October 8, 2004

Monthly Mutual Fund Report

Statistics for August-September 2004

Sales and Redemptions

Total assets for all funds increased in August by $24.4 billion, or 0.3 percent, to $7.5 trillion. Money market funds had a net cash outflow of $12.6 billion compared to an outflow in July of $3.2 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $7.9 billion, compared to an inflow of $11.2 billion in July. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $98.3 billion in August, down from $102.7 billion in July. The value of non-money market assets appreciated by $24.6 billion in August, following a depreciation of $161.5 billion in July.

Total assets of **equity funds** increased by $5.5 billion, or 0.15 percent, to $3.8 trillion. There was a $1.1 billion net cash inflow to equity funds in August, compared with an inflow of $9.4 billion in July. The market value of assets appreciated by $4.0 billion in August. The year-to-date inflow is $128.7 billion, compared to an inflow of $80.7 billion in the first eight months of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 1.6 percent, or $7.3 billion, to $469.5 billion. In August, there was a $2.6 billion net cash inflow for these funds, compared to an inflow in July of $3.0 billion. Hybrid funds have experienced an inflow of $30.1 billion thus far in 2004, compared to an inflow of $18.3 billion to this point in 2003.

Bond funds experienced a cash inflow of $4.2 billion, while their total assets increased by $23.2 billion, to $1.25 trillion. The market value of bond funds assets increased by $16.4 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 2.05 percent, while the assets of tax-exempt bond funds increased by 1.42 percent. The 2004 outflow is $19.8 billion, compared to an inflow of $44.1 billion through August 2003.

Assets of taxable and tax-exempt **money market funds** decreased $11.6 billion, to $1.94 trillion, a decrease of 0.74 percent for taxable money market funds and an increase of 0.19 percent for tax-exempt funds. The year-to-date outflow of $128.7 billion is less than the outflow for the first eight months of 2003, $155.8 billion.

Liquidity Ratio
The liquidity ratio for bond and hybrid funds increased from 5.88 to 6.57 percent, while the ratio for equity funds increased from 4.24 to 4.27 percent (figure 4).

Weekly Flows
In September, there were outflows from equity funds of 0.3 percent of total assets, with returns of 1.3 percent (figure 6a). Bond funds had inflows of 0.3 percent and returns of 0.3 percent.

Index funds had monthly inflows of 0.04 percent and returns of 0.7 percent. Aggressive growth funds had outflows of 0.3 percent and returns of 2.2 percent. Small-cap funds had an inflow of 0.3 percent and returns of 3.0 percent.

Technology funds had an outflow of 1.1 percent and returns of 1.1 percent (figure 6b). There was an inflow to real estate funds of 3.2 percent and returns of 2.7 percent.

There were inflows to international funds in September of 0.2 percent of assets and returns of 2.5 percent. Latin American funds had outflows of 0.6 percent and returns of 6.2 percent, the largest since May of 2003. Japan funds flows had an erratic pattern during the month of September, with inflows reaching 10.8 percent of assets in the first week followed by outflows of 10.1 percent during the second week. In total, Japan funds had inflows of 0.6 percent and losses of 3.3 percent of assets. Pacific funds that do not invest in Japan had outflows of 0.4 percent and returns of 3.3 percent of assets. Emerging Markets funds experienced its largest outflows since January of 1998, equal to 2.4 percent. The 31st consecutive month of outflows was matched with losses of 0.6 percent.

Capital Market Returns and Volatility
The S&P 500 ended September at 1114.58, an increase of 0.8 percent from the beginning of the month. The 12-month gain was 13.3 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 3.8 percent for September. Volatility decreased to 4.1 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 second quarter to a negative 2.9 percent from current levels. The trailing price-earnings ratio decreased from 18.4 in the second quarter of 2004 to 18.2

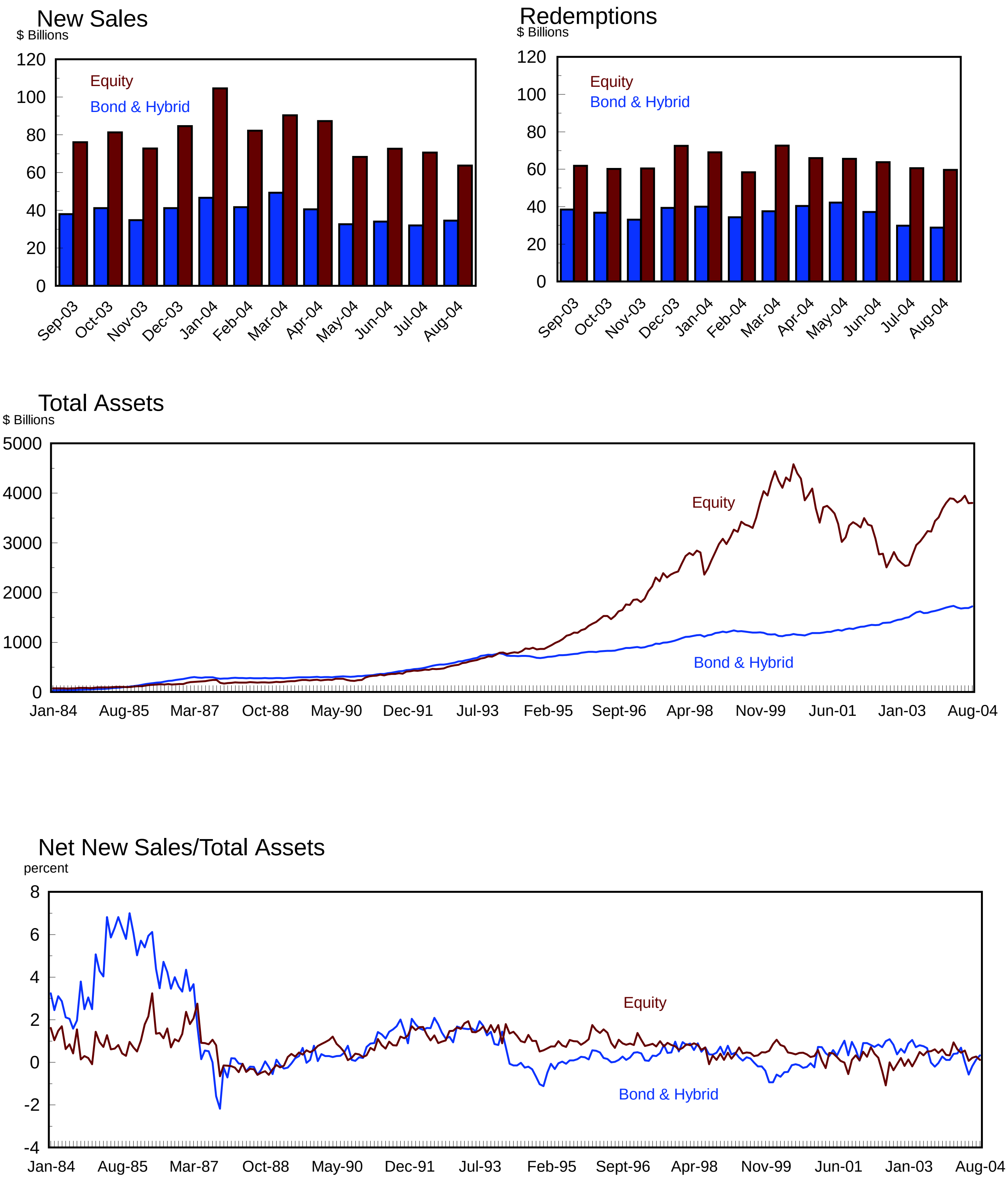
for the third quarter of 2004, while Thomson Financial/First Call's forward price-operating earnings was 16.6 in the third quarter of 2004, down from 16.9 in the second quarter. During the second quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index fell to 29.0 from 30.7 (figure 9).

