October 4, 2002

Monthly Mutual Fund Report

Statistics for August-September 2002

Sales and Redemptions

Total assets for all funds increased in August by $10.4 billion, or 0.2 percent, to $6.4 trillion. Money market funds had a net cash outflow of $38.4 billion compared to an inflow in July of $54.6 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $15.0 billion, compared to an outflow of $29.2 billion in July. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $114.3 billion in August, down from $122.8 billion in July. The value of non-money market assets appreciated by $28.2 billion in August, following a depreciation of $283.6 billion in July.

Total assets of **equity funds** increased by $11.7 billion, or 0.4 percent, to $2.78 trillion. There was a $2.9 billion net cash outflow from equity funds in August, compared with an outflow of $52.6 billion in July. Year-to-date, equity funds have a net cash outflow of $2.4 billion, compared to a $43.1 billion inflow for the same period in 2001. The market value of assets appreciated by $14.0 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 1.3 percent, or $4.2 billion, to $324.9 billion. In August, there was a $0.5 billion net cash inflow for these funds for a total of $8.8 billion in 2002, exceeding the inflow of $7.2 billion in the first two-thirds of last year.

Bond funds experienced a cash inflow of $17.4 billion, while their total assets increased by $30.9 billion, to $1.06 trillion. The market value of bond funds assets increased by $10.8 billion, after adjusting for net sales and reinvested dividends. The assets of tax-exempt funds increased by 2.1 percent while the assets of taxable bond funds increased by 3.4 percent. There has been a net inflow into bond funds of $103.8 billion in 2002, compared to $61.6 billion in the same period in 2001.

Assets of taxable and tax-exempt **money market funds** decreased $36.4 billion, to $2.2 trillion, a decrease of 1.7 percent for taxable money market funds and 0.3 percent for tax-exempt funds. Compared to a net cash inflow of $213.3 billion in the first eight months of 2001, money market funds have an outflow of $94.8 billion so far this year.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 5.3 to 5.9 percent, while the ratio for equity funds decreased from 4.6 to 5.0 percent (figure 4).

Weekly Flows

In September, there were outflows from equity funds of 0.5 percent of total assets, with losses of 6.0 percent. Bond funds had inflows of 0.3 percent and losses of 0.3 percent for the month.

Index funds had monthly outflows of 0.4 percent and returns of 0.8 percent. Aggressive growth funds had monthly outflows of 0.7 percent and losses of 4.4 percent. Small-cap funds had outflows of 0.8 percent and returns of 0.4 percent.

There were inflows to international funds in September of 0.6 percent of assets and losses of 7.1 percent. Latin America funds had outflows of 0.8 percent and losses of 8.7 percent. Japan funds had outflows of 4.8 percent and losses of 1.4 percent of assets for the month of September. Pacific funds that do not invest in Japan had outflows of 0.7 percent and losses of 7.4 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended September at 815.28, a decrease of 11.0 percent from the beginning of the month. The 12-month loss was 18.9 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 23.8 percent.

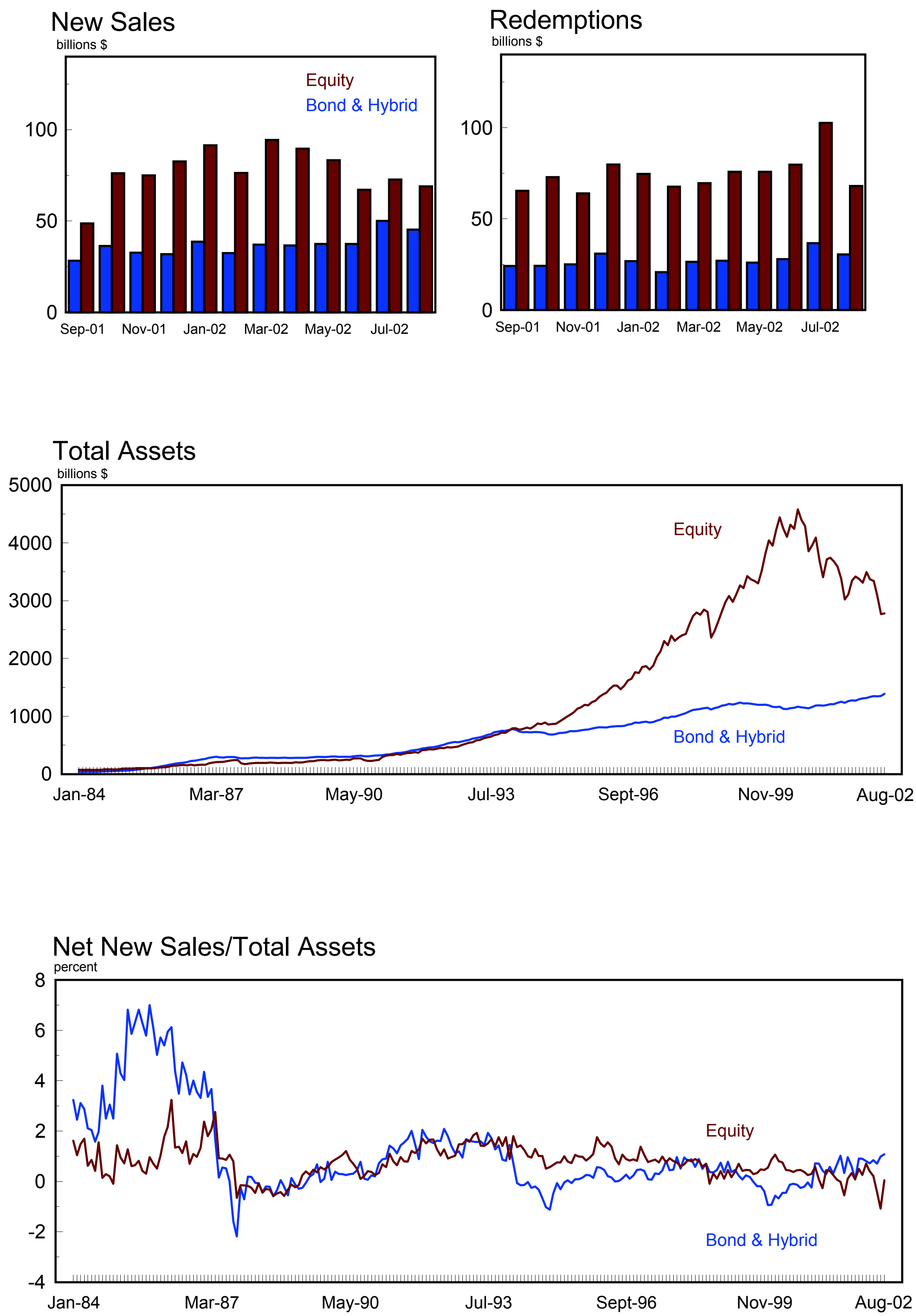
The 12-month average return on the Citigroup (formerly Solomon Brothers) Bond Index was 8.4 percent for September. Volatility increased to 4.11 percent (figure 8).

