November 5, 2004

Monthly Mutual Fund Report

Statistics for September-October 2004

Sales and Redemptions

Total assets for all funds increased in August by $90.3 billion, or 1.2 percent, to $7.6 trillion. Money market funds had a net cash outflow of $43.2 billion compared to an outflow in August of $13.5 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $15.9 billion, compared to an inflow of $8 billion in August. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $102.5 billion in September, down from $98.2 billion in August. The value of non-money market assets appreciated by $109.0 billion in September, following an appreciation of $25.3 billion in August.

Total assets of **equity funds** increased by $112.4 billion, or 3.0 percent, to $3.9 trillion. There was a $10.1 billion net cash inflow to equity funds in September, compared with an inflow of $1.1 billion in August. The market value of assets appreciated by $99.2 billion in September. The year-to-date inflow is $138.8 billion, compared to an inflow of $98.1 billion in the first nine months of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 1.9 percent, or $9.0 billion, to $478.9 billion. In September, there was a $3.0 billion net cash inflow for these funds, compared to an inflow in August of $2.6 billion. Hybrid funds have experienced an inflow of $33.0 billion thus far in 2004, compared to an inflow of $22.1 billion to this point in 2003.

Bond funds experienced a cash inflow of $2.8 billion, while their total assets increased by $10.4 billion, to $1.26 trillion. The market value of bond funds assets increased by $4.8 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.98 percent, while the assets of tax-exempt bond funds increased by 0.42 percent. The 2004 outflow is $16.9 billion, compared to an inflow of $38.2 billion through September 2003.

FEDERAL RESERVE BANK OF BOSTON · 1914 ·

Assets of taxable and tax-exempt **money market funds** decreased $41.6 billion, to $1.89 trillion, a decrease of 2.20 percent for taxable money market funds and a decrease of 1.86 percent for tax-exempt funds. The year-to-date outflow of $172.8 billion is less than the outflow for the first nine months of 2003, $206.2 billion.

Liquidity Ratio
The liquidity ratio for bond and hybrid funds increased from 6.79 to 7.03 percent, while the ratio for equity funds decreased from 4.29 to 4.28 percent (figure 4).

Weekly Flows
In October, there were outflows from equity funds of 0.6 percent of total assets, with returns of 2.4 percent (figure 6a). Bond funds had inflows of 0.2 percent and returns of 0.03 percent.

Index funds had monthly inflows of 0.5 percent and returns of 2.7 percent. Aggressive growth funds had outflows of 0.5 percent and gains of 2.2 percent. Small-cap funds had an inflow of 1.4 percent and returns of 3.2 percent.

Technology funds had an outflow of 1.4 percent and returns of 1.7 percent (figure 6b). There was an inflow to real estate funds of 2.7 percent and returns of 8.9 percent.

There were inflows to international funds in October of 0.05 percent of assets and returns of 4.3 percent. Latin American funds had outflows of 1.0 percent and returns of 3.3 percent. Japan funds had outflows of 1.4 percent and gains of 2.3 percent of assets. Pacific funds that do not invest in Japan had outflows of 1.4 percent and returns of 0.9 percent of assets. Emerging Markets funds had outflows of 2.7 percent and returns of 0.3 percent.

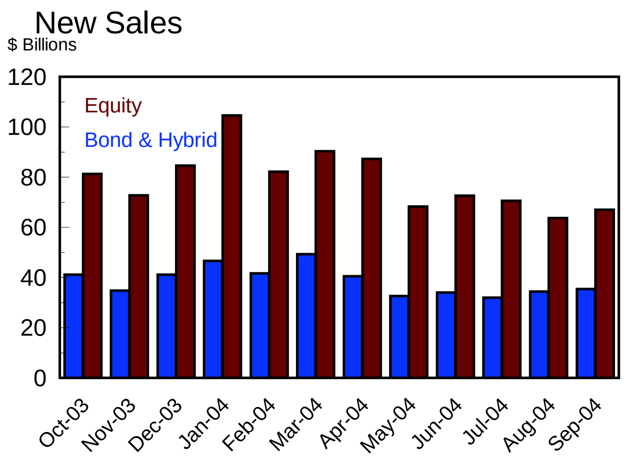
Capital Market Returns and Volatility
The S&P 500 ended October at 1130.2, a decrease of 0.1 percent from the beginning of the month. The 12-month gain was 11.0 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 11.3 percent.

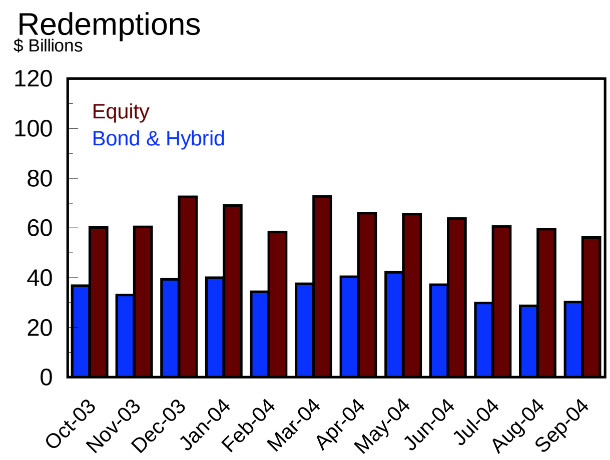
The 12-month average return on the Citigroup Bond Index was 5.7 percent for October. Volatility decreased to 3.9 percent (figure 8).

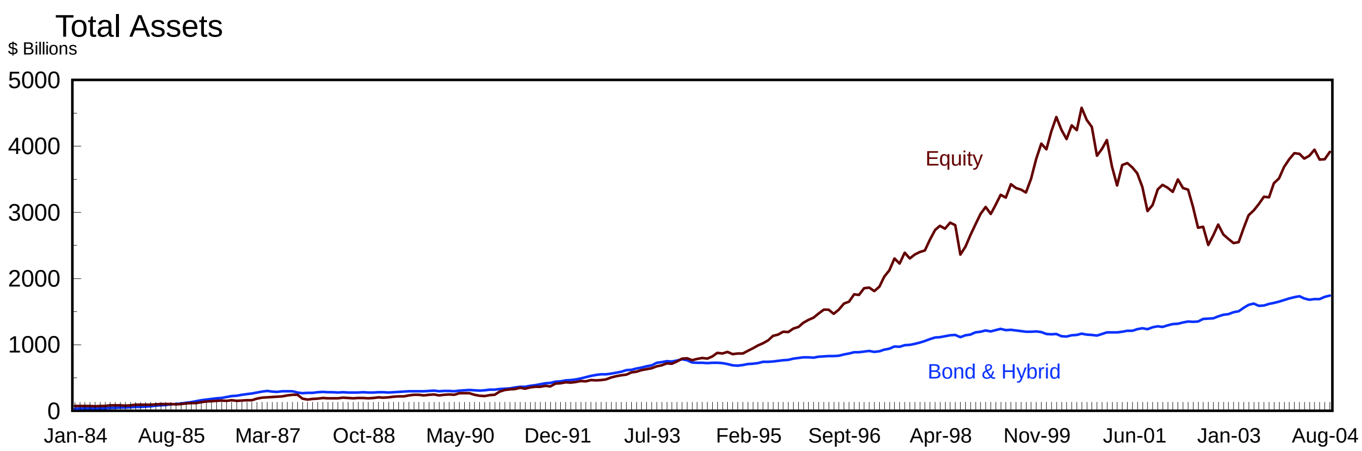
Price-Earnings Ratio
The macro projections for the growth of earnings of the Standard and Poor’s 500 index over the next two years have decreased in the third quarter to a negative 2.8 percent from current levels. The trailing price-earnings ratio decreased from 18.4 in the second quarter of 2004 to 17.6 for the third quarter of 2004, while Thomson Financial/First Call's forward price-operating earnings was 15.9 in the third quarter of 2004, down from 16.9 in the second quarter. During the third quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 24.3 from 29.0 (figure 9).