The Monthly Mutual Fund Report is available online at http://www.bos.frb.org/economic/mmfr/mmfr.htm.

Also, the Stock Market Report is now available to the general public. The current issue, as well as previous editions, can be found at our public website, http://www.bos.frb.org/economic/smr/smr.htm.

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

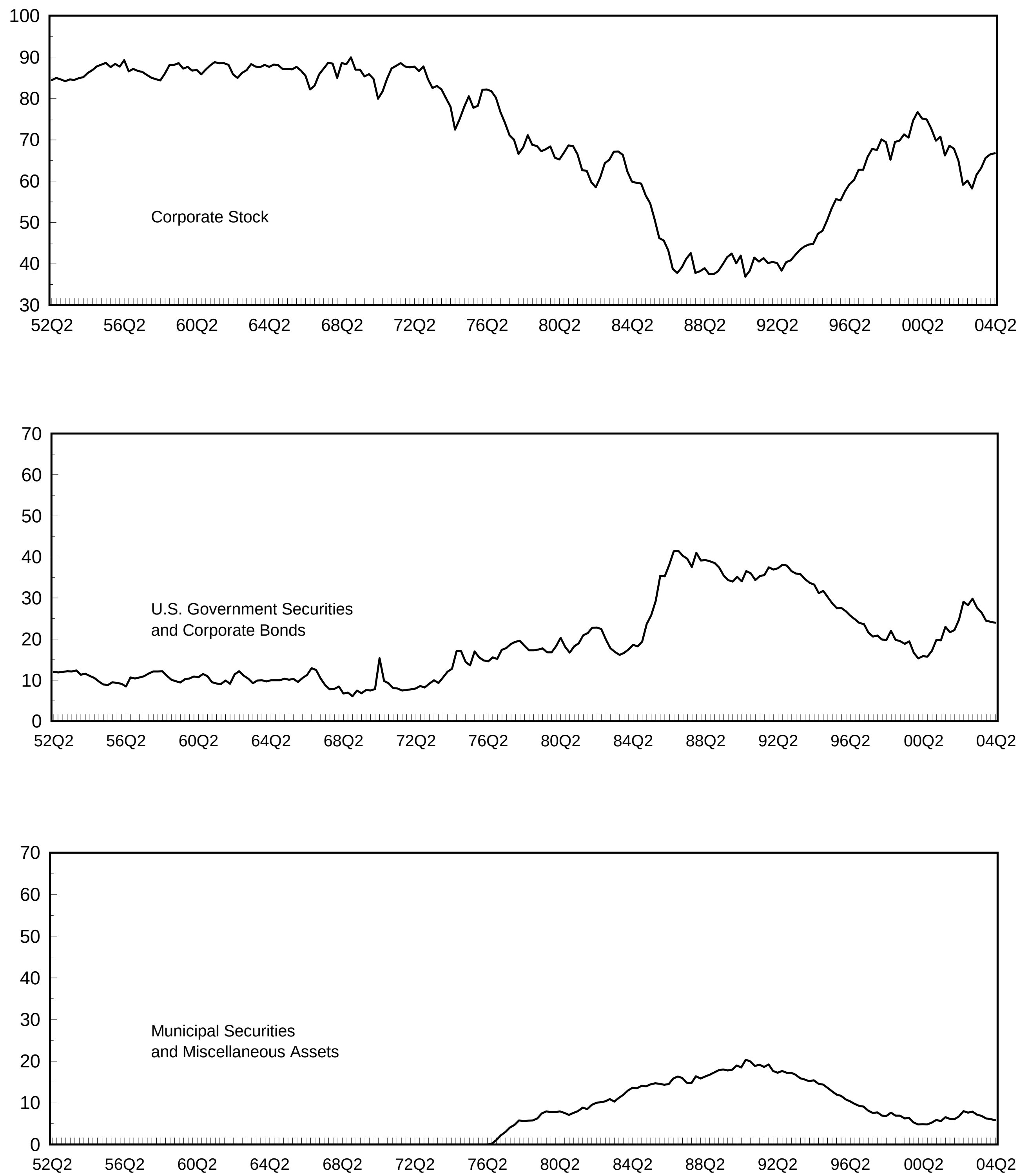


Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

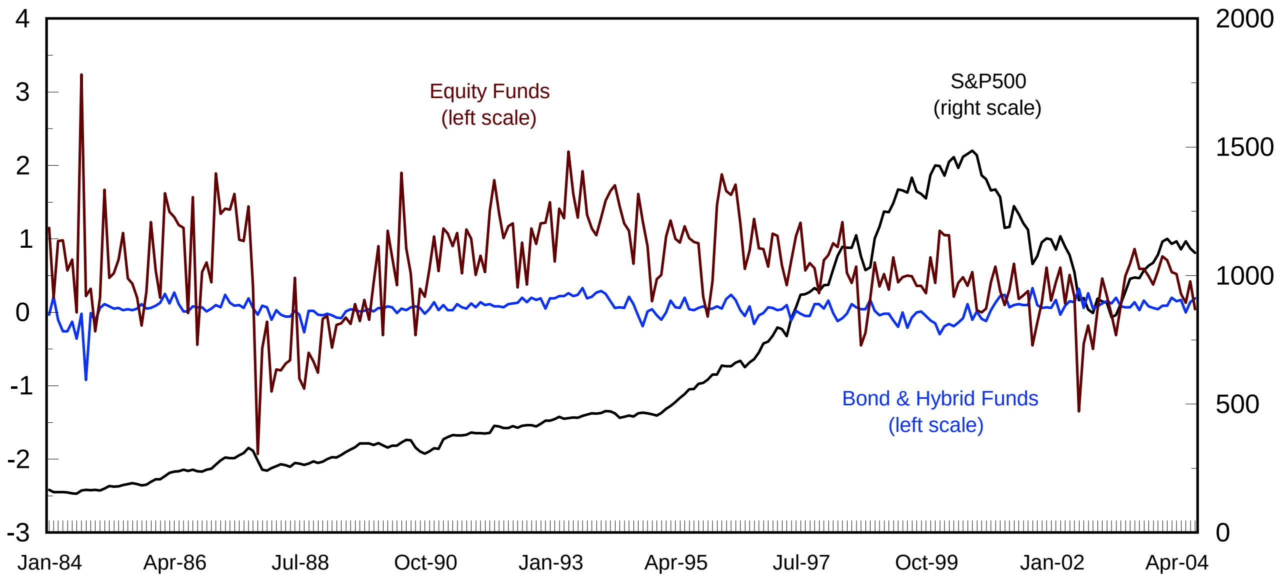
(percent of Total Financial Assets)



