October 7, 2005

Monthly Mutual Fund Report

Statistics for August - September 2005

Sales and Redemptions

Total assets for all funds increased in August by $71 billion, or 0.8 percent, to $8.5 trillion. Money market funds had a net cash inflow of $32.5 billion compared to an inflow in July of $13.5 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $15.4 billion, compared to an inflow of $18.7 billion in July. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $124.6 billion in August, up from $116.0 billion in July. The value of non-money market assets appreciated by $12.5 billion in August, following an appreciation of $189.6 billion in July.

Total assets of **equity funds** increased by $8.0 billion, or 0.2 percent, to $4.7 trillion. There was a $6.3 billion net cash inflow to equity funds in August, compared with an inflow of $10.0 billion in July. The market value of assets appreciated by $1.1 billion in August. Equity funds had an inflow of $89.8 billion year-to-date, compared to an inflow of $128.7 billion in the first eight months of 2004.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 0.5 percent, or $2.9 billion, to $558.6 billion. In August, there was a $1.8 billion net cash inflow for these funds, compared to an inflow in July of $1.5 billion. Hybrid funds have experienced an inflow of $23.5 billion year-to-date, compared to an inflow of $30.1 billion during the same period in the previous year.

Bond funds experienced a cash inflow of $7.3 billion, while their total assets increased by $21.1 billion, to $1.4 trillion. The market value of bond funds assets increased by $10.8 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 1.2 percent. The 2005 inflow is $29.2 billion, compared to an outflow of $19.8 billion through August of 2004.

Assets of taxable and tax-exempt **money market funds** increased $39.0 billion, to $1.9 trillion, an increase of 2.5 percent for taxable money market funds and a decrease of 0.03 percent for tax-exempt funds. The 2005 outflow of $22.3 billion is less than the outflow for the first eight months of 2004, $118.4 billion.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 6.0 in July to 6.3 percent in August, while the ratio for equity funds remained at 3.9 percent (figure 4).

Weekly Flows

In August, there were outflows from equity funds of 0.5 percent of total assets, with returns of 2.8 percent (figure 6a). Bond funds had outflows of 0.2 percent and gains of 0.04 percent.

Index funds had monthly outflows of 1.1 percent and gains of 1.3 percent. Aggressive growth funds had outflows of 0.6 percent and returns of 3.4 percent. Small-cap funds had inflows of 0.4 percent and gains of 3.1 percent.

Technology funds had outflows of 2.0 percent and returns of 0.1 percent (figure 6b). There were outflows to real estate funds of 0.4 percent and returns of 1.9 percent.

There were outflows to international funds in August of 0.1 percent of assets and gains of 4.4 percent. Latin American funds had inflows of 0.4 percent and gains of 18.6 percent. Japan funds had inflows of 0.6 percent and returns of 7.9. Pacific funds that do not invest in Japan had outflows of 3.4 percent and gains of 0.9 percent of assets. Emerging Markets funds had outflows of 2.0 percent and returns of 2.3 percent.

Capital Market Returns and Volatility

The S&P 500 ended September 30 at 1228.8, an increase of 0.6 percent from the beginning of the month. The 12-month gain was 12.8 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.3 percent.

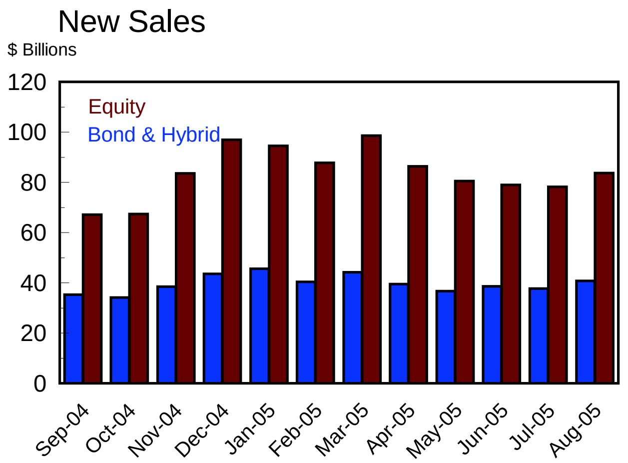
The 12-month average return on the Citigroup Bond Index was 2.9 percent for September. Volatility increased to 3.3 percent (figure 8).

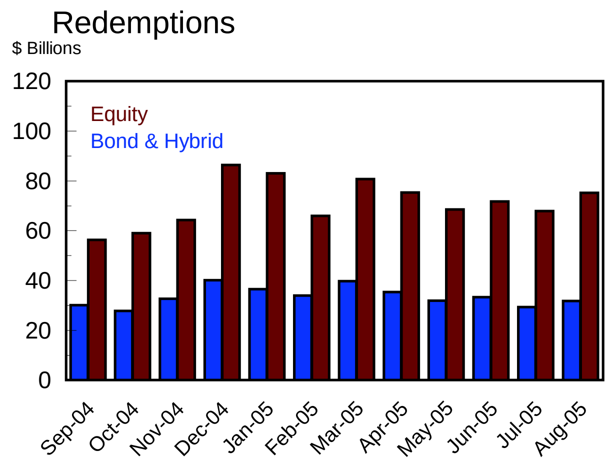
Price-Earnings Ratio

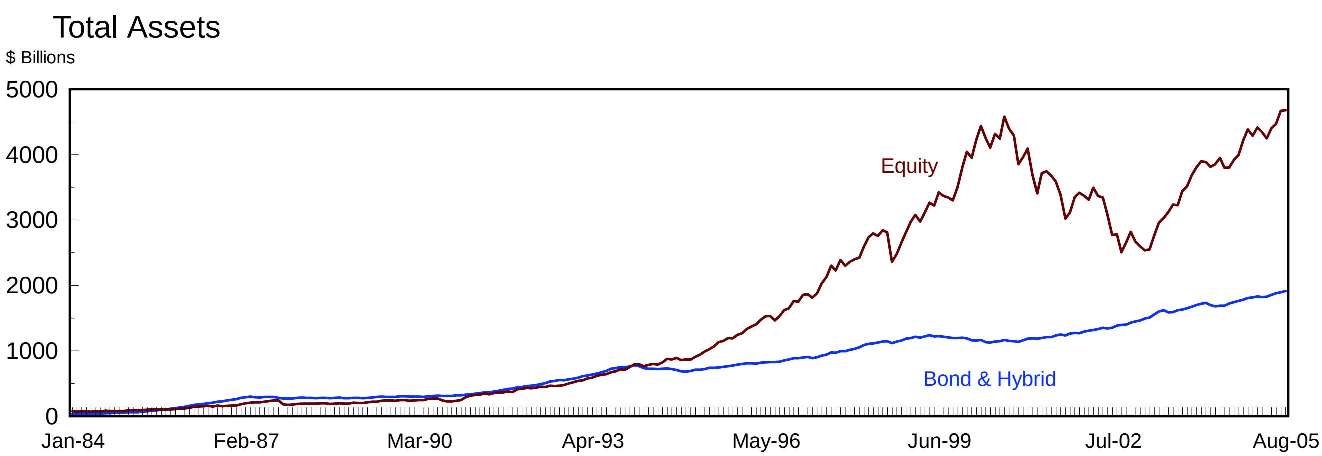
The macro projections for the growth of earnings of the Standard and Poor’s 500 index over the next two years have been revised in the third quarter of 2005 to 11.0 percent from current levels. During the third quarter of 2005 the price-earnings ratio for the Standard and Poor's 500 Index fell to 18.5 from 18.9 while the price-earnings ratio for the Small-Cap 600 Index increased to 22.3 from 21.3 (figure 9).