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 37.0 percent, far above the 6.3 percent historical average annual growth rate. The trailing price-operating earnings ratio decreased from 22 in the second quarter to 18.8 for the third quarter, while the forward price-operating earnings ratio decreased from 18.2 in the second quarter to 16.1 during the third quarter of 2002 (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.

For more information please contact Matthew S. Rutledge (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)

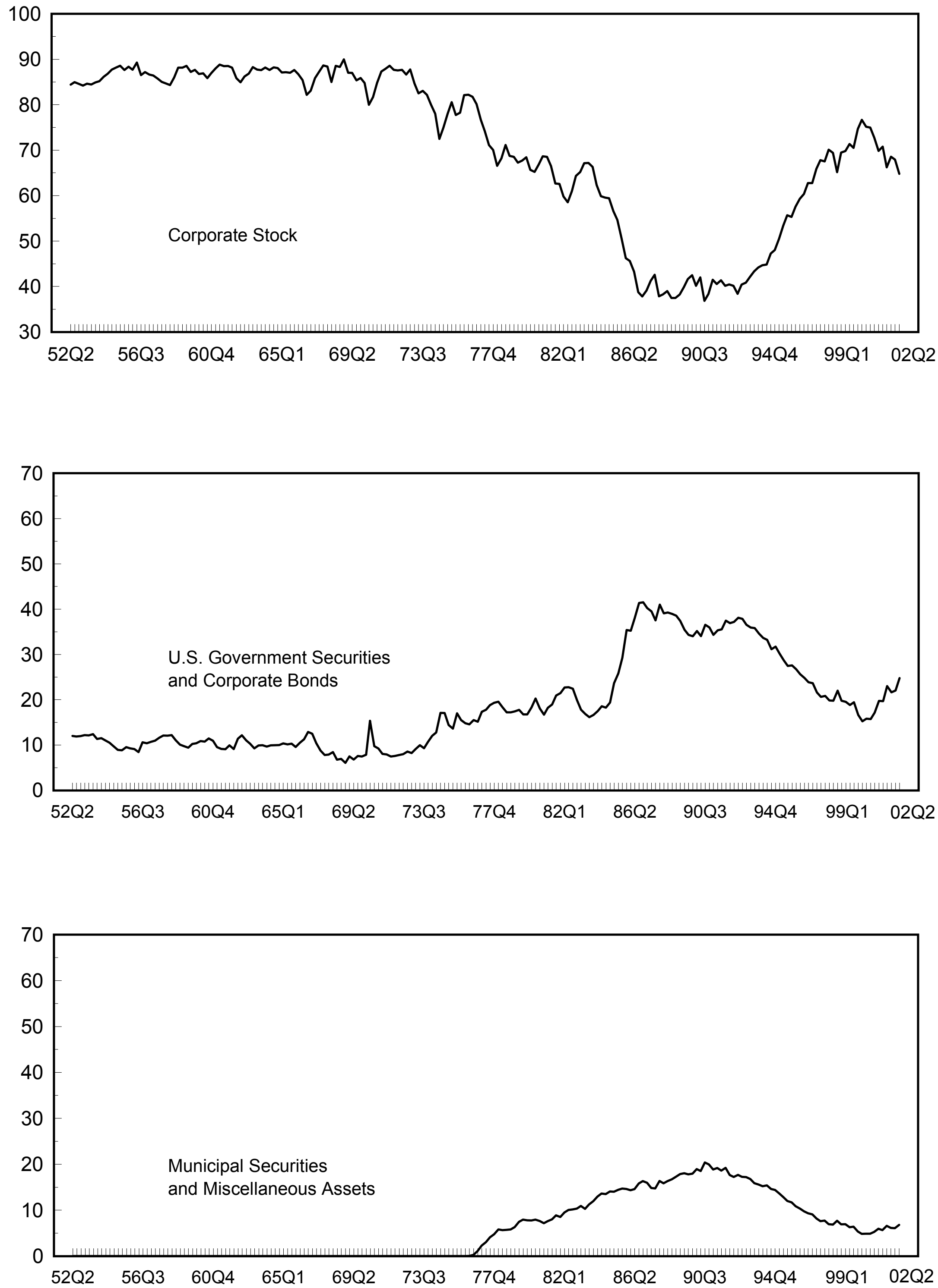
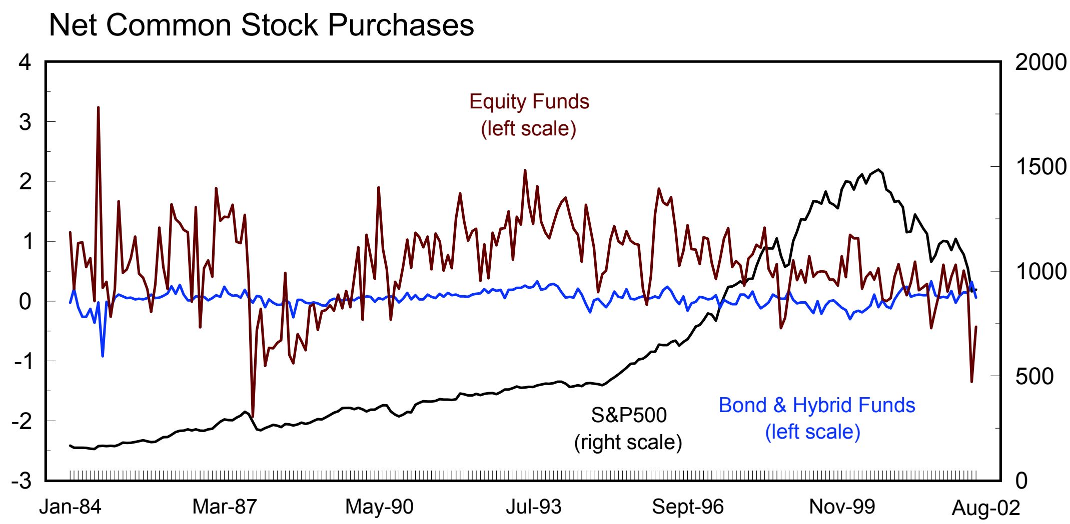


Figure 3

Net Portfolio Purchases

(percent of Total Assets)