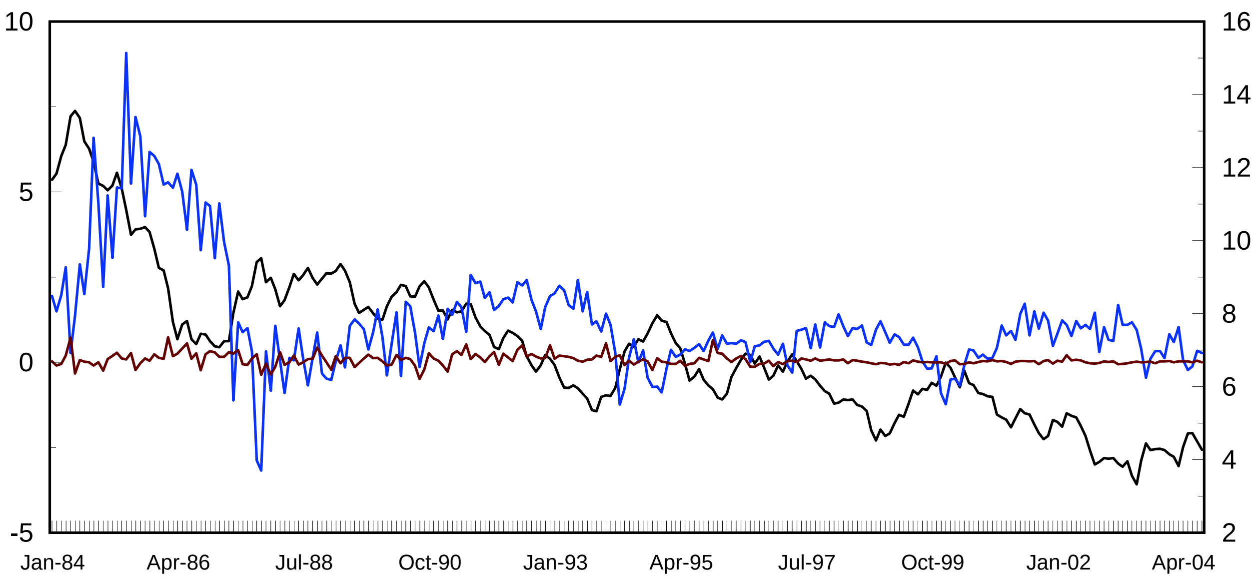
Source: Flow of Funds, Haver Analytics0

Figure 3
Net Portfolio Purchases
(percent of Total Assets)

Net Common Stock Purchases



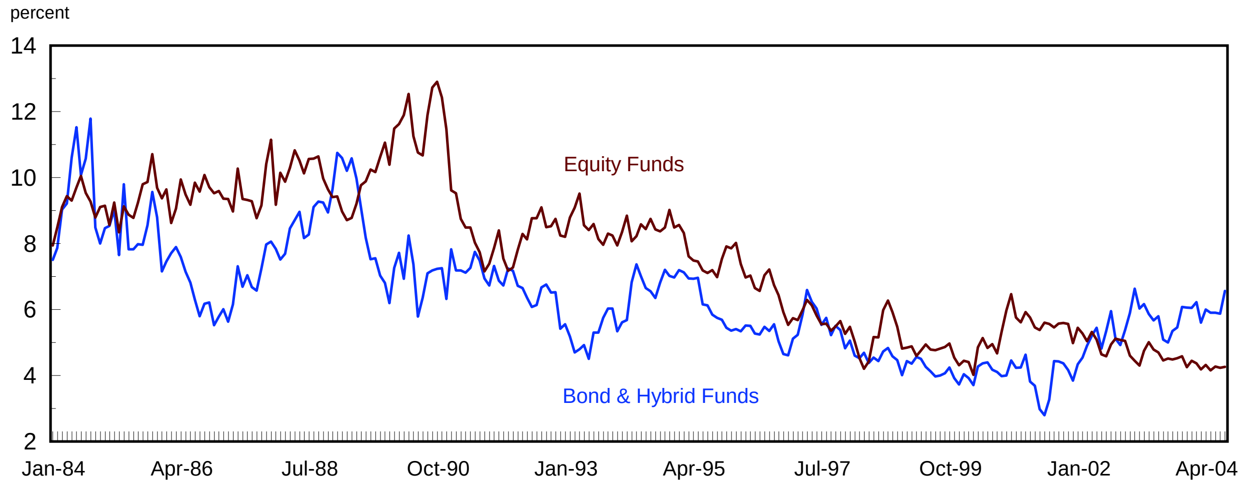
Net Purchases of Other Assets



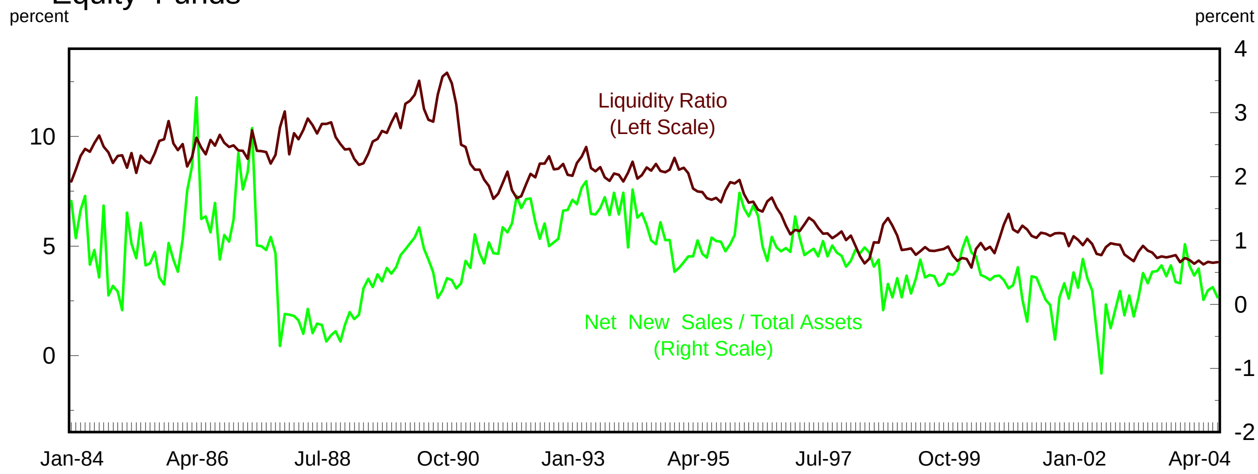
Source: Investment Company Institute

Figure 4

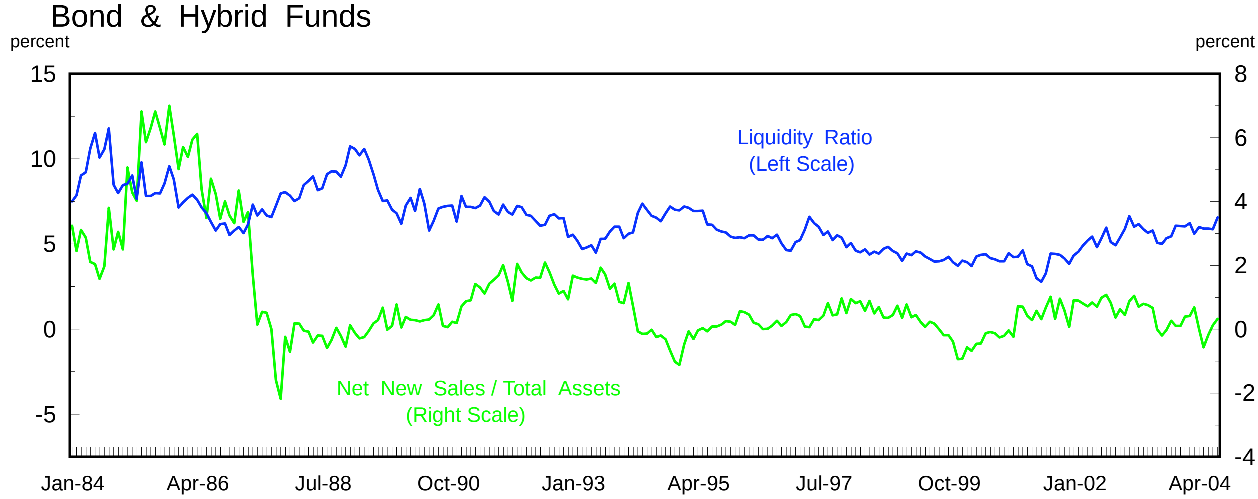
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