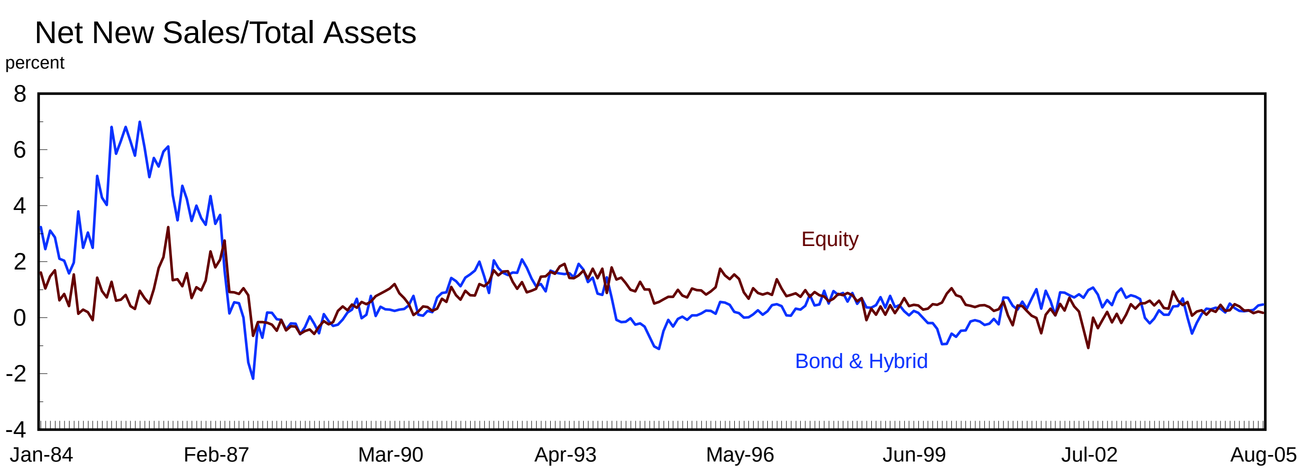
Please contact Maria Giduskova for questions and comments at Maria.Giduskova@bos. frb.org, or by phone at (617) 973-3198

Figure 1
Sales of Mutual Funds







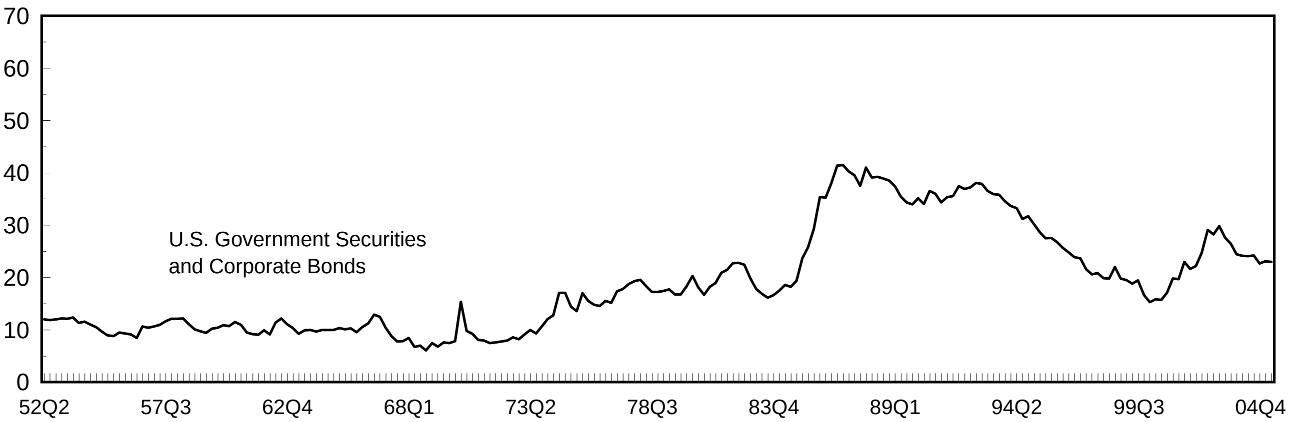


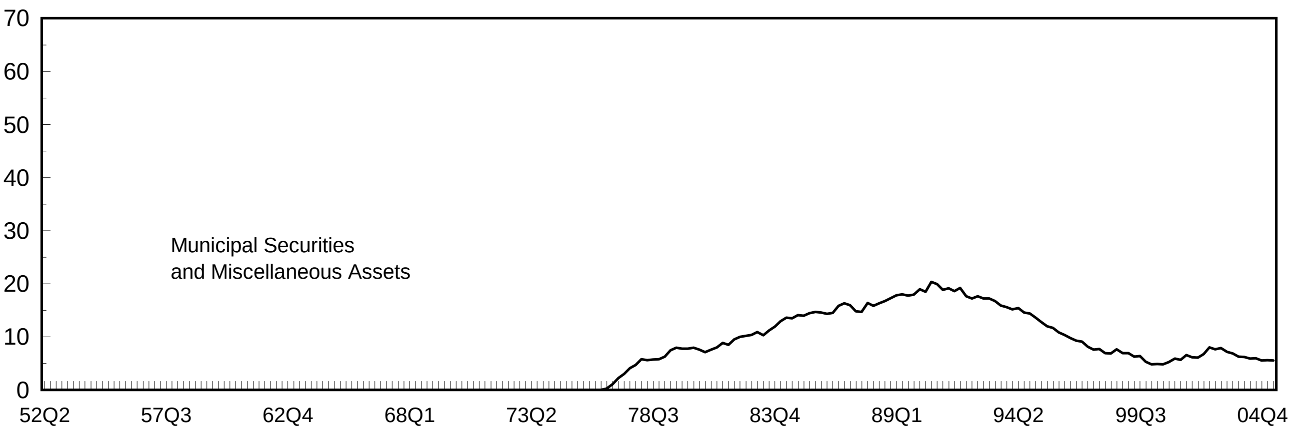
Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)