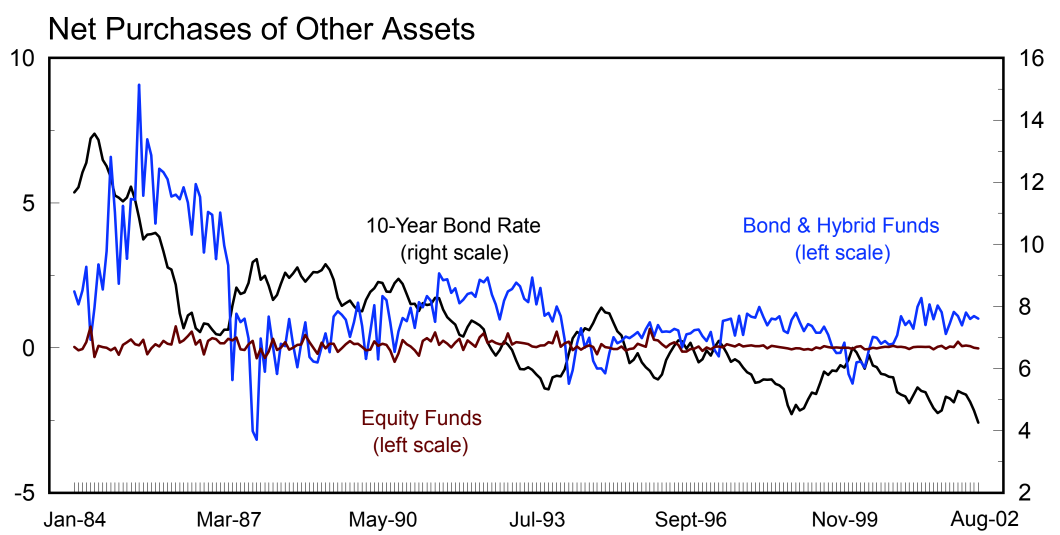
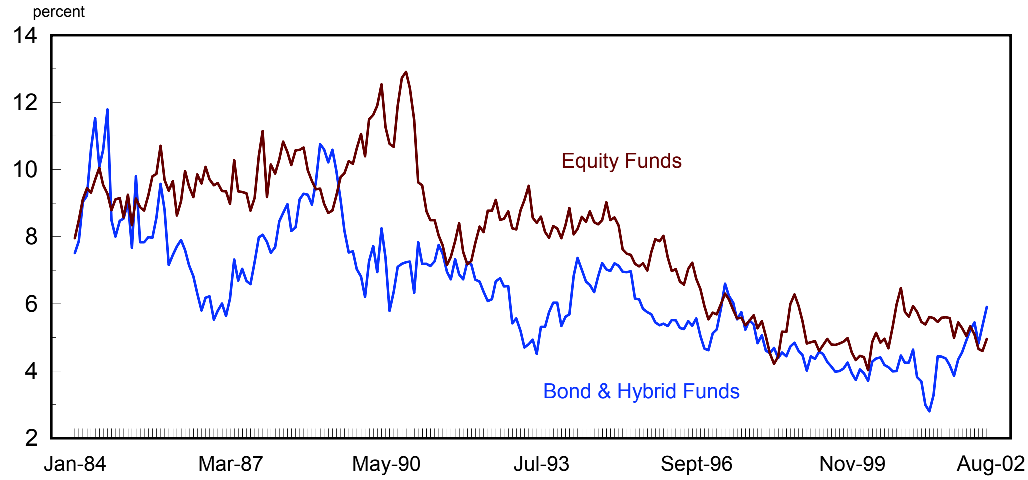
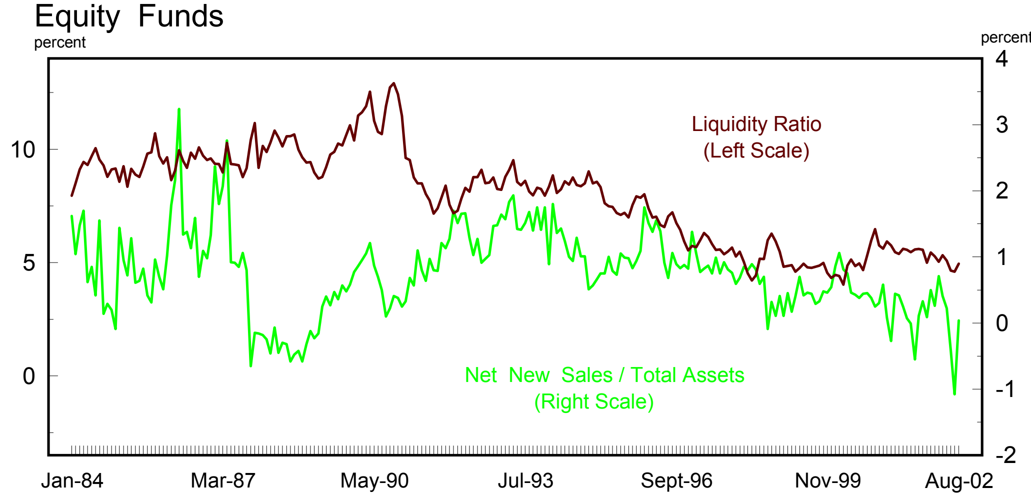


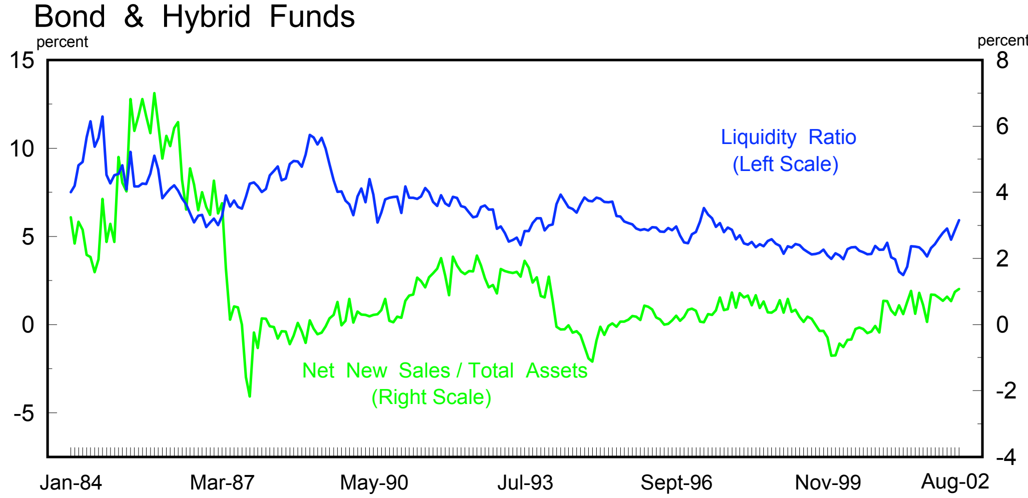
Figure 4
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