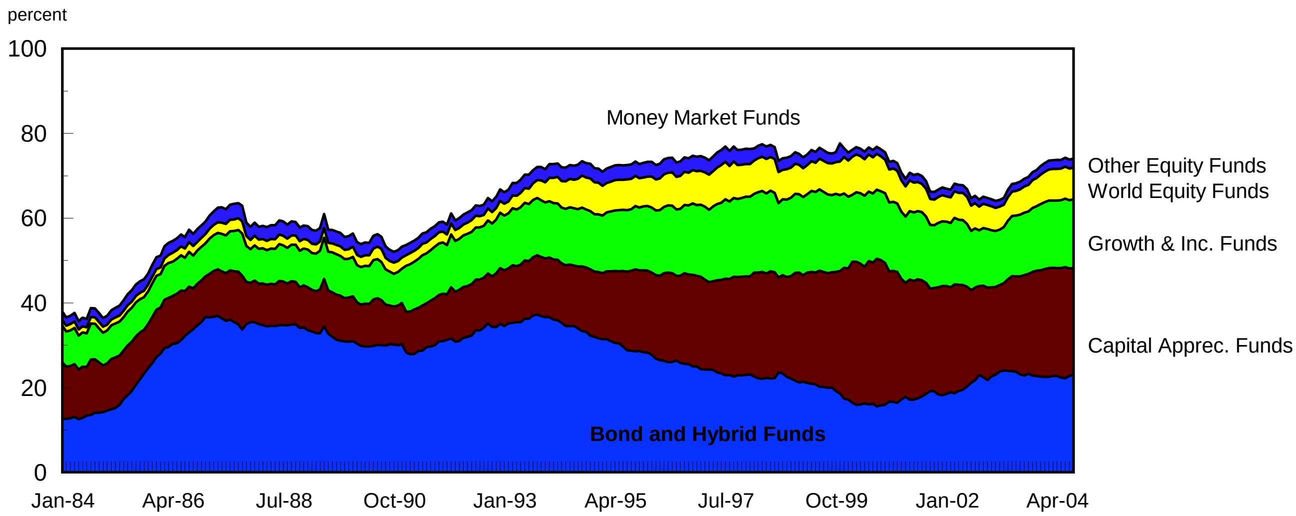
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

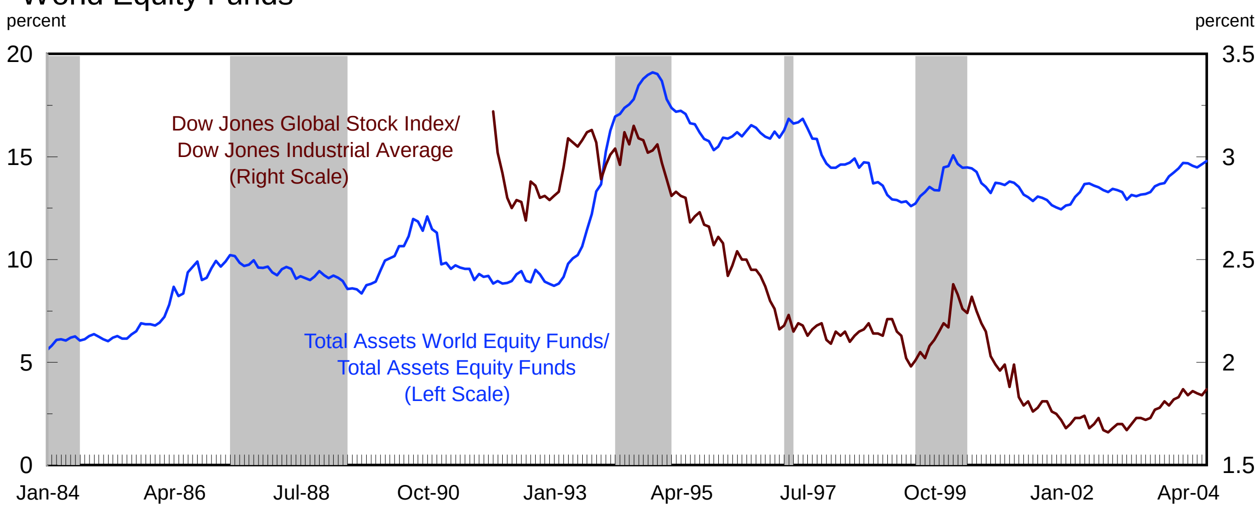
Figure 5

Industry Composition

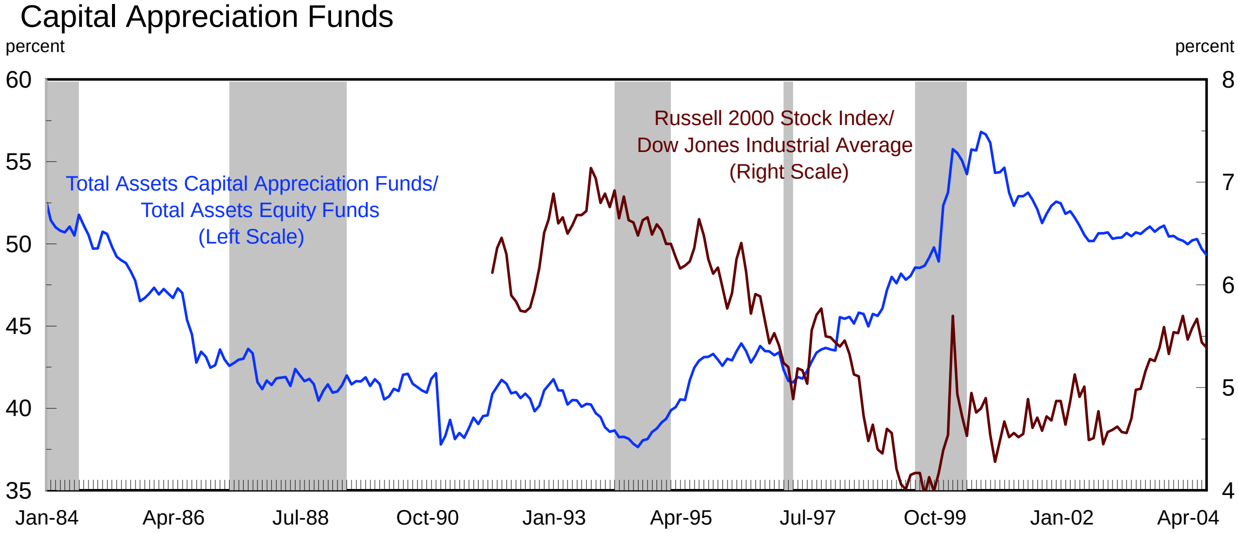
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

