

September 5, 2003

Monthly Mutual Fund Report

Statistics for July-August 2003

Sales and Redemptions

Total assets for all funds increased in July by \$52.4 billion, or 0.8 percent, to \$6.87 trillion. Money market funds had a net cash outflow of \$9.9 billion compared to an inflow in June of \$22.1 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$14.1 billion, compared to an inflow of \$27.7 billion in June. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$120.0 billion in July, down from \$123.3 billion in June. The value of non-money market assets appreciated by \$43.8 billion in July, following an appreciation of \$54.3 billion in June.

Total assets of **equity funds** increased by \$94.8 billion, or 3.1 percent, to \$3.13 trillion. There was a \$21.4 billion net cash inflow to equity funds in July, compared with an inflow of \$18.6 billion in June. Year-to-date, equity funds have a \$56.8 billion inflow, compared to an inflow of \$0.6 billion in the first seven months of 2002. The market value of assets appreciated by \$73.2 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 0.7 percent, or \$2.6 billion, to \$376.2 billion. In July, there was a \$3.5 billion net cash inflow for these funds. Thus far in 2003, hybrid funds have a \$15.5 billion inflow, while there was a \$8.3 billion inflow through the same point in 2002.

Bond funds experienced a cash outflow of \$10.8 billion, while their total assets decreased by \$36.3 billion, to \$1.21 trillion. The market value of bond funds assets decreased by \$28.3 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds decreased by 2.8 percent, while the assets of tax-exempt bond funds decreased by 3.1 percent. The year-to-date inflow to bonds is \$56.7 billion; through July 2002, the year-to-date inflow was \$86.4 billion.

Assets of taxable and tax-exempt **money market funds** decreased \$8.7 billion, to \$2.16 trillion, a decrease of 0.6 percent for taxable money market funds and an increase of 0.9 percent for tax-exempt funds. Compared to a net cash outflow of \$56.5 billion through July 2002, money market funds had an outflow of \$132.4 billion in the first seven months of 2003.



Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased from 5.80 to 5.09 percent, while the ratio for equity funds decreased from 4.70 to 4.39 percent (figure 4).

Weekly Flows

In August, there were inflows from equity funds of 0.02 percent of total assets, with returns of 4.5 percent. Bond funds had outflows of 1.3 percent and losses of 0.3 percent for the month.

Index funds had monthly inflows of 0.5 percent and returns of 2.5 percent. Aggressive growth funds had monthly inflows of 0.4 percent and returns of 2.6 percent. Small-cap funds had an inflow of 1.4 percent, and returns of 3.3 percent.

There were inflows to international funds in August of 0.2 percent of assets and returns of 2.8 percent. Latin America funds had outflows of 0.7 percent and returns of 0.2 percent. Japan funds had outflows of 1.3 percent and returns of 5.6 percent of assets for the month of August. Pacific funds that do not invest in Japan had outflows of 1.7 percent and returns of 5.6 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended August at 1008.01, an increase of 1.8 percent from the beginning of the month. The 12-month gain was 7.7 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 22.4 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 decreased from 17.7 in the second quarter to 17.3 during 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.

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Figure 1
Sales of Mutual Funds

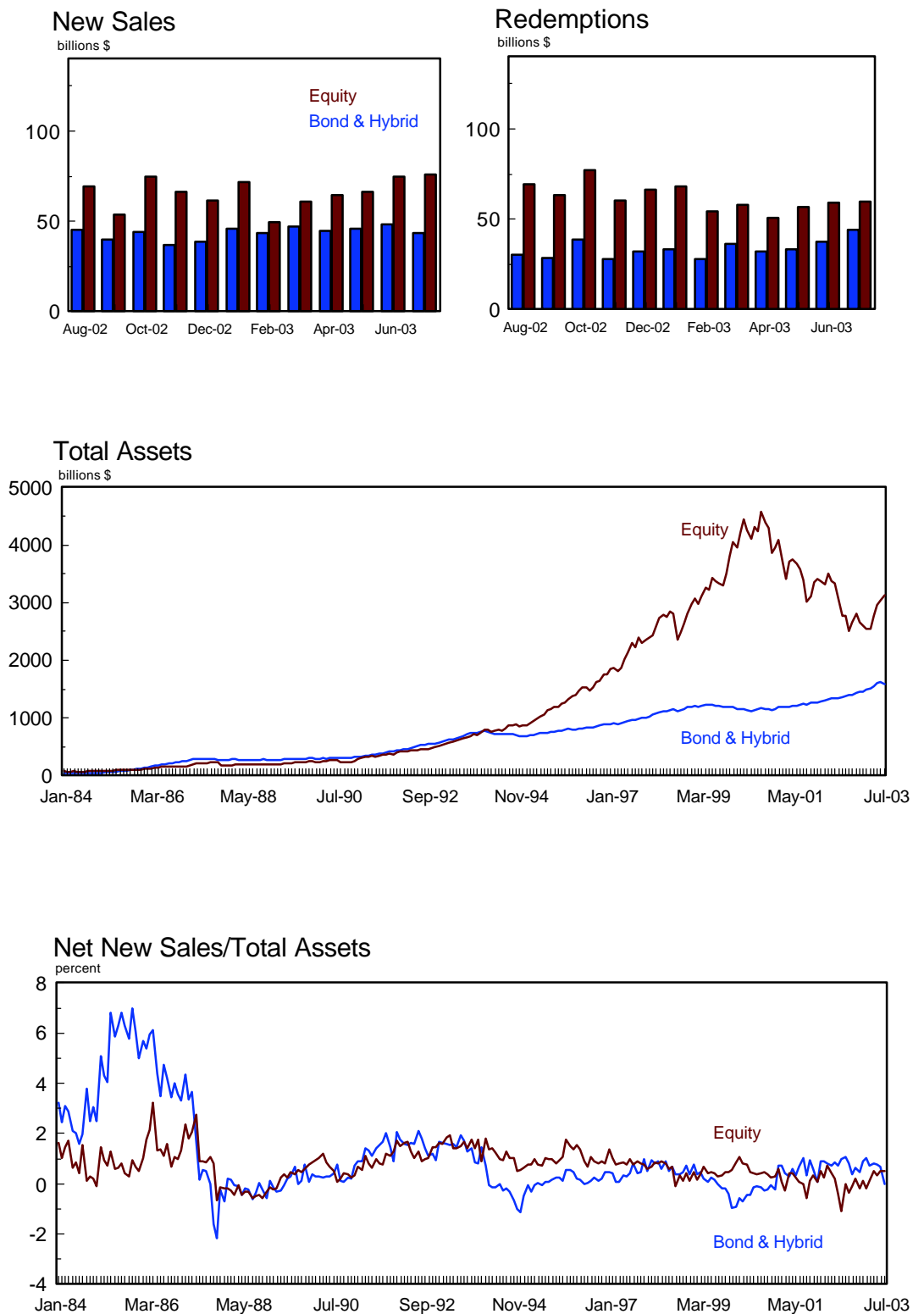


Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)