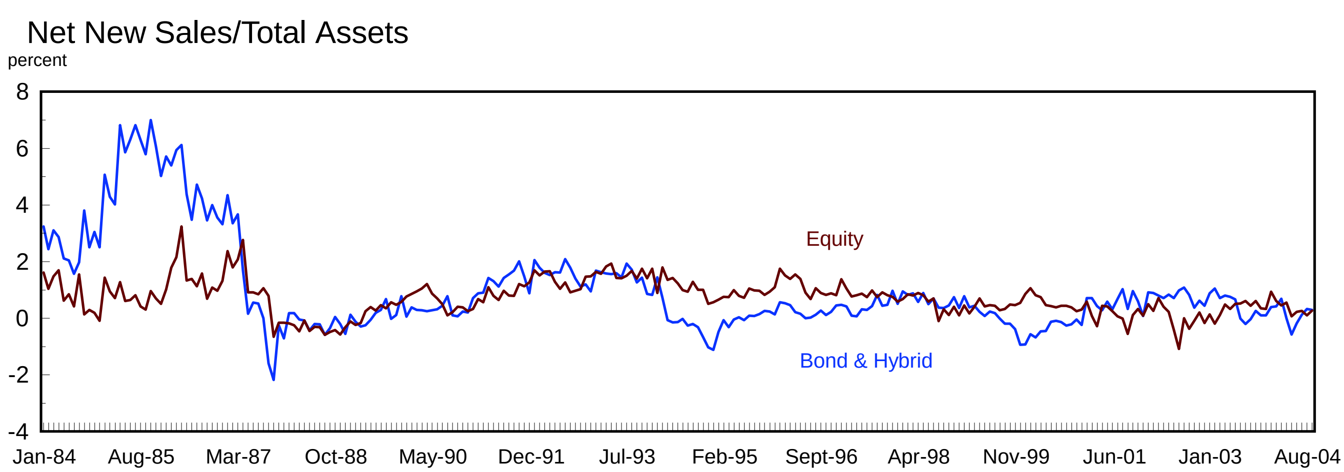
Please contact Maria Giduskova for questions and comments at Maria.Giduskova@bos.frb.org, or by phone at (617) 973-3198

Figure 1
Sales of Mutual Funds







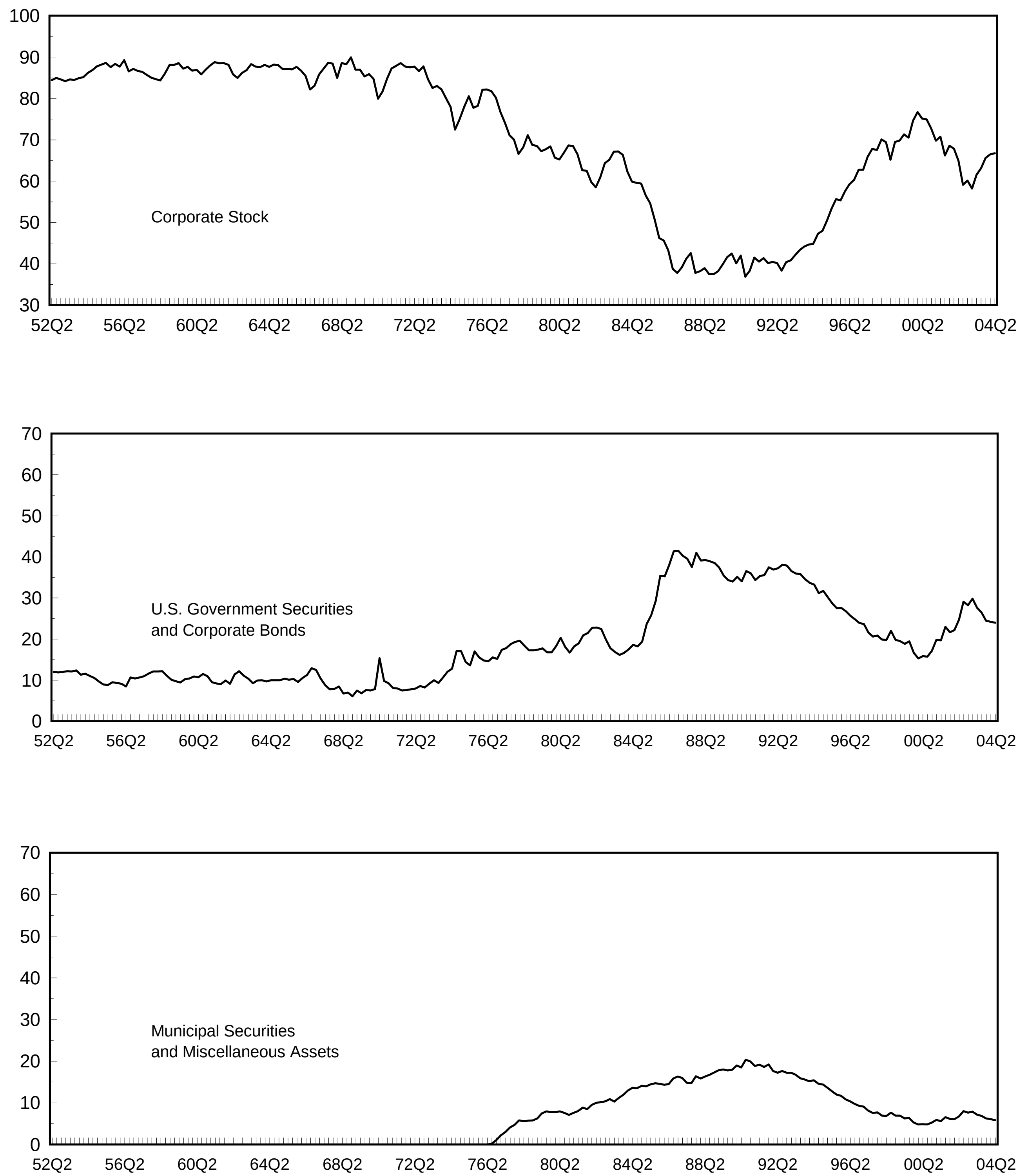


Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)

