Federal Reserve Bank of Boston

Monthly Mutual Fund Report

October 6, 2006

FEDERAL RESERVE BANK OF BOSTON™

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Statistics for August 2006 – September 2006

Sales and Redemptions

Total assets for all funds increased in August by $206.0 billion, or 2.2 percent, to $9.5 trillion. Money market funds had a net cash inflow of $42.7 billion compared to an inflow in July of $25.8 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $11.7 billion, compared to an inflow of $3.9 billion in July. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $130.3 billion in August, up from $116.0 billion in July. The value of non-money market assets appreciated by $142.9 billion in August, following a depreciation of $2.1 billion in July.

Total assets of **equity funds** increased by $123.9 billion, or 2.4 percent, to $5.4 trillion. There was $4.8 billion net cash inflow into equity funds in August, compared with an inflow of $0.7 billion in July. The market value of assets appreciated by $118.4 billion in August. Equity funds had an inflow of $118.6 billion year-to-date, compared to an inflow of $90.4 billion during the first eight months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased by 1.9 percent, or $11.2 billion, to $602.7 billion. In August, there was $202.0 million net cash inflow into these funds, compared to an outflow in July of $99.0 million. Hybrid funds have experienced an inflow of $1.1 billion year-to-date, compared to an inflow of $23.2 billion during the first eight months of 2005.

Bond funds experienced a cash inflow of $6.7 billion, while their total assets increased by $24.1 billion, to $1.4 trillion. The market value of bond funds assets increased by $14.1 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 1.8 percent, while the assets of tax-exempt bond funds increased by 1.6 percent. The 2006 inflow is $30.6 billion, compared to an inflow of $30.0 billion through August of 2005.

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Assets of taxable and tax-exempt **money market funds** increased $47.6 billion, to $2.2 trillion, an increase of 2.5 percent for taxable money market funds and an increase of 0.7 percent for tax-exempt funds. The 2006 inflow is $104.6 billion, compared to an outflow of $21.9 billion through August of 2005.

Liquidity Ratio
The liquidity ratio for bond and hybrid funds decreased to 6.0 percent in August from 6.2 percent in July, while the ratio for equity funds increased to 4.4 percent in August from 4.1 percent in July (figure 4).

Weekly Flows
In August, outflows from equity funds were 0.4 percent of total assets, with gains of 2.1 percent (figure 6a). Bond funds had outflows of 0.5 percent and gains of 0.2 percent.

Index funds had monthly inflows of 0.01 percent and gains of 0.4 percent. Aggressive growth funds had outflows of 0.8 percent and gains of 2.9 percent. Small-cap funds had outflows of 0.8 percent and gains of 0.1 percent.

Technology funds had outflows of 1.7 percent and losses of 0.2 percent (figure 6b). There were inflows to real estate funds of 4.3 percent and gains of 4.9 percent.

International funds in September had inflows of 0.3 percent of assets and gains of 0.7 percent. Latin American funds had outflows of 0.7 percent and losses of 5.6 percent. Japan funds had outflows of 1.6 percent and losses of 5.0 percent. Pacific funds that do not invest in Japan had outflows of 0.1 percent and gains of 1.9 percent of assets. Emerging Markets funds had outflows of 0.2 percent and gains of 0.5 percent.

Capital Market Returns and Volatility
The S&P 500 ended in September at 1335.9, an increase of 2.5 percent from the previous month. The 12-month gain was 11.5 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 11.2 percent.

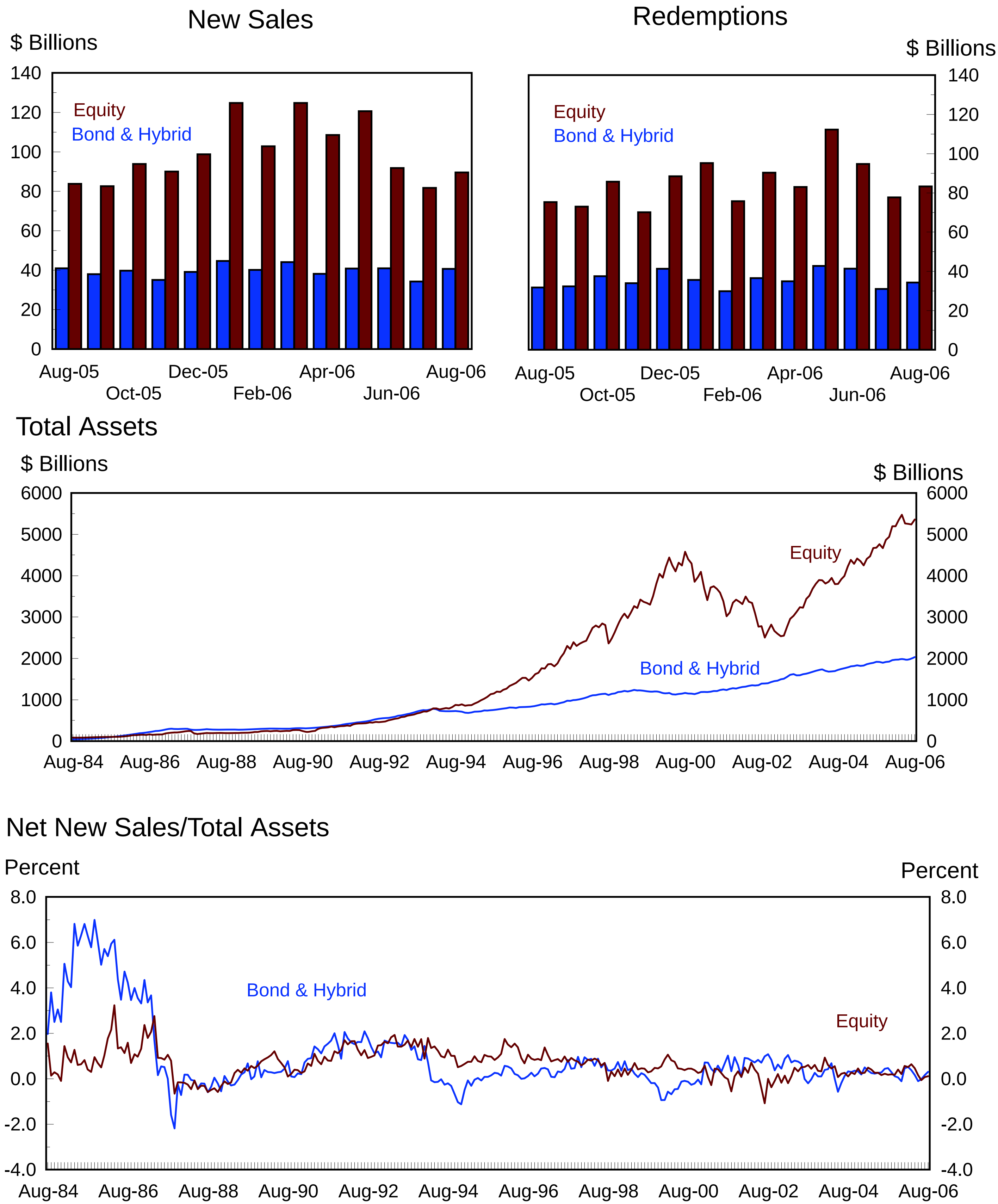
The 12-month average return on the Citigroup Bond Index was 3.7 percent in September. Volatility decreased to 2.8 percent in September from 3.0 percent in August (figure 8).

Price-Earnings Ratio
The macro projections for the growth of earnings for the Standard and Poor's 500 index over the next two years (2006:Q3-2008:Q3) have been revised to 5.8. During the second quarter of 2006, the price-earnings ratio for the Standard and Poor's 500 Index was at 17.2, down from 17.8 in the first quarter of 2006. The price-earnings ratio for the Small-Cap 600 Index decreased to 22.4 in the second quarter of 2006, from 23.7 in the first quarter of 2006 (figure 9).

Please contact Afreen Ali for questions and comments at Afreen.Ali@bos.frb.org, or by phone at (617) 973-3239.