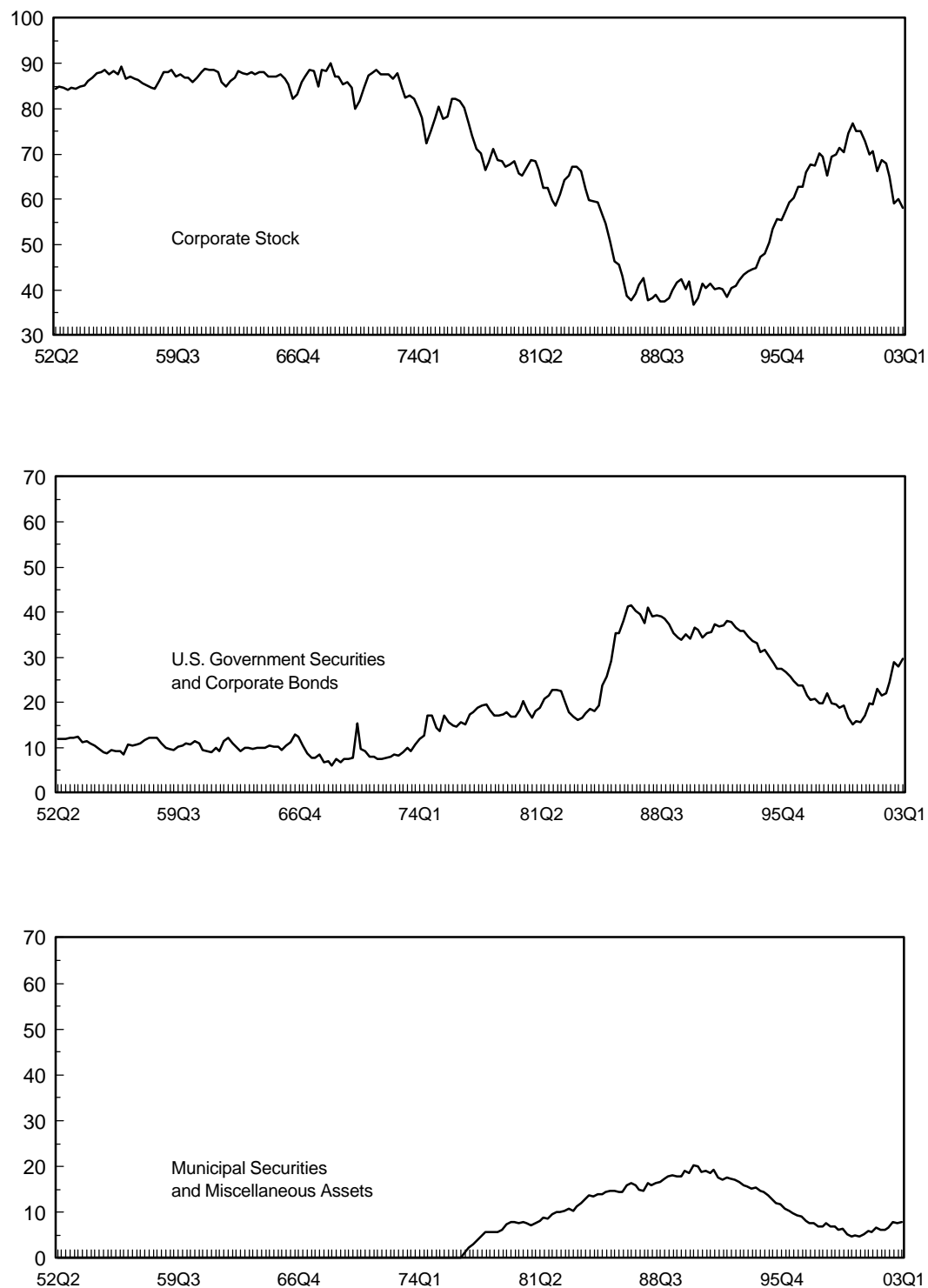


Figure 3
Net Portfolio Purchases
 (percent of Total Assets)