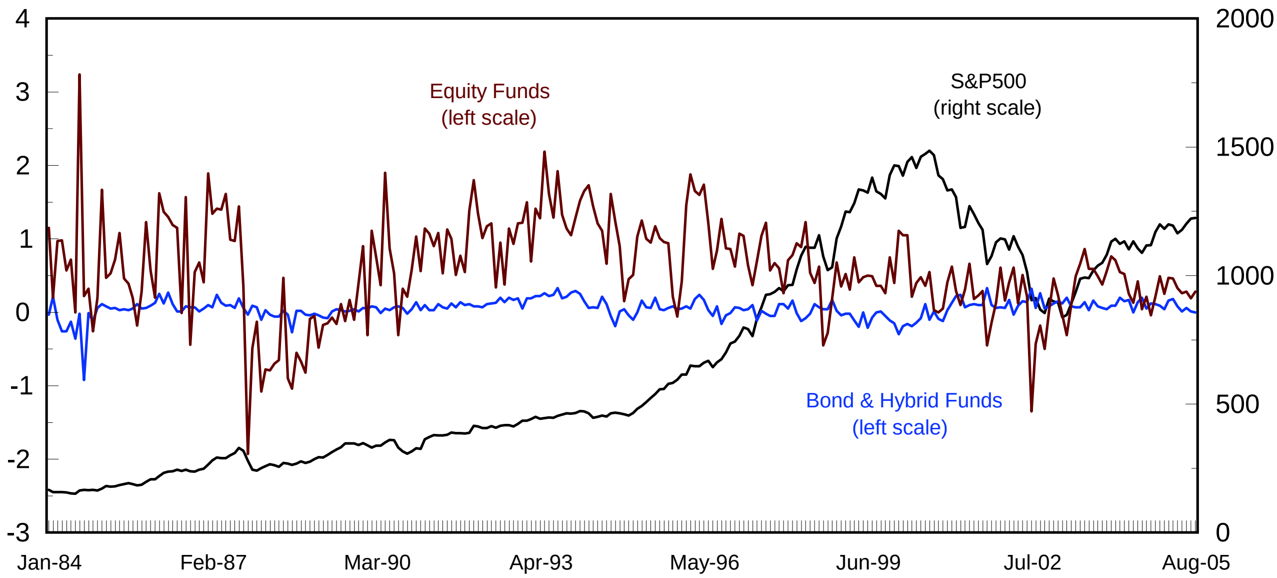




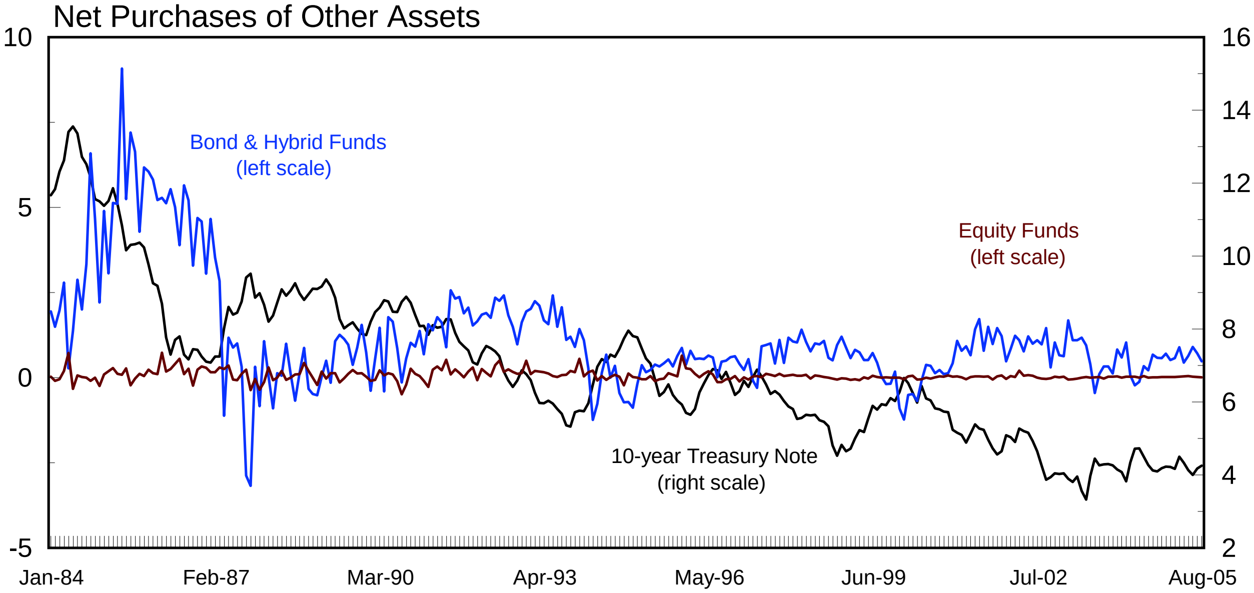
Source: Flow of Funds, Haver Analytics0

Figure 3
Net Portfolio Purchases
(percent of Total Assets)