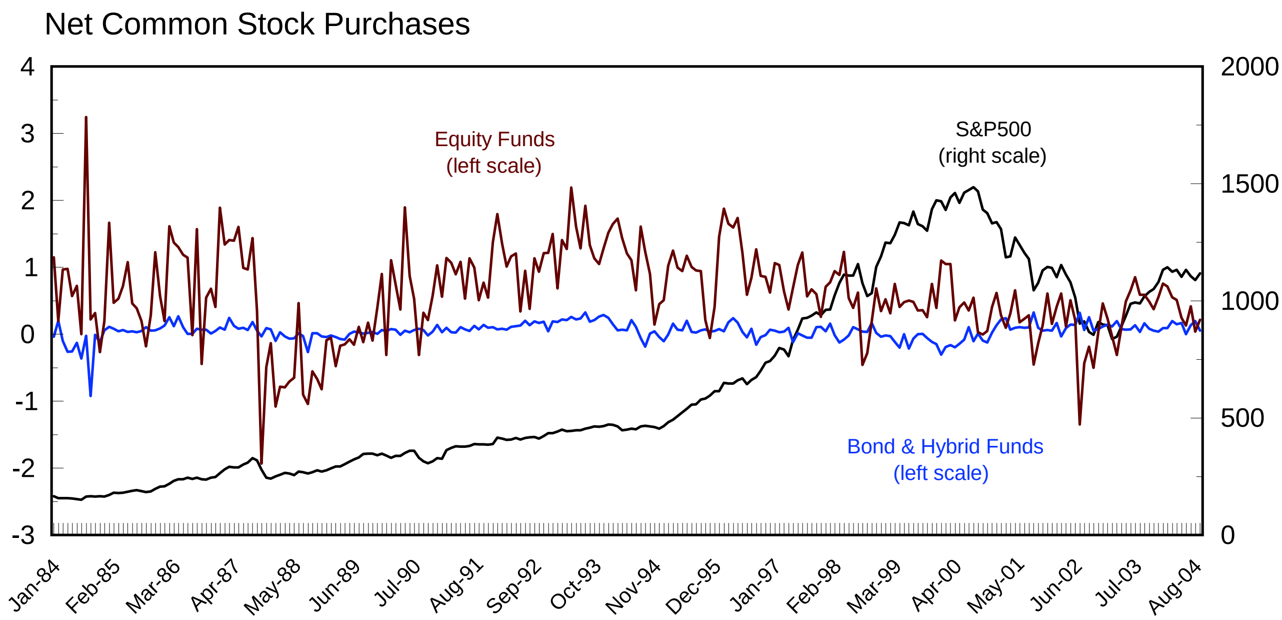


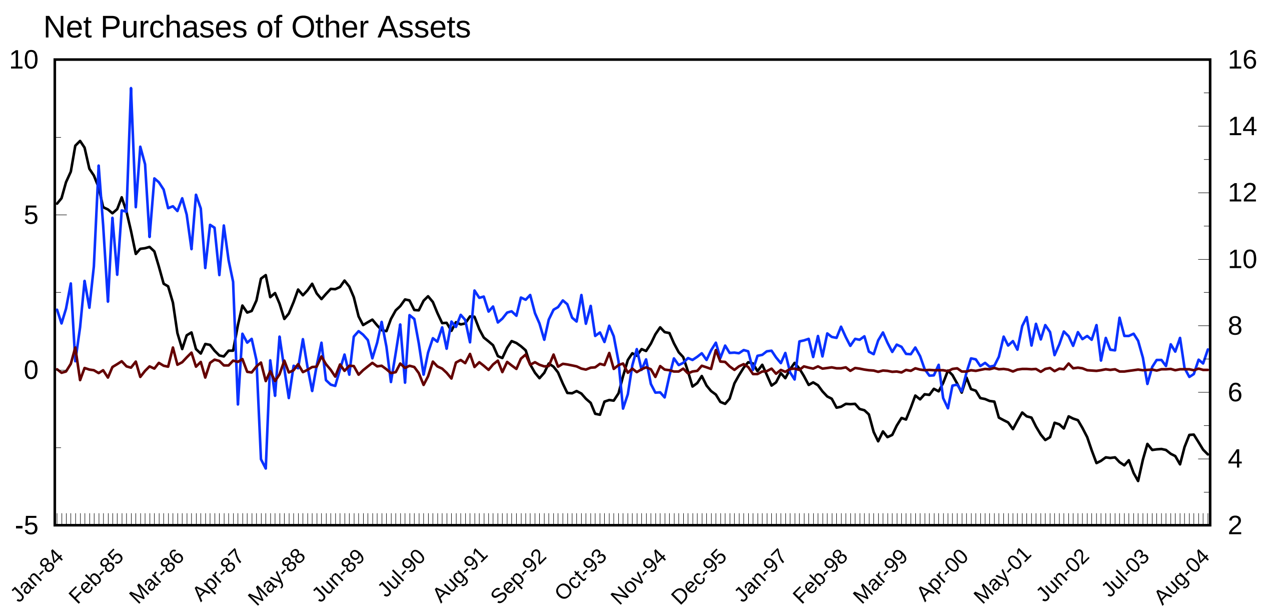
Source: Flow of Funds, Haver Analytics0

Figure 3

Net Portfolio Purchases

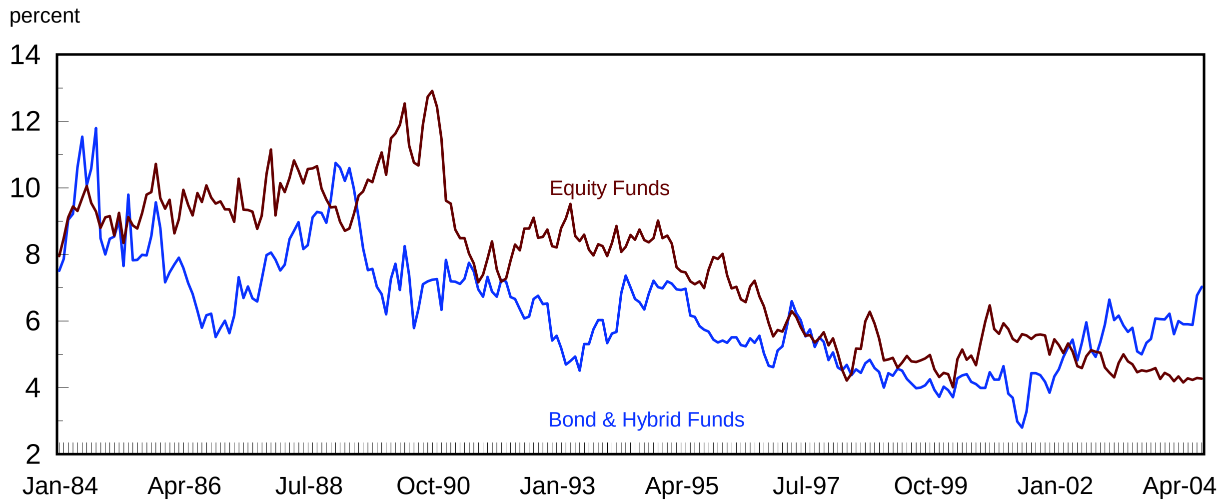
(percent of Total Assets)



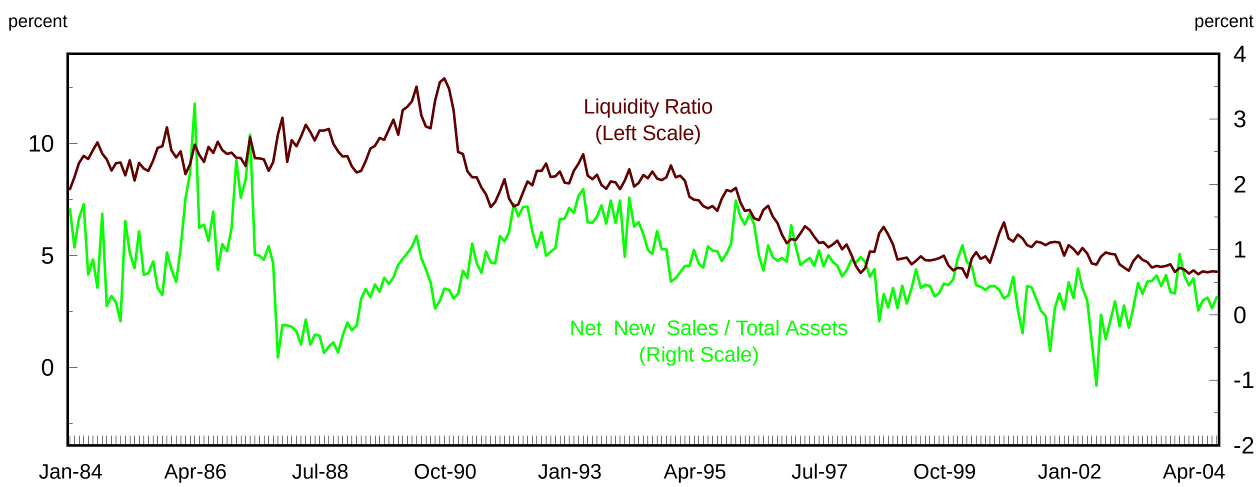


Source: Investment Company Institute

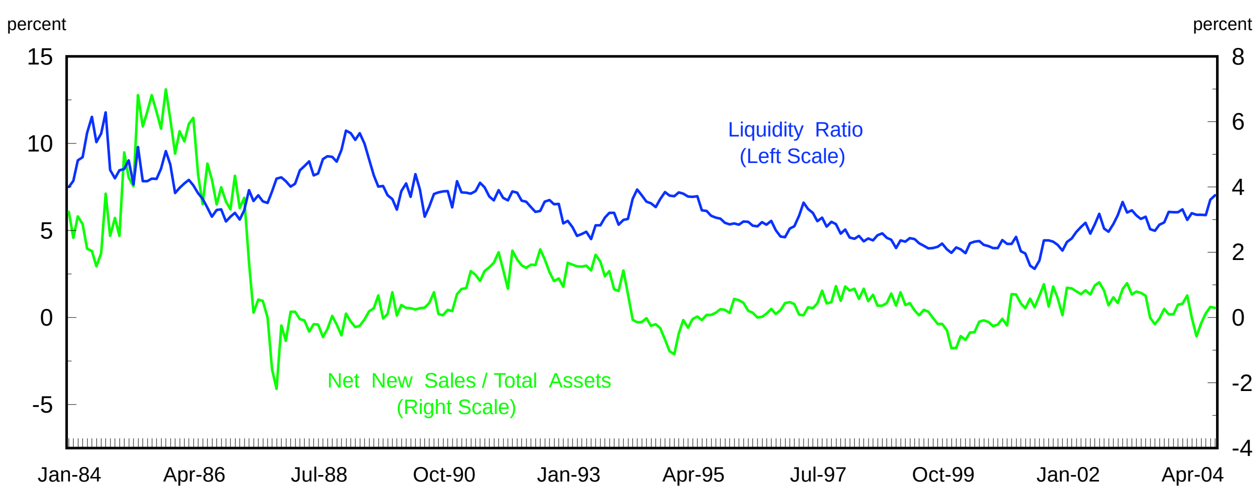
Figure 4
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



