October 3, 2003

Monthly Mutual Fund Report

Statistics for August-September 2003

Sales and Redemptions

Total assets for all funds increased in August by $102.2 billion, or 1.5 percent, to $6.97 trillion. Money market funds had a net cash outflow of $20.3 billion compared to an outflow in July of $12.9 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $13.6 billion, compared to an inflow of $14.1 billion in July. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $109.9 billion in August, down from $119.5 billion in July. The value of non-money market assets appreciated by $96.9 billion in August, following an appreciation of $44.1 billion in July.

Total assets of **equity funds** increased by $111.0 billion, or 3.6 percent, to $3.24 trillion. There was a $22.9 billion net cash inflow to equity funds in August, compared with an inflow of $21.4 billion in July. Year-to-date, equity funds have a $79.7 billion inflow, compared to an outflow of $2.5 billion in the first eight months of 2002. The market value of assets appreciated by $87.7 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 1.5 percent, or $5.8 billion, to $382.2 billion. In August, there was a $3.3 billion net cash inflow for these funds. Thus far in 2003, hybrid funds have a $18.8 billion inflow, while there was a $8.9 billion inflow through the same point in 2002.

Bond funds experienced a cash outflow of $12.6 billion, while their total assets decreased by $3.1 billion, to $1.21 trillion. The market value of bond funds assets increased by $6.9 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds decreased by 0.2 percent, while the assets of tax-exempt bond funds decreased by 0.3 percent. The year-to-date inflow to bonds is $44.2 billion; through August 2002, the year-to-date inflow was $103.8 billion.

Assets of taxable and tax-exempt **money market funds** decreased $11.5 billion, to $2.14 trillion, a decrease of 0.6 percent for taxable money market funds and a decrease of 0.2 percent for tax-exempt funds. Compared to a net cash outflow of $95.2 billion through August 2002, money market funds had an outflow of $156.0 billion in the first two-thirds of 2003.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 5.09 to 5.11 percent, while the ratio for equity funds increased from 4.46 to 4.52 percent (figure 4).

Weekly Flows

In September, there were outflows from equity funds of 0.1 percent of total assets, with returns of 0.8 percent. Bond funds had outflows of 0.1 percent and losses of 1.8 percent for the month.

Index funds had monthly inflows of 0.6 percent and returns of 0.2 percent. Aggressive growth funds had monthly inflows of 0.3 percent and returns of 0.6 percent. Small-cap funds had an inflow of 1.5 percent, and returns of 0.4 percent.

There were outflows from international funds in September of 1.0 percent of assets and returns of 2.1 percent. Latin America funds had inflows of 0.04 percent and returns of 0.9 percent. Japan funds had inflows of 0.6 percent and returns of 4.8 percent of assets for the month of September. Pacific funds that do not invest in Japan had outflows of 3.8 percent and returns of 1.8 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended September at 996.6, an increase of 1.1 percent from the beginning of the month. The 12-month gain was 22.0 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 21.2 percent.

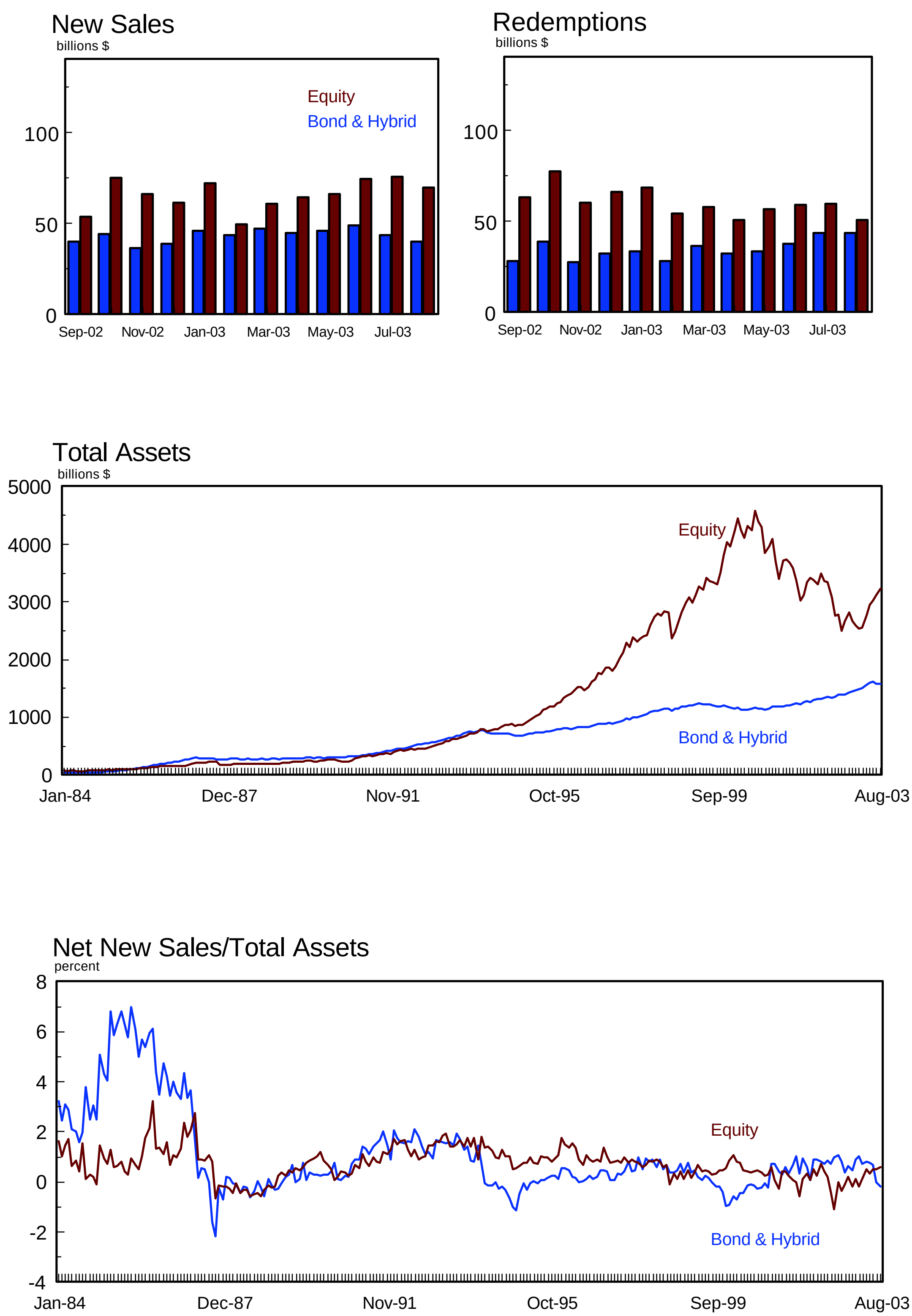
The 12-month average return on the Citigroup Bond Index was 4.4 percent for August. Volatility decreased to 5.07 percent (figure 8).

