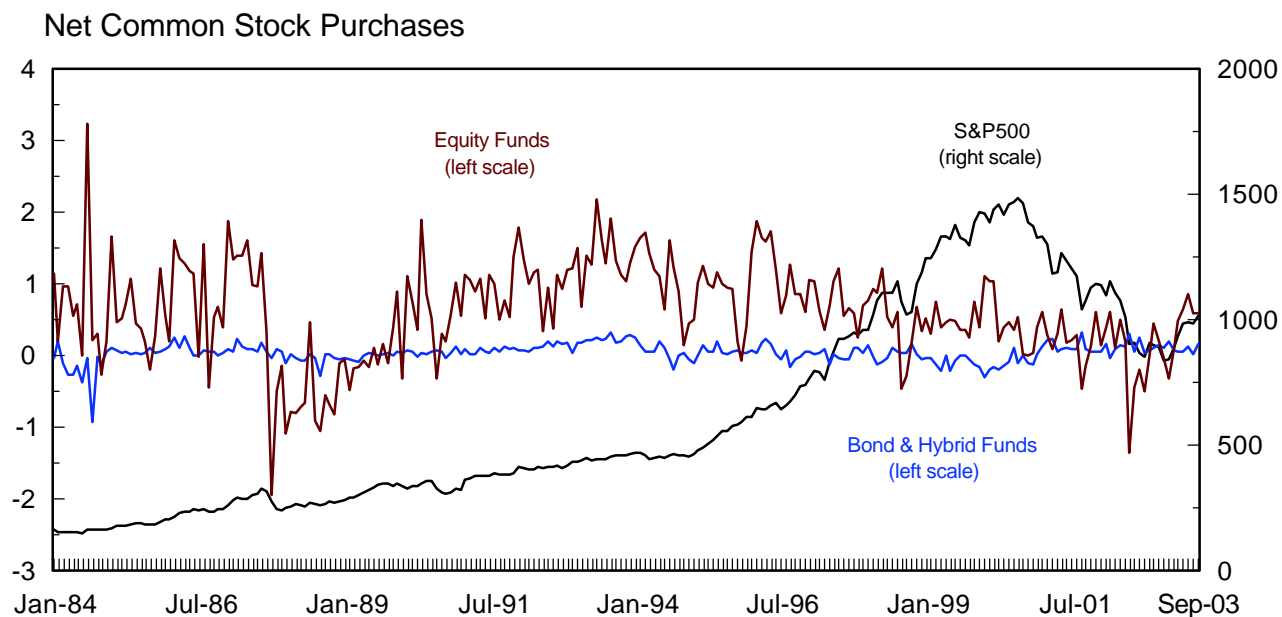
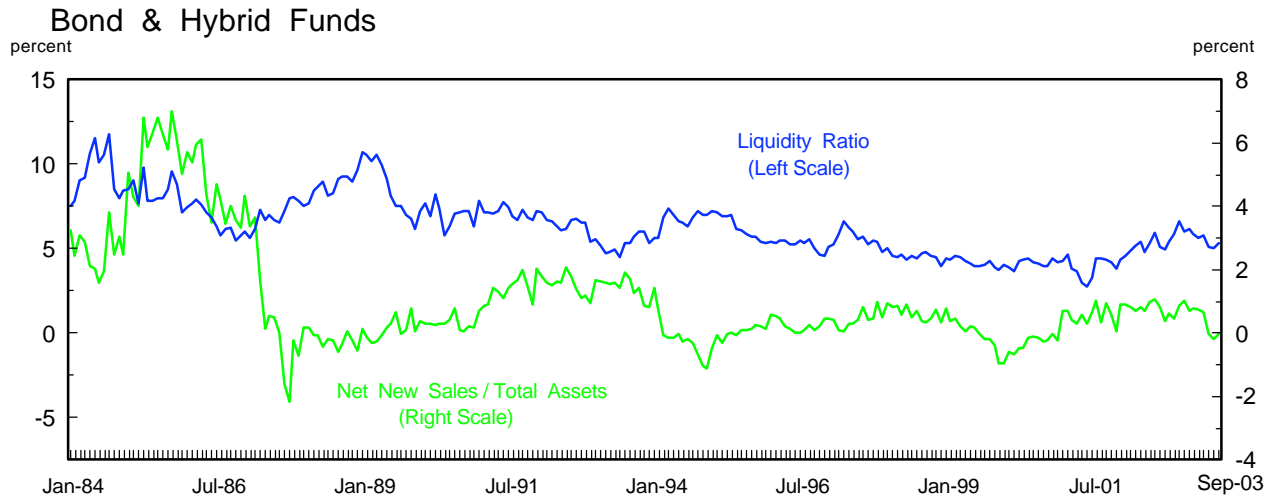
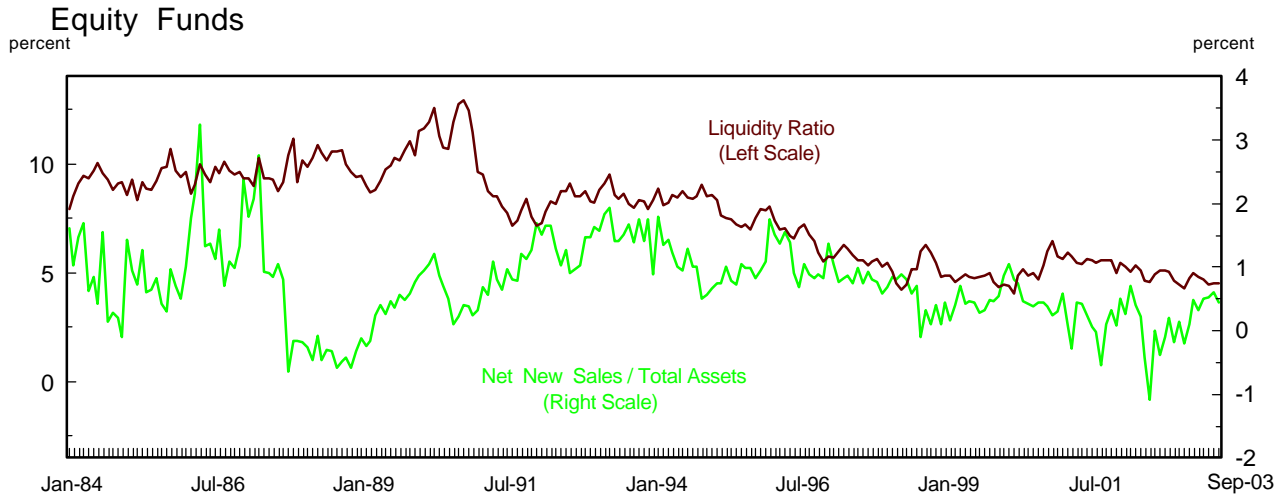
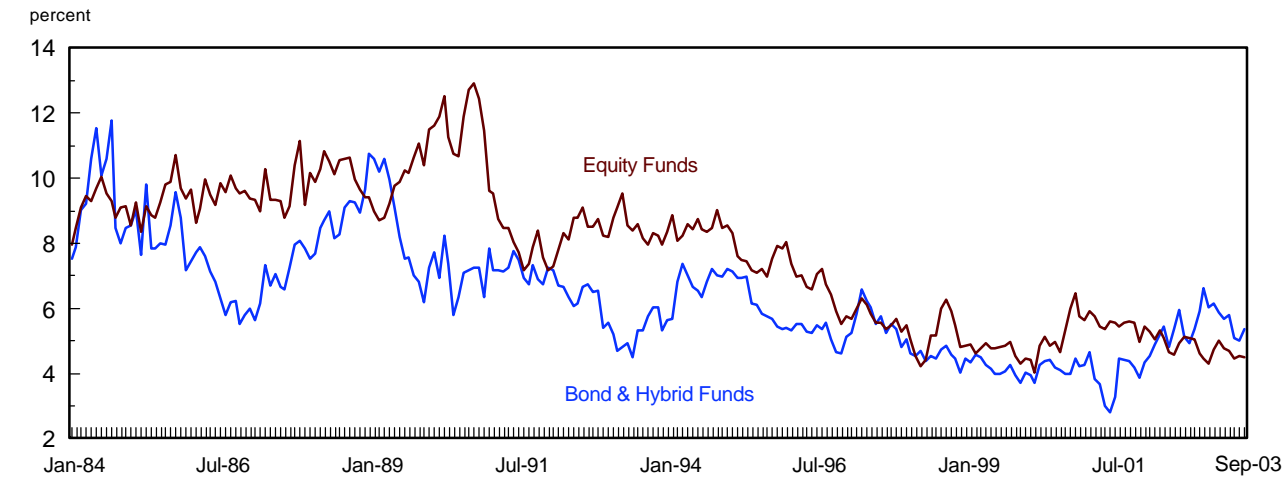