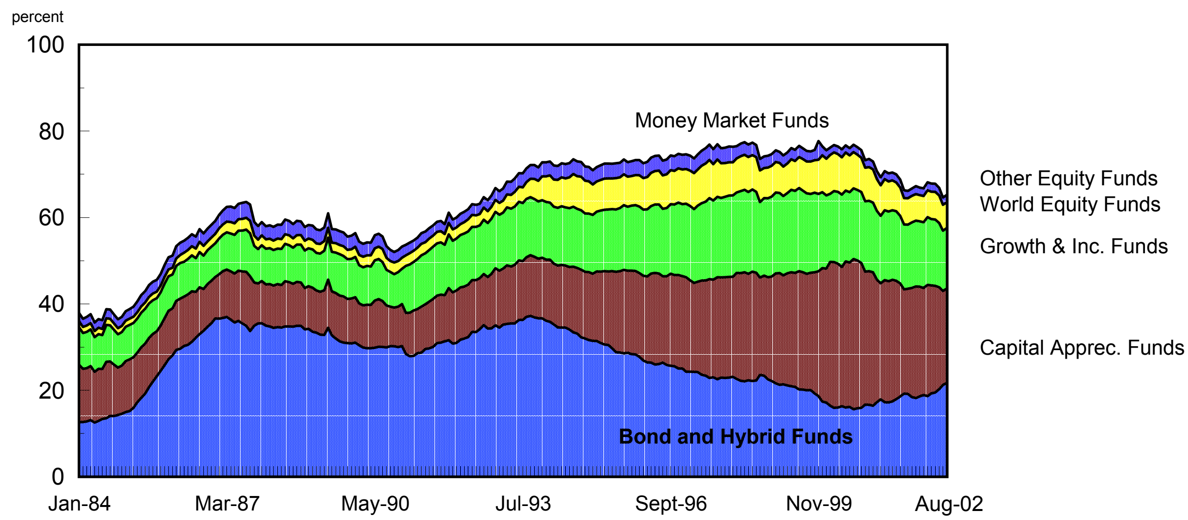
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

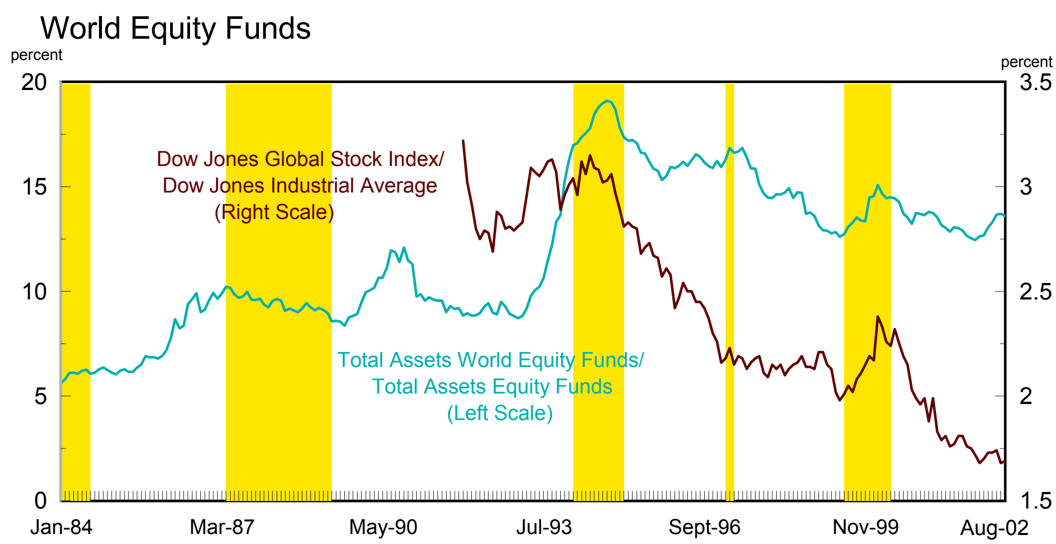
Source: Investment Company Institute

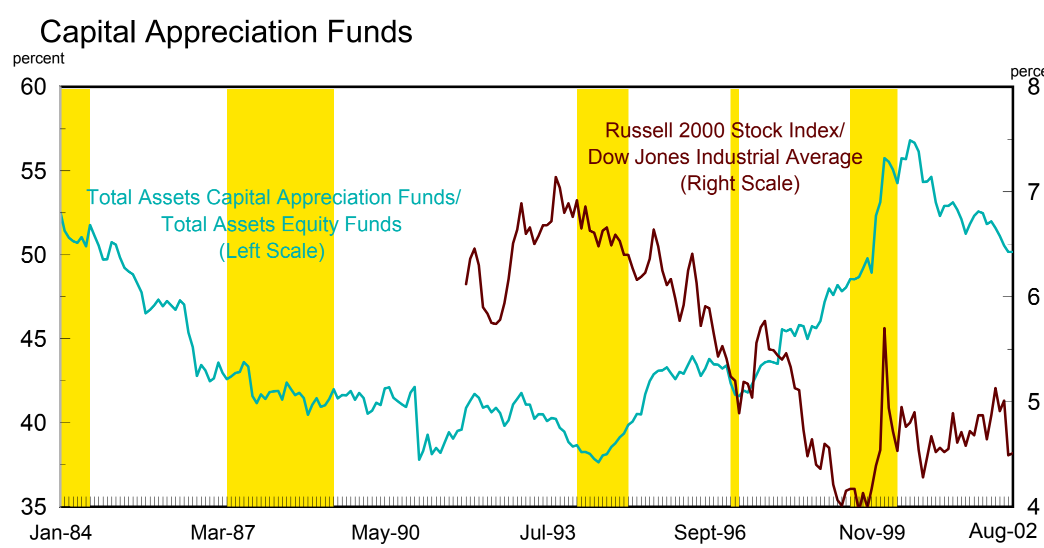
Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)