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 second quarter to 14.4 percent, and still above the 6.9 percent historical average annual growth rate. The trailing price-earnings ratio increased from 28.0 in the first quarter to 28.6 for the second quarter, while Thomson Financial/First Call's forward price-operating earnings ratio remained unchanged at 17.7 in the third quarter (figure 9). During the second quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index climbed to 30.5 from 23.0.

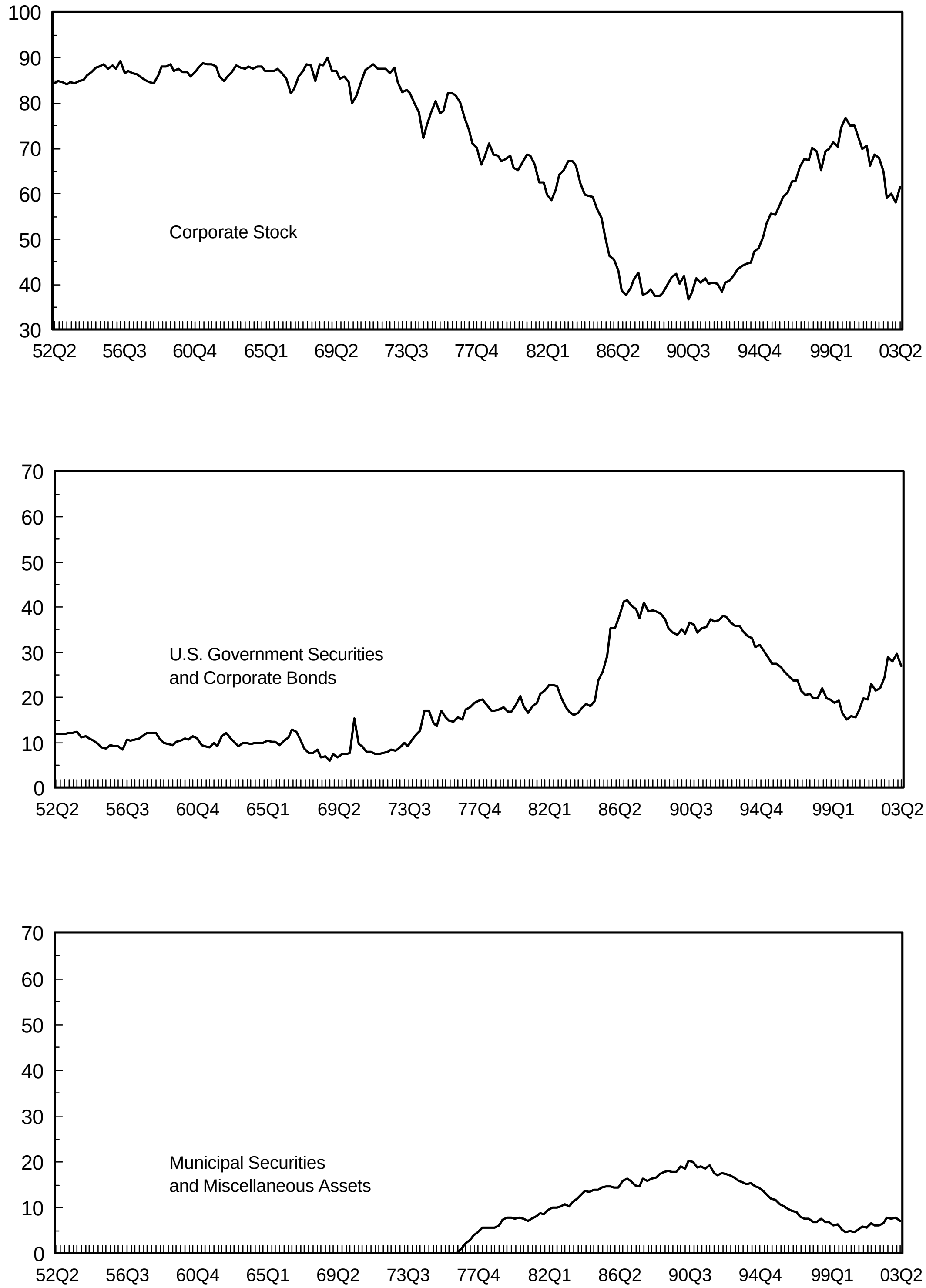
For more information please contact Matthew S. Rutledge (617) 973-3198

Figure 1
Sales of Mutual Funds



Source: Investment Company Institute

Figure 2
Composition of Mutual Funds' Financial Assets
(percent of Total Financial Assets)