Figure 4  
**Liquidity Ratio\***

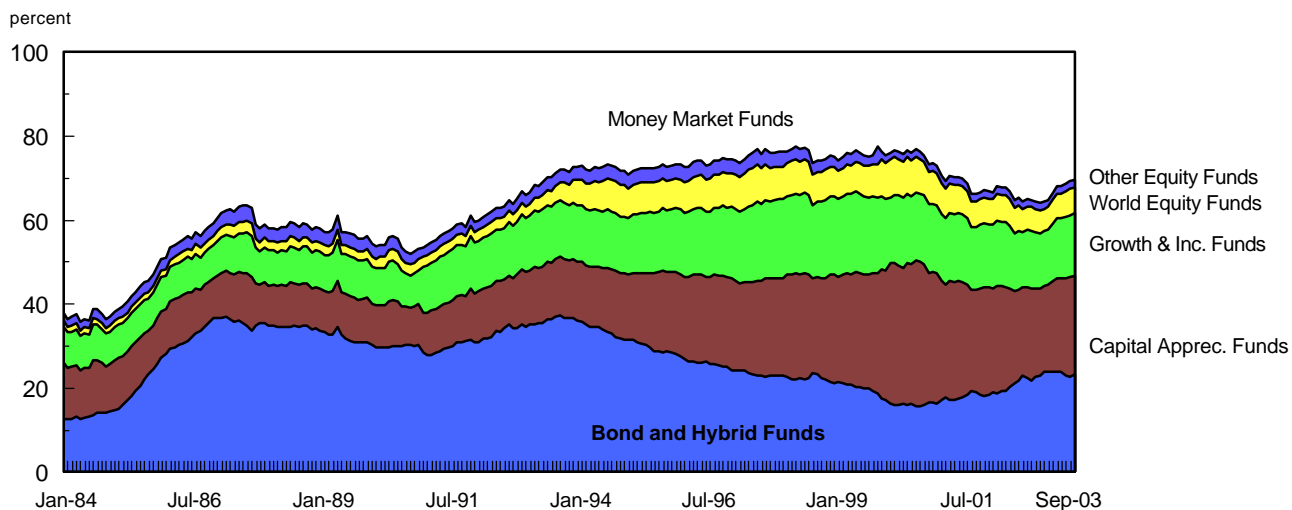


\*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.  
 Source: Investment Company Institute