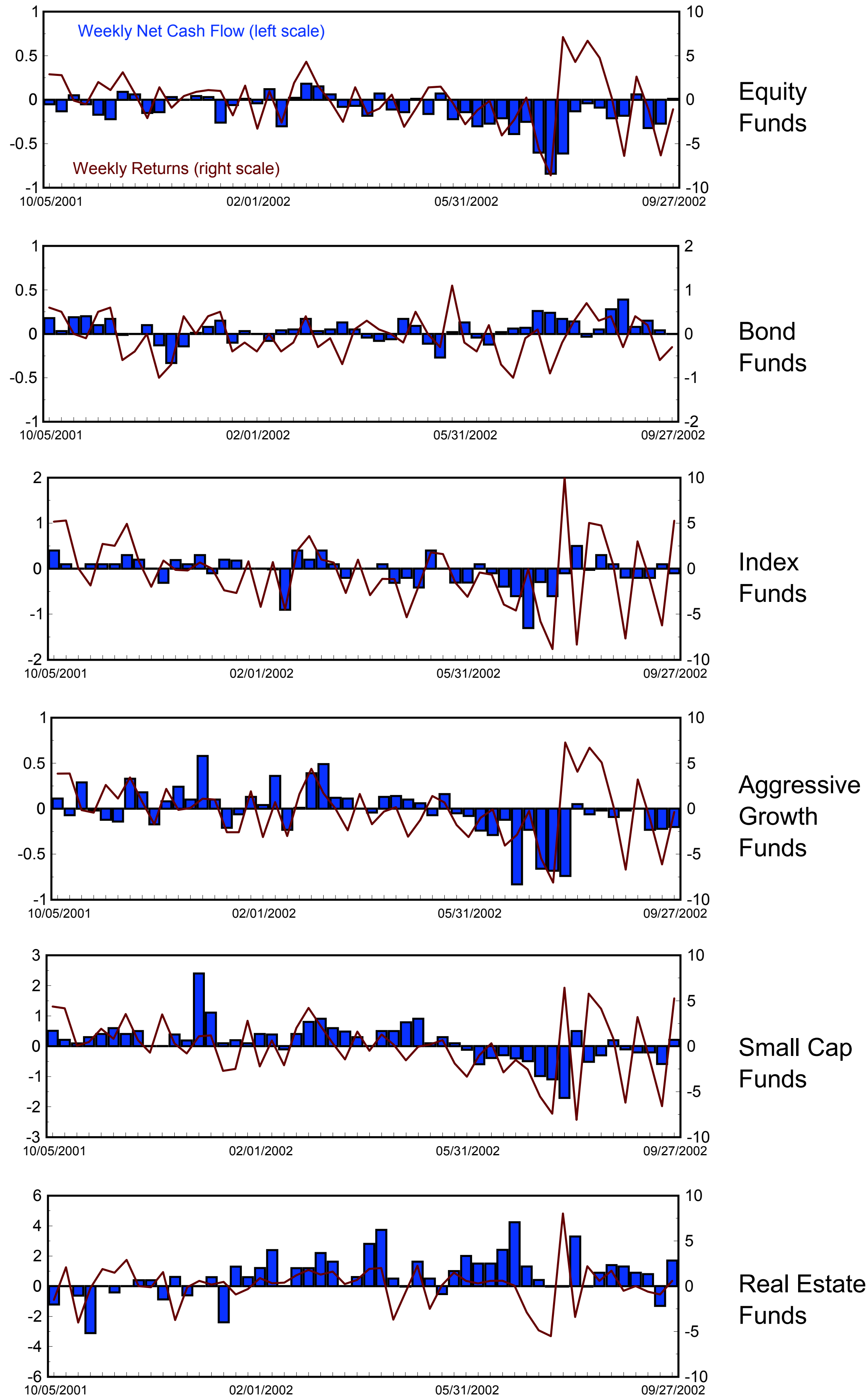


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

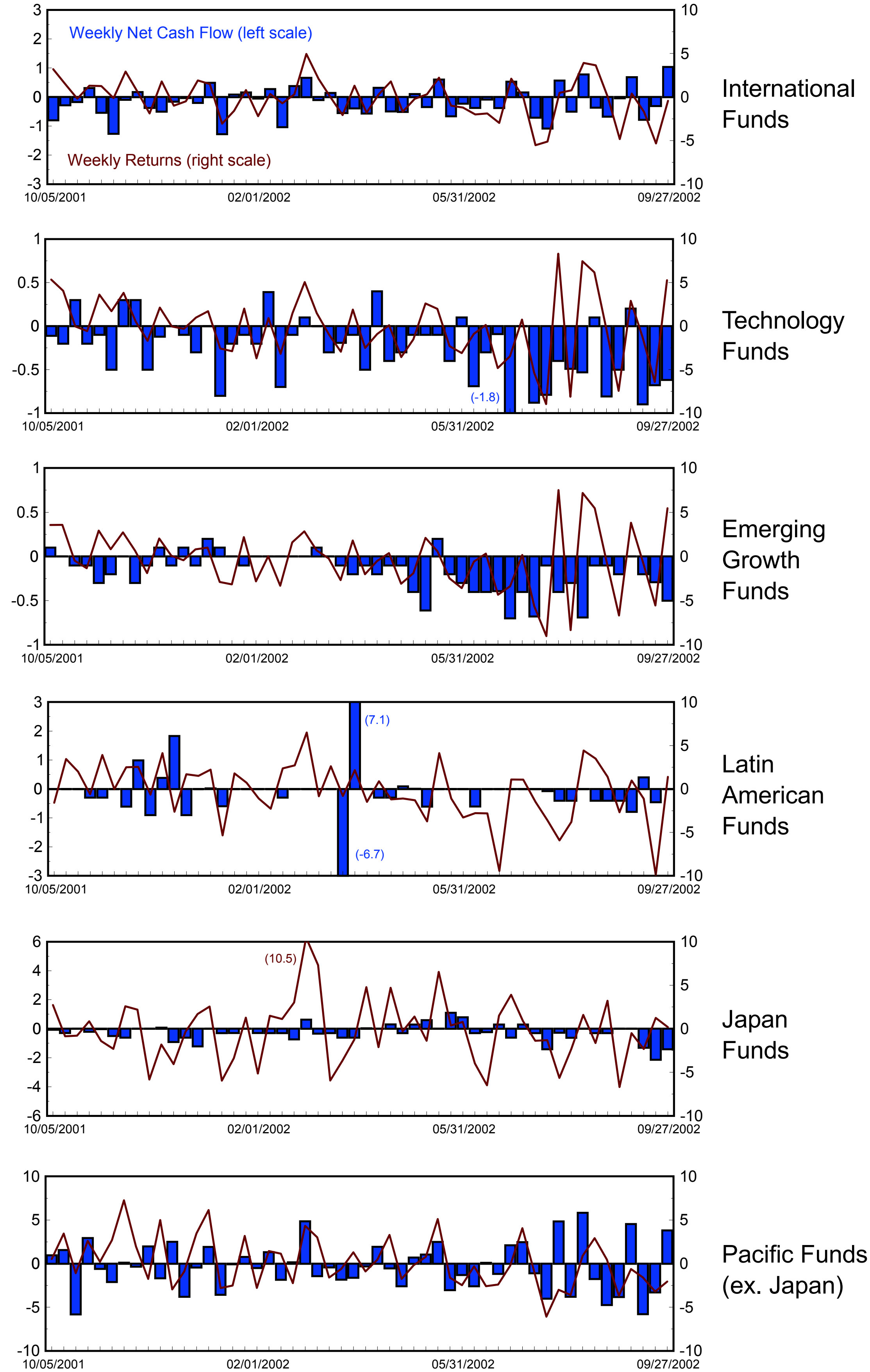


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

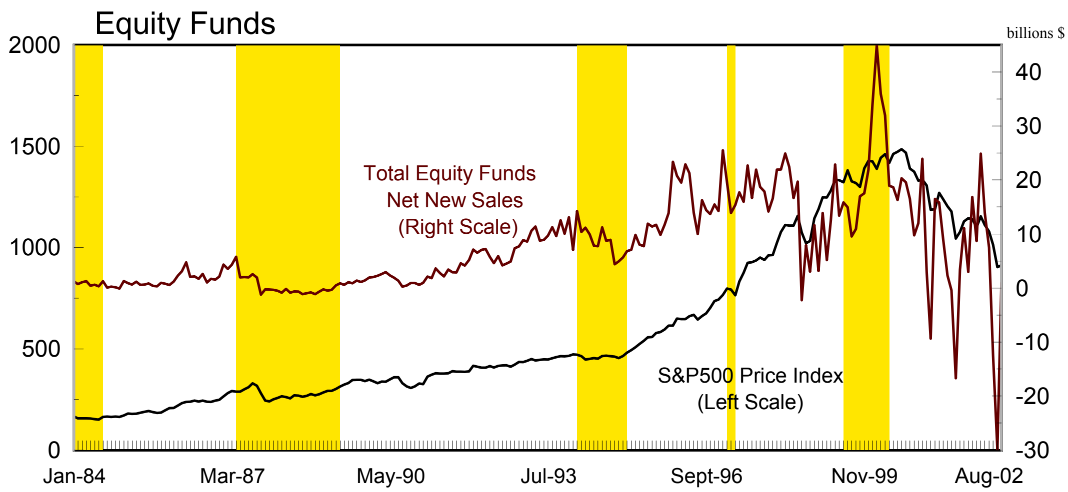