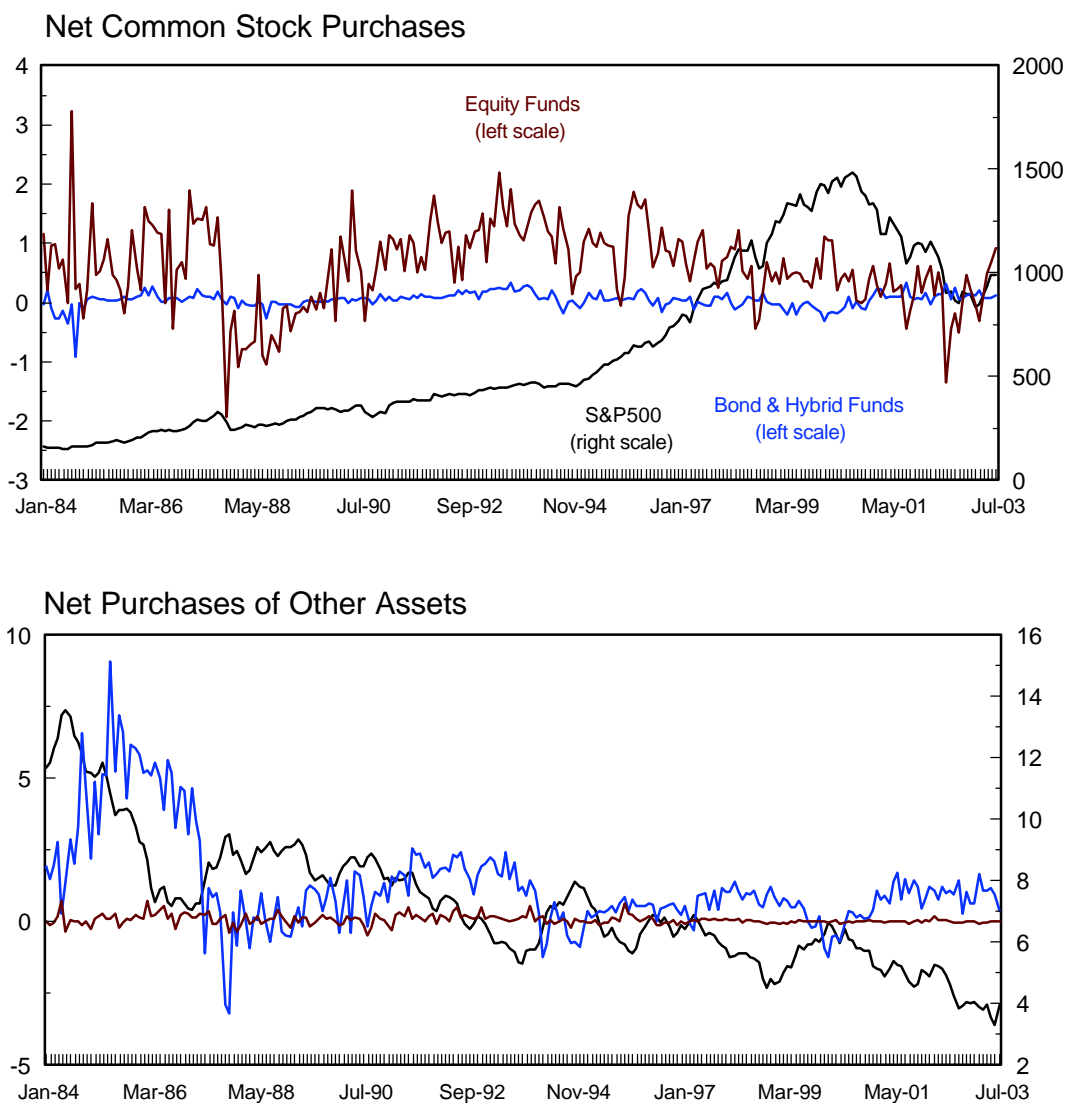
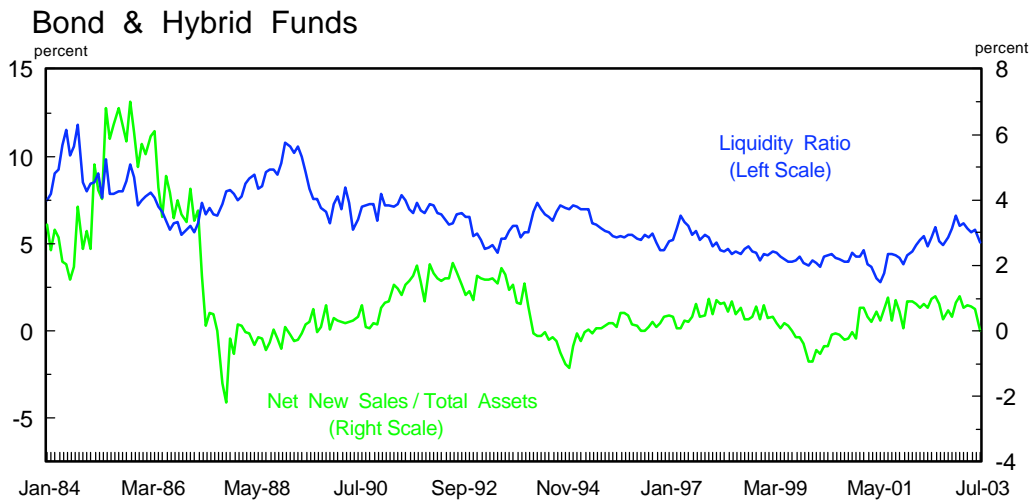
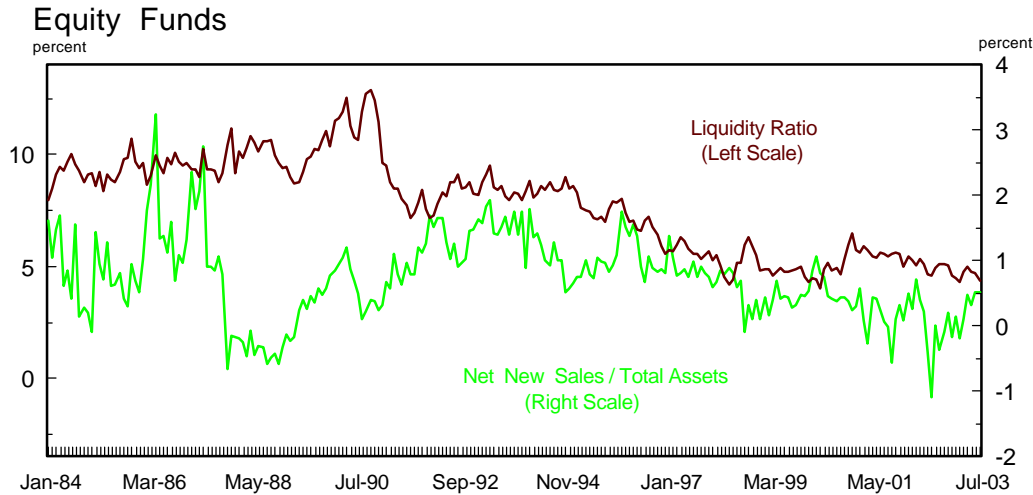
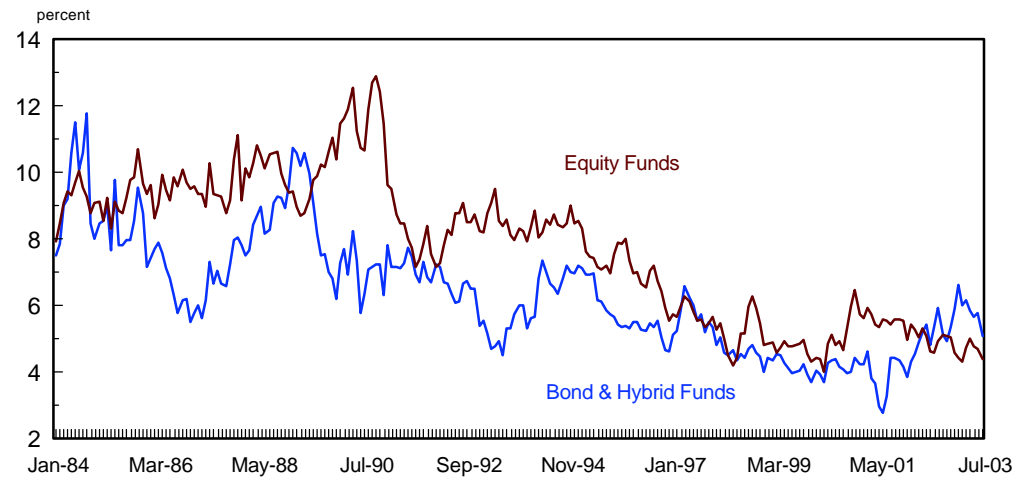