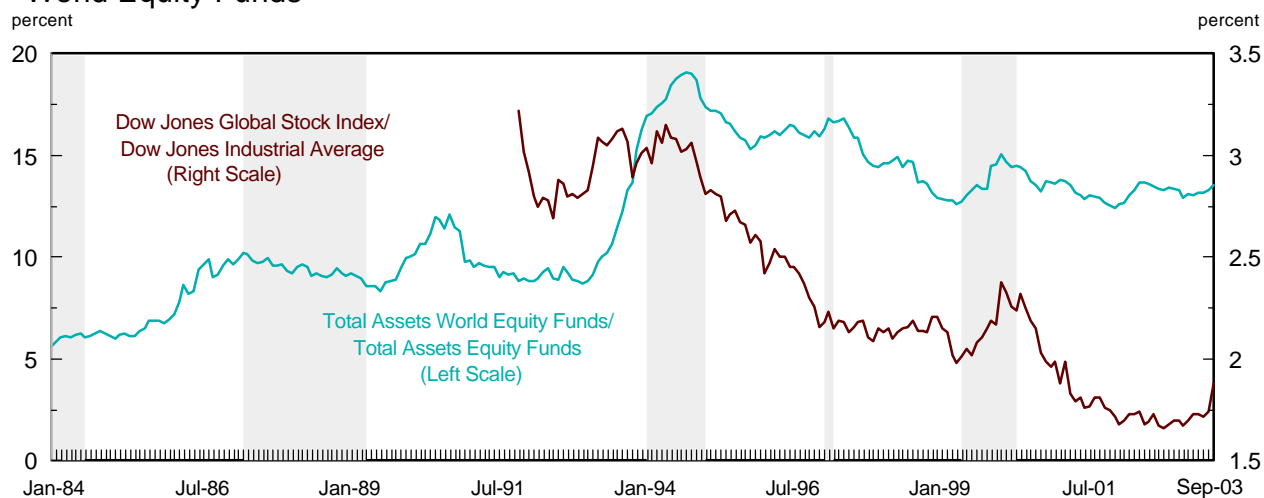
Figure 5

## Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



### World Equity Funds



### Capital Appreciation Funds

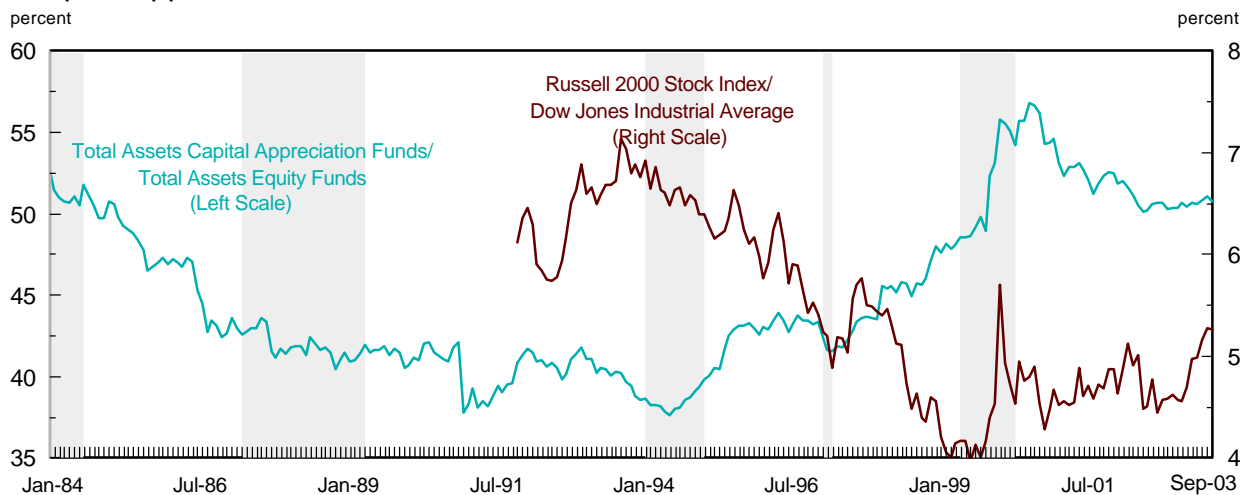


Figure 6a

## Weekly Flows into Mutual Funds

(percent of Total Assets)