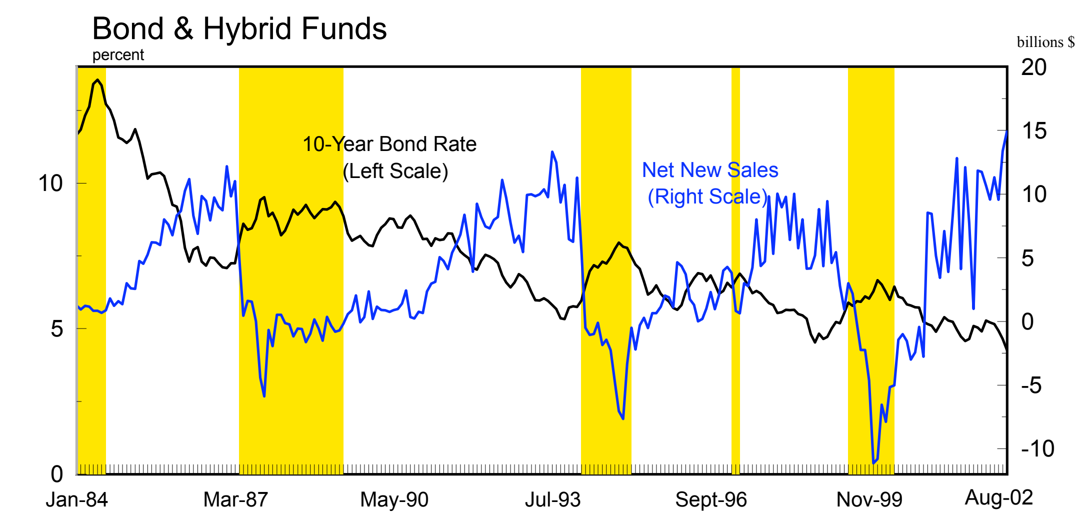
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

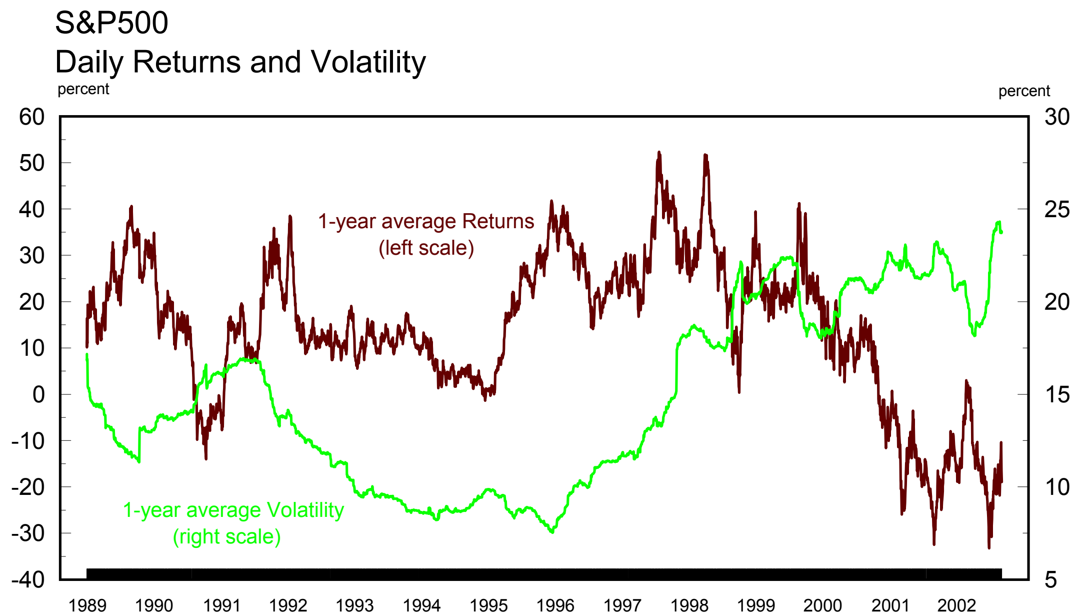
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)