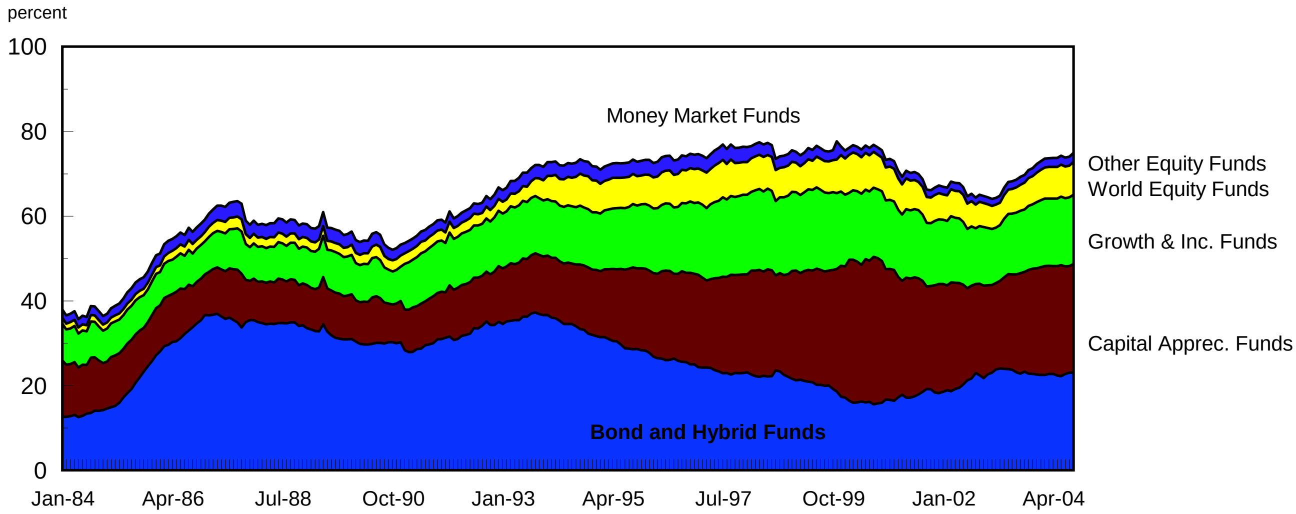
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

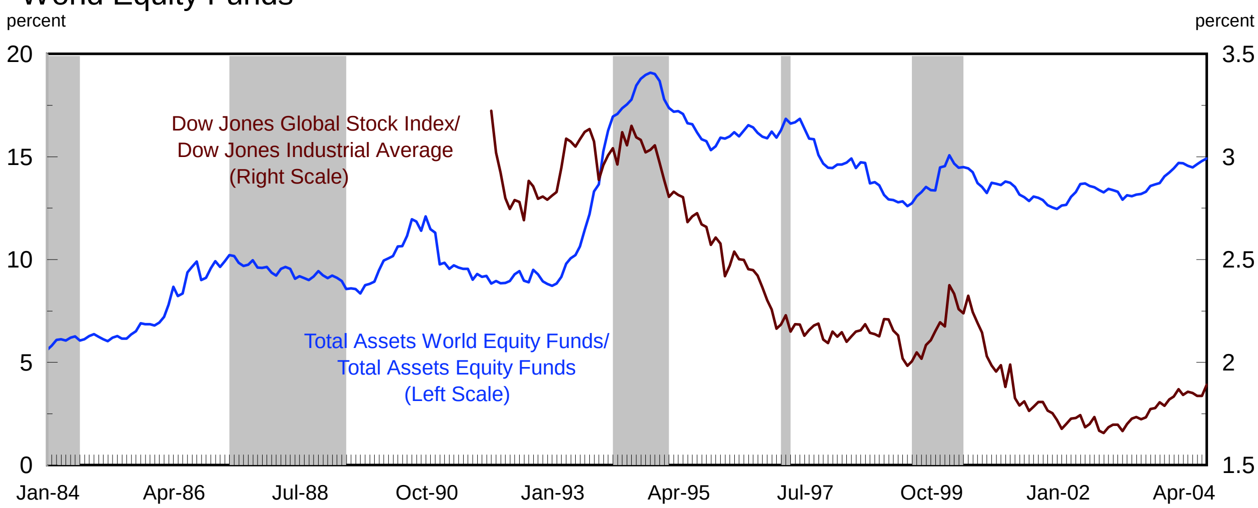
Figure 5

Industry Composition

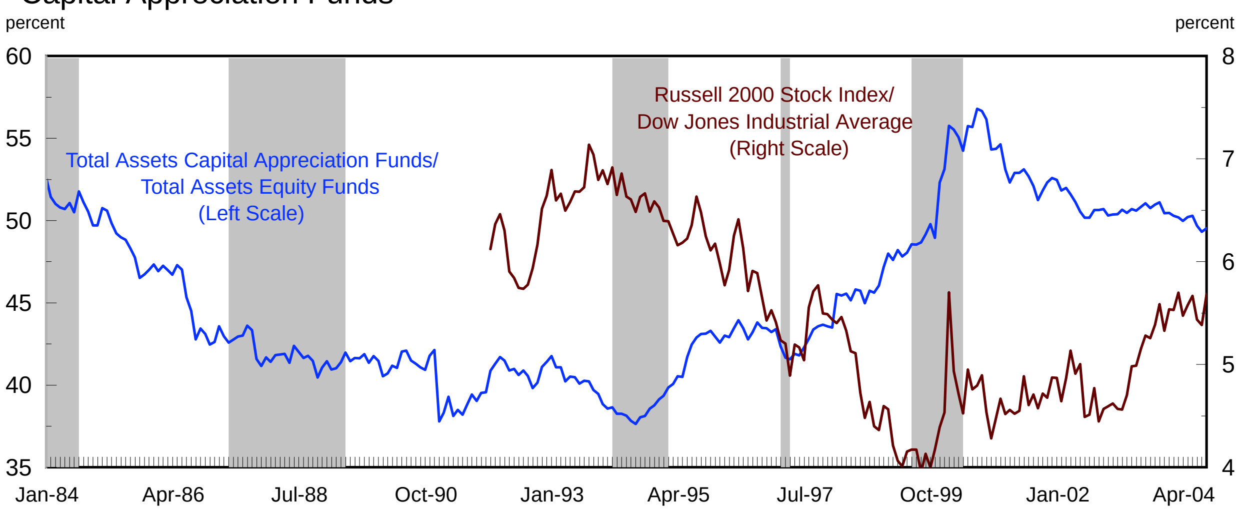
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