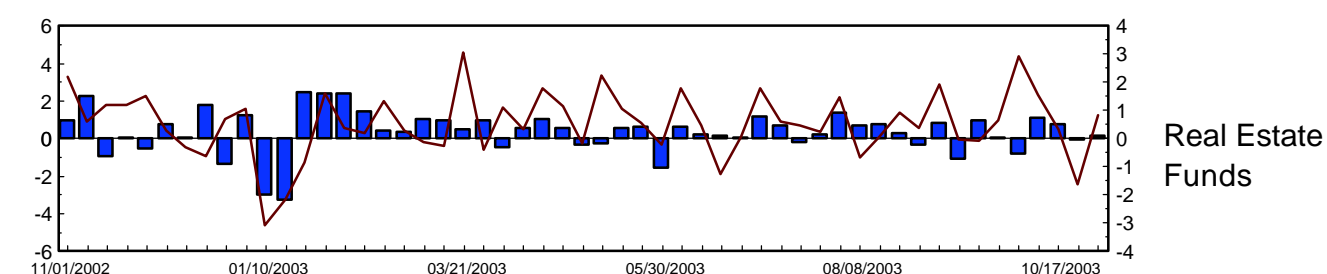
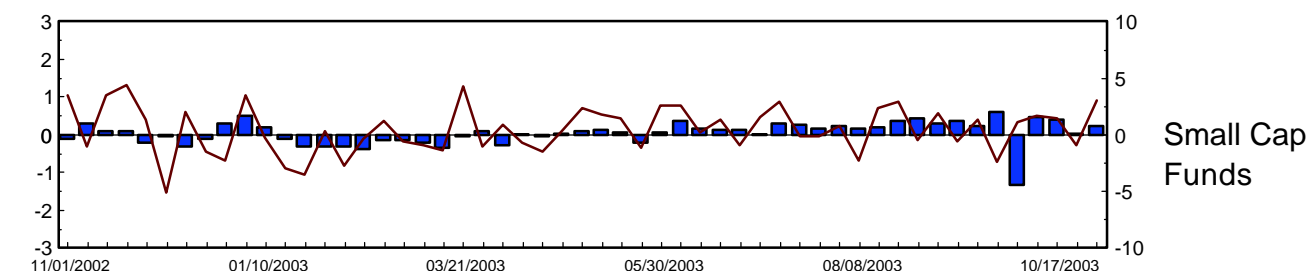
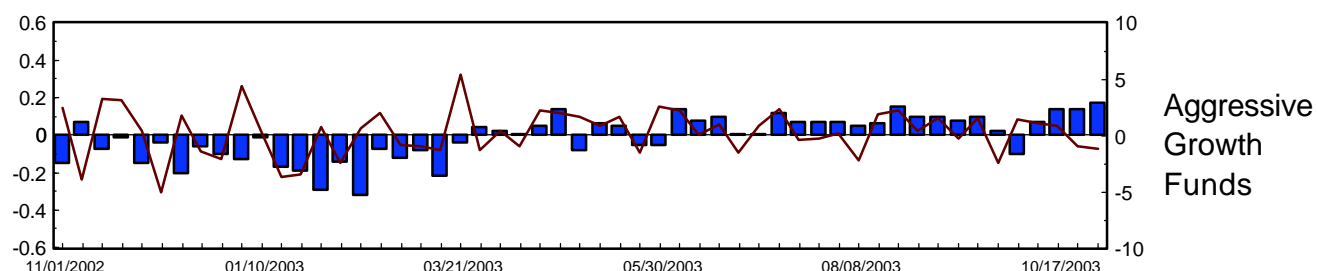
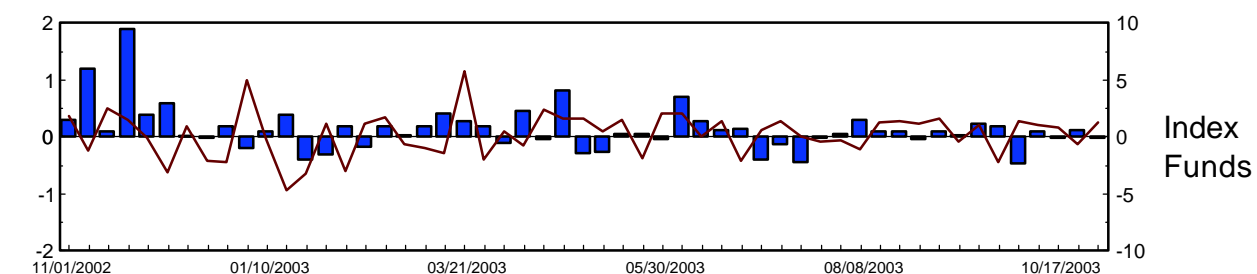
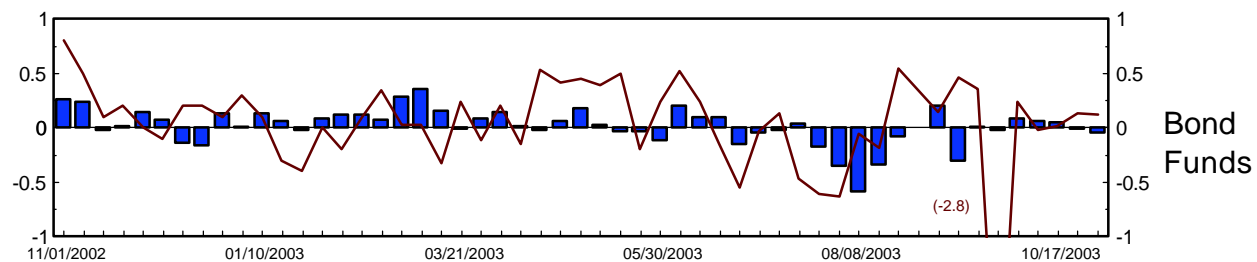
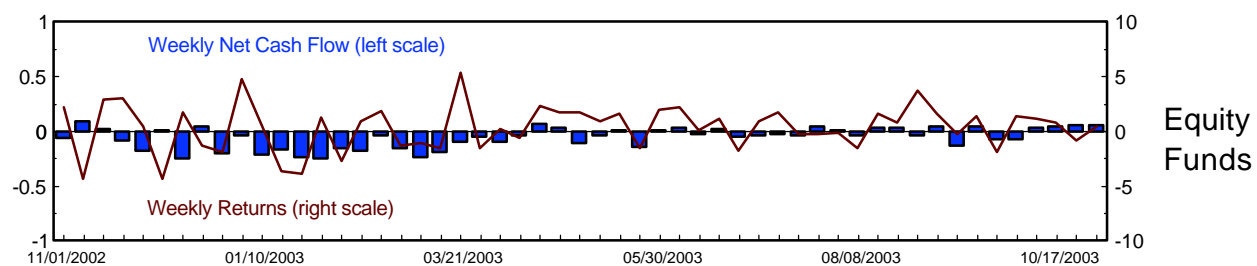




Figure 6b

**Weekly Flows into Mutual Funds**

(percent of Total Assets)