Figure 4
Liquidity Ratio*

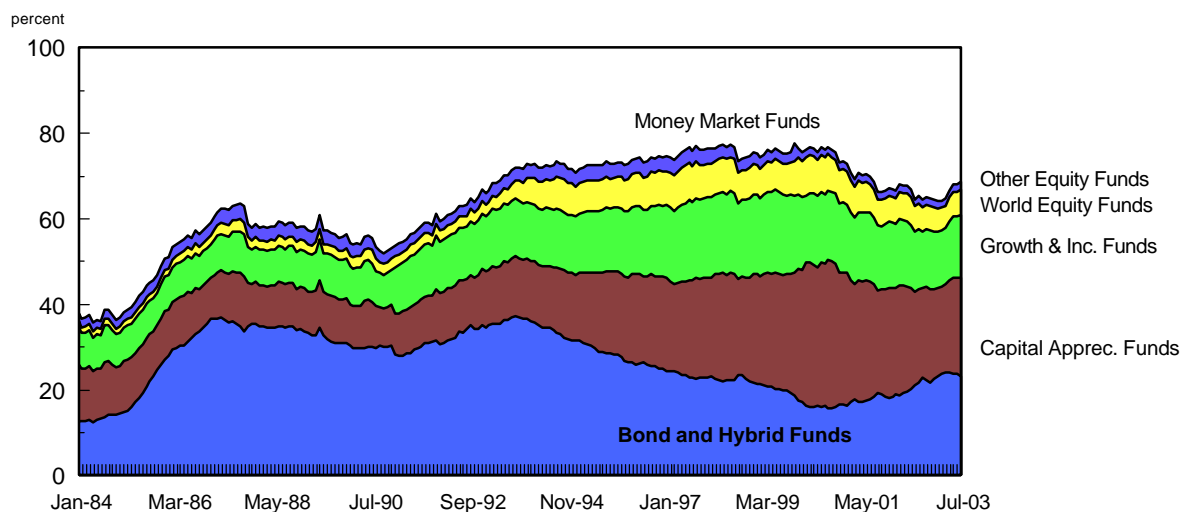


*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.
Source: Investment Company Institute