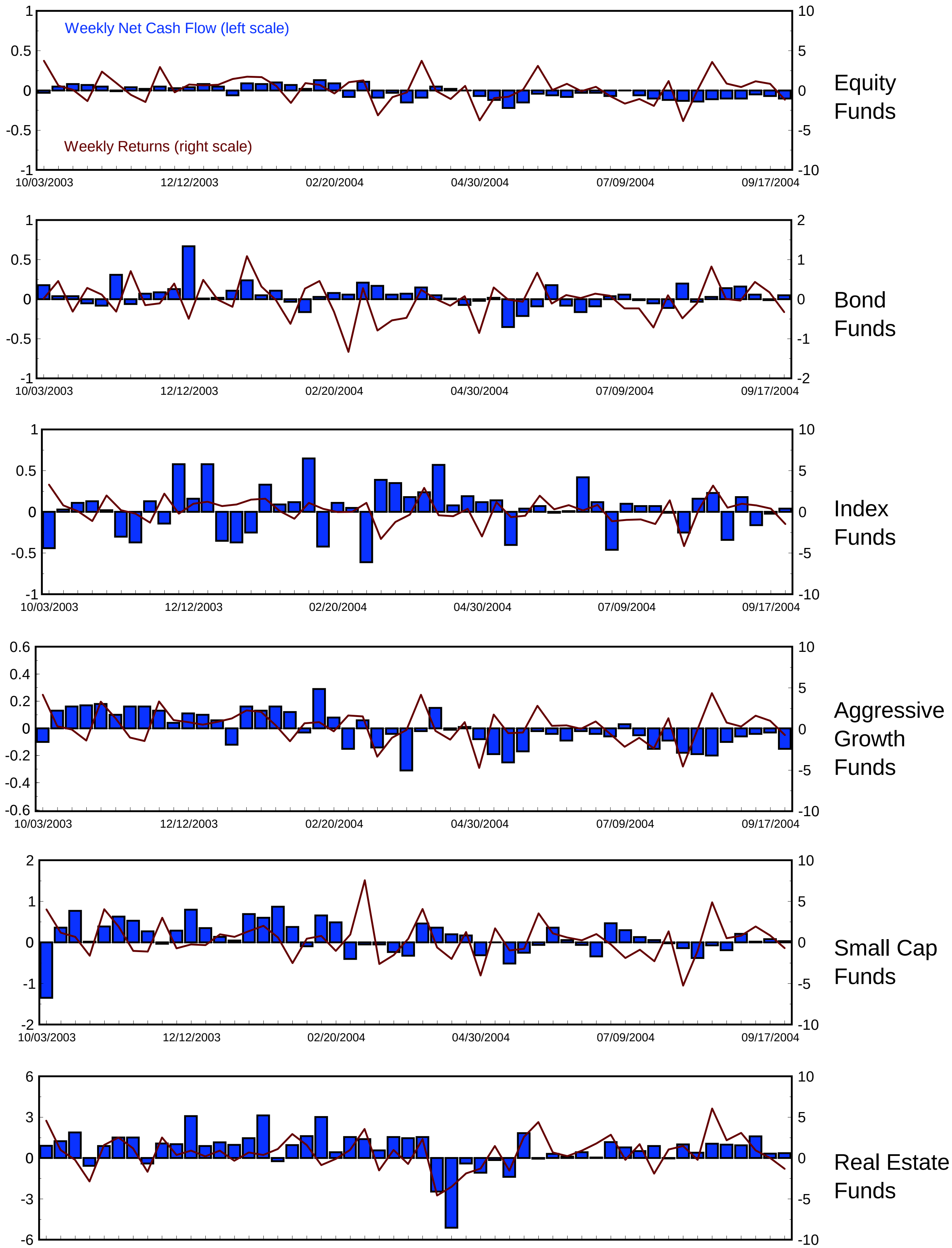


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

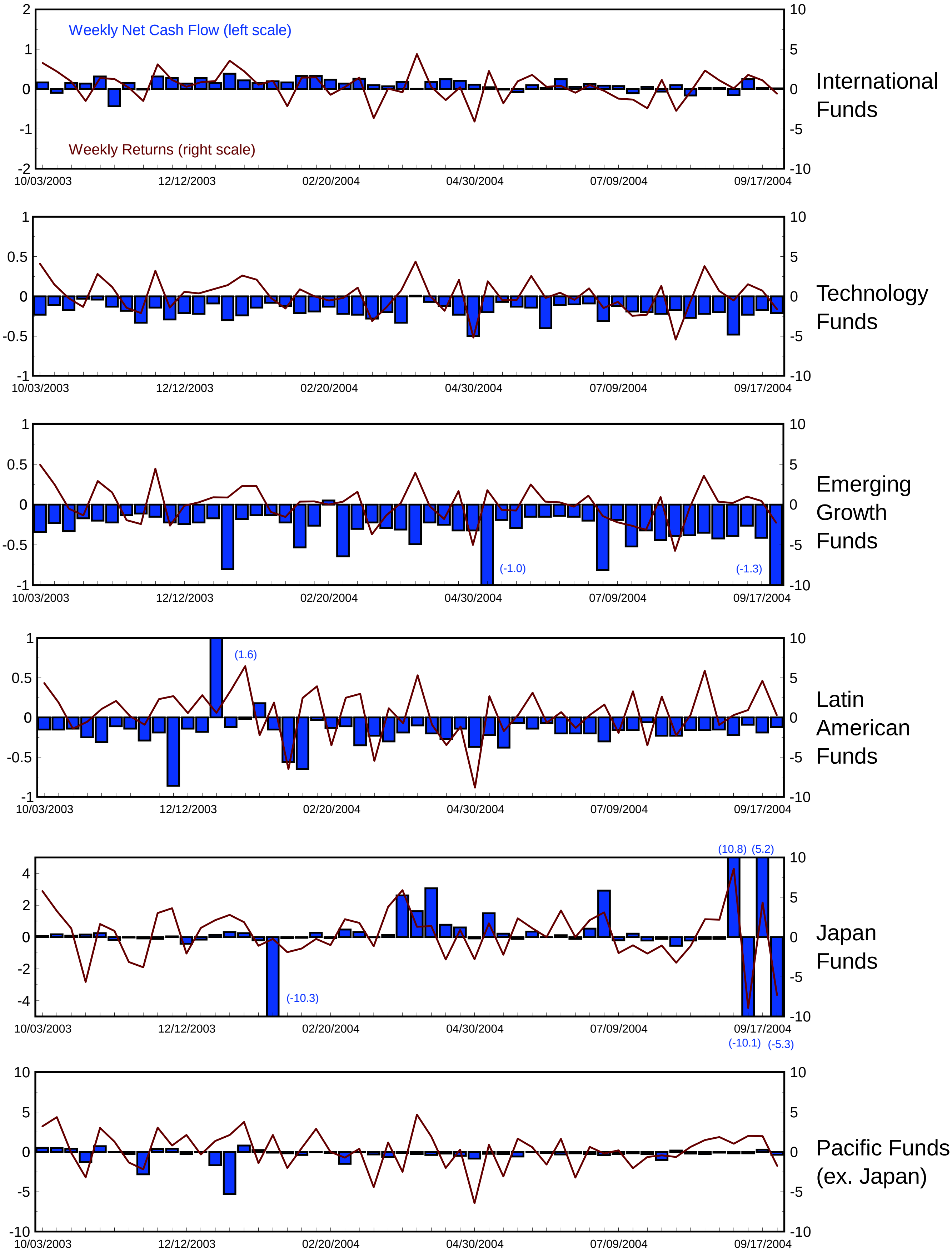


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