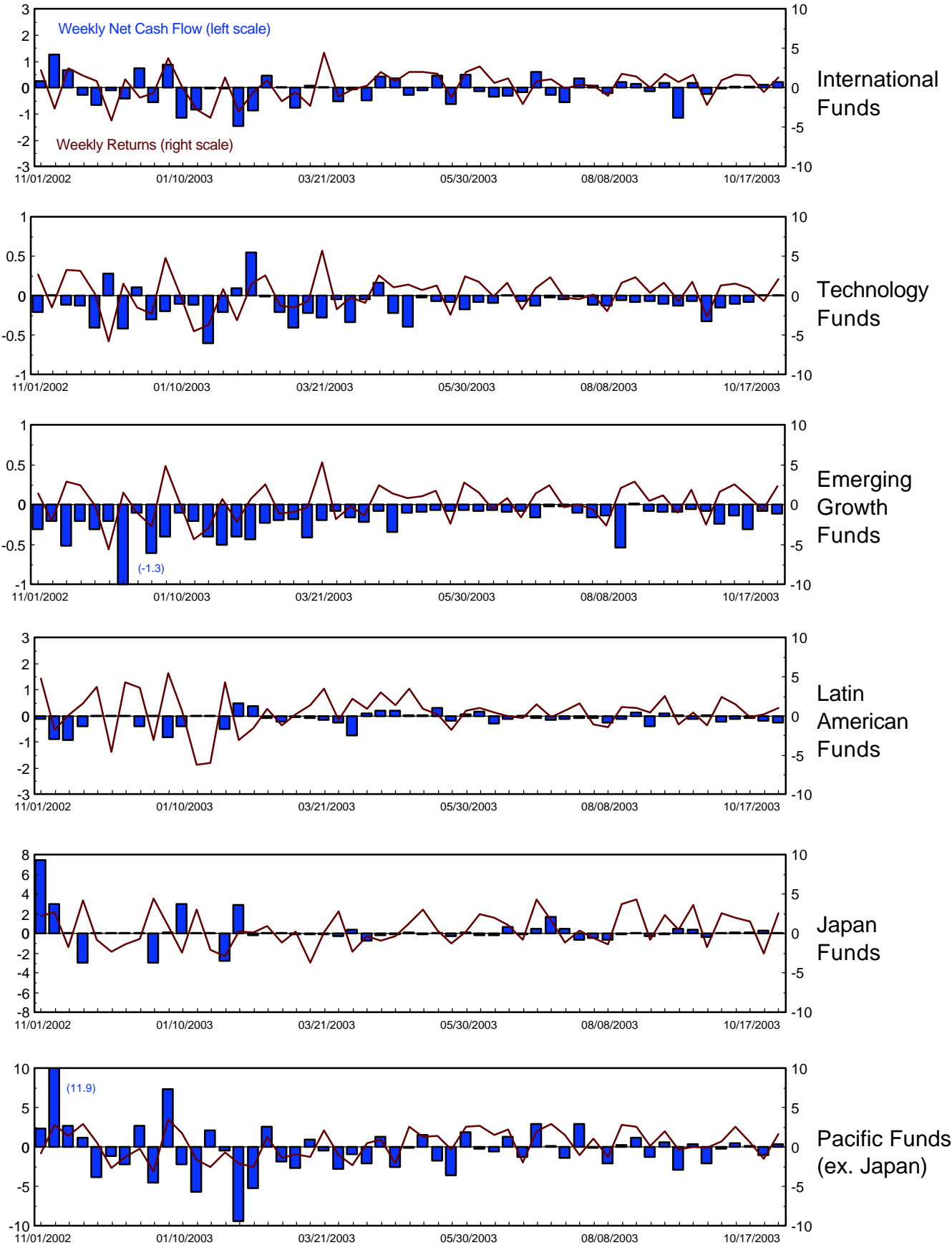


Figure 7

## Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

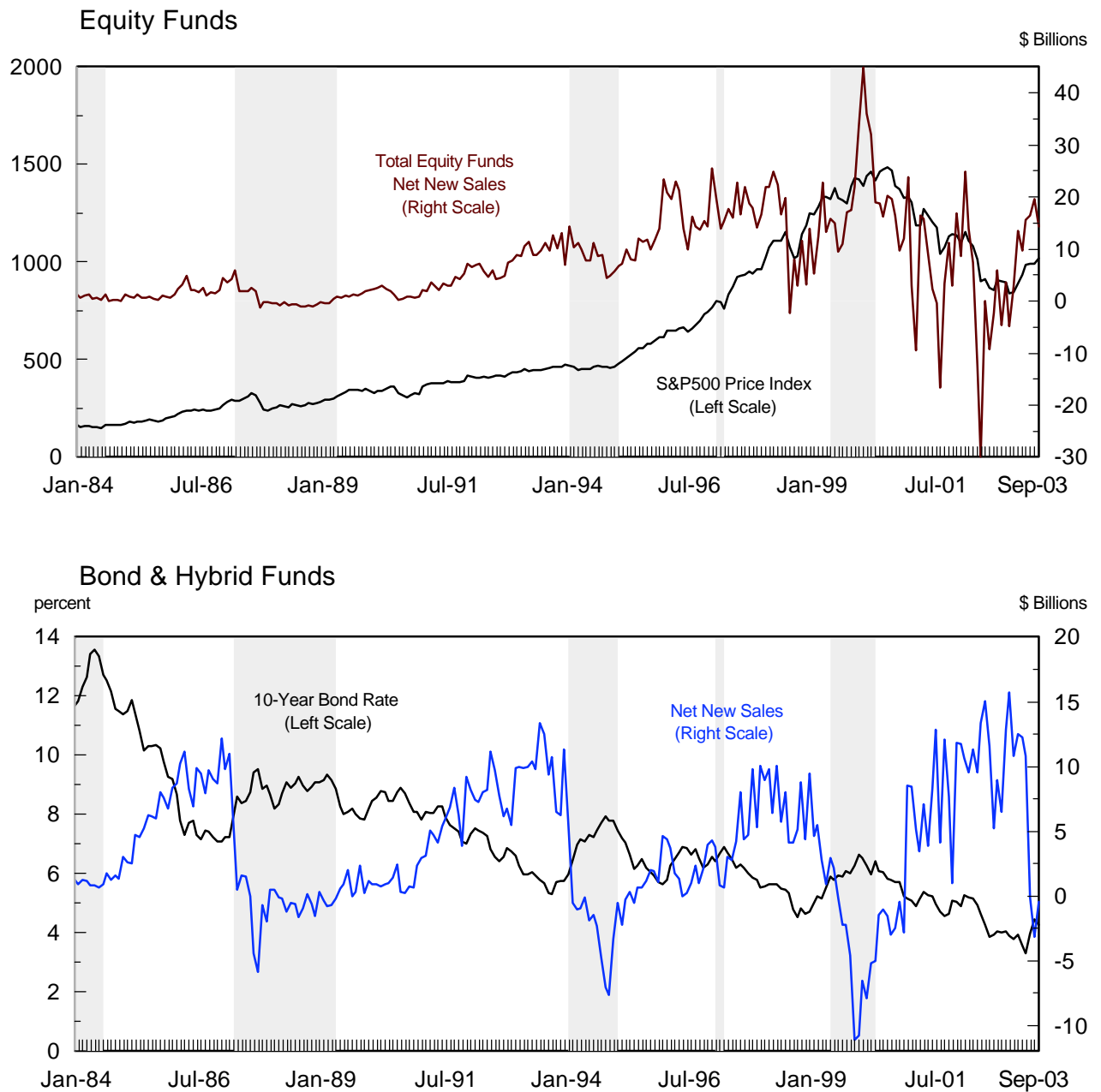