Net Common Stock Purchases



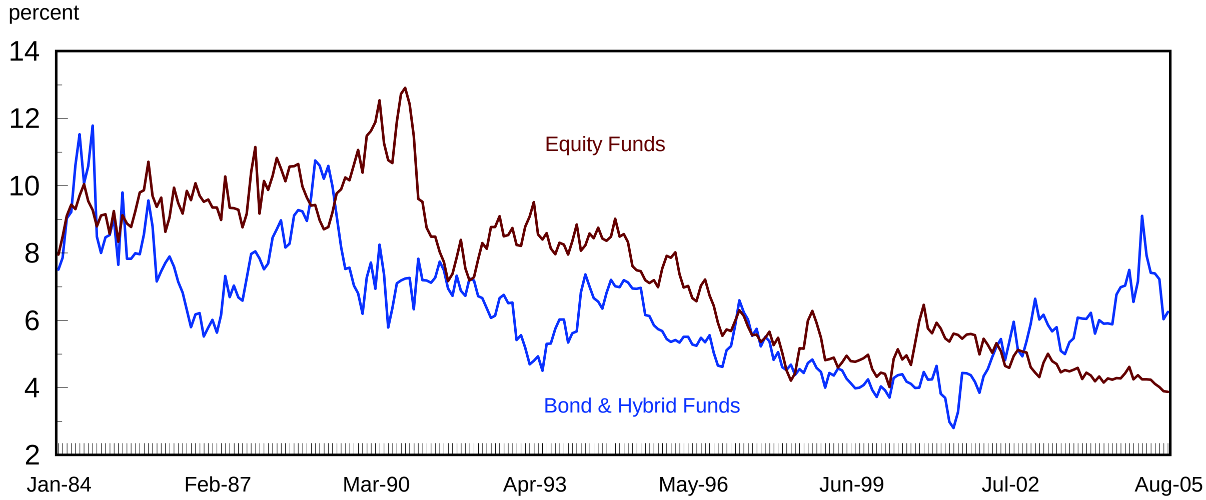
Net Purchases of Other Assets



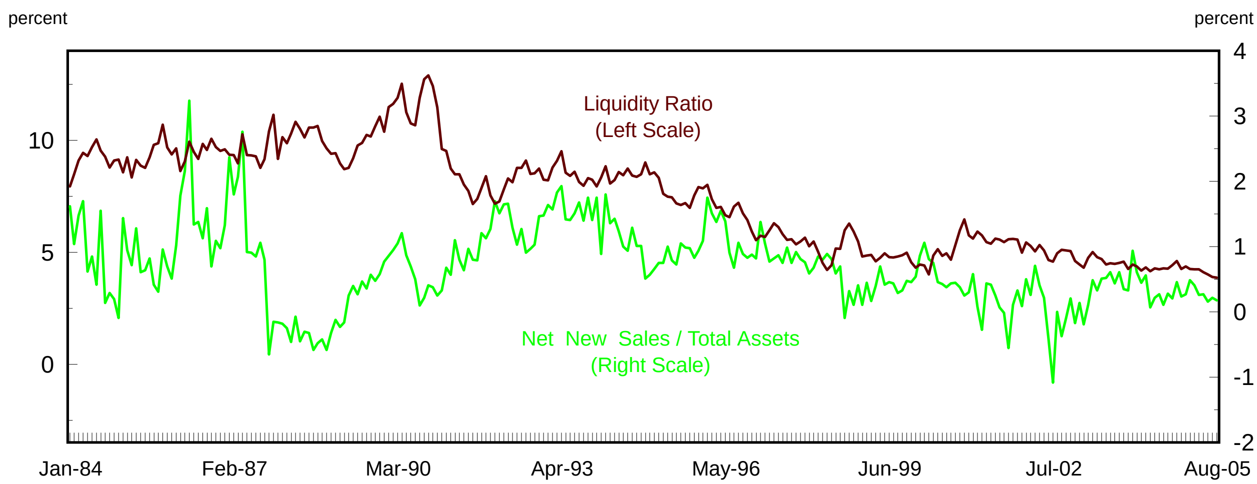
Source: Investment Company Institute

Figure 4

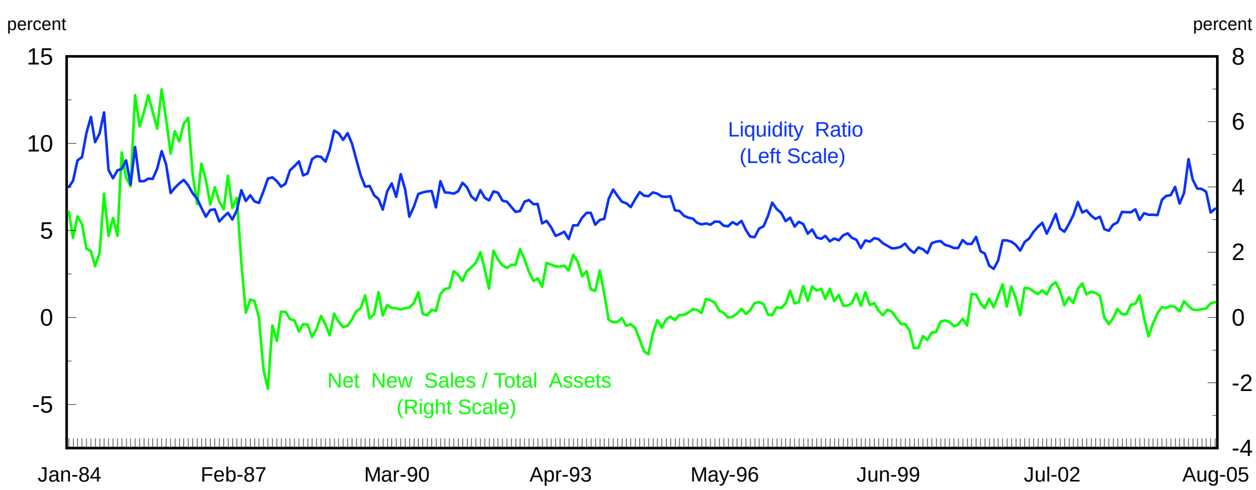
Liquidity Ratio*



Equity Funds



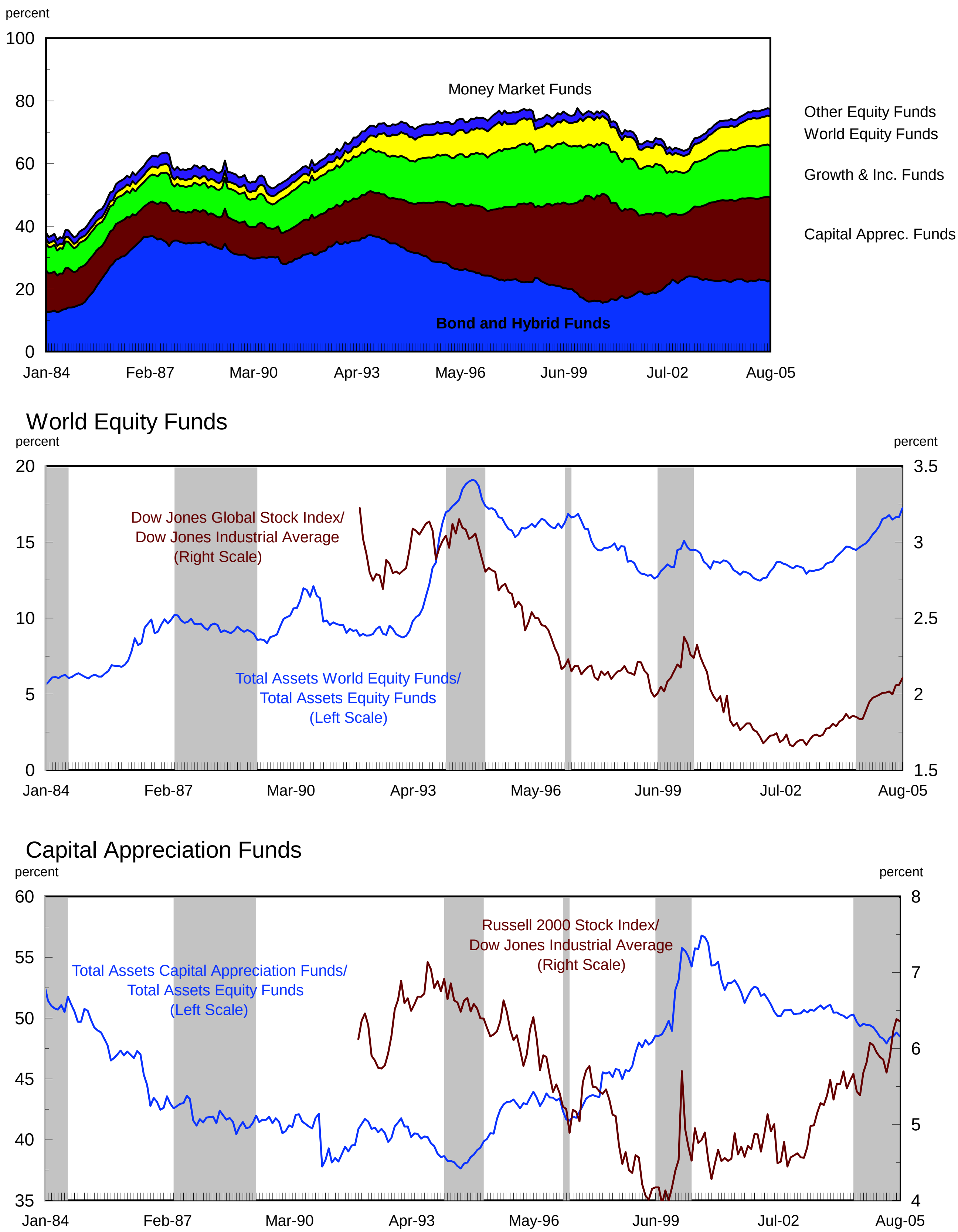
Bond & Hybrid Funds



*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)