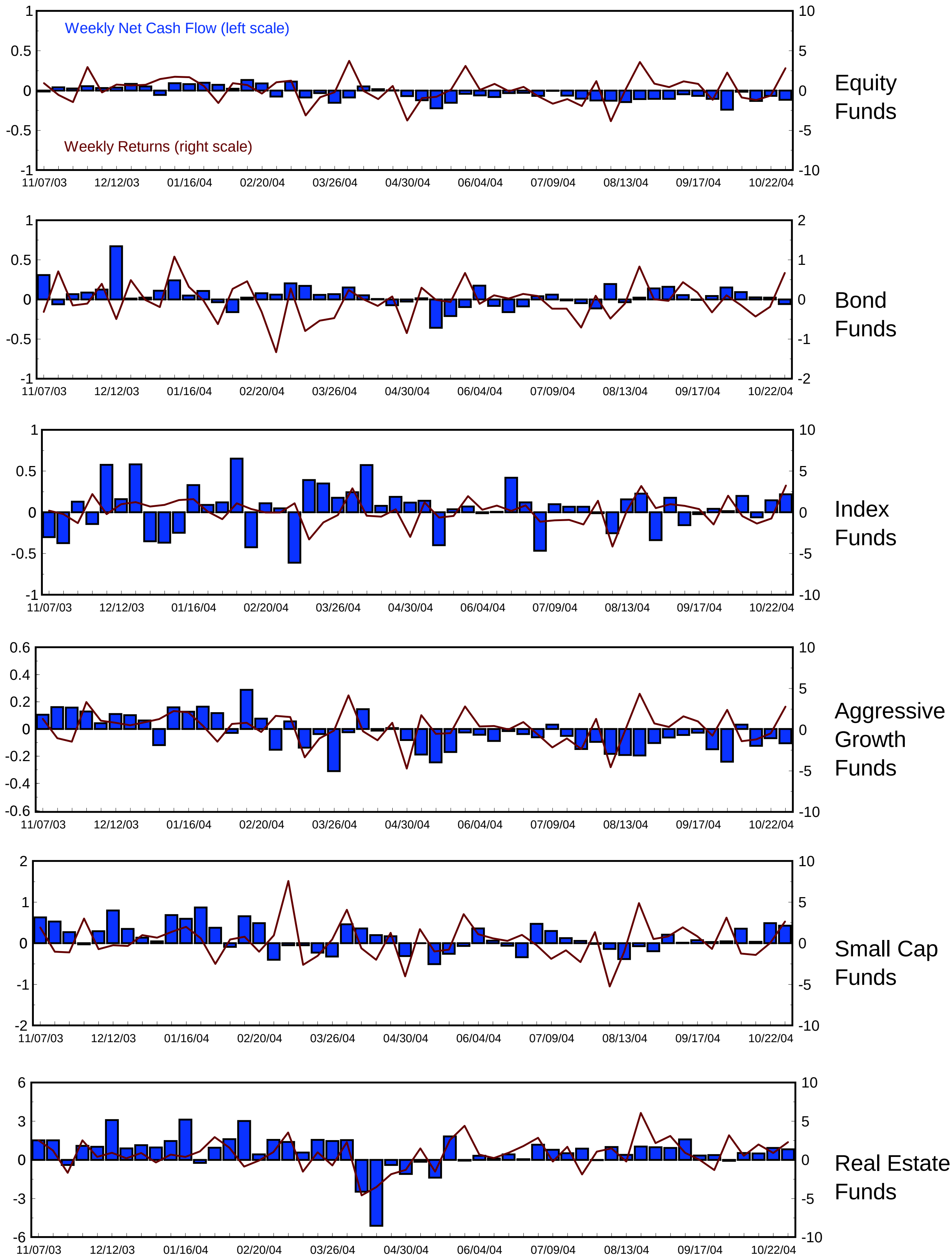


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

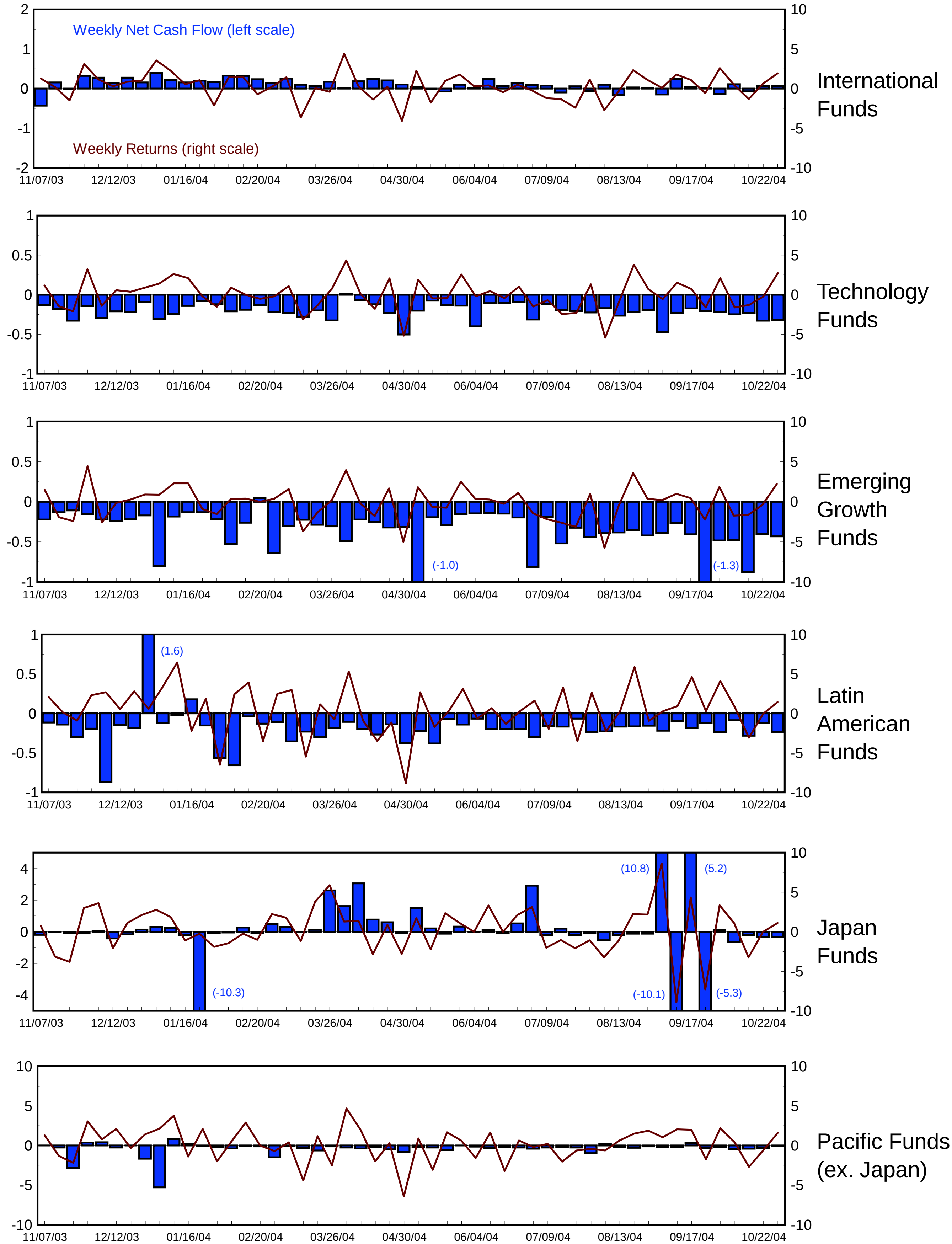


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