Figure 8  
**Capital Market Returns and Volatility**

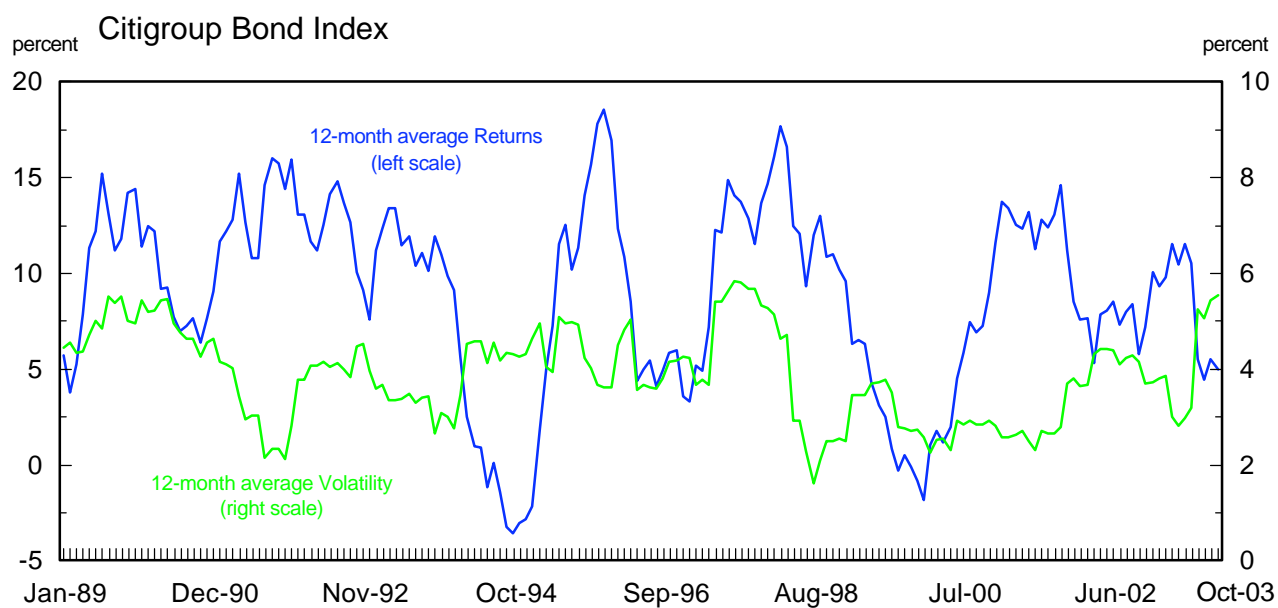
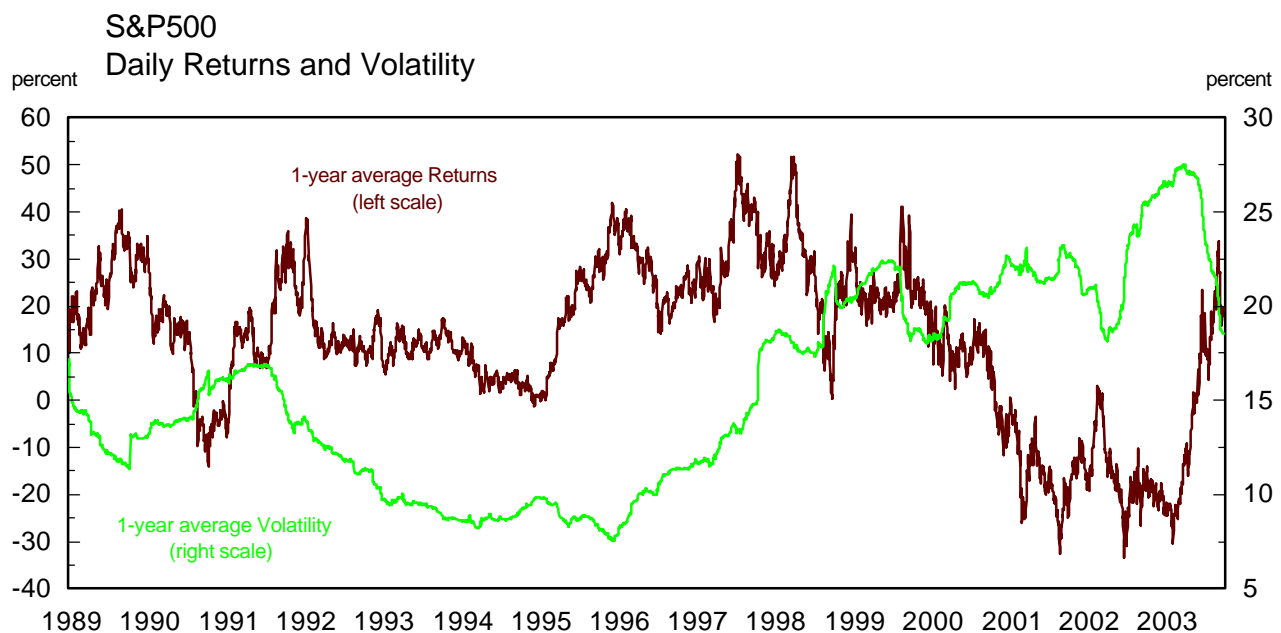