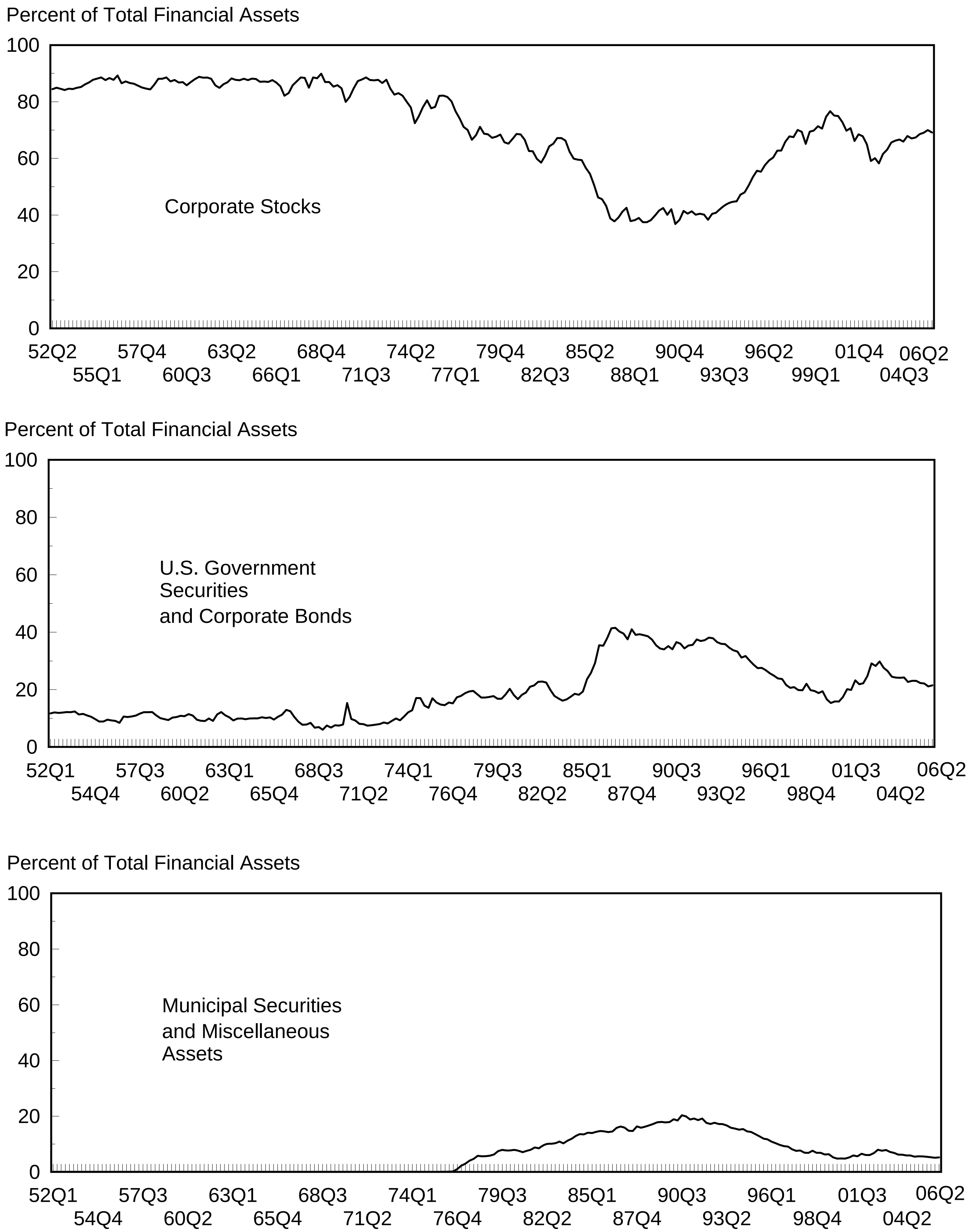
Figure 1

Sales of Mutual Funds



Source: Investment Company Institute

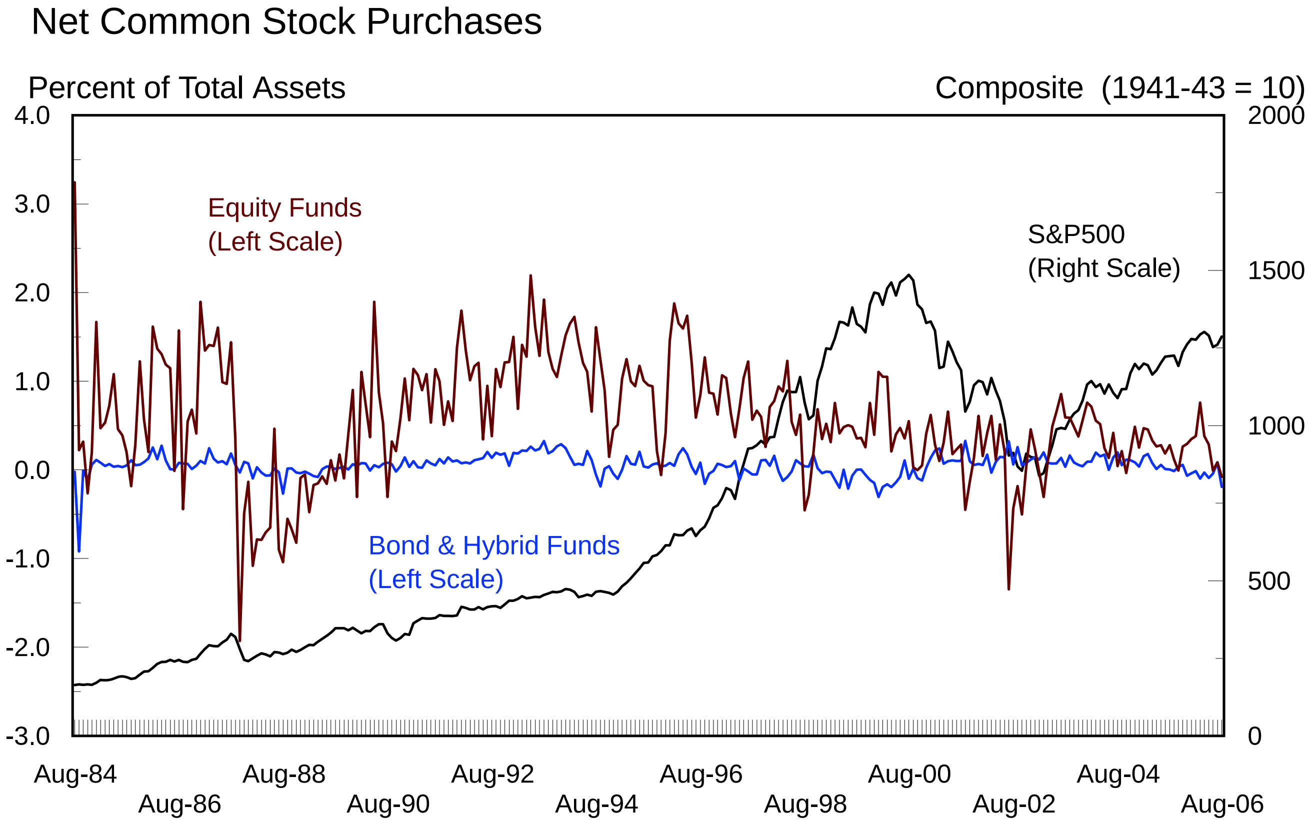
Figure 2
Composition of Mutual Funds' Financial Assets