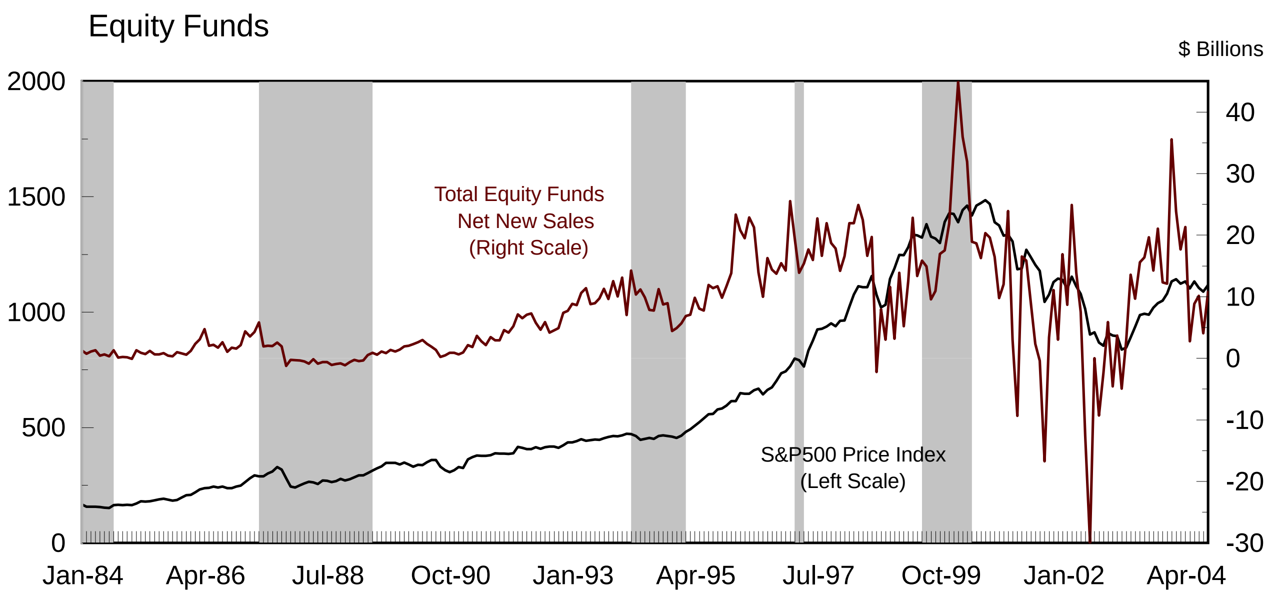


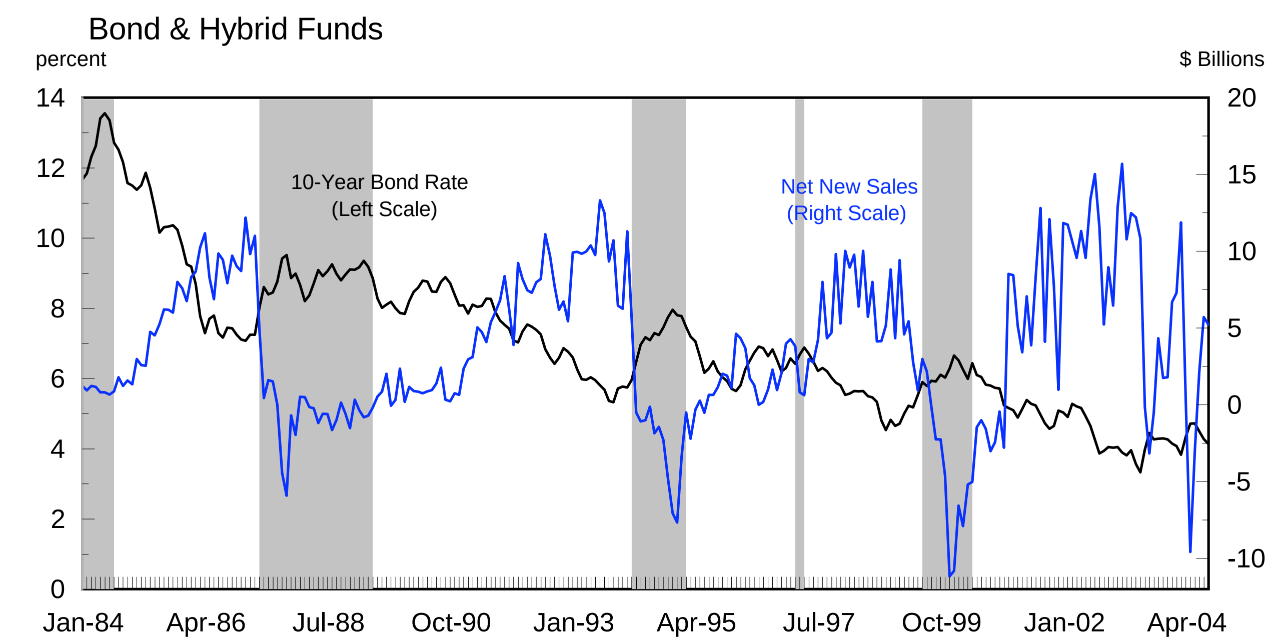
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

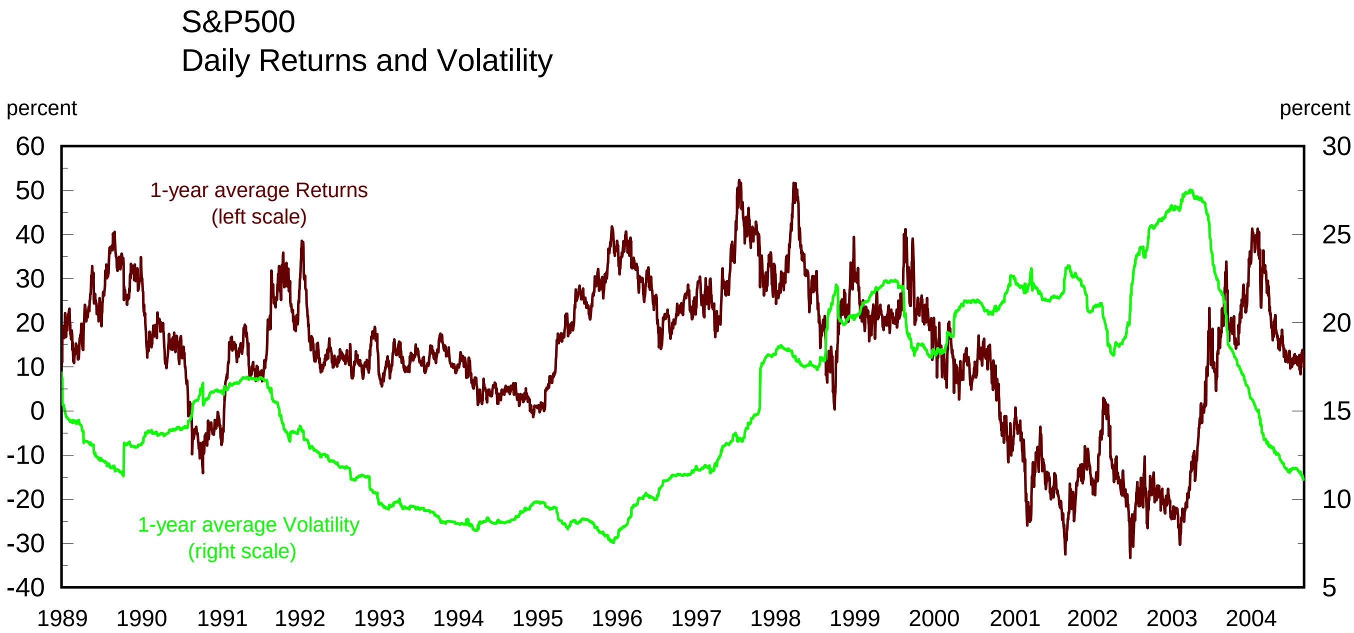
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