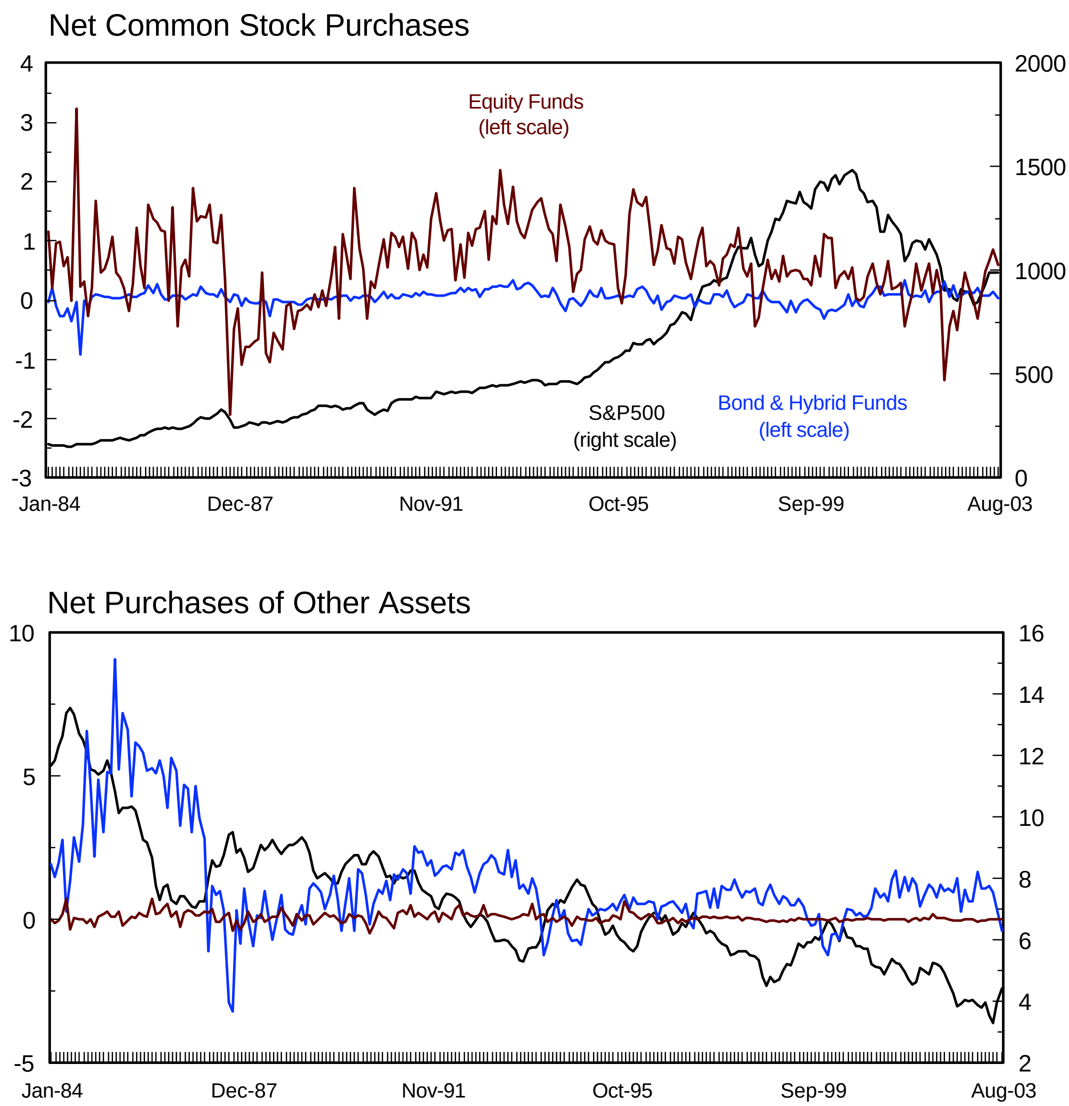


Source: Flow of Funds, Haver Analytics

Figure 3

Net Portfolio Purchases

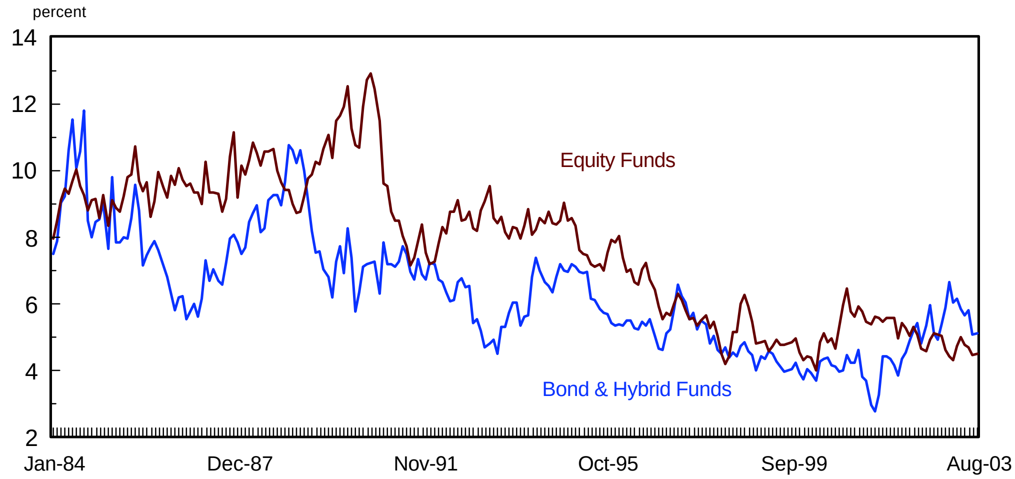
(percent of Total Assets)