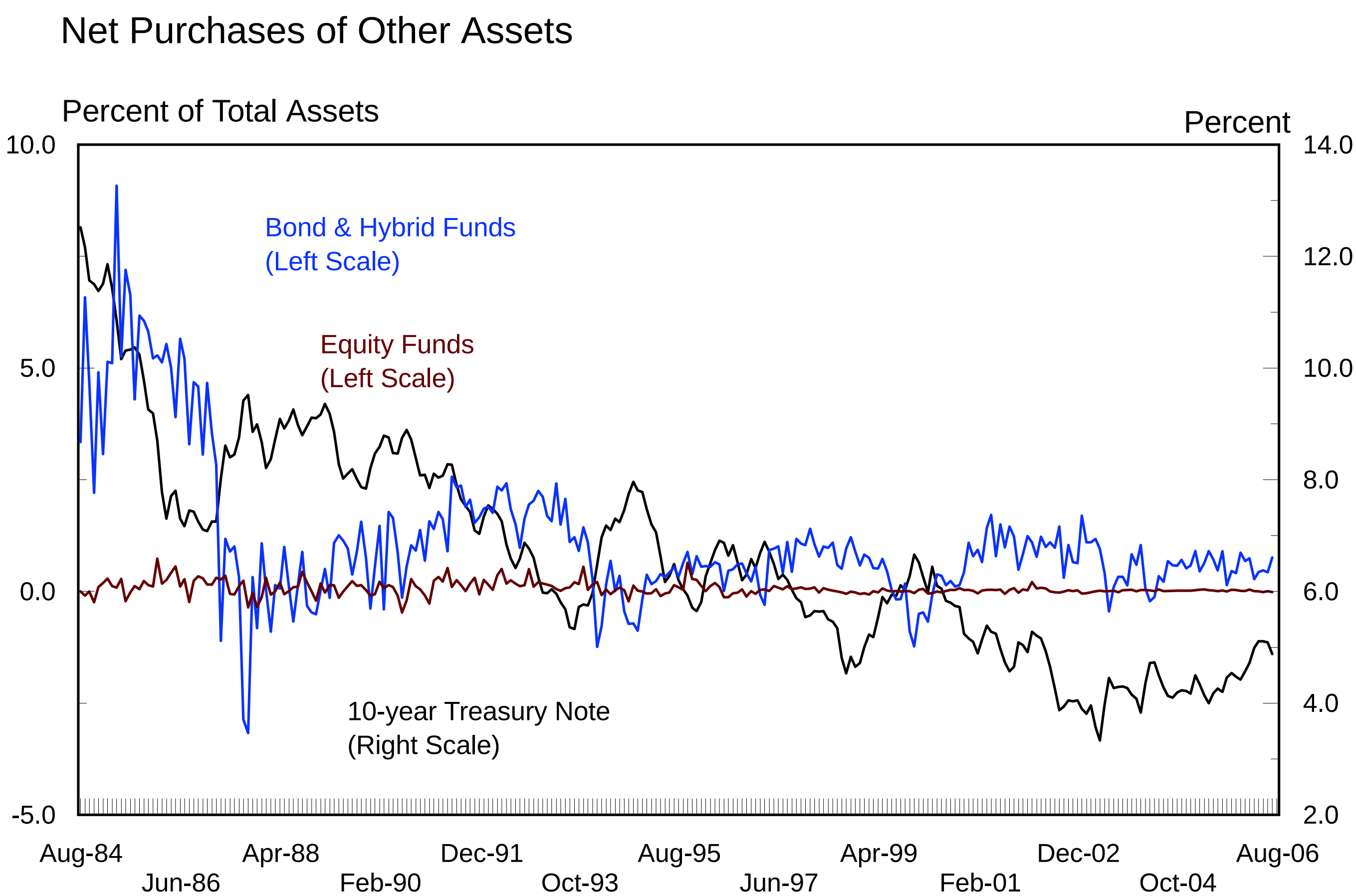


Source: Flow of Funds/Haver Analytics.