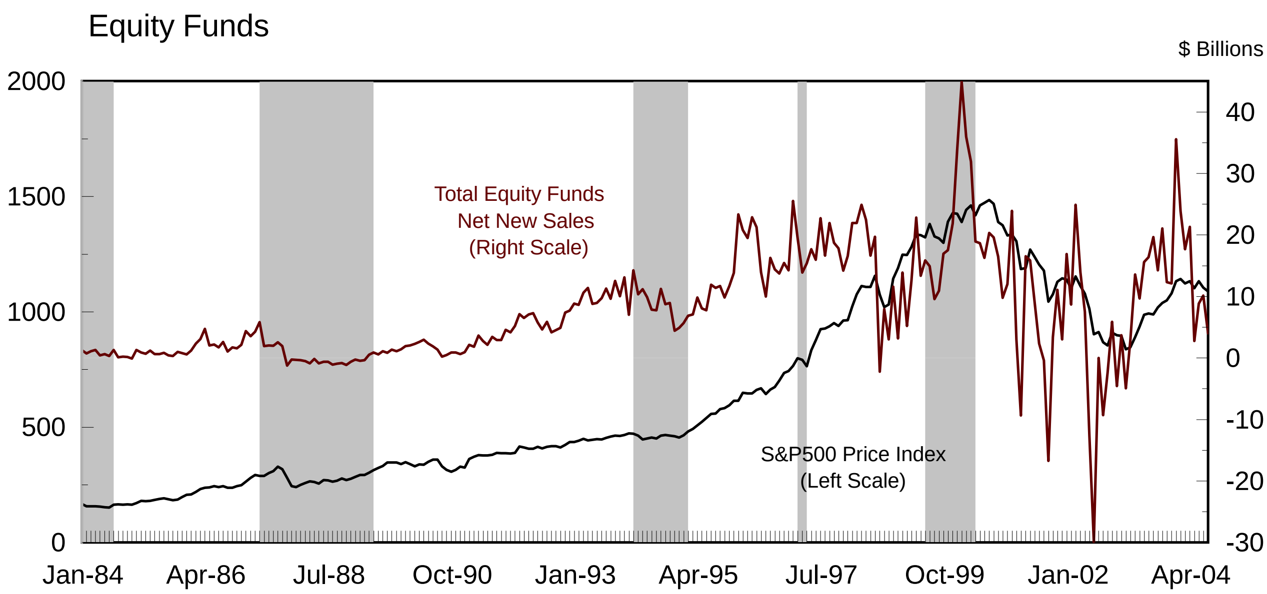


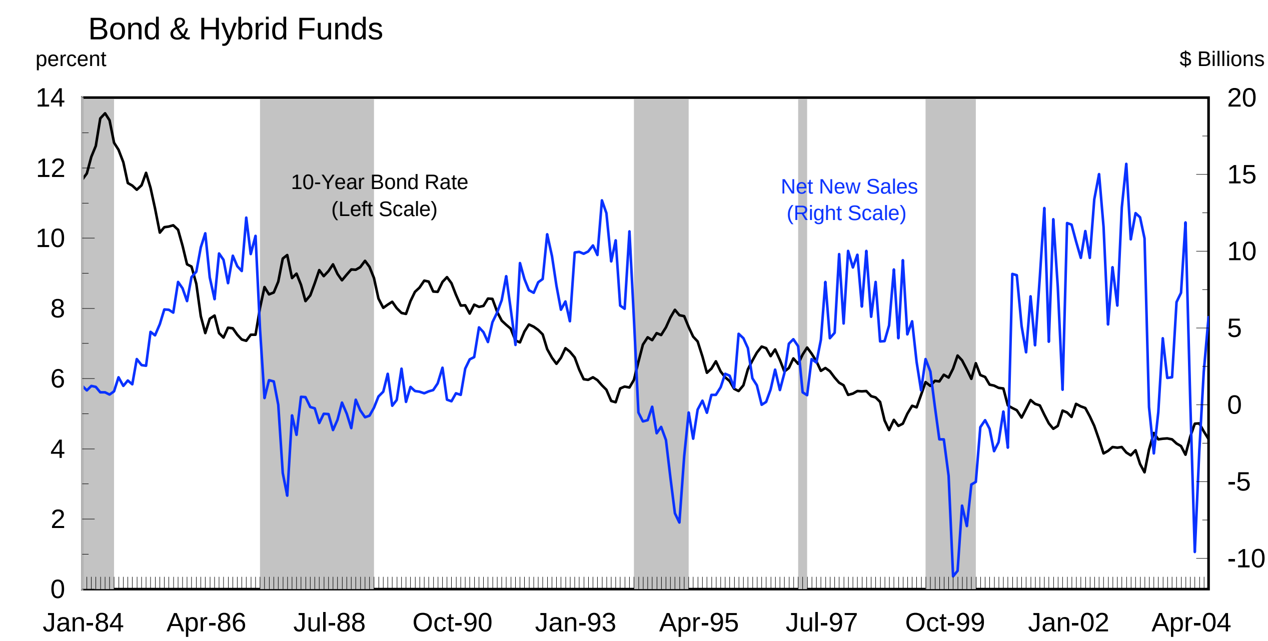
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