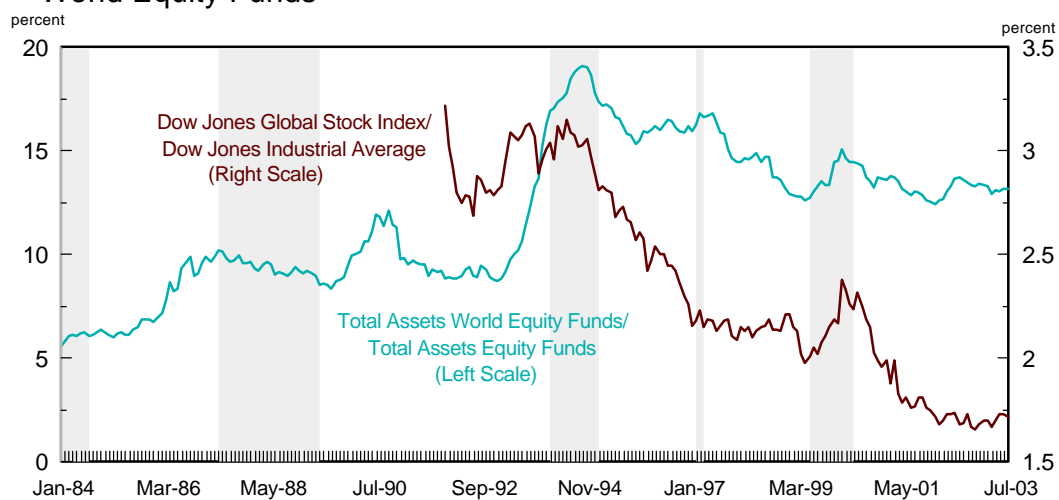
Figure 5

Industry Composition

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

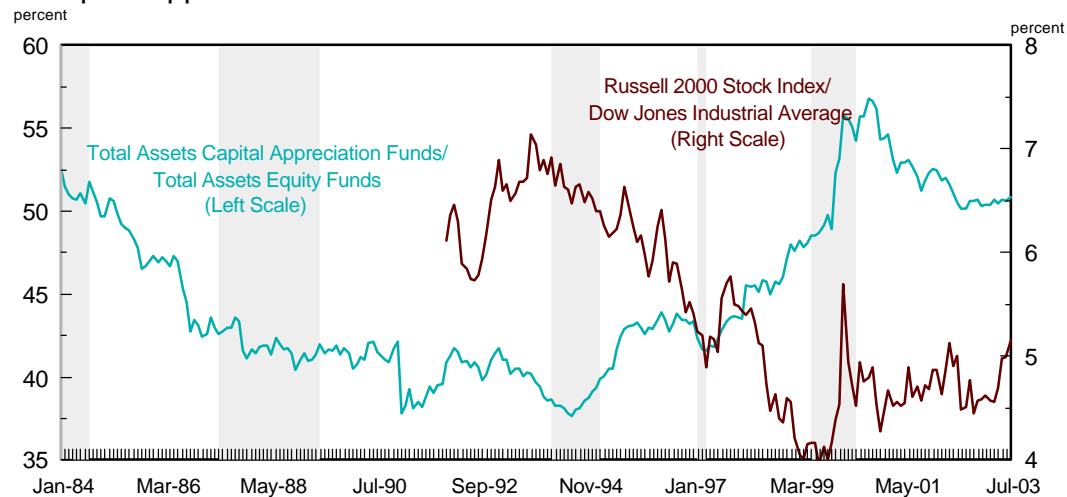


Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