Source: Investment Company Institute

Figure 8
Capital Market Returns and Volatility



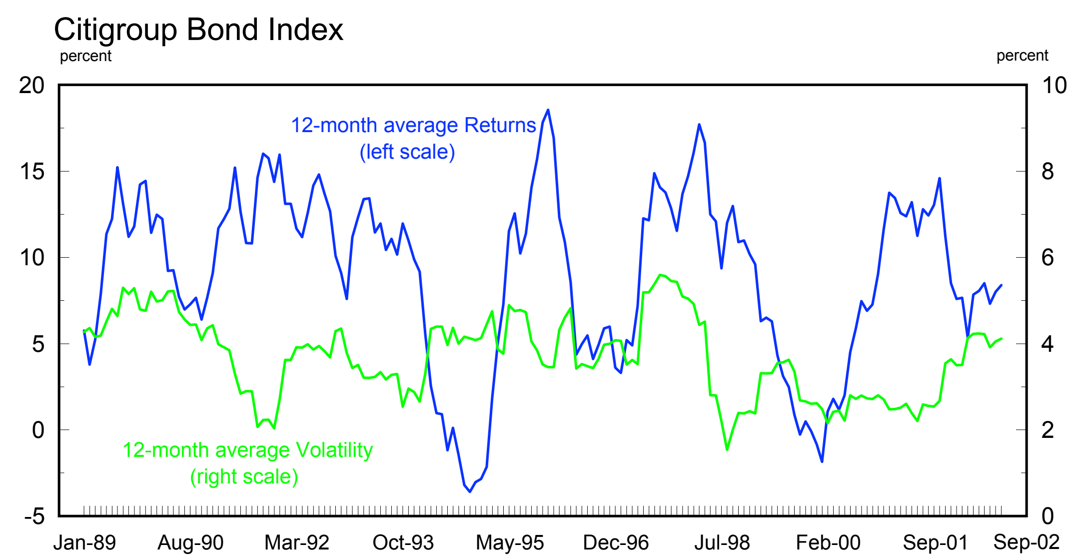
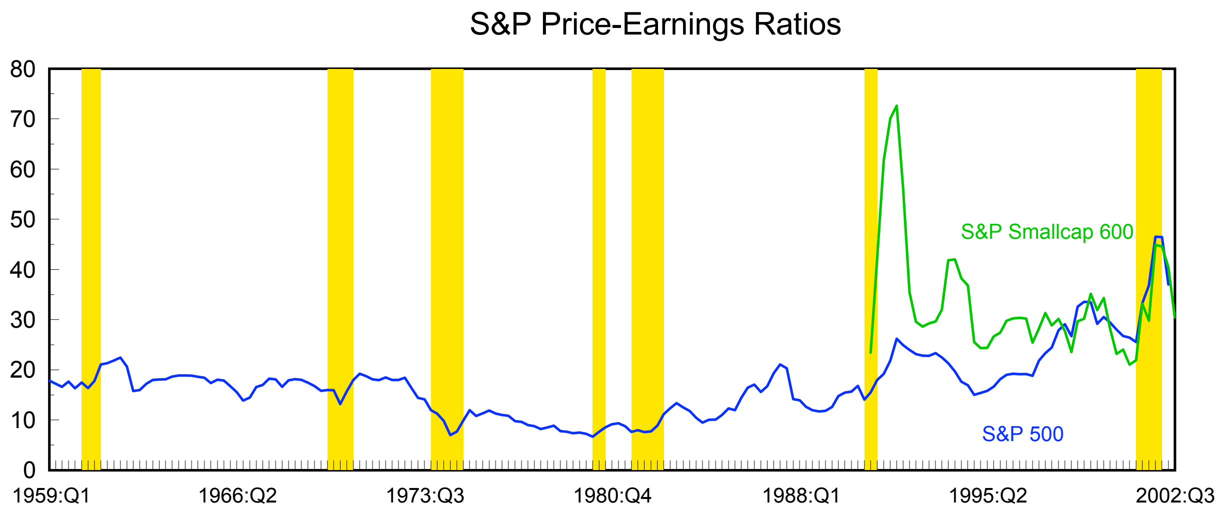
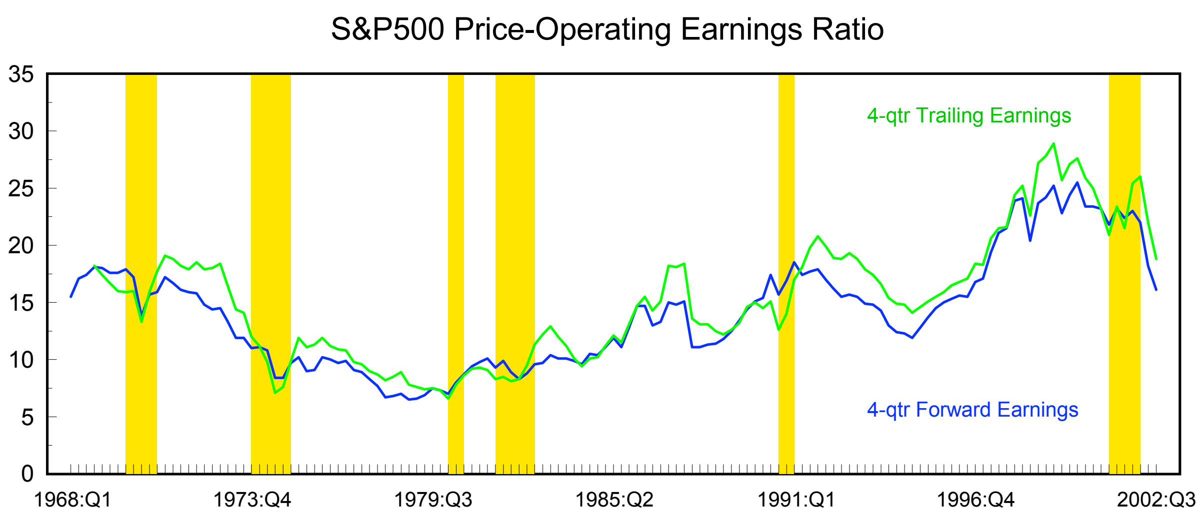
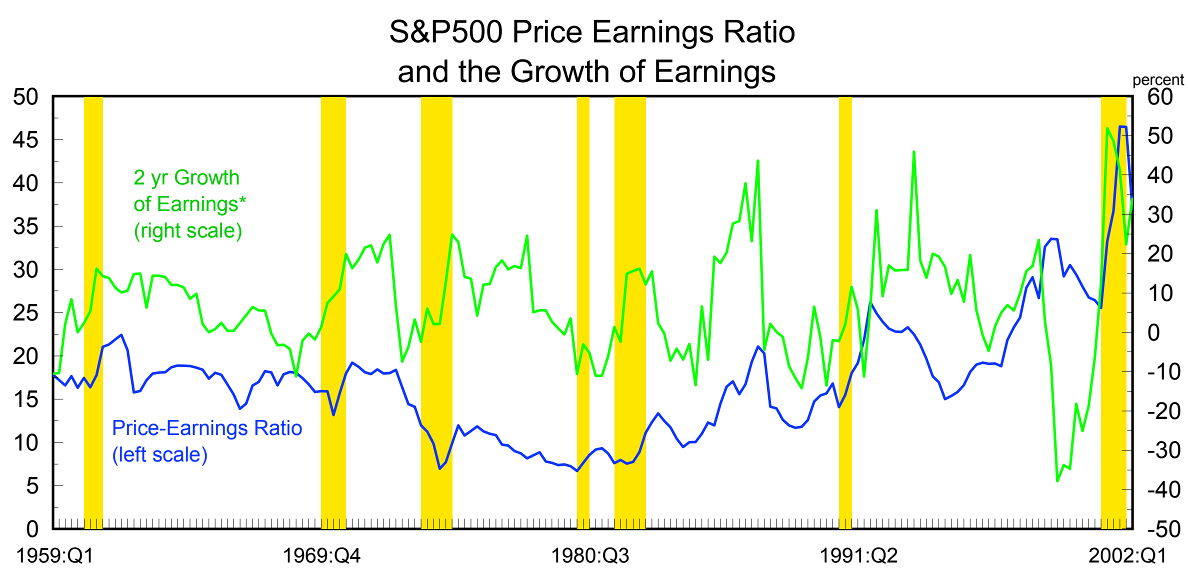