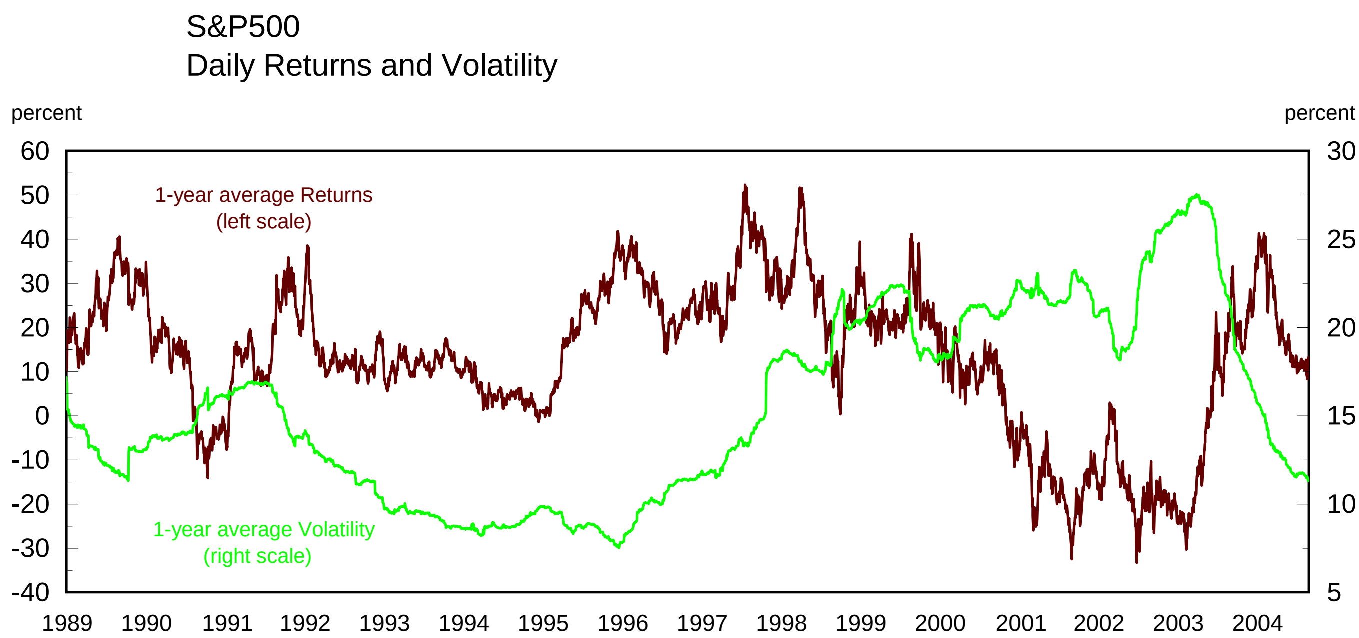


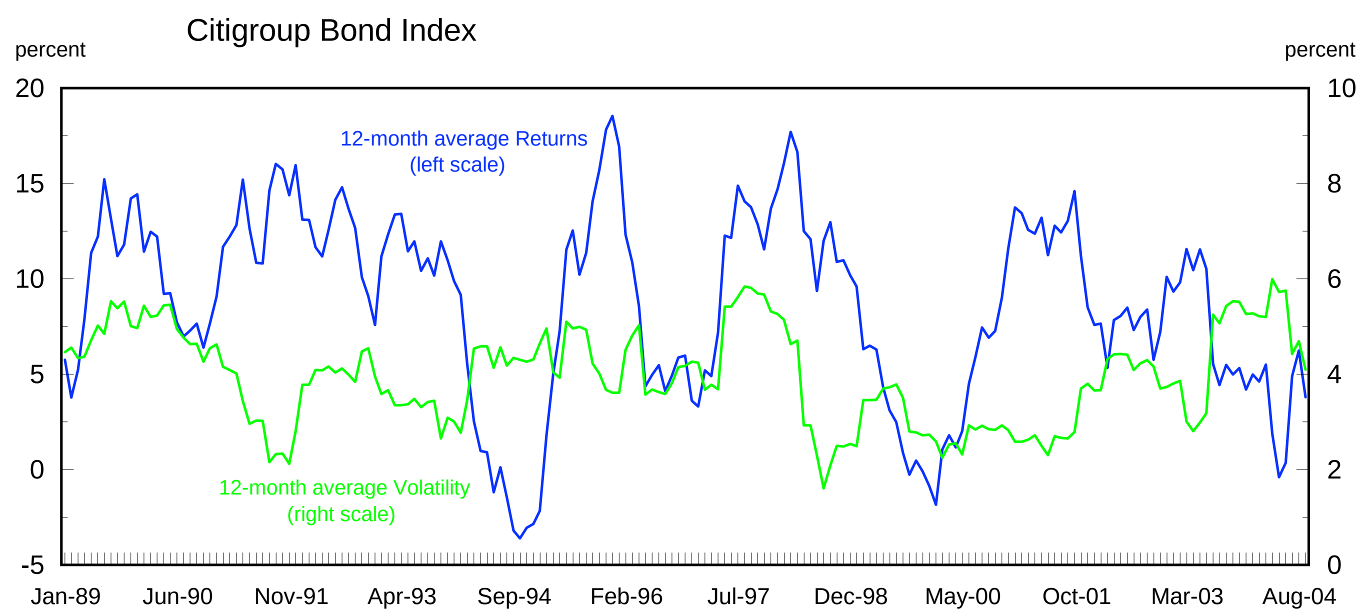


Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility

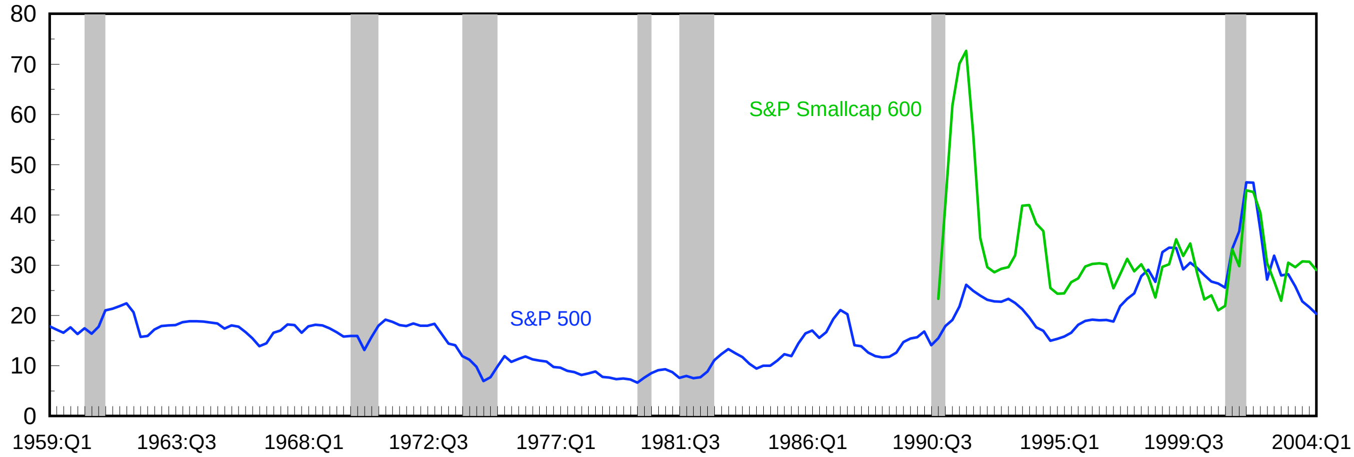




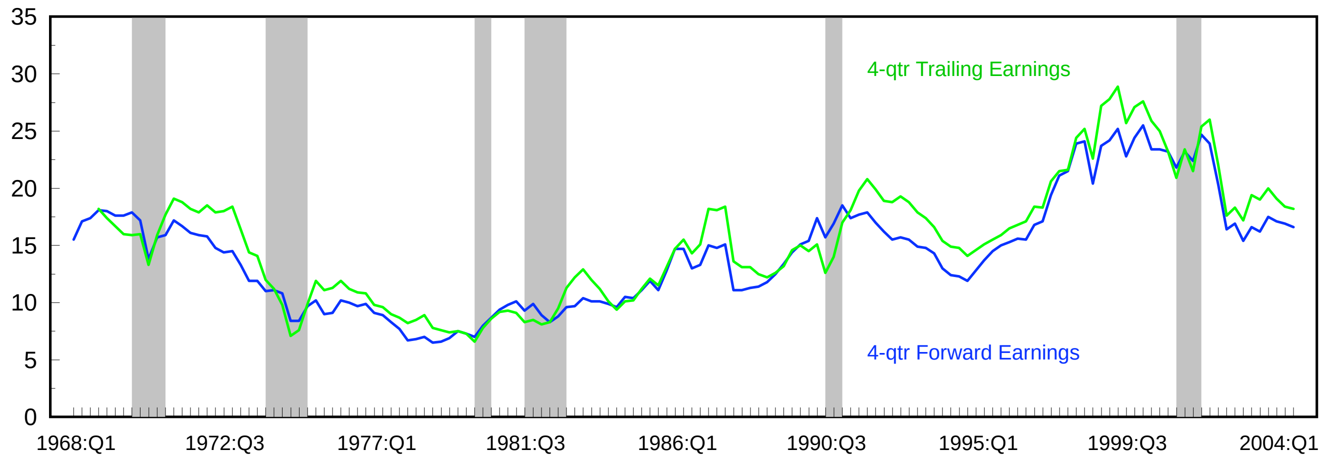
Source: FAME Database, Citigroup

Figure 9

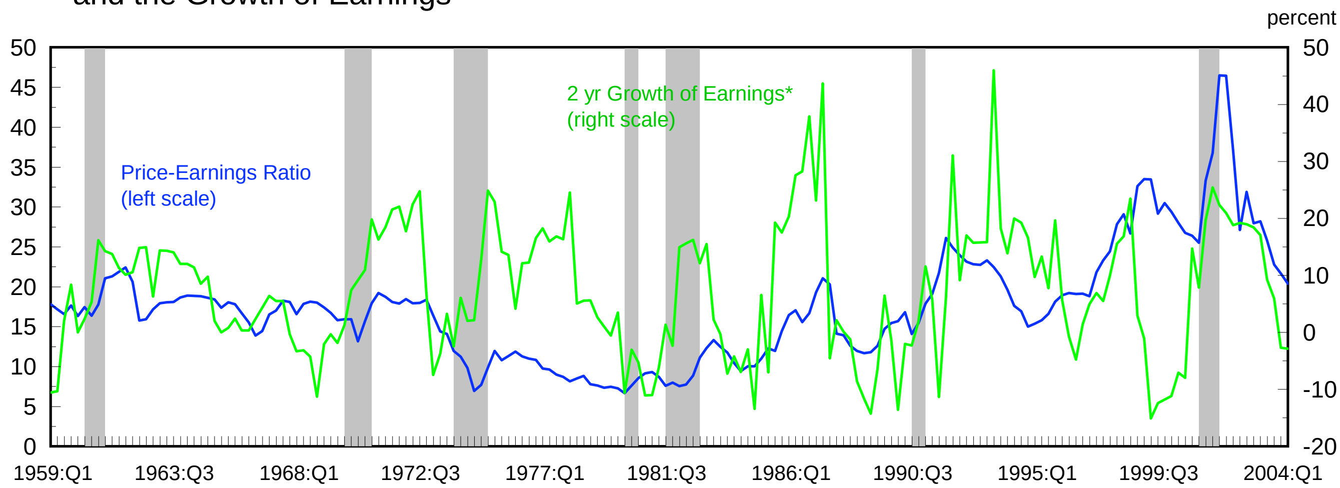
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio