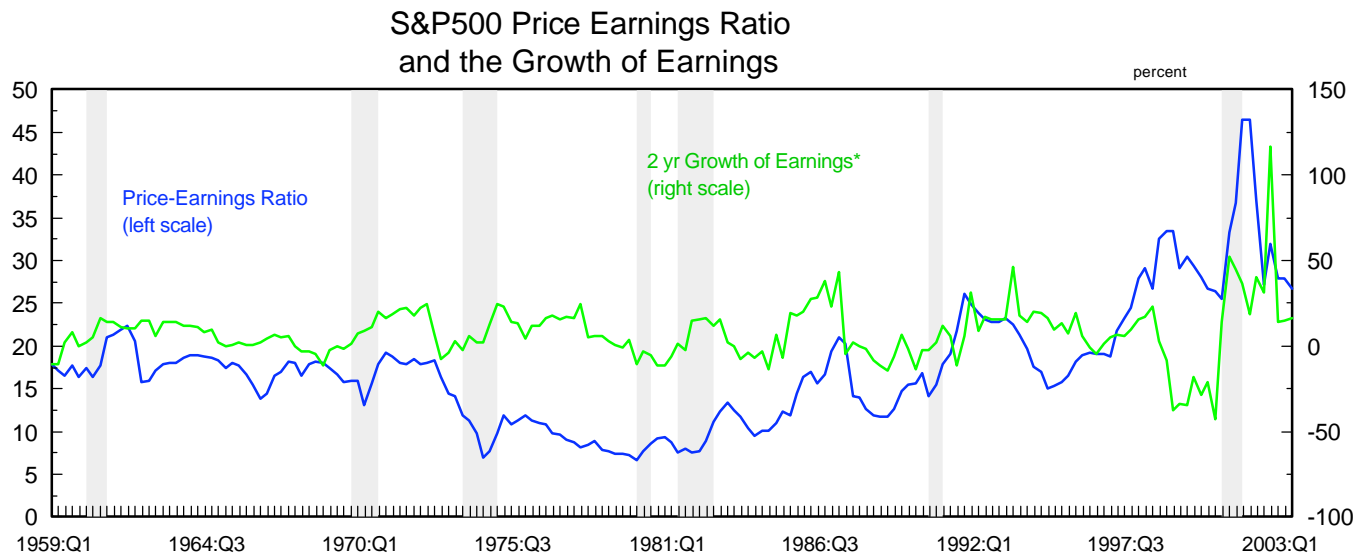
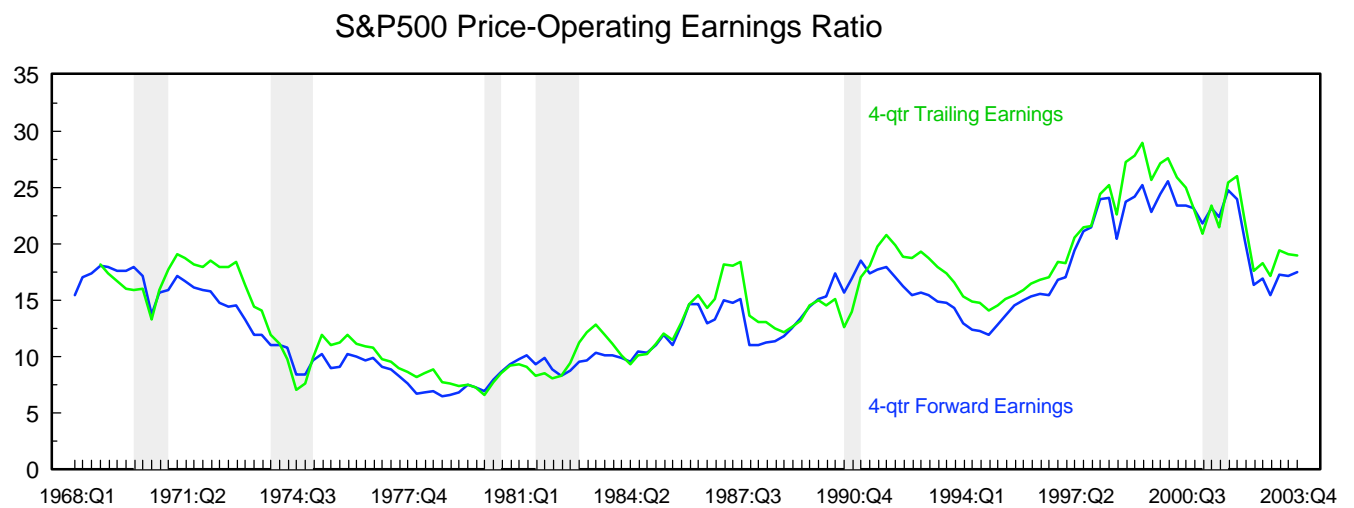
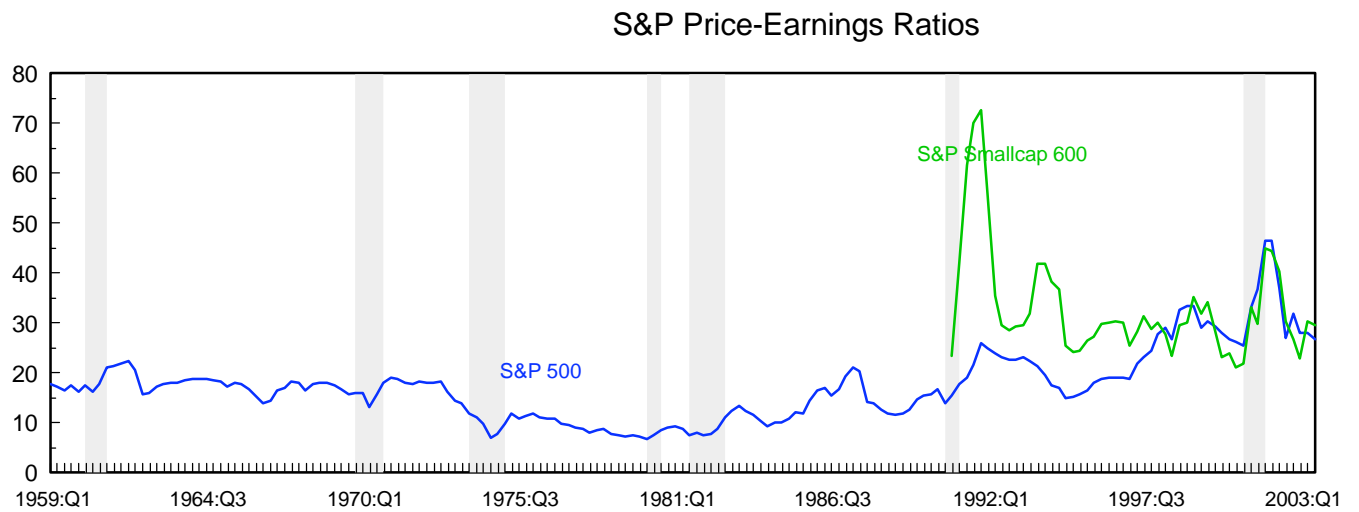