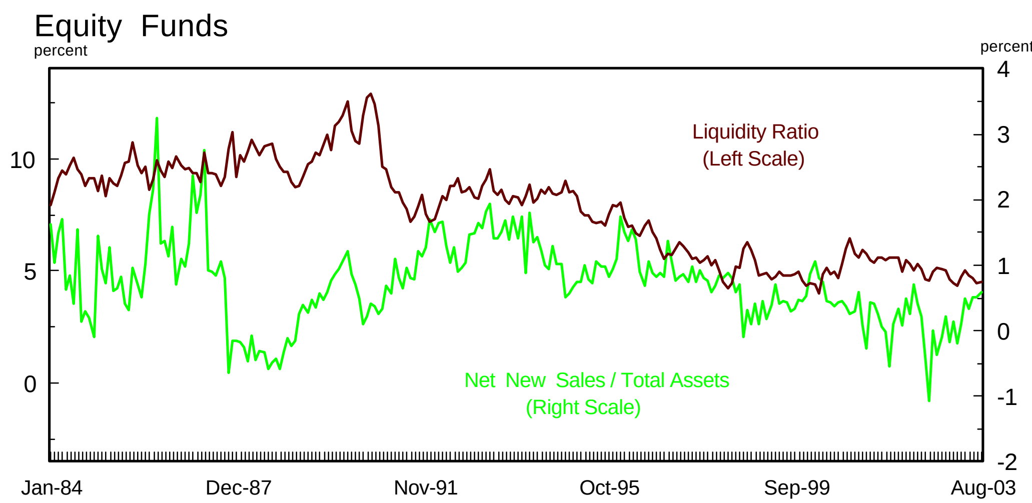


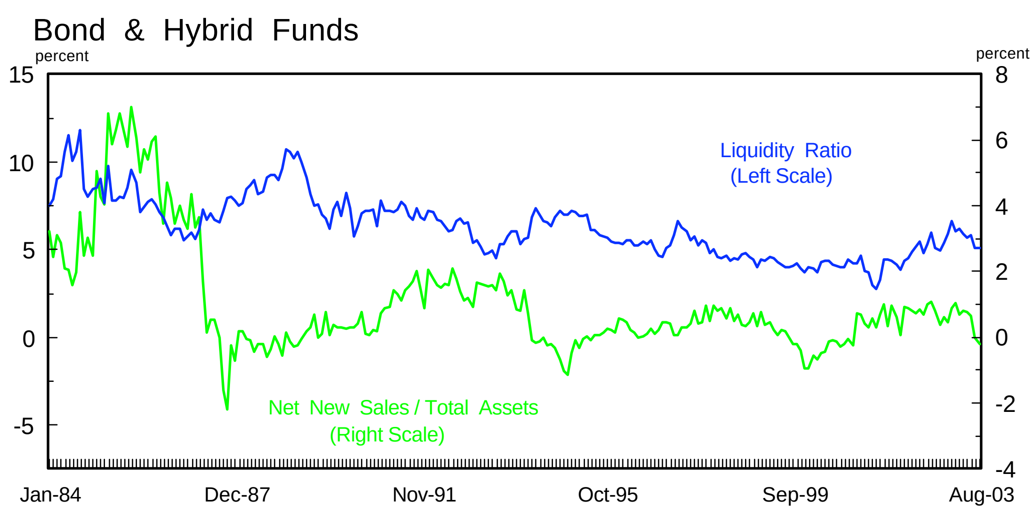
Source: Investment Company Institute

Figure 4

Liquidity Ratio*







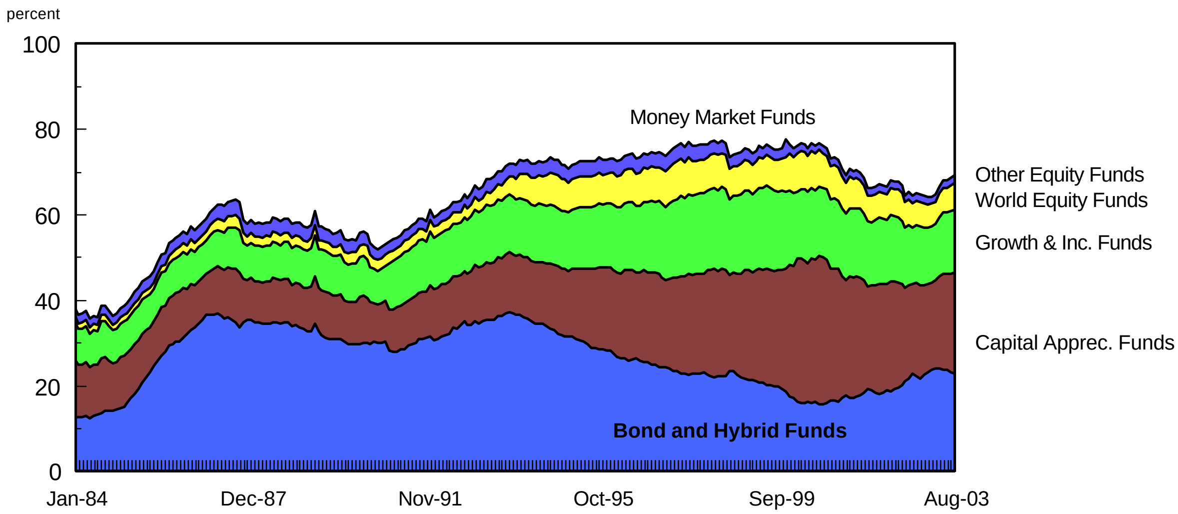
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

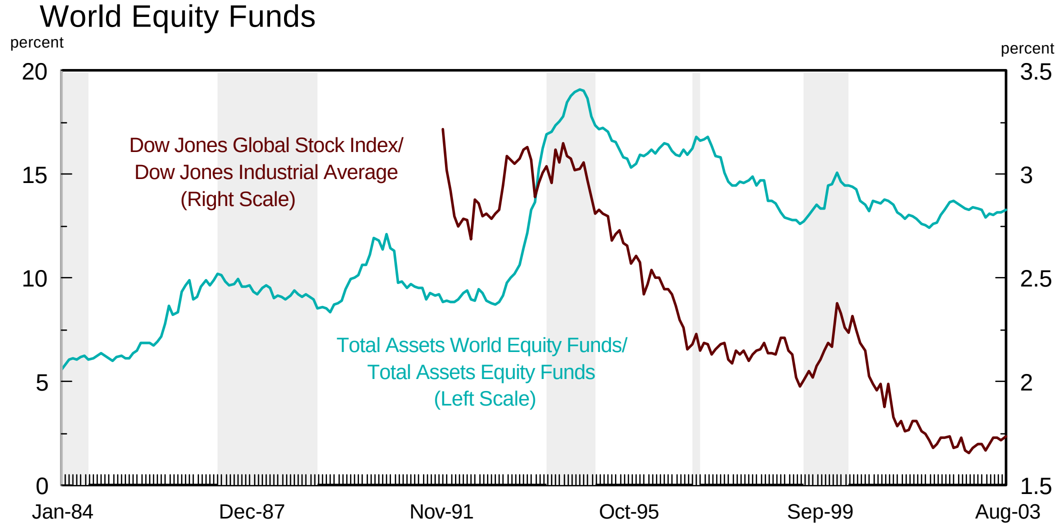
Figure 5

Industry Composition

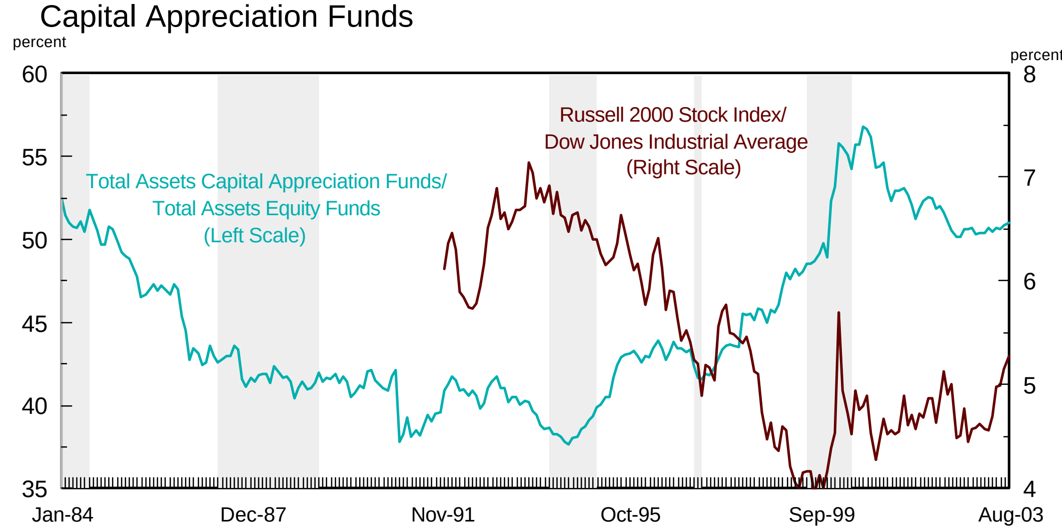
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