Figure 3

Net Portfolio Purchases

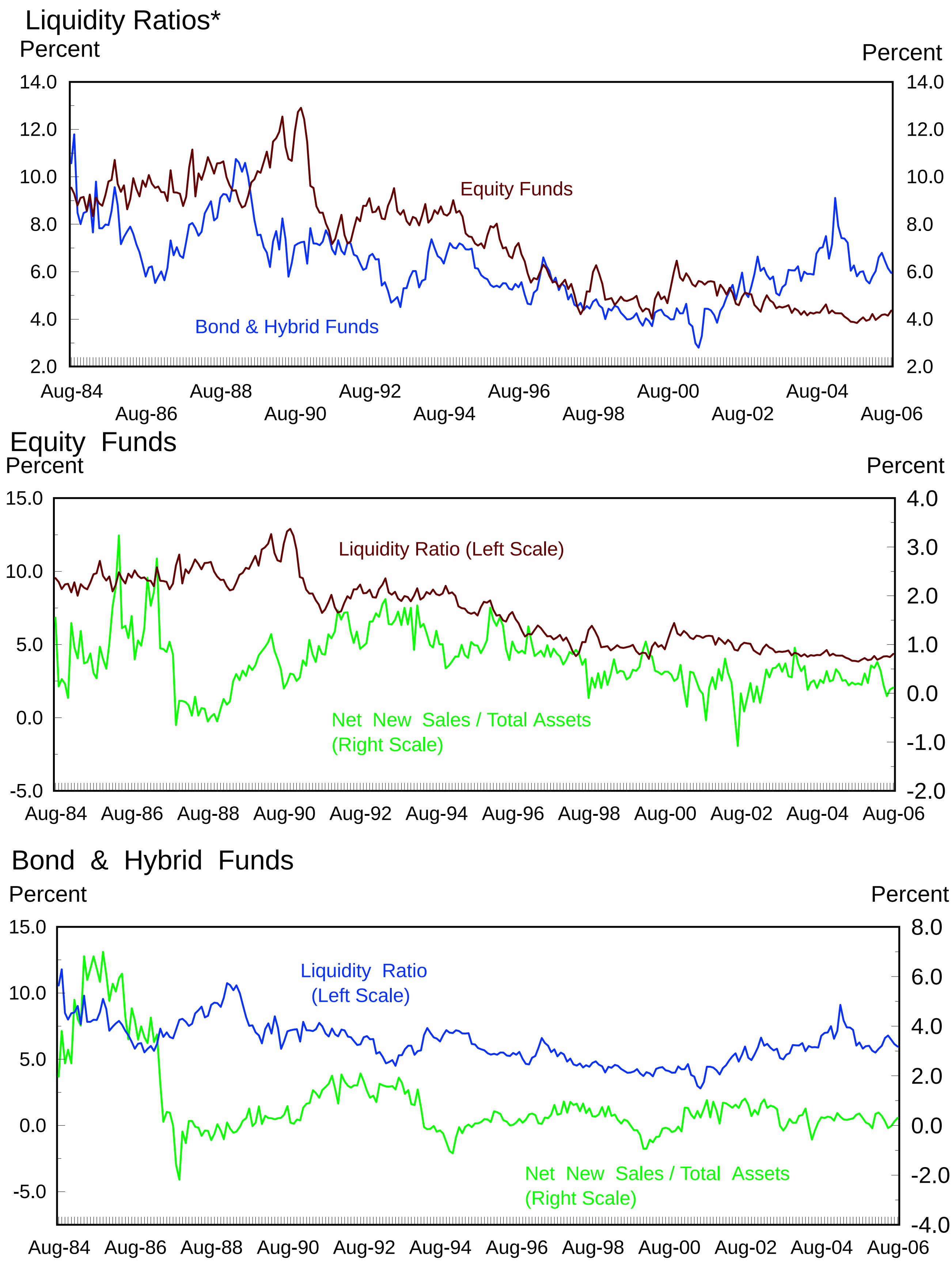




Source: Investment Company Institute

Figure 4

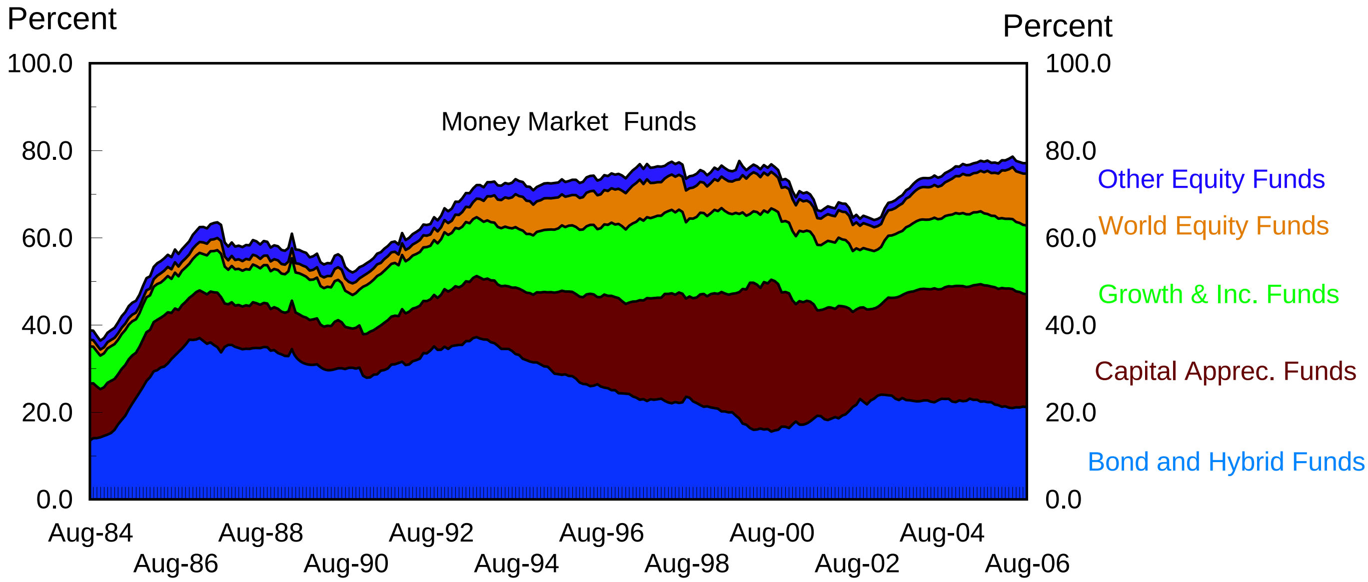
Liquidity Ratios



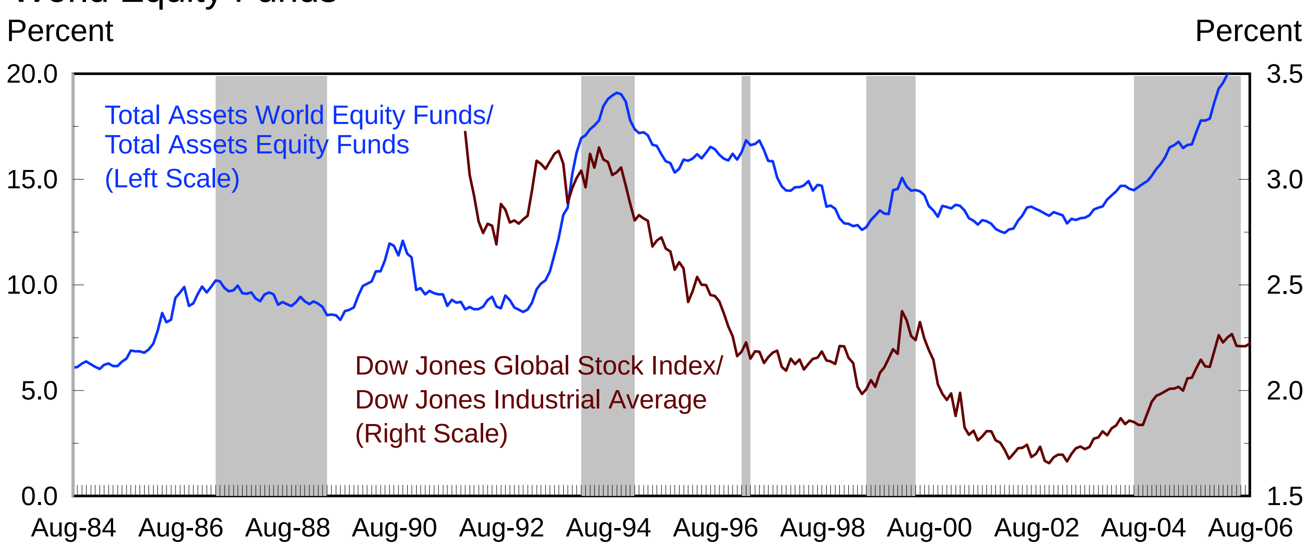
*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

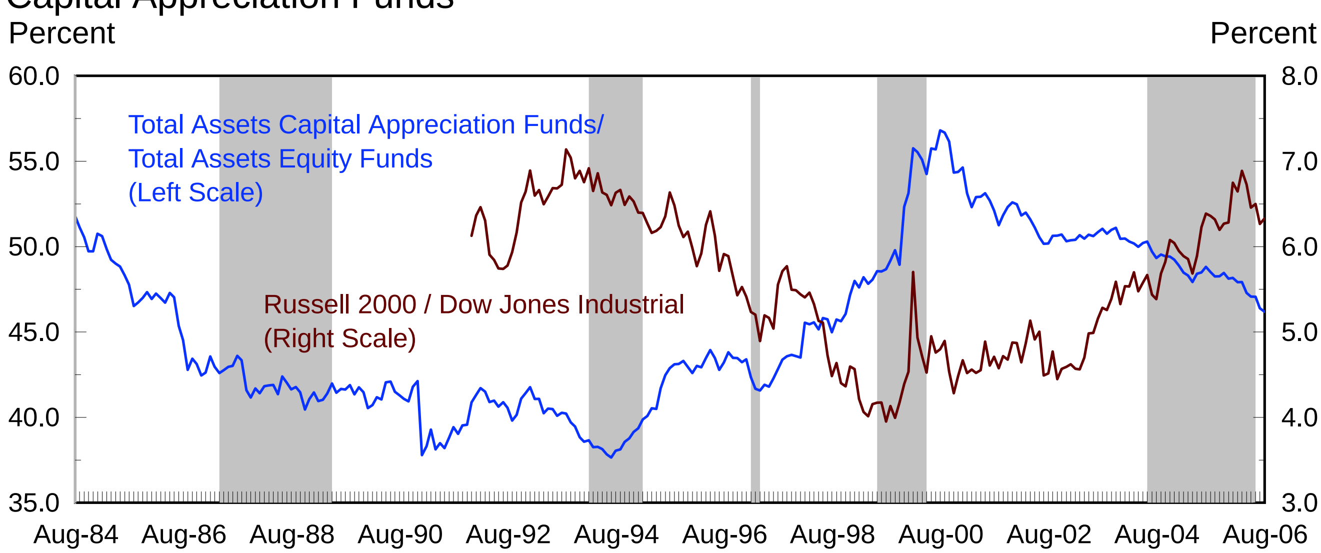
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