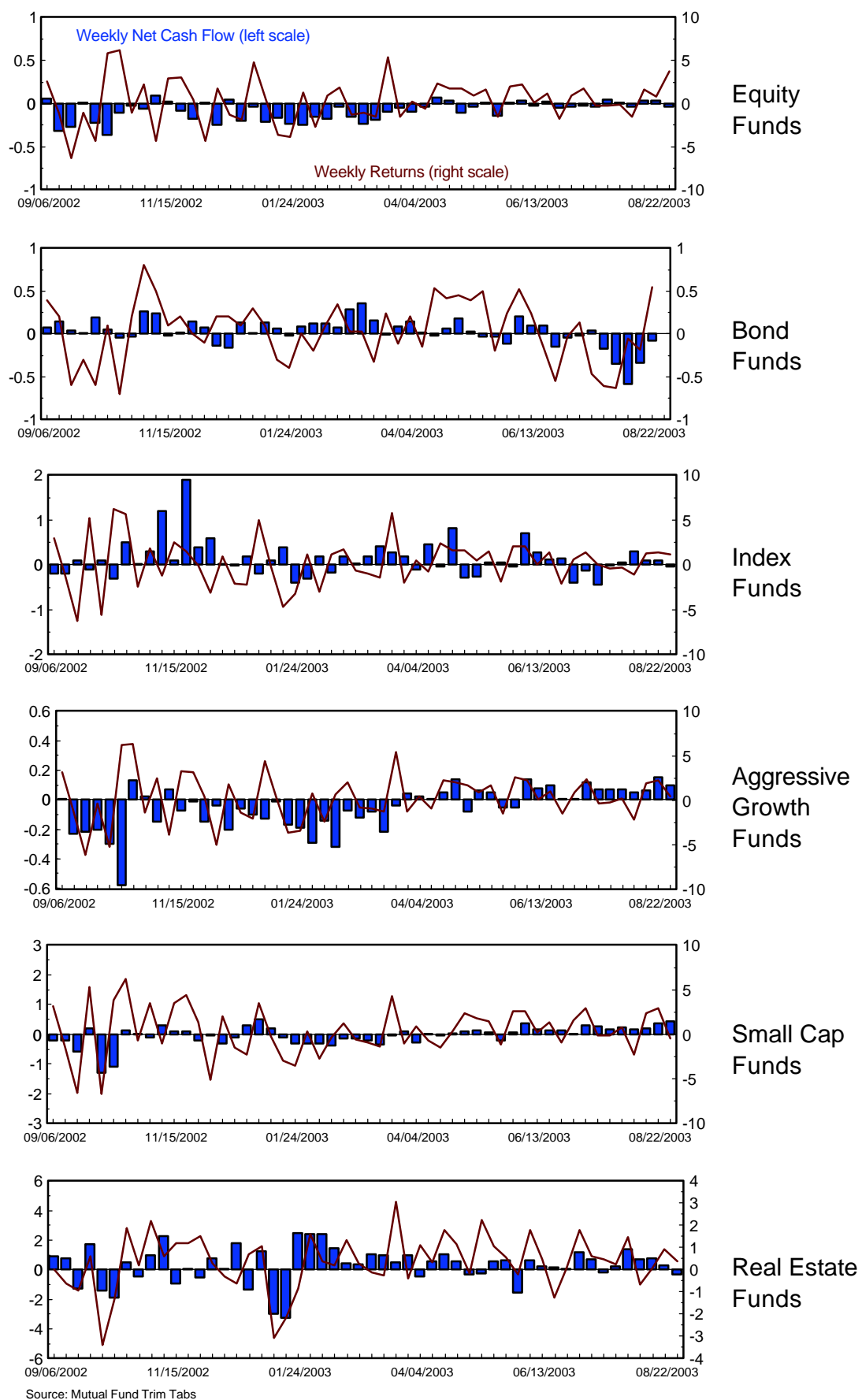


Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

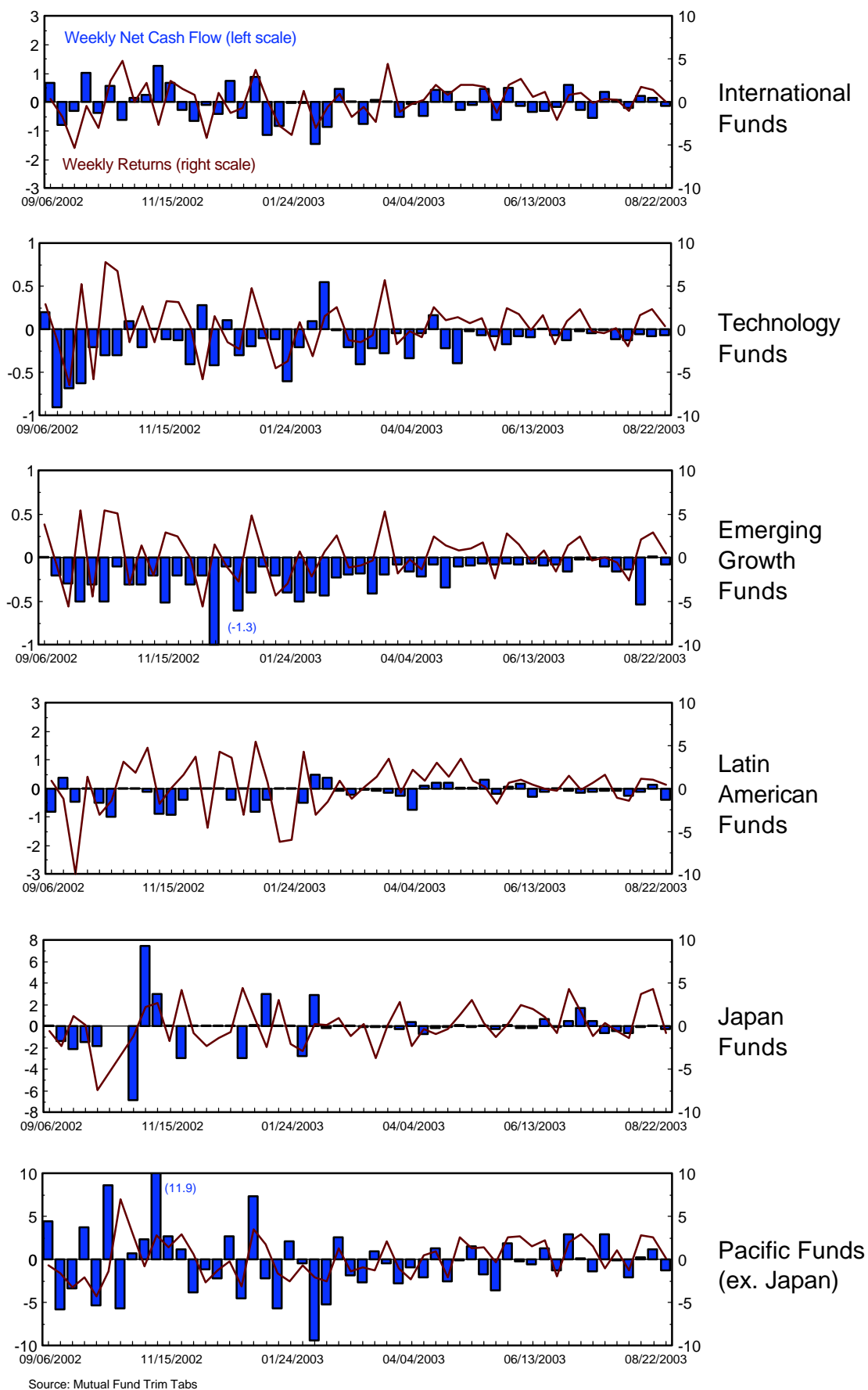


Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

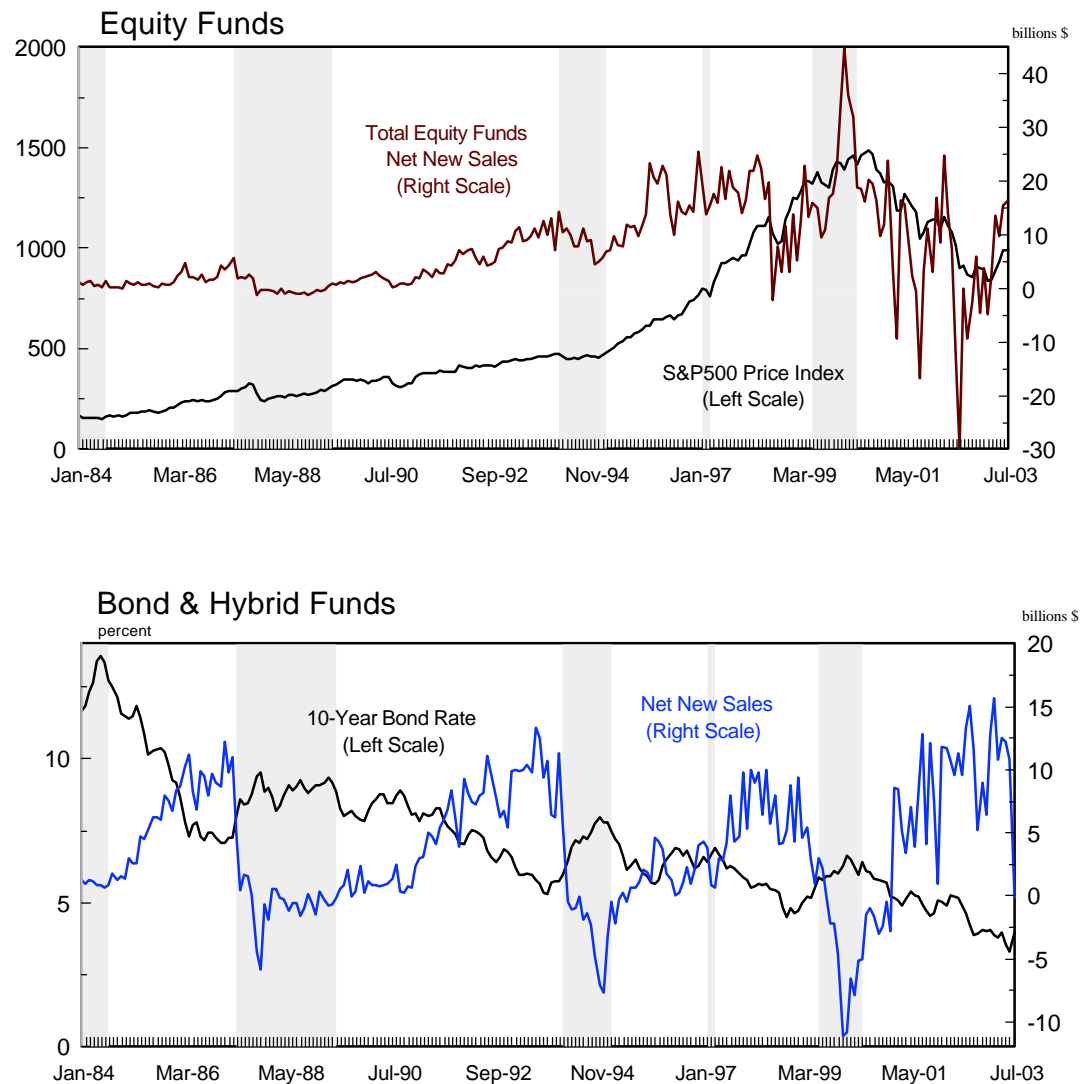


Figure 8