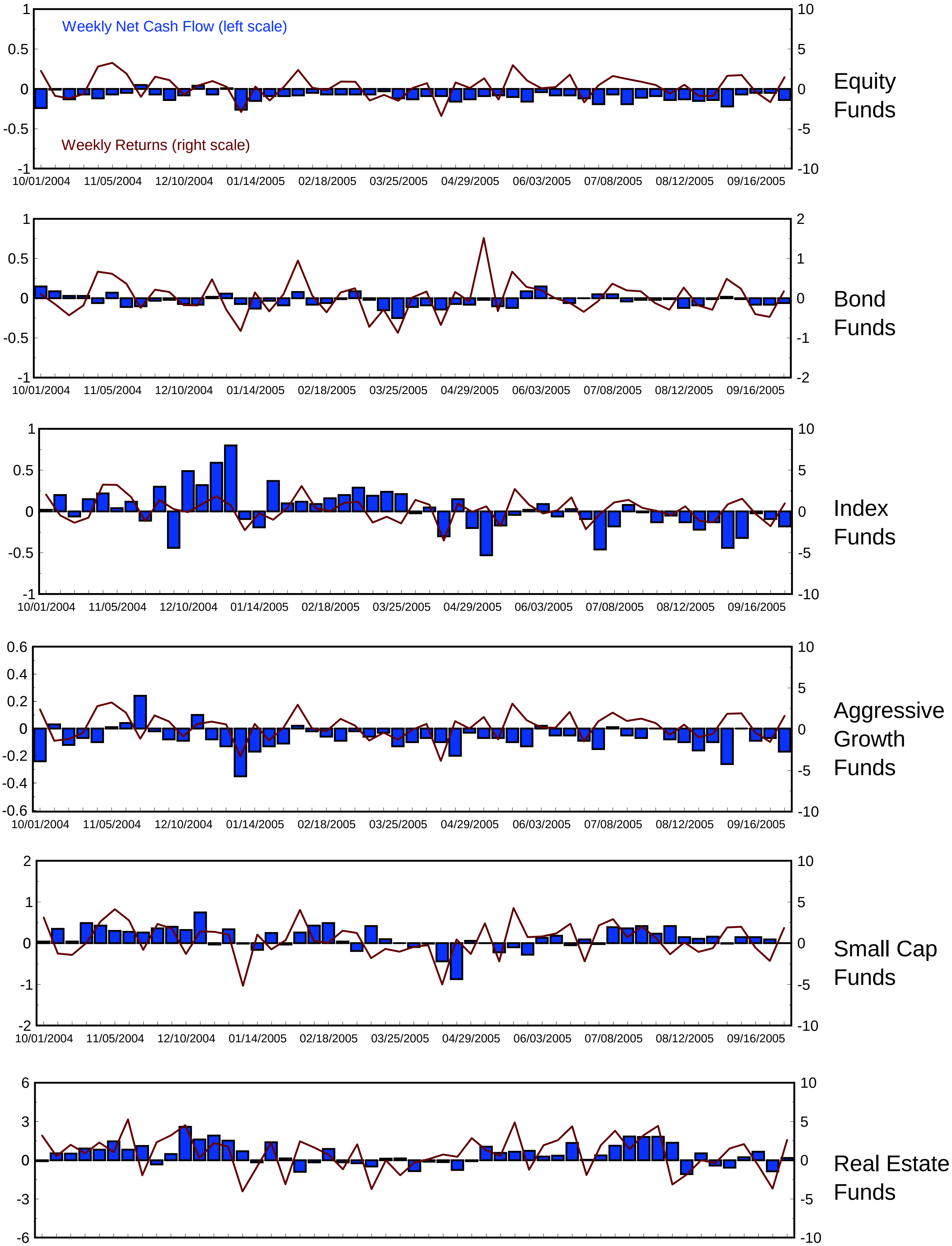


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

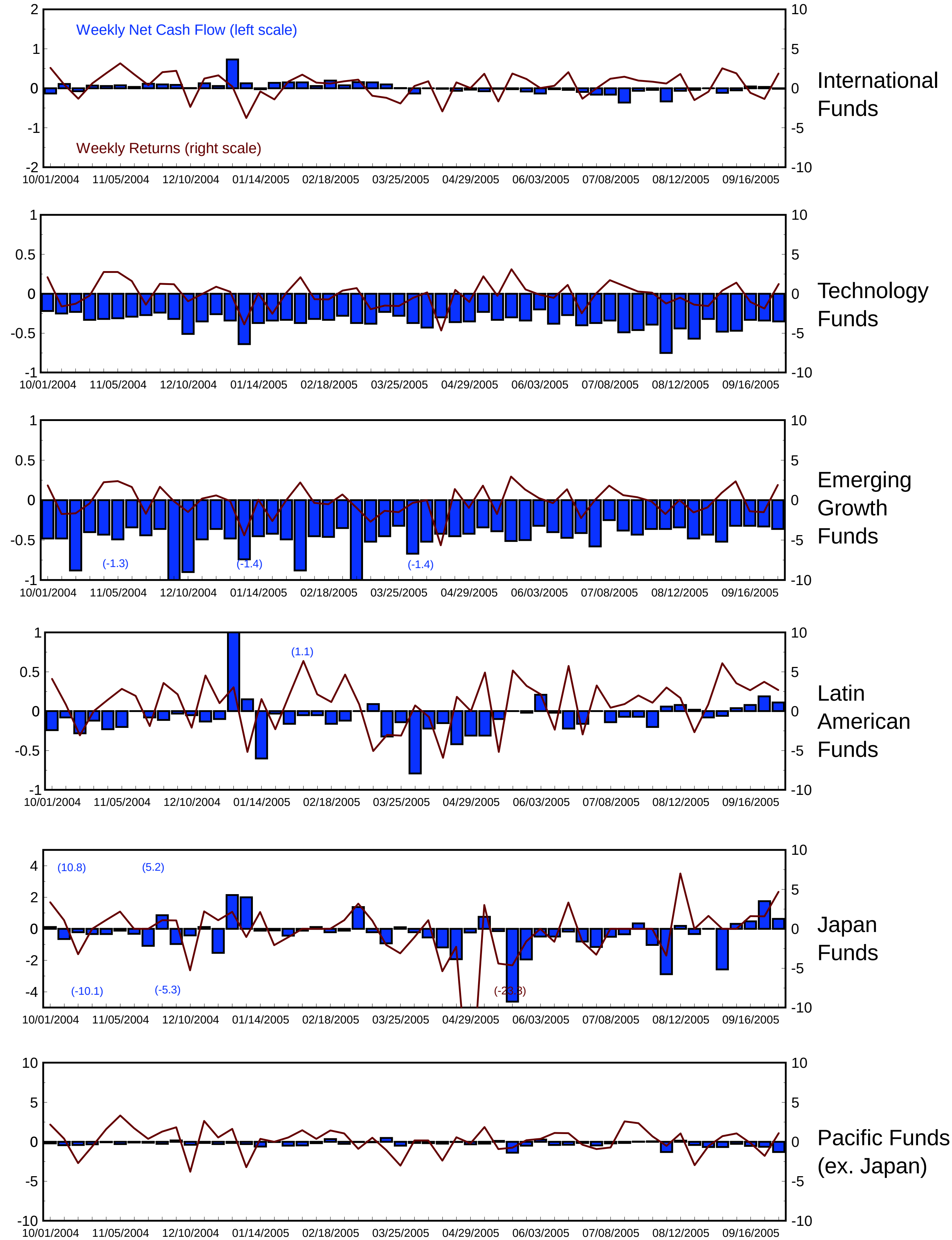


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)