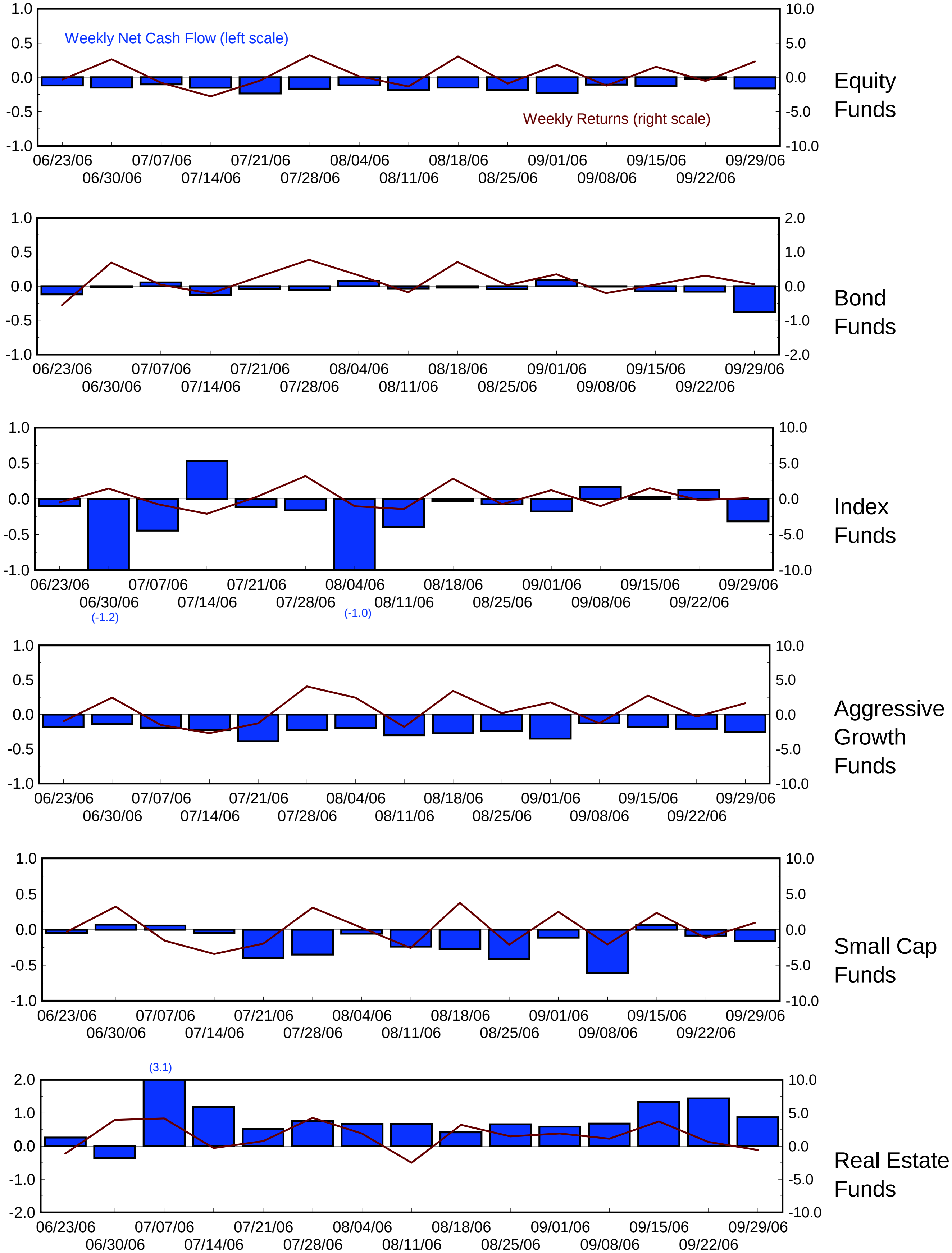


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(Percent of Total Assets)

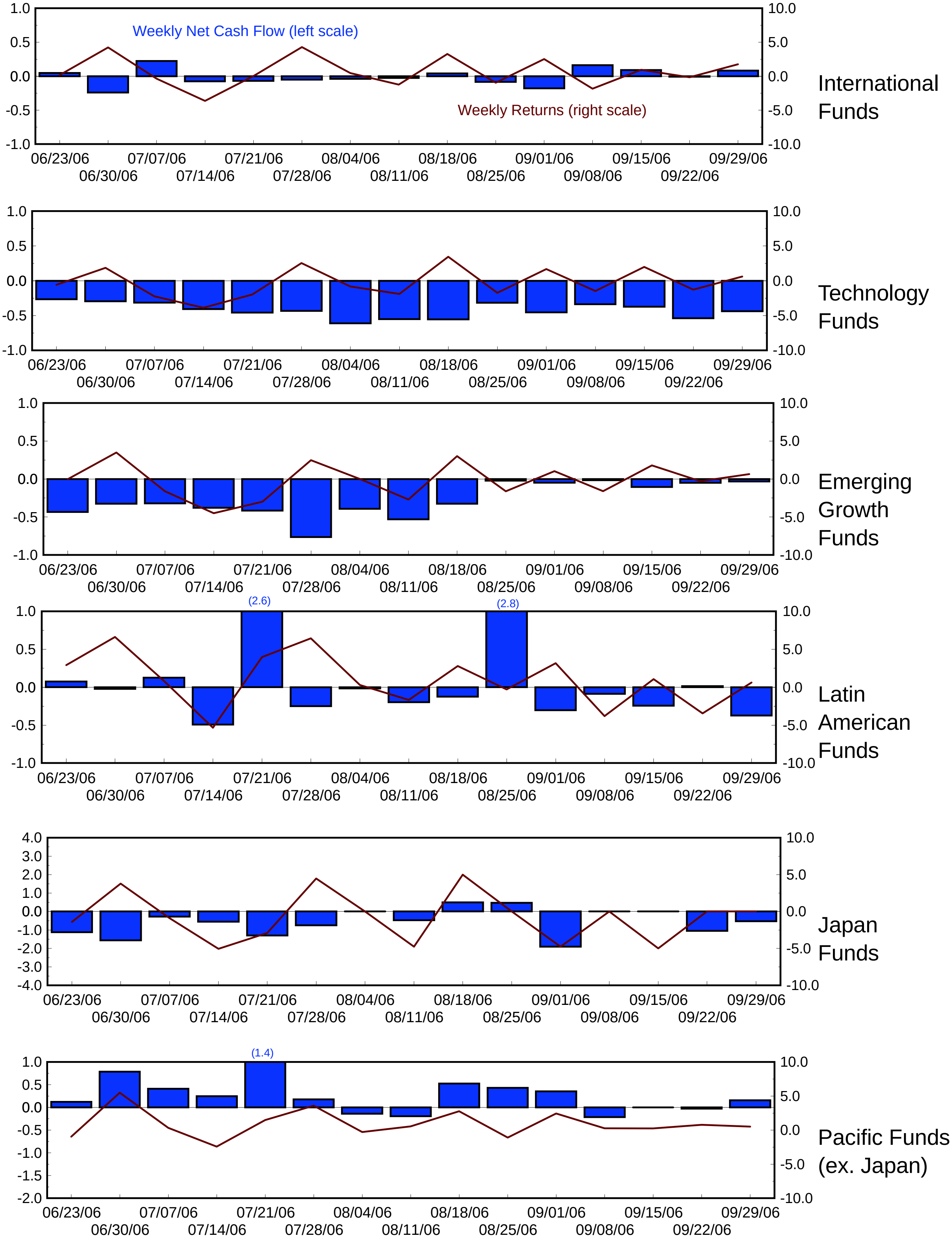


Source: Mutual Fund TrimTabs

Figure 6b

Weekly Flows into Mutual Funds

(Percent of Total Assets)