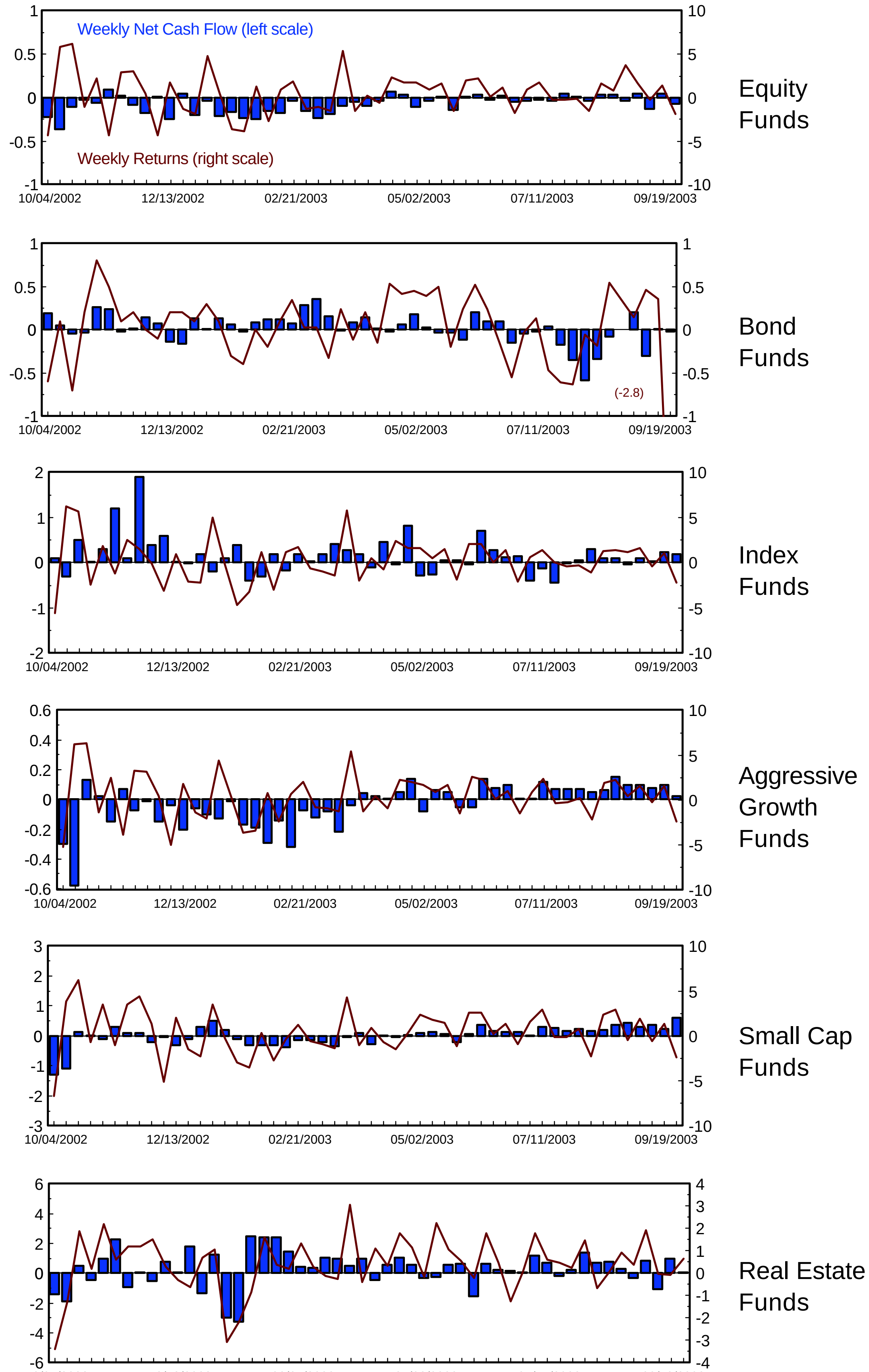


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

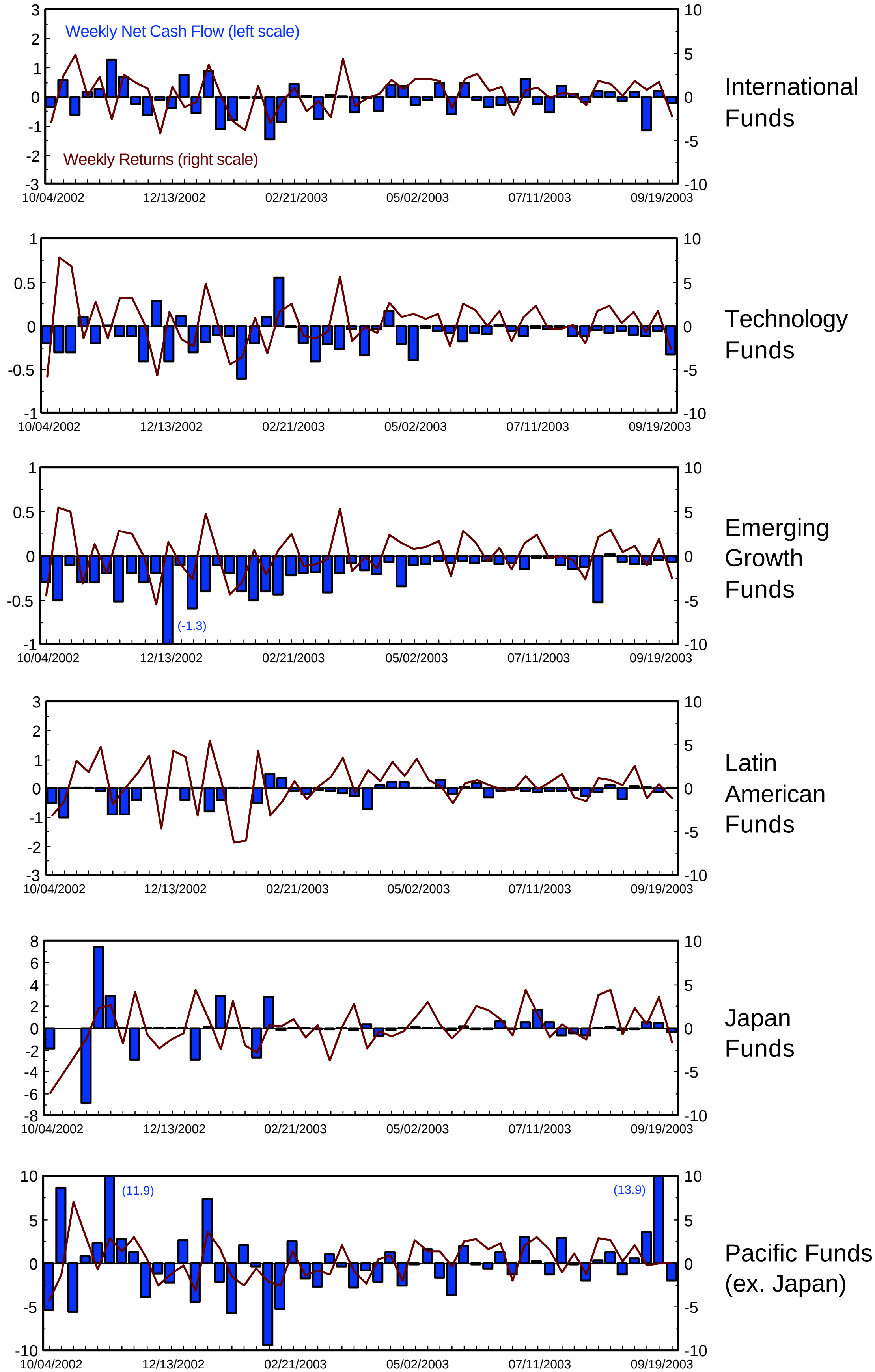


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