Figure 9



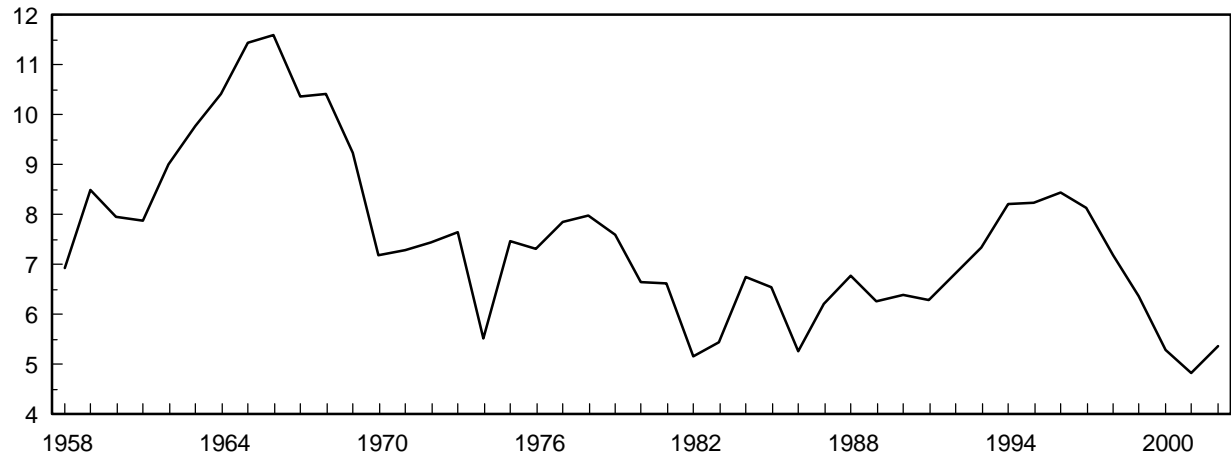
\* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

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

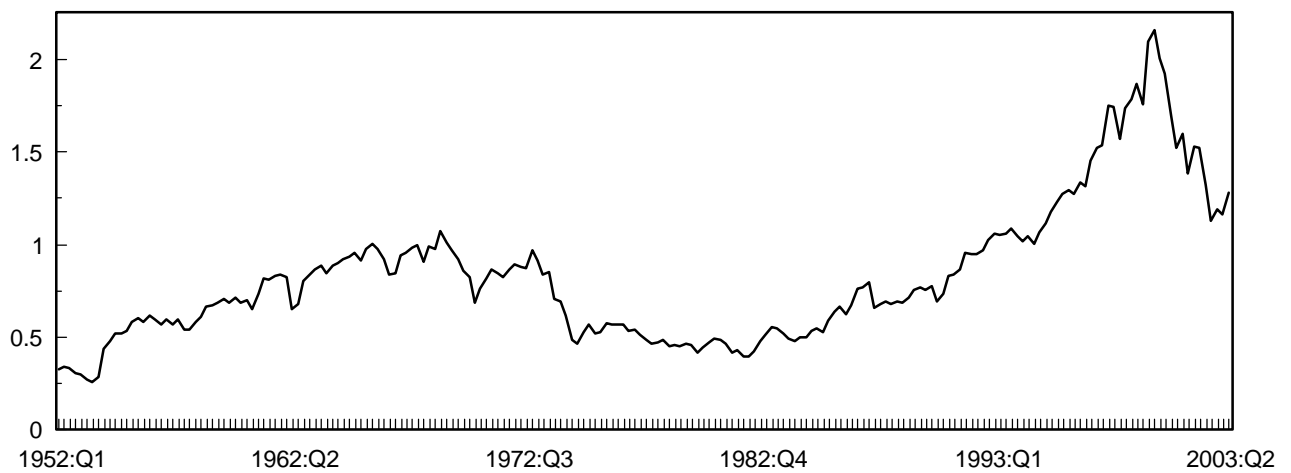
Figure 10

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

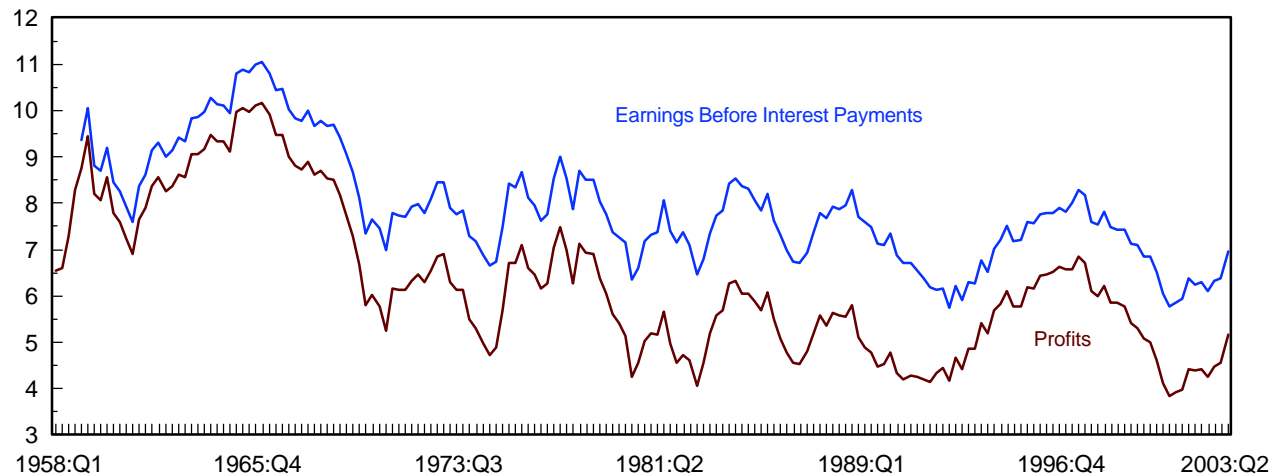
percent



### 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