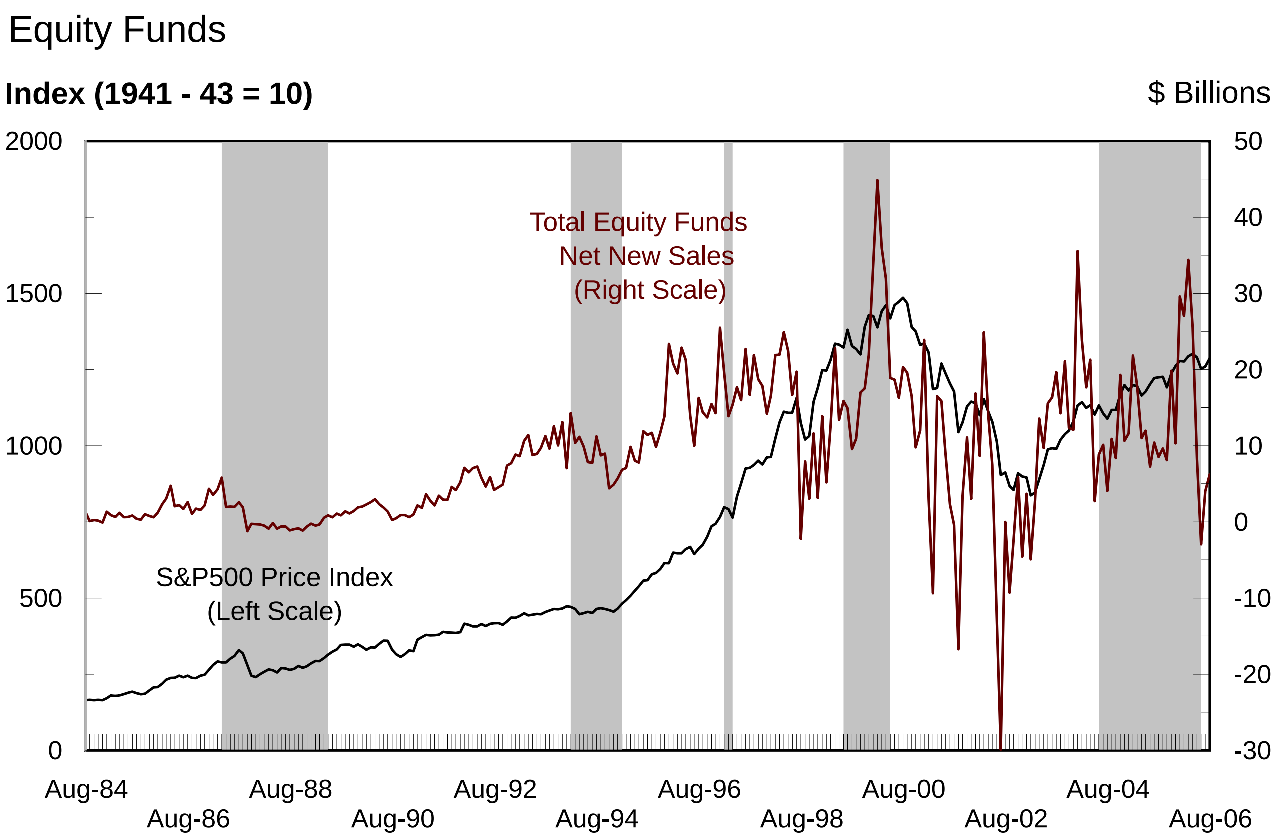


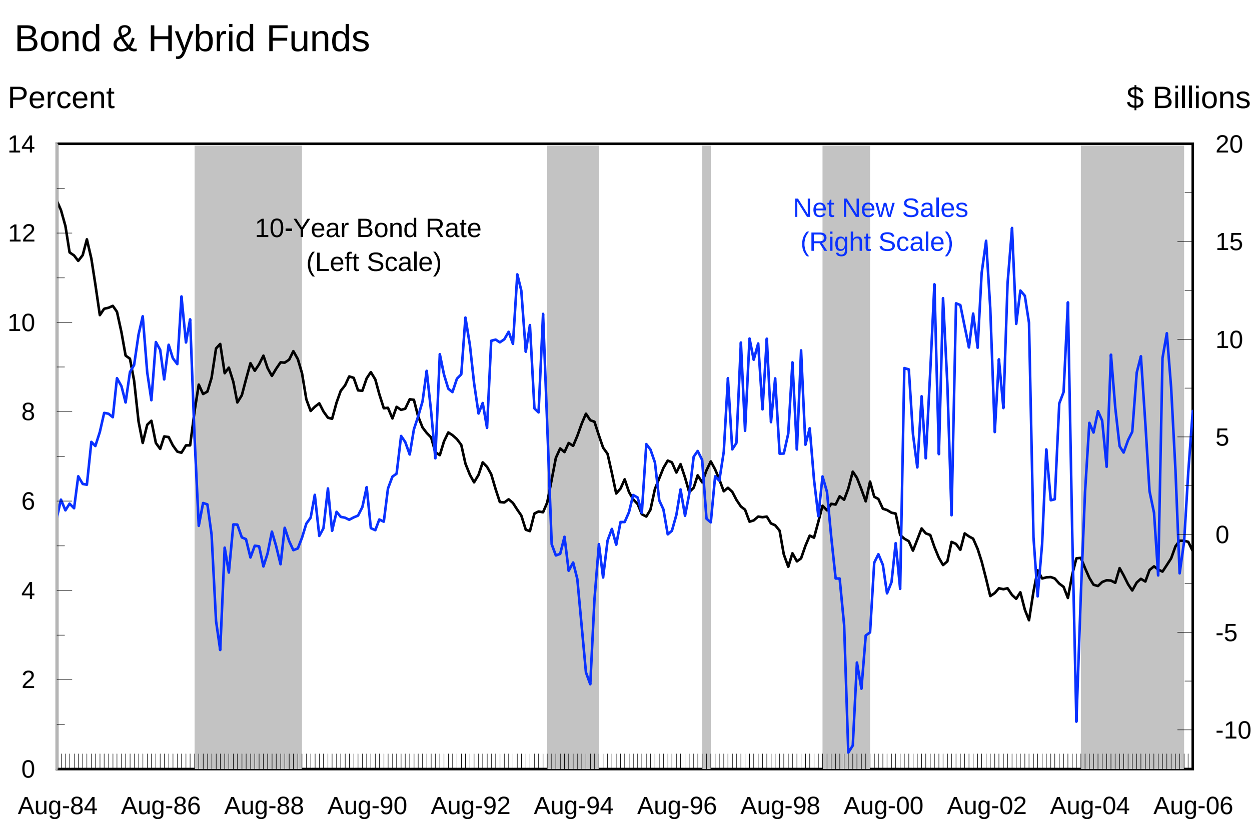
Source: Mutual Fund TrimTabs

Figure 7

Net New Sales By Investment Objective

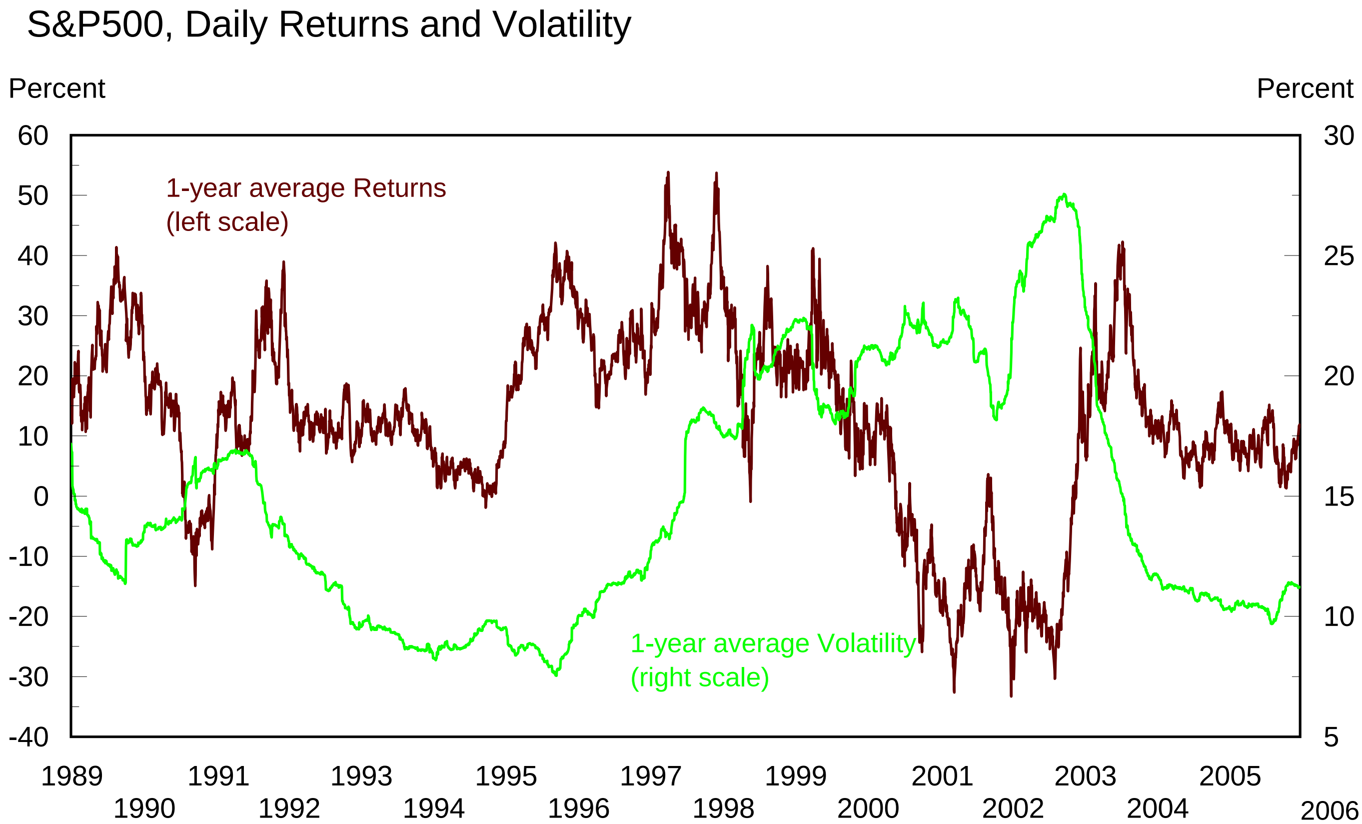
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