and the Growth of Earnings

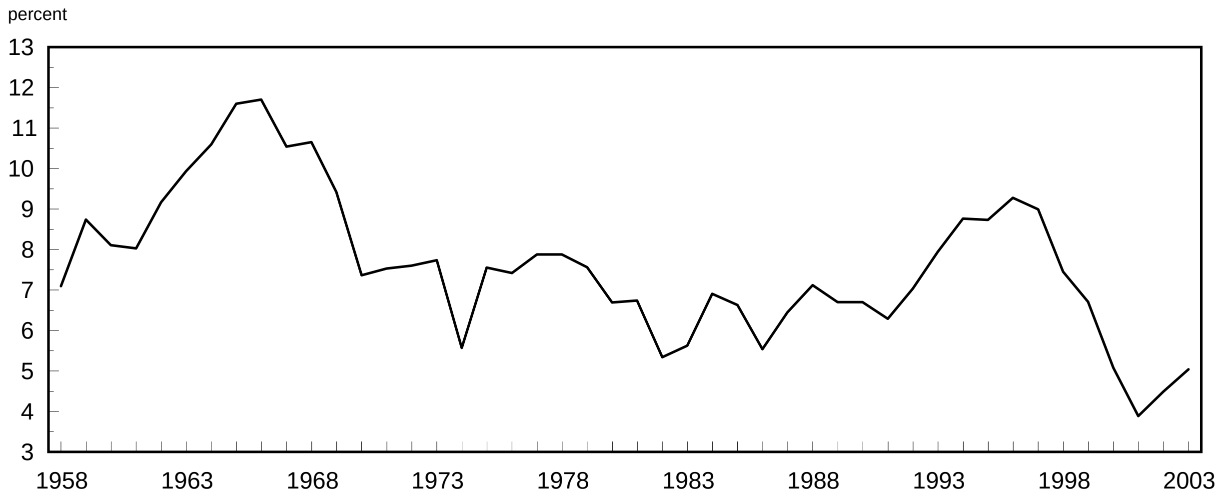


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

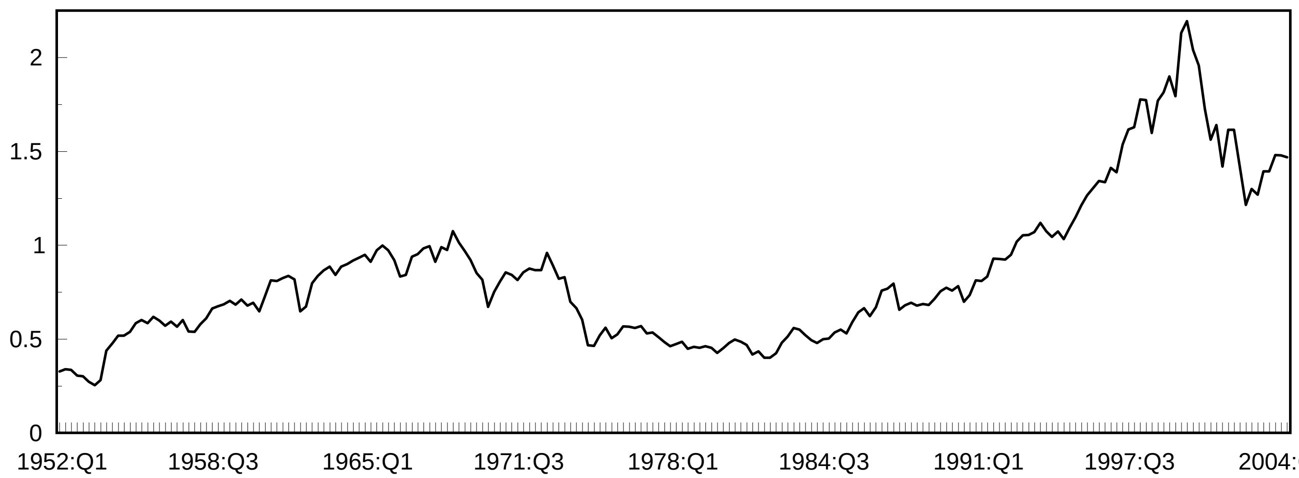
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

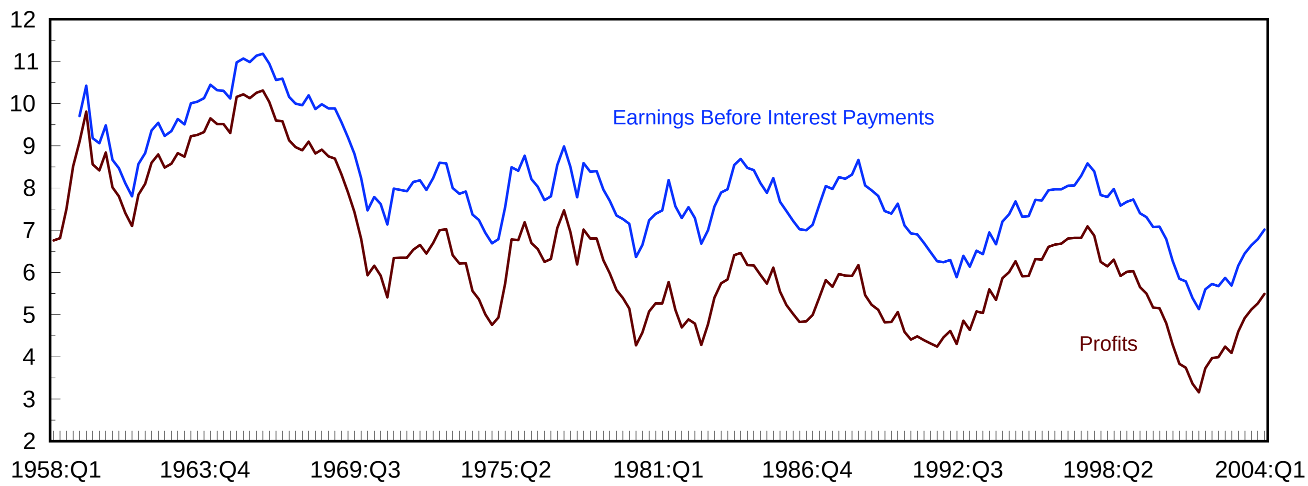
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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