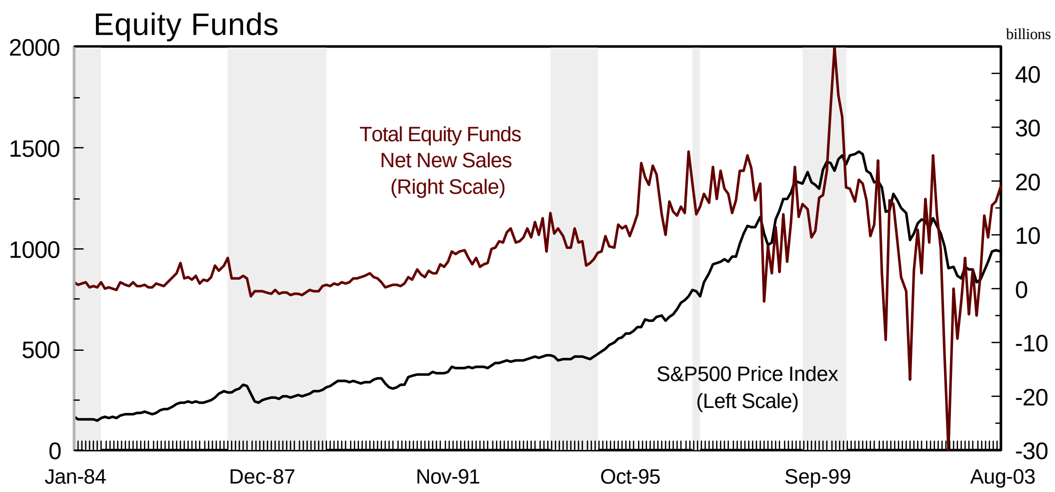


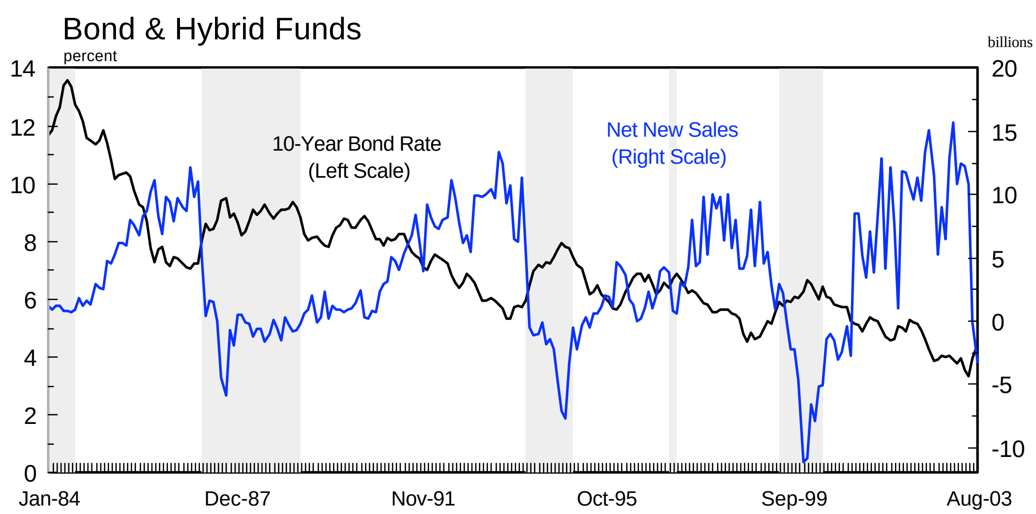
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