Capital Market Returns and Volatility

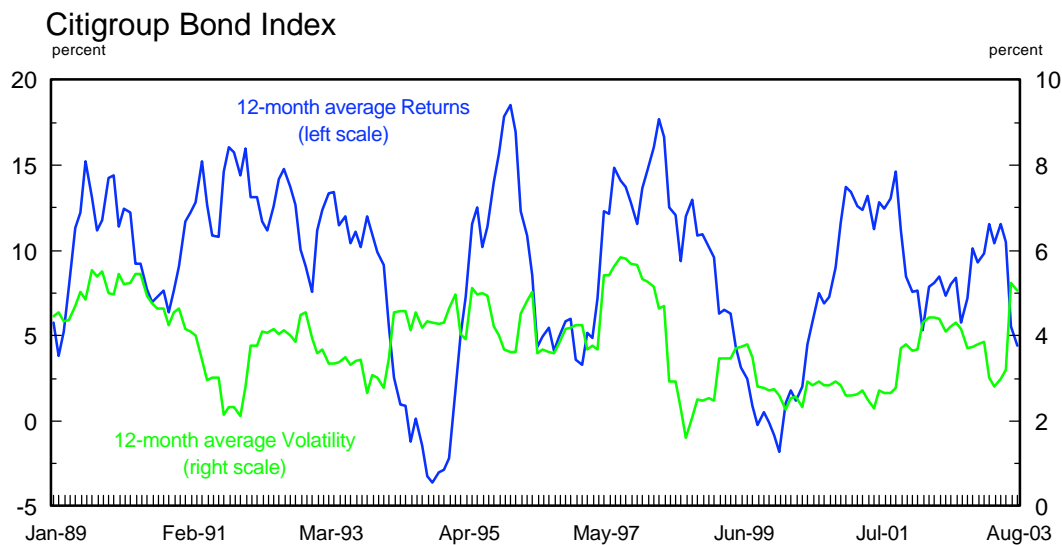
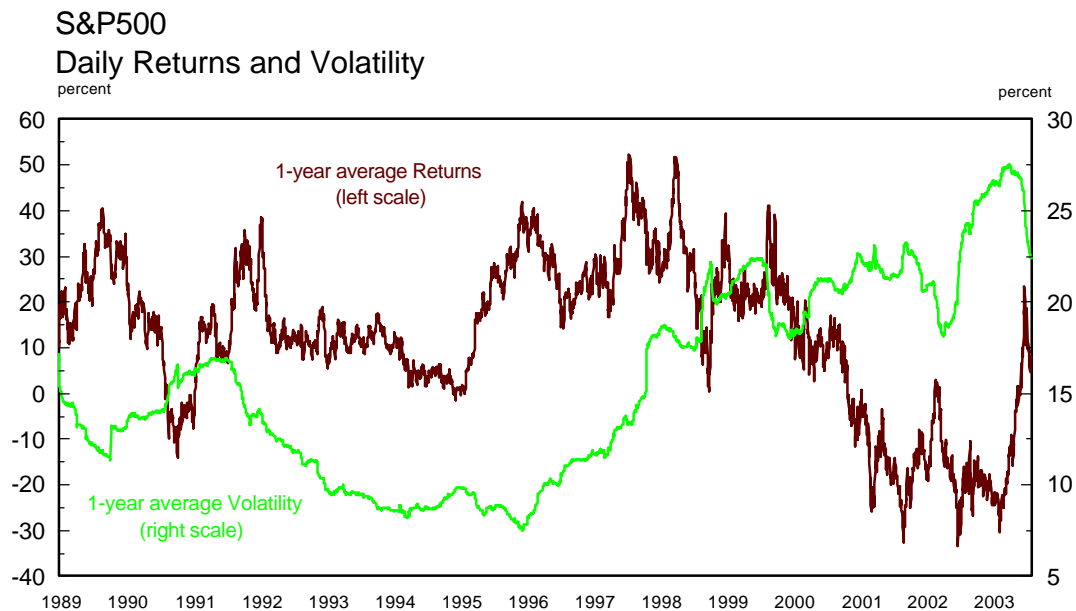
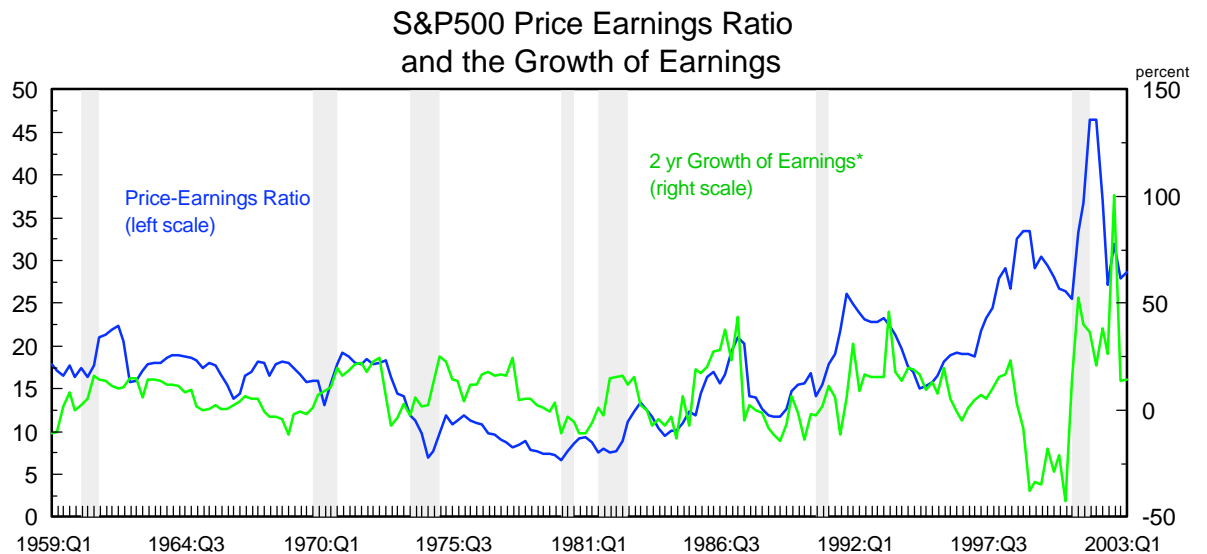
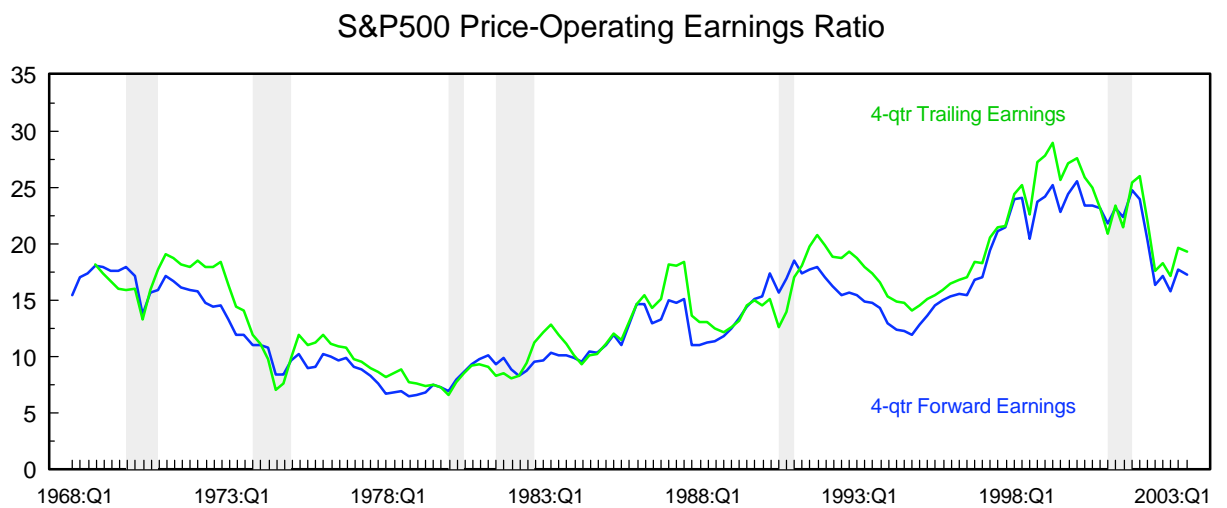
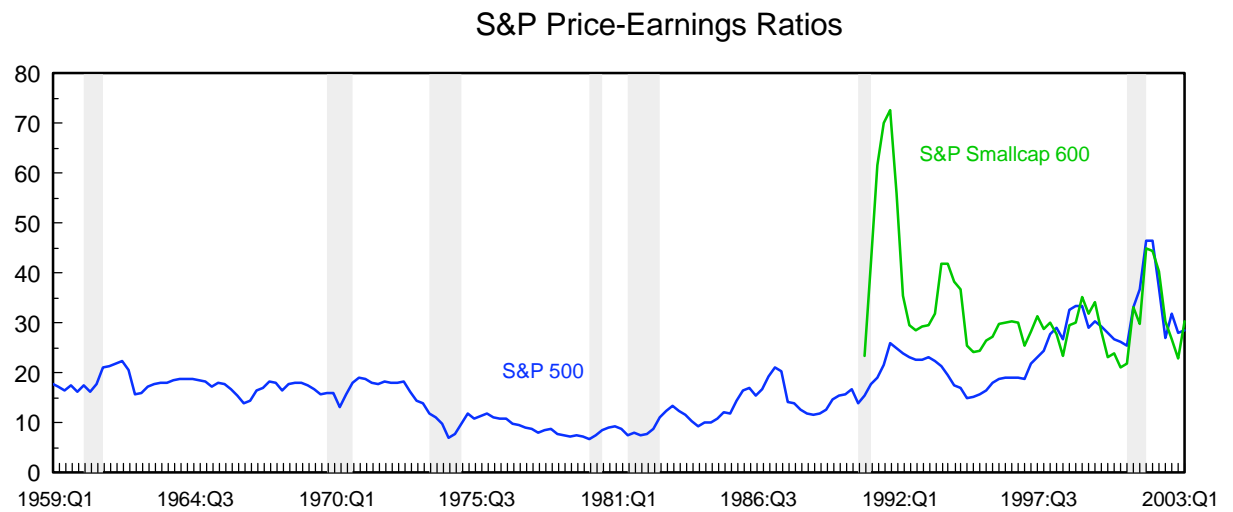