Figure 9







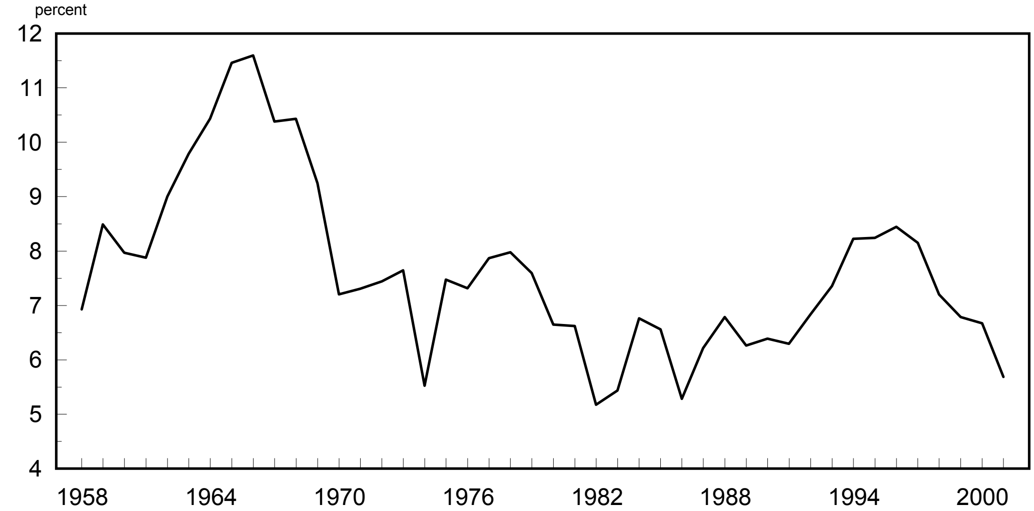
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

source: First Call, DRI, Bloomberg

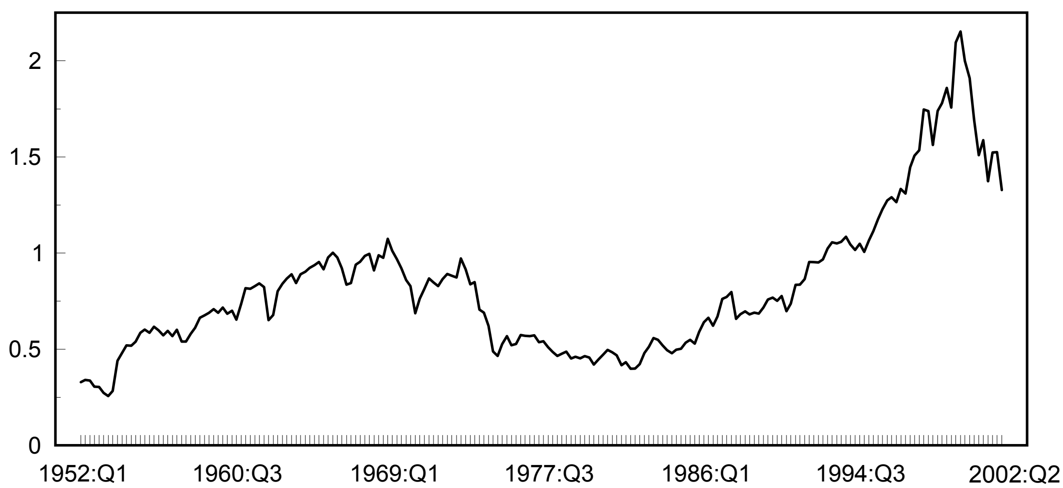
Figure 10

Real Rate of Return on Nonfinancial Corporate Equity

(from National Income and Flow of Funds Accounts)

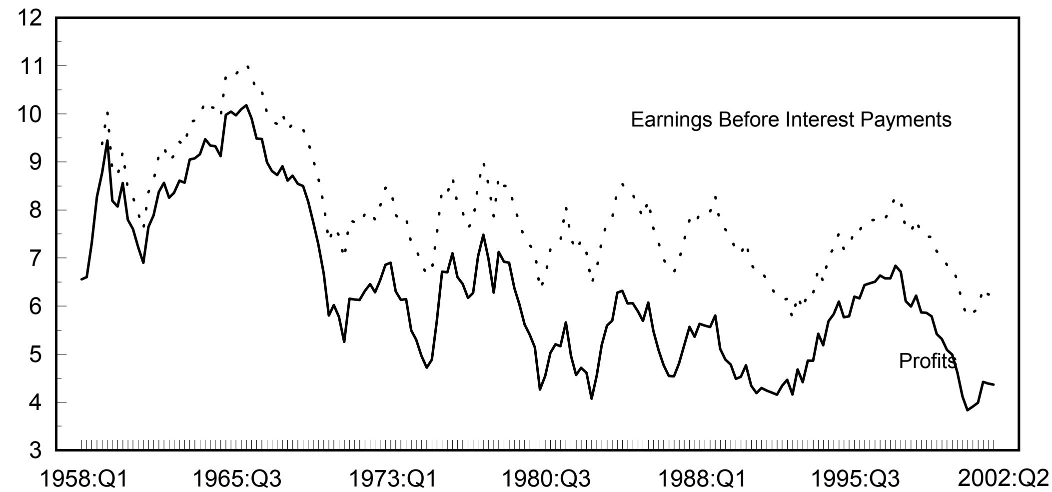


Tobin's Q*



Profits of Nonfinancial Corporations

(percent of GDP)



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