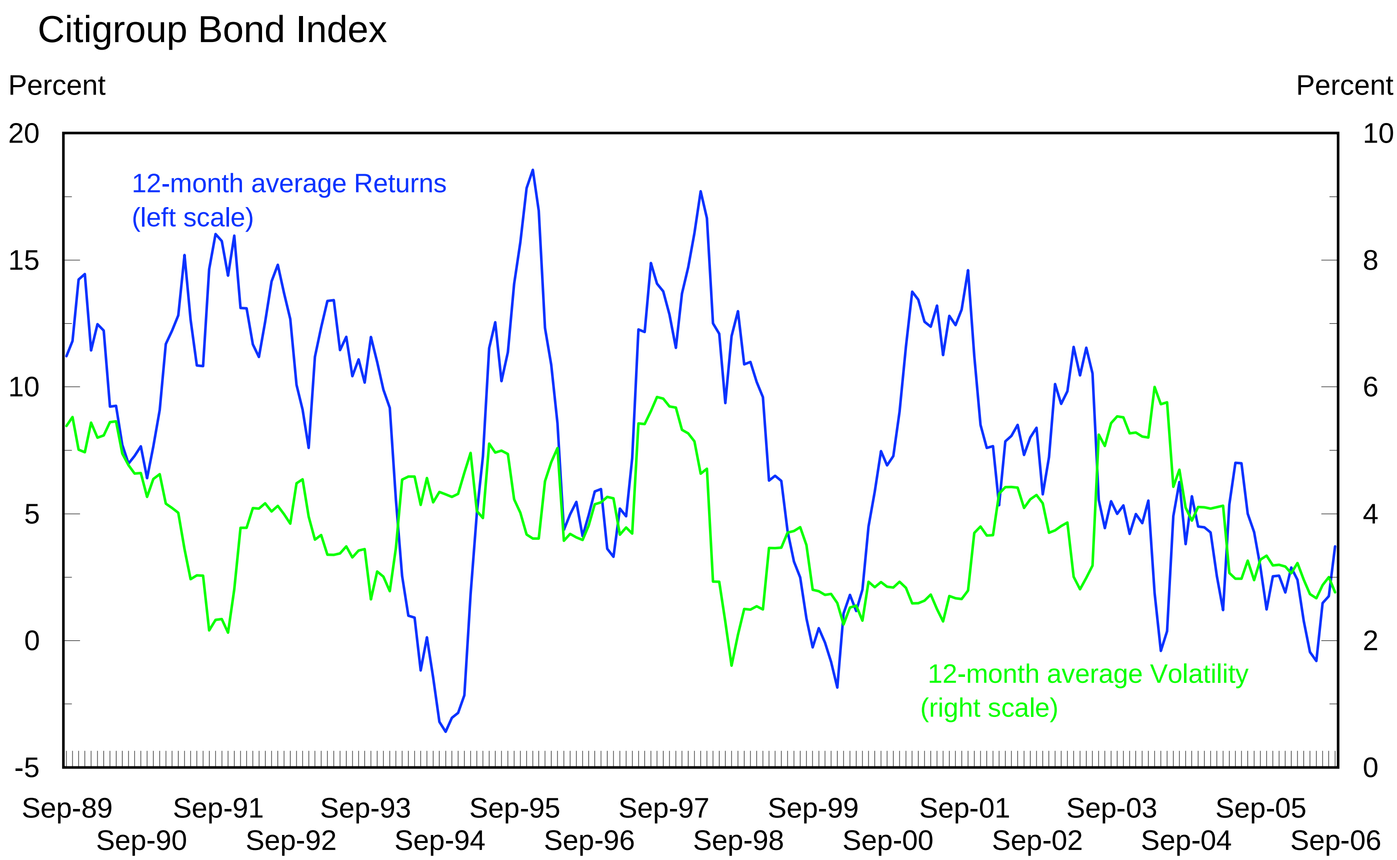




Source: Investment Company Institute

Figure 8
Capital Market Returns and Volatility

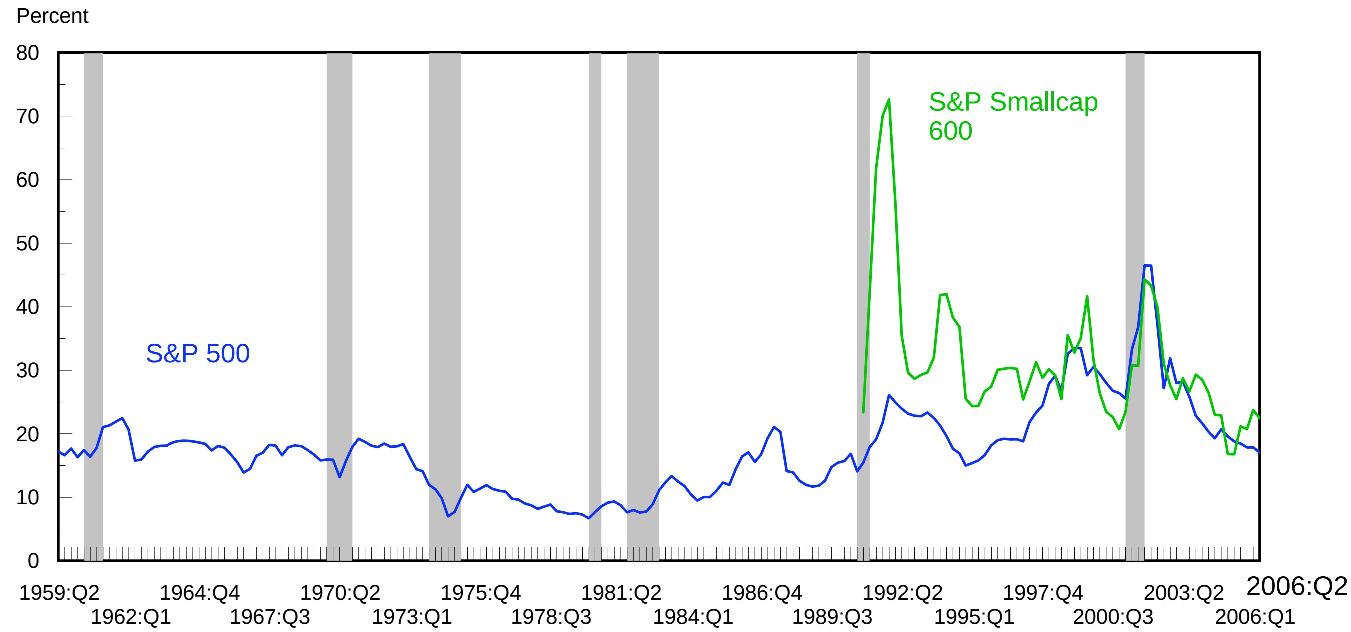




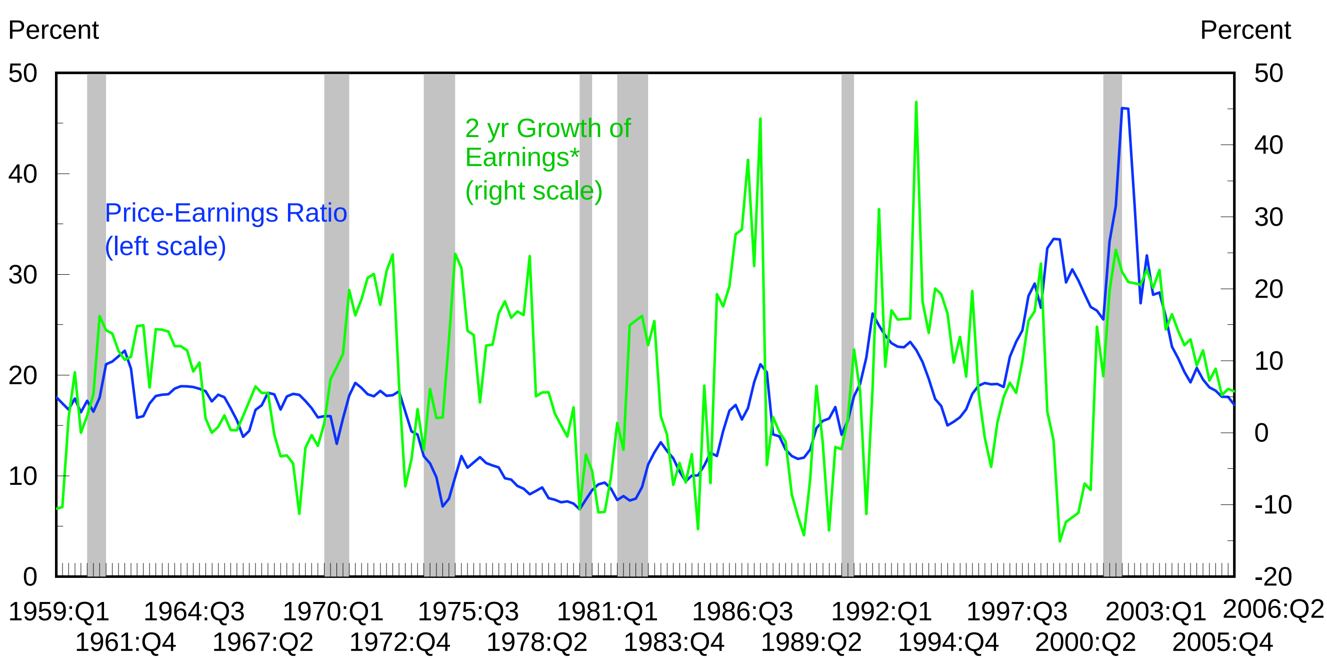
Source: FAME Database, Citigroup.

Figure 9

S&P Price-Earnings Ratios



S&P500 Price Earnings Ratio and the Growth of Earnings

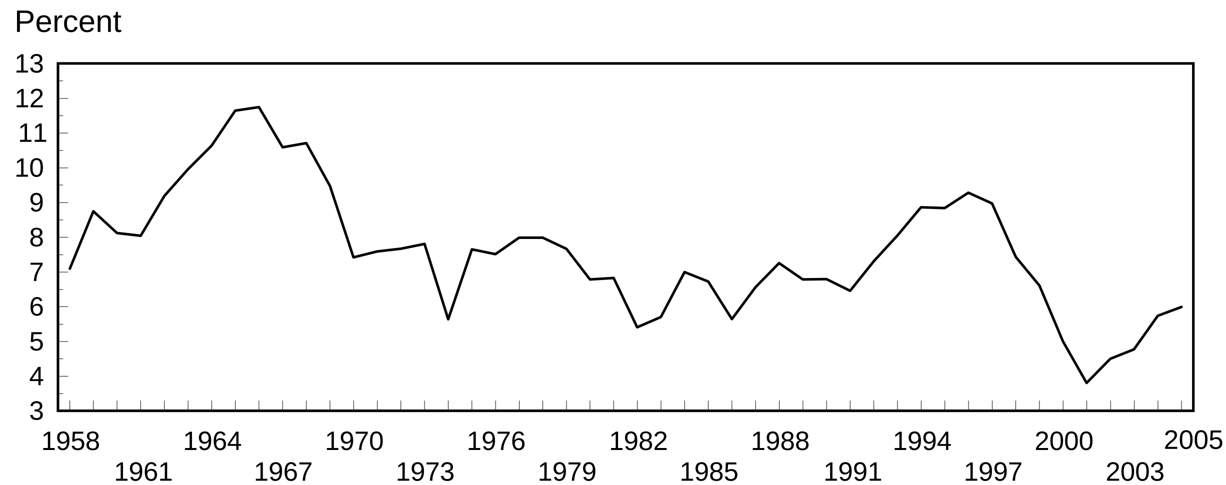