Figure 9

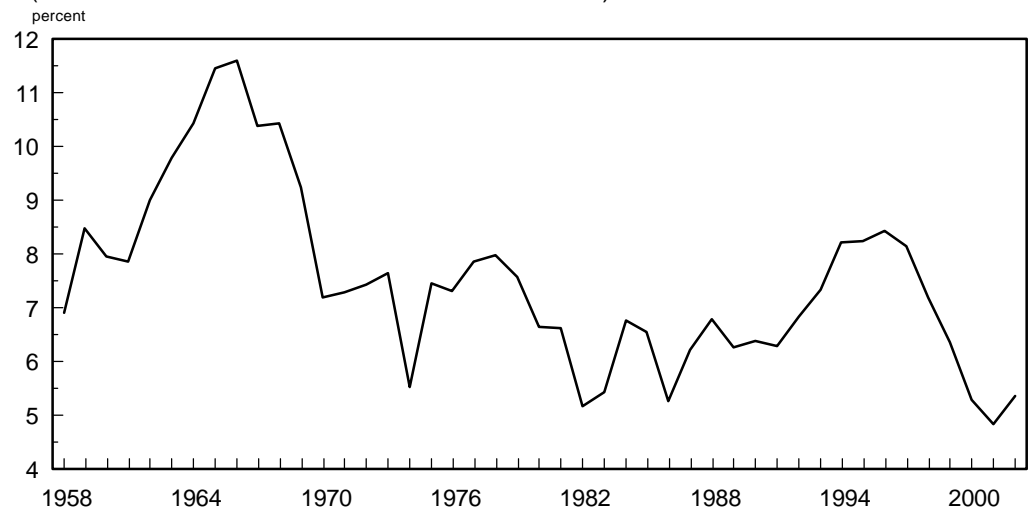


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

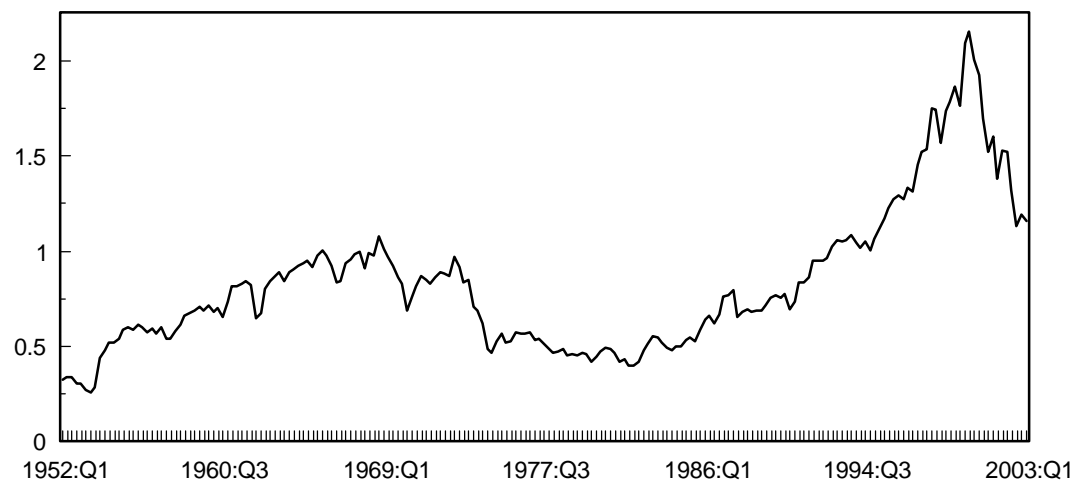
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

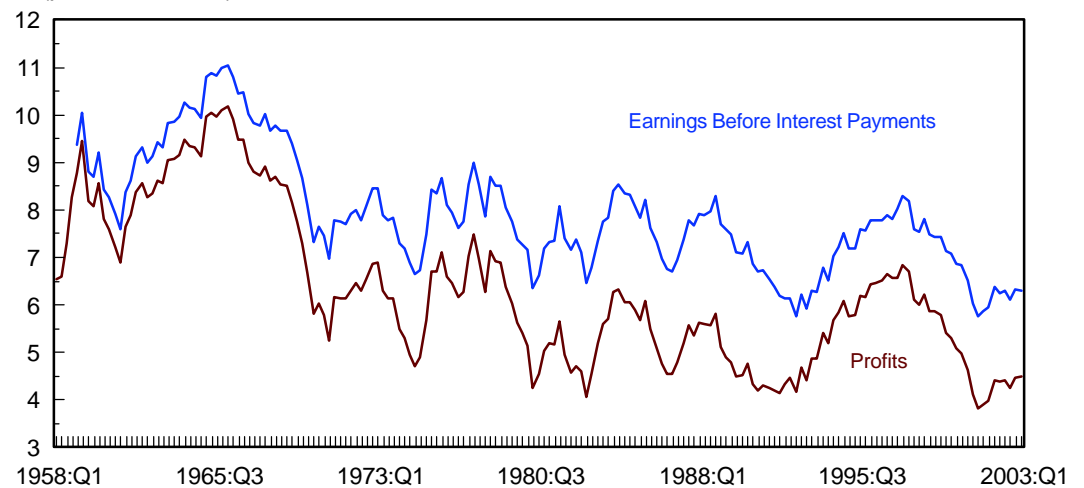
Real Rate of Return on Nonfinancial Corporate Equity (from National Income and Flow of Funds Accounts)



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