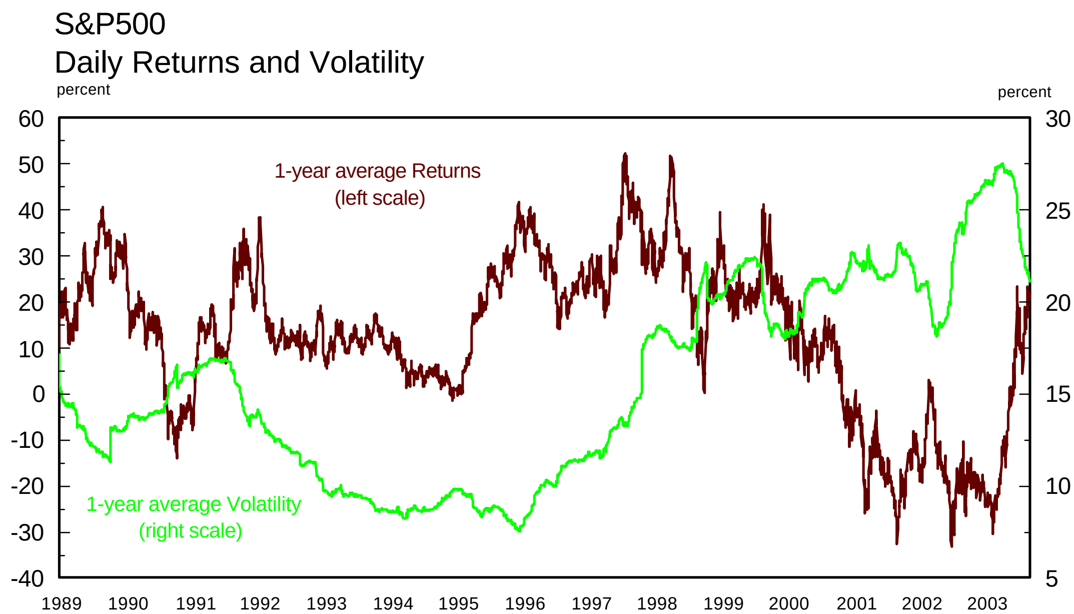


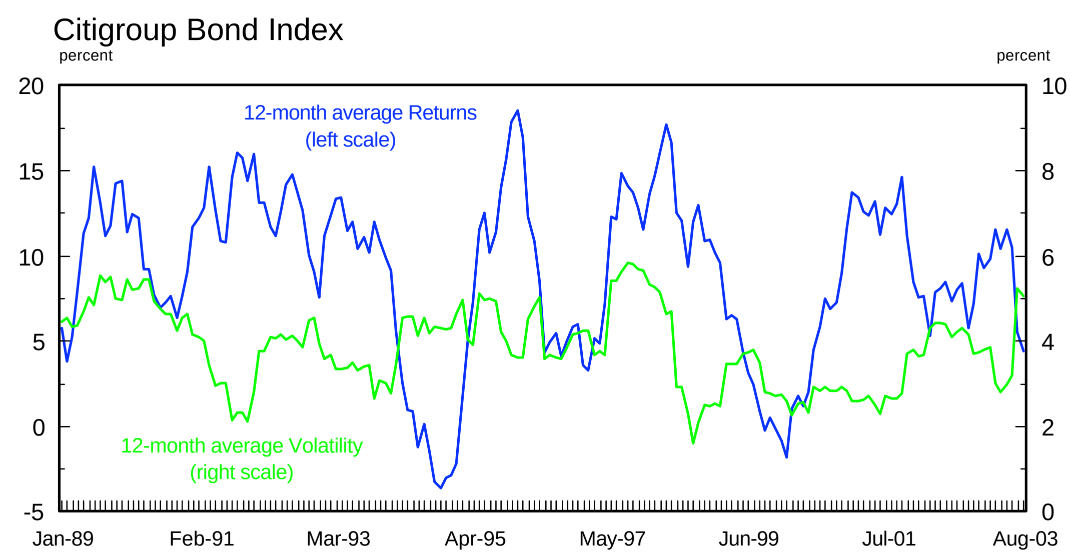


Source: Investment Company Institute

Figure 8

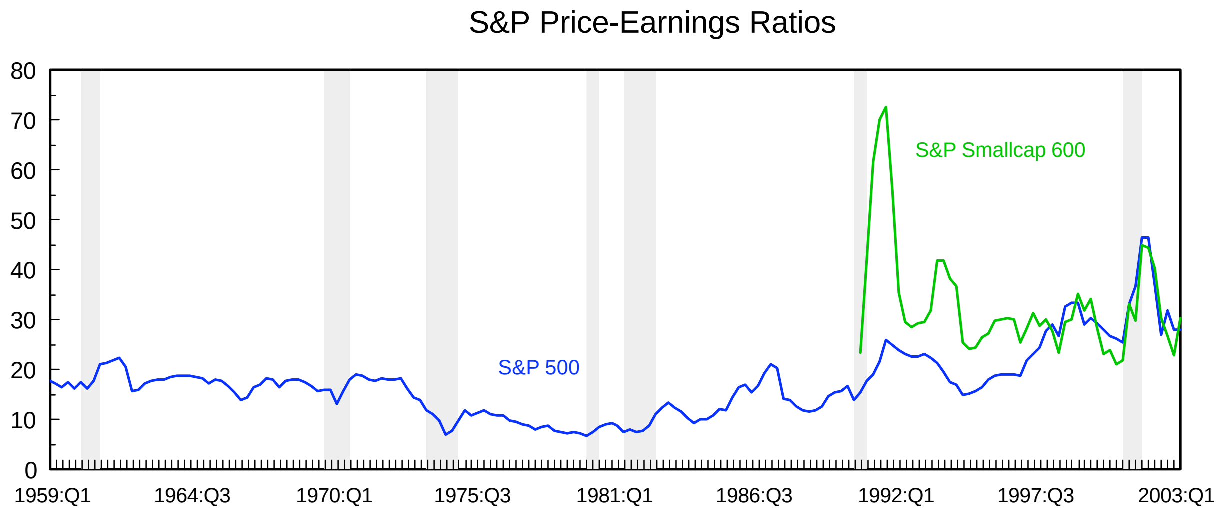
Capital Market Returns and Volatility

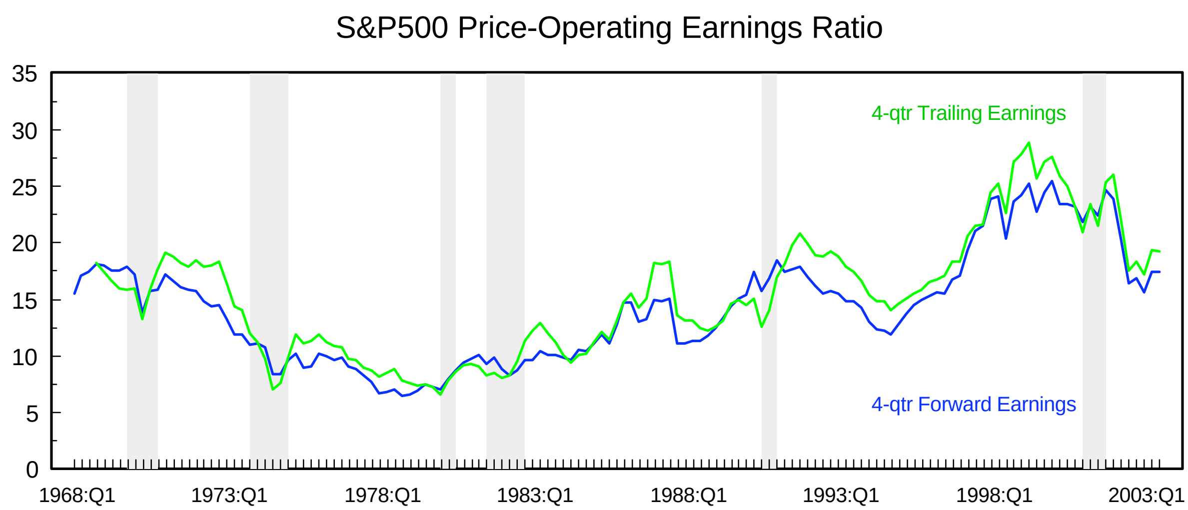


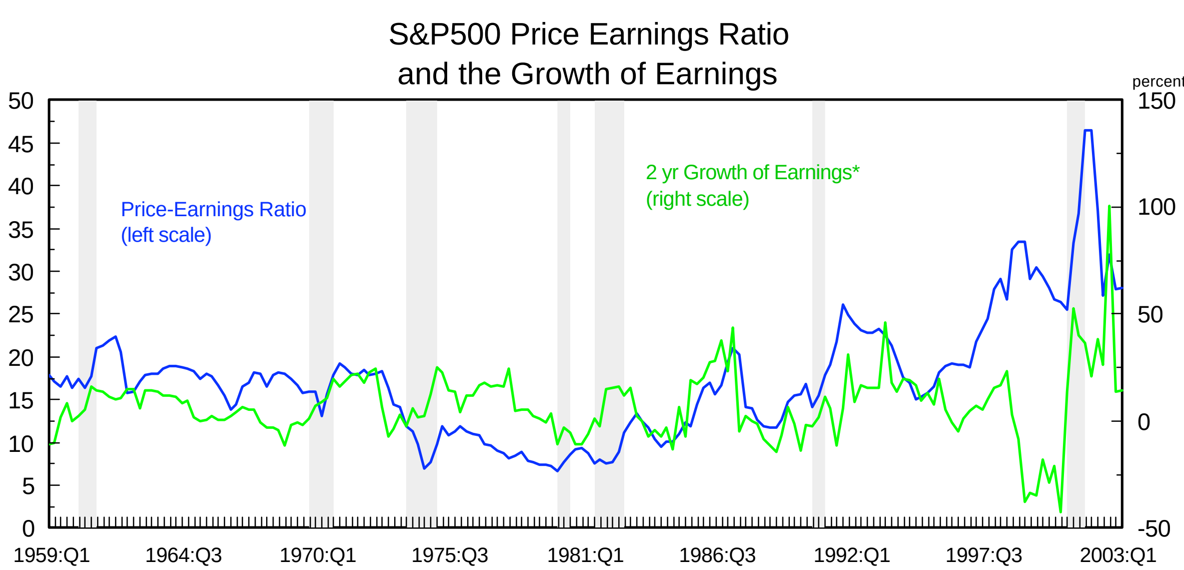


Source: FAME Database, Citigroup

Figure 9







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