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

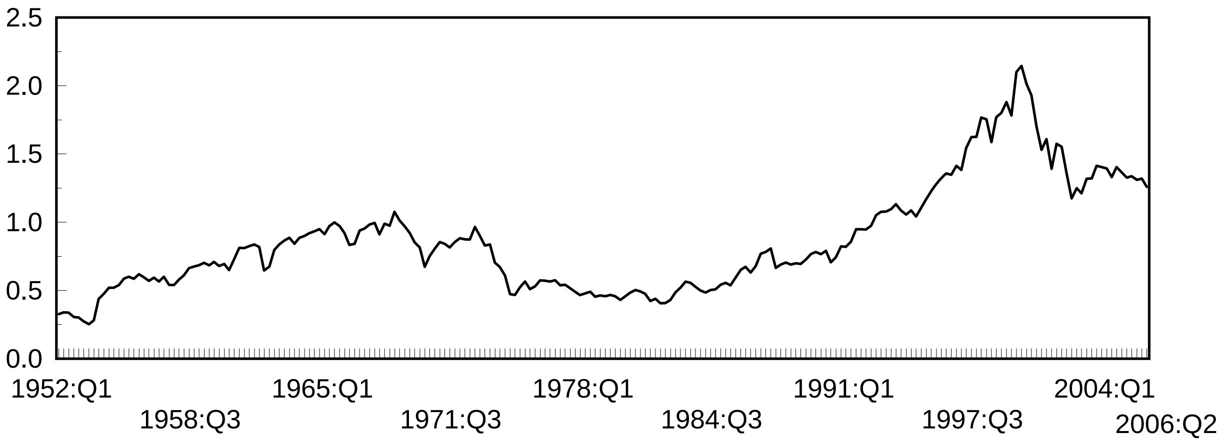
source: Thomson Financial/First Call, Global Insight and Bloomberg.

Figure 10

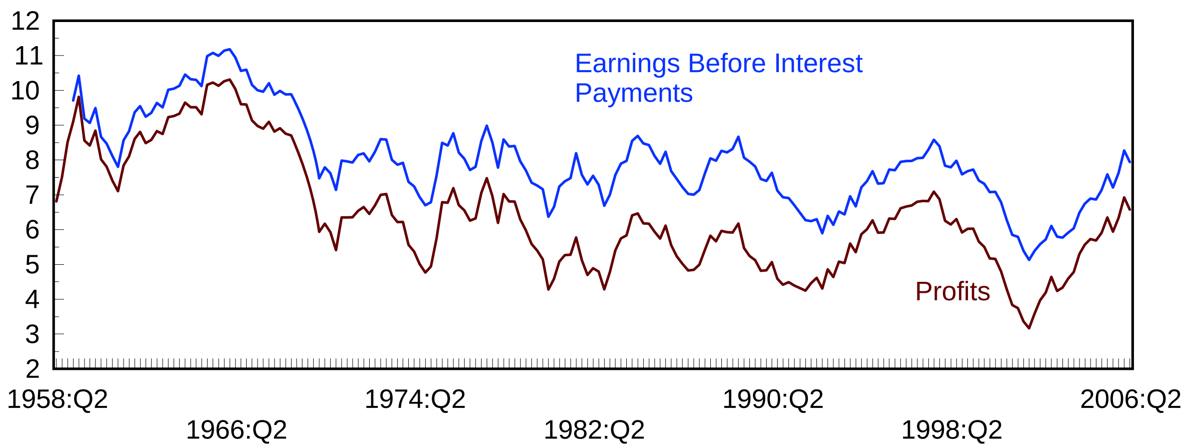
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



Tobin's Q*



Profits of Nonfinancial Corporations as a 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.