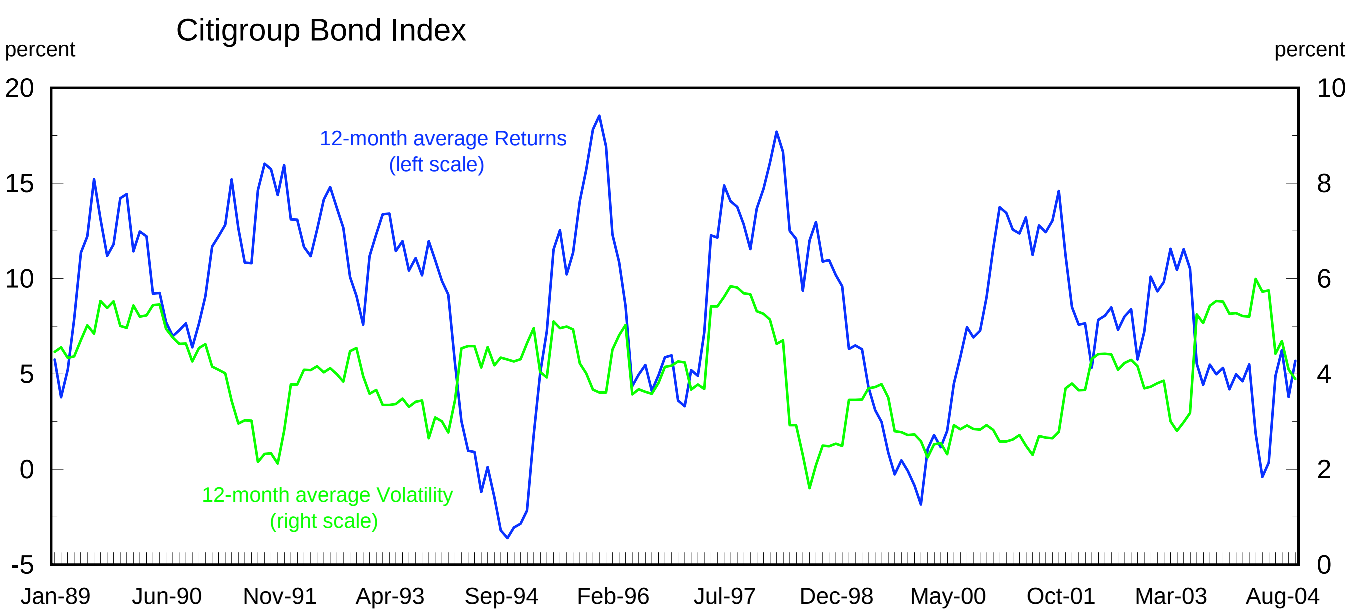




Source: Investment Company Institute

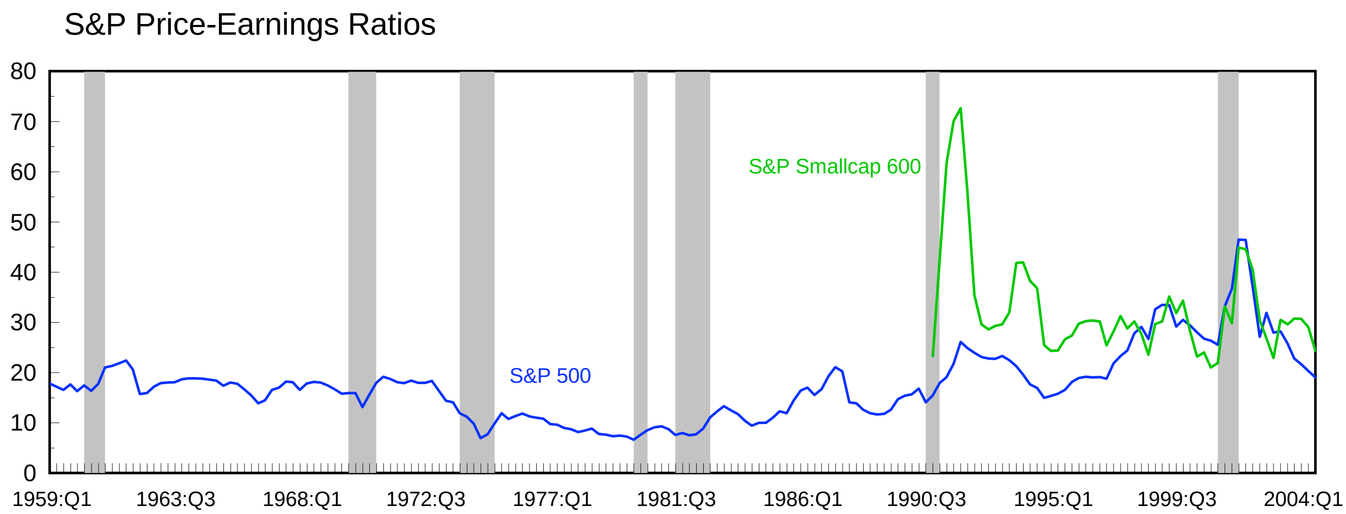
Figure 8
Capital Market Returns and Volatility