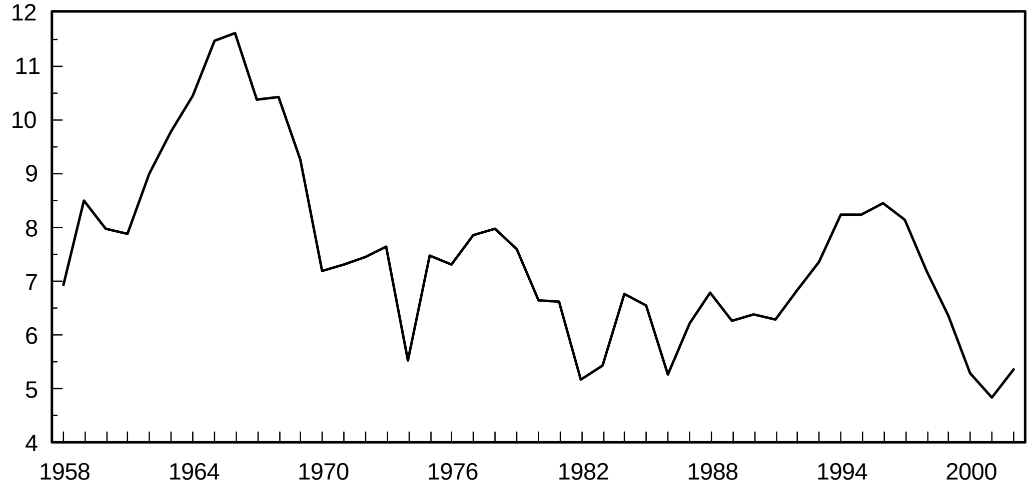
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

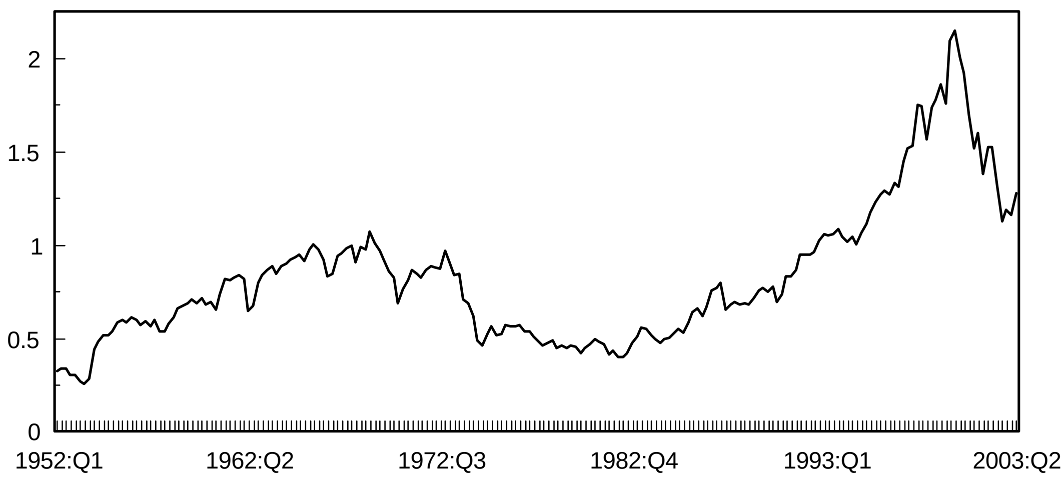
Real Rate of Return on Nonfinancial Corporate Equity

(from National Income and Flow of Funds Accounts)

percent

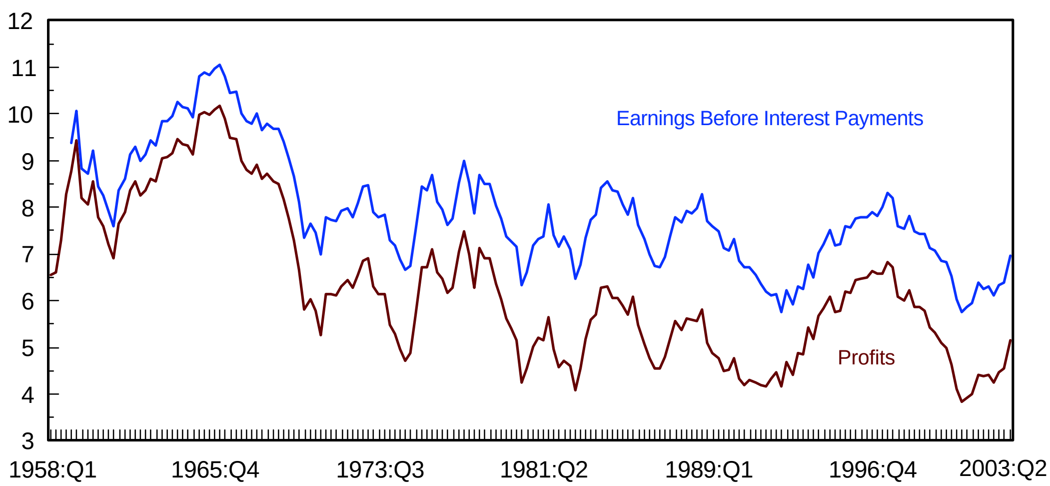


Tobin's Q*



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