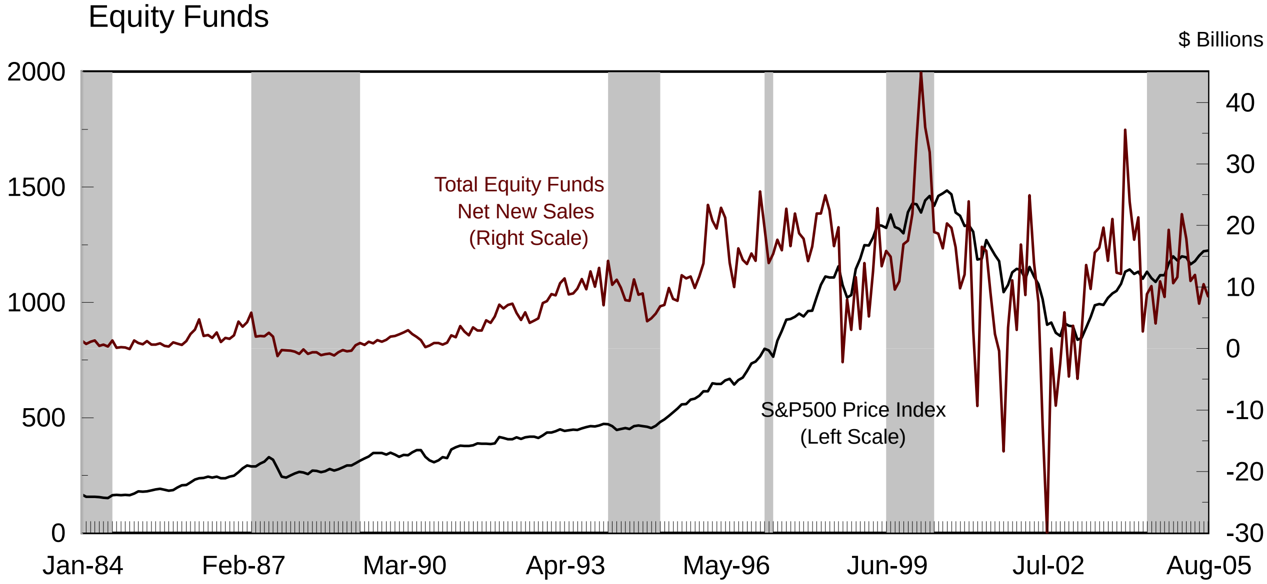
Source: Mutual Fund Trim Tabs

Figure 7

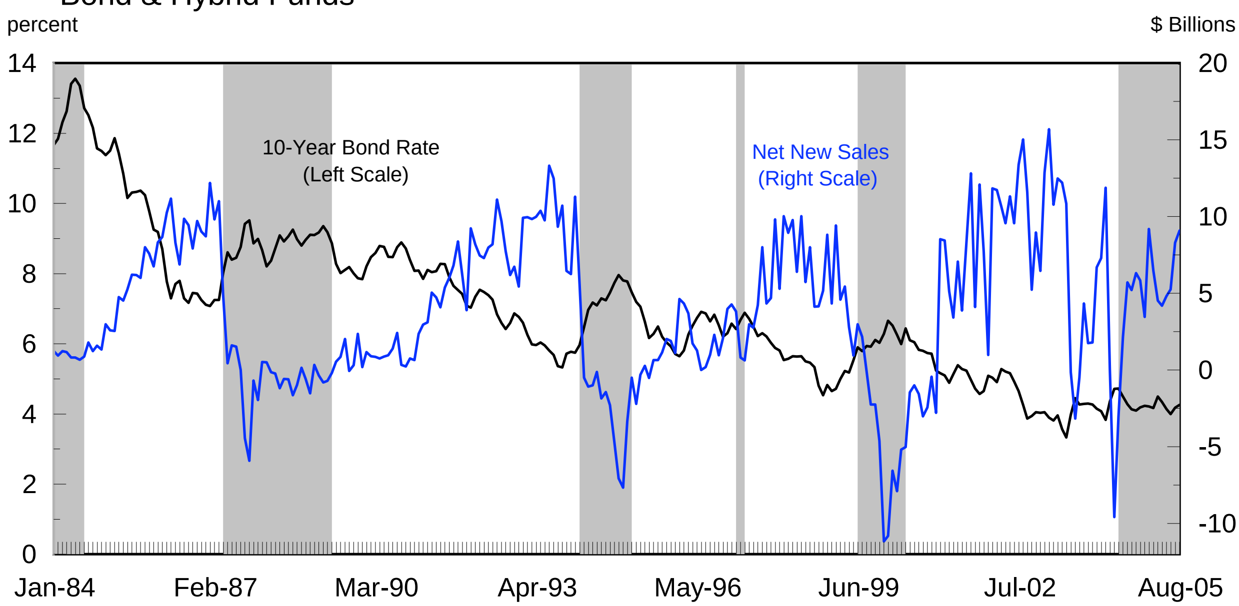
Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