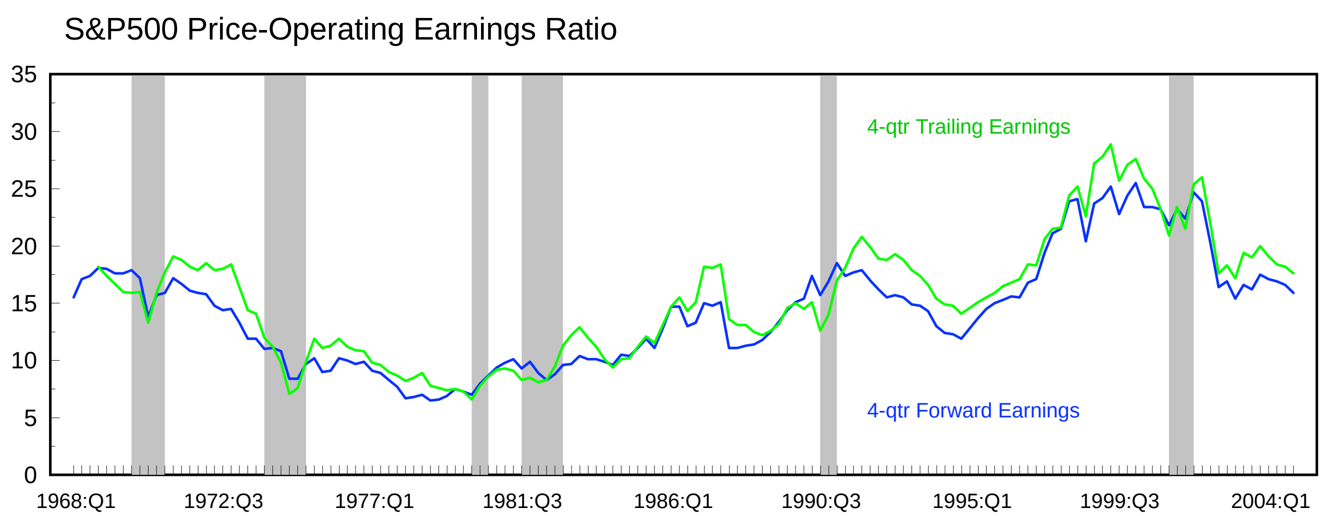


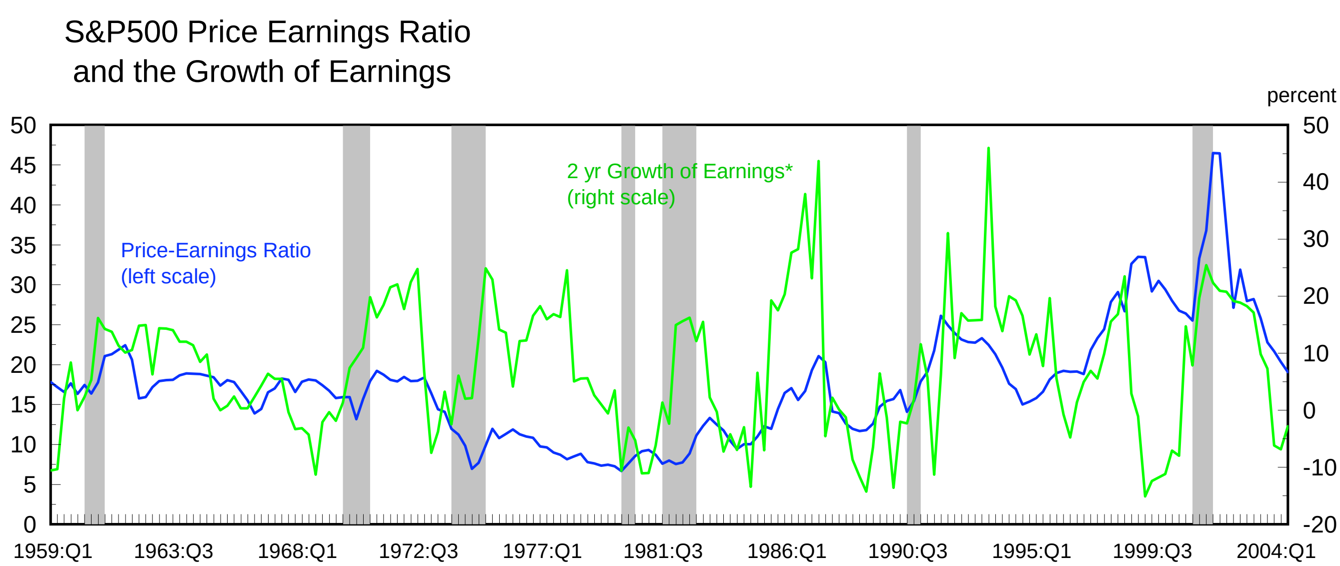


Source: FAME Database, Citigroup

Figure 9



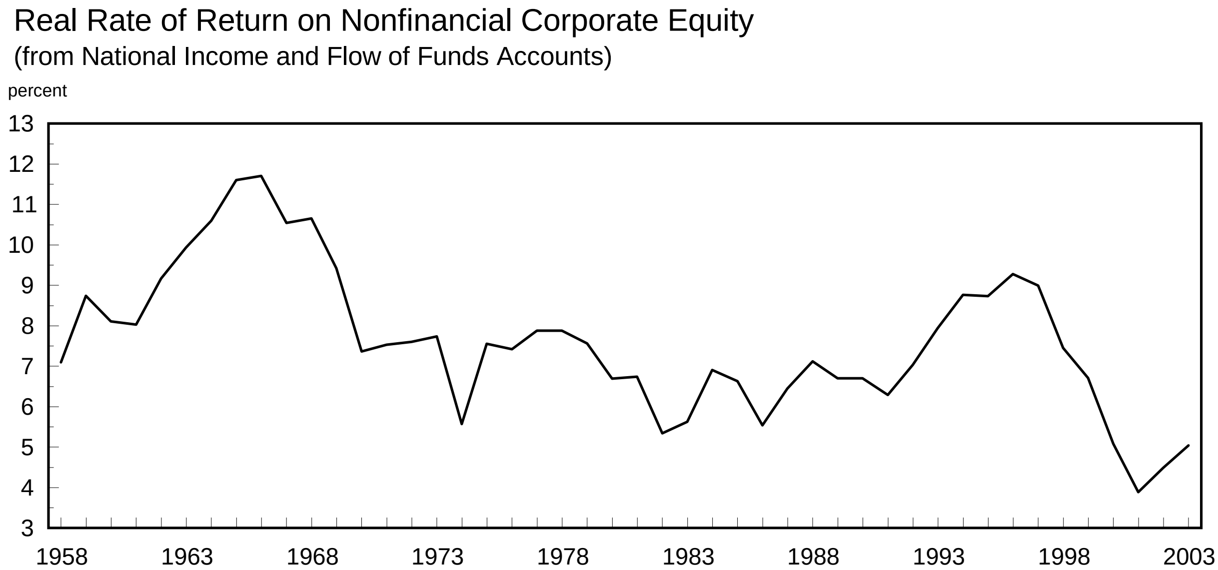


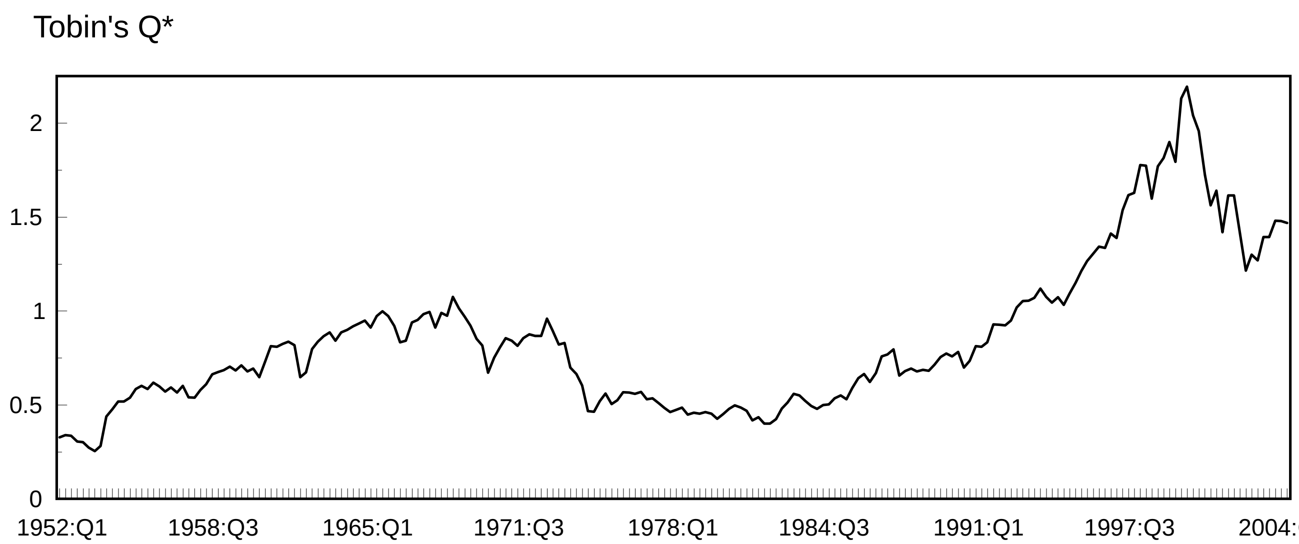


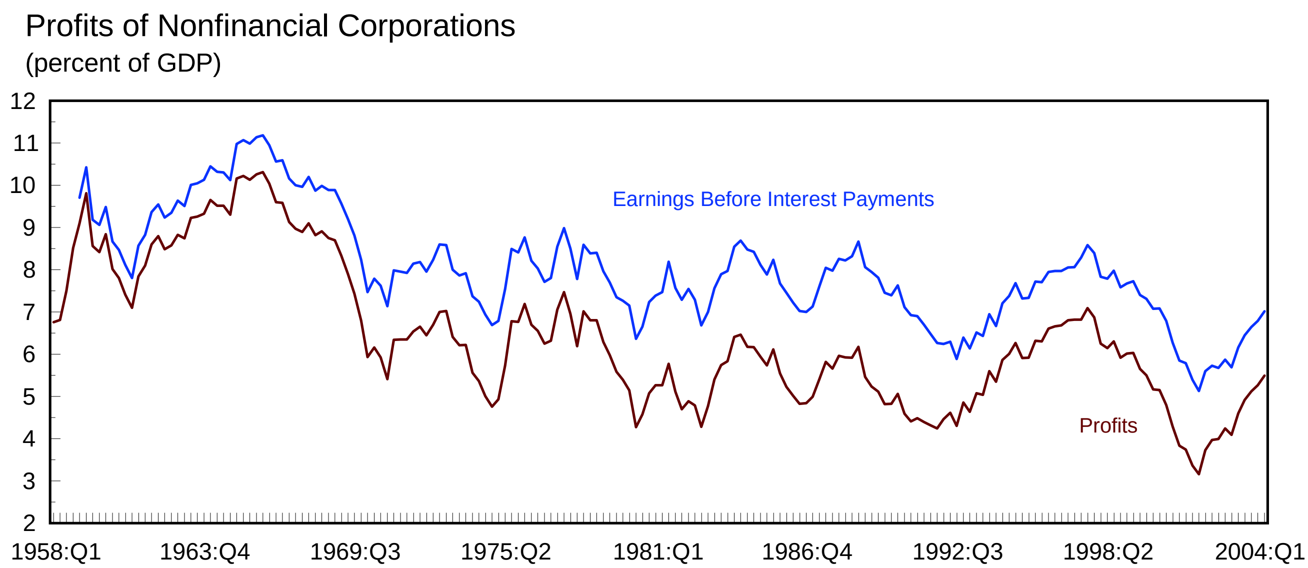
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

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

Figure 10







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

Source: Flow of Funds, Haver Analytics