Equity Funds



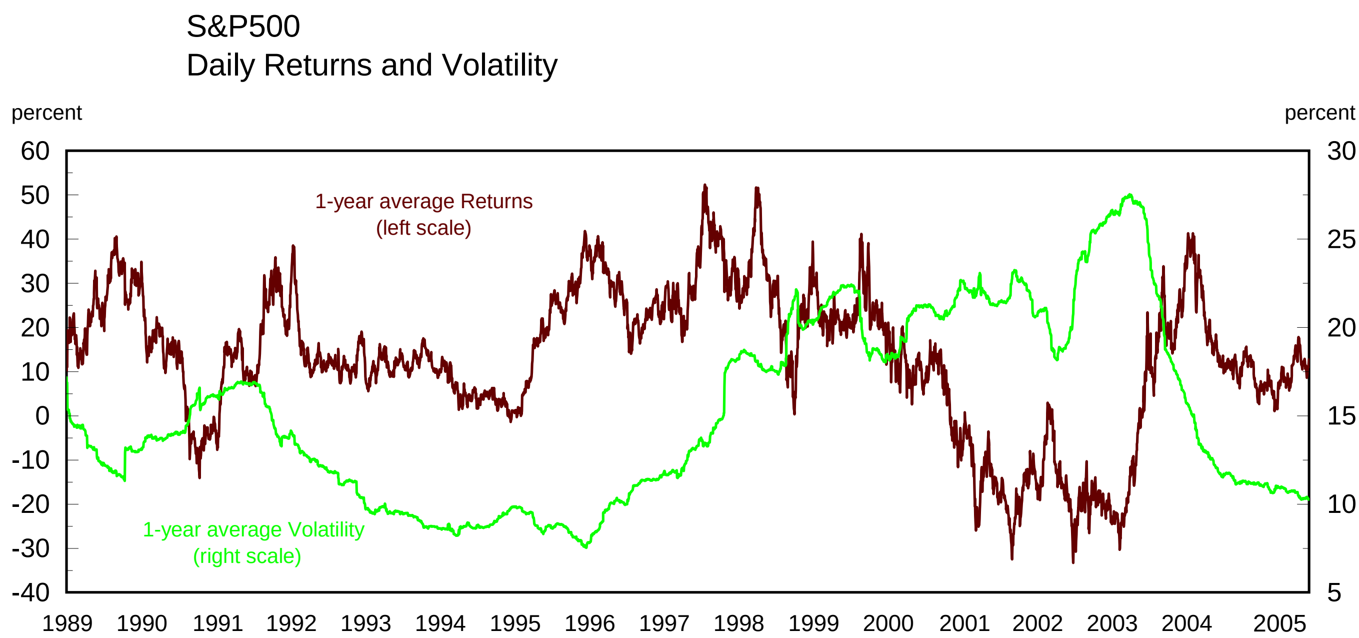
Bond & Hybrid Funds

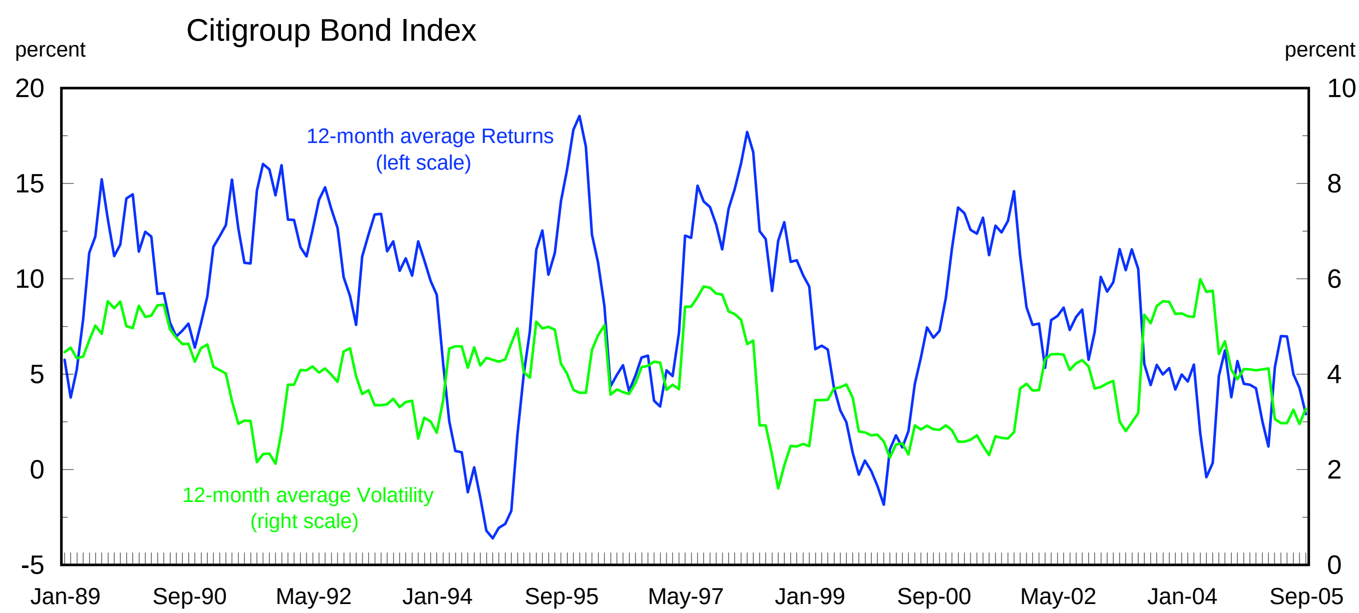


Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility

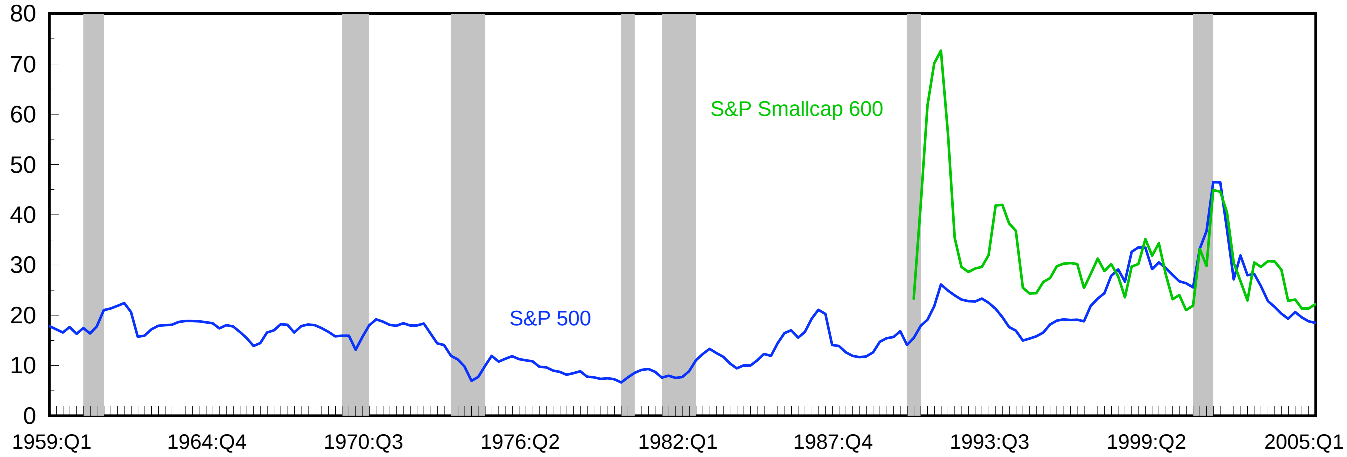




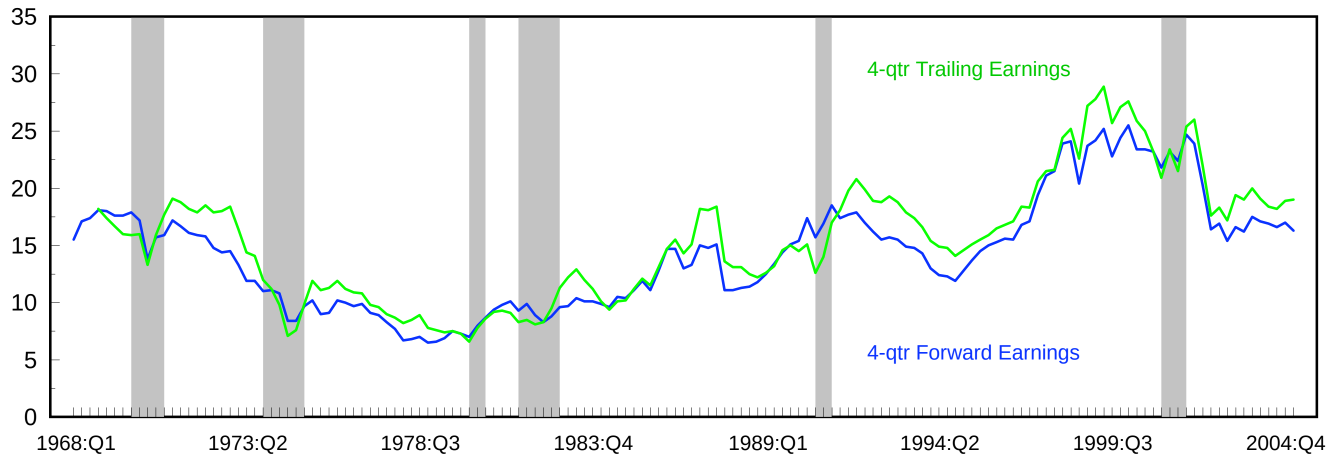
Source: FAME Database, Citigroup

Figure 9

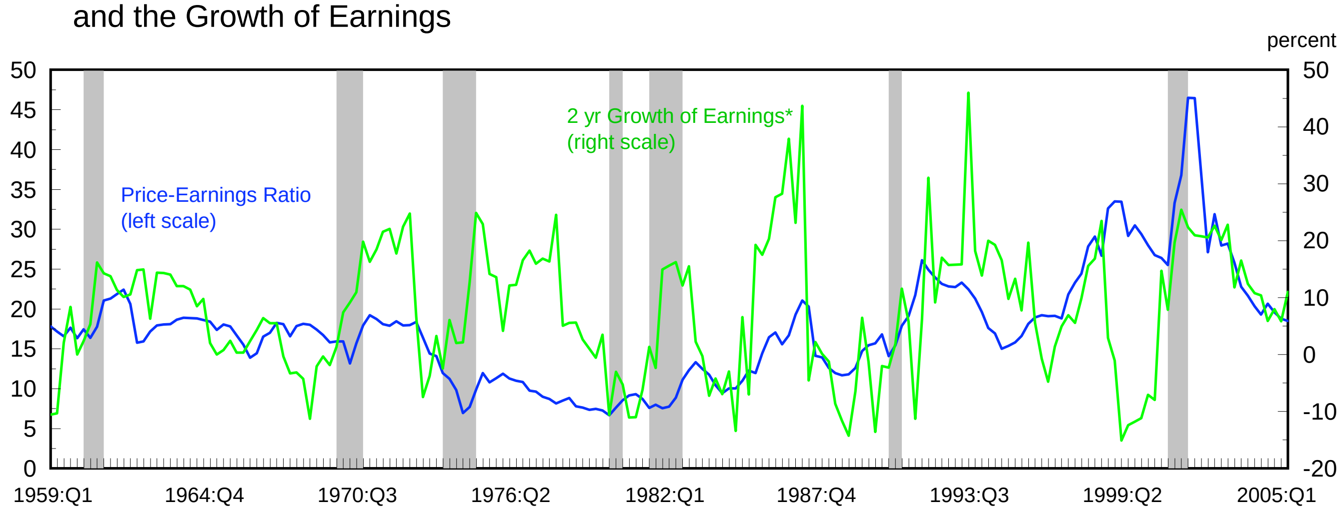
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio
and the Growth of Earnings

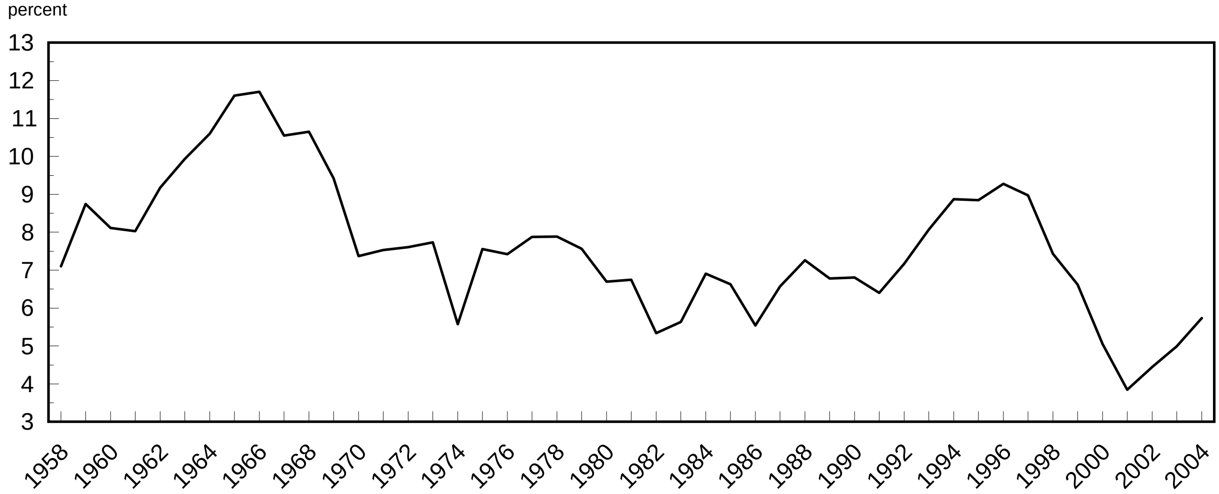


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

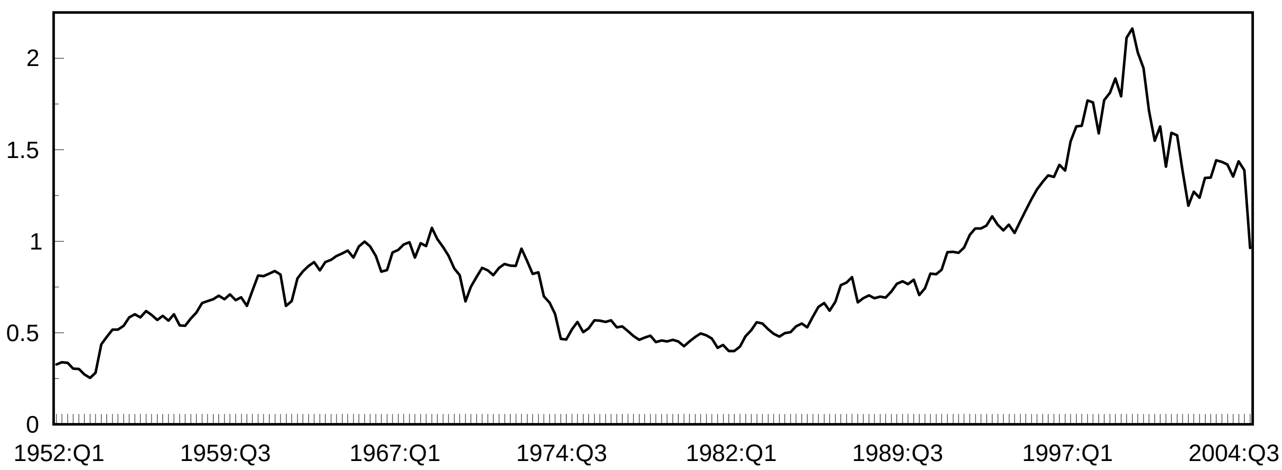
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

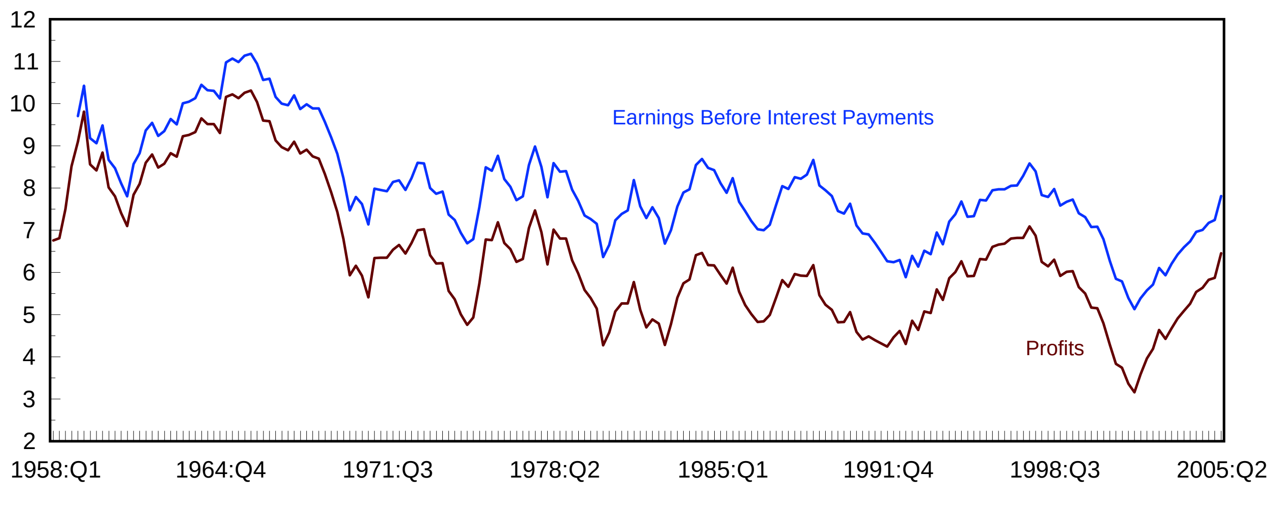
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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