September 3, 2004

Monthly Mutual Fund Report

Statistics for July-August 2004

Sales and Redemptions

Total assets for all funds decreased in July by $149.9 billion, or 2.0 percent, to $7.44 trillion. Money market funds had a net cash outflow of $2.4 billion compared to an outflow in June of $21.9 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $11.2 billion, compared to an inflow of $5.2 billion in June. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $103.0 billion in July, down from $106.7 billion in June. The value of non-money market assets depreciated by $163.3 billion in July, following an appreciation of $86.2 billion in June.

Total assets of **equity funds** decreased by $153.3 billion, or 3.9 percent, to $3.8 trillion. There was a $9.5 billion net cash inflow to equity funds in July, compared with an inflow of $10.4 billion in June. The market value of assets depreciated by $163.0 billion in July. The year-to-date inflow is $127.9 billion, compared to an inflow of $57.0 billion in the first seven months of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 0.9 percent, or $4.3 billion, to $462.6 billion. In July, there was a $3.0 billion net cash inflow for these funds, compared to an inflow in June of $2.4 billion. Hybrid funds have experienced an inflow of $27.5 billion thus far in 2004, compared to an inflow of $15.0 billion to this point in 2003.

Bond funds experienced a cash outflow of $12.2 billion, while their total assets increased by $8.6 billion, to $1.23 trillion. The market value of bond funds assets increased by $7.2 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.76 percent, while the assets of tax-exempt bond funds increased by 0.56 percent. The 2004 outflow is $24.1 billion, compared to an outflow of $22.6 billion through July 2003.

Assets of taxable and tax-exempt **money market funds** decreased $0.96 billion, to $1.95 trillion, a decrease of 0.32 percent for taxable money market funds and an increase of 1.49 percent for tax-exempt funds. The year-to-date outflow of $115.3 billion is less than the outflow for the first seven months of 2003, $135.6 billion.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased from 5.91 to 5.76 percent, while the ratio for equity funds increased from 4.28 to 4.30 percent (figure 4).

Weekly Flows

In August, there were outflows from equity funds of 0.4 percent of total assets, with losses of 2.0 percent (figure 6a). Based on TrimTabs' sample of funds, equity fund flows have been negative for six consecutive months. Bond funds had outflows of 0.1 percent and losses of 0.7 percent.[1]

Index funds had monthly outflows of 0.5 percent and losses of 1.4 percent. Aggressive growth funds had outflows of 0.3 percent and losses of 2.4 percent. Small-cap funds had an inflow of 0.1 percent and losses of 3.9 percent.

Technology funds had an outflow of 0.7 percent and losses of 3.3 percent (figure 6b). There was an inflow to real estate funds of 1.1 percent and returns of 1.2 percent.

There were outflows to international funds in August of 0.02 percent of assets and losses of 0.9 percent. Latin American funds had outflows of 0.5 percent and returns of 1.7 percent. Japan funds had outflows of 1.3 percent and losses of 4.1 percent of assets for the month of August. Pacific funds that do not invest in Japan had outflows of 2.3 percent and losses of 2.9 percent of assets. Emerging Markets funds had outflows of 1.4 percent, its 29th straight negative month, and losses of 4.0 percent.

Capital Market Returns and Volatility

The S&P 500 ended August at 1104.24, an increase of 0.2 percent from the beginning of the month. The 12-month gain was 12.0 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 11.0 percent.

The 12-month average return on the Citigroup Bond Index was 4.7 percent for August. Volatility increased to 6.3 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 decreased in the second quarter to a negative 0.9 percent from current levels. The trailing price-earnings ratio decreased from 18.4 in the second quarter of 2004 to 17.8 for the third quarter of 2004, while Thomson Financial/First Call's forward price-operating earnings was 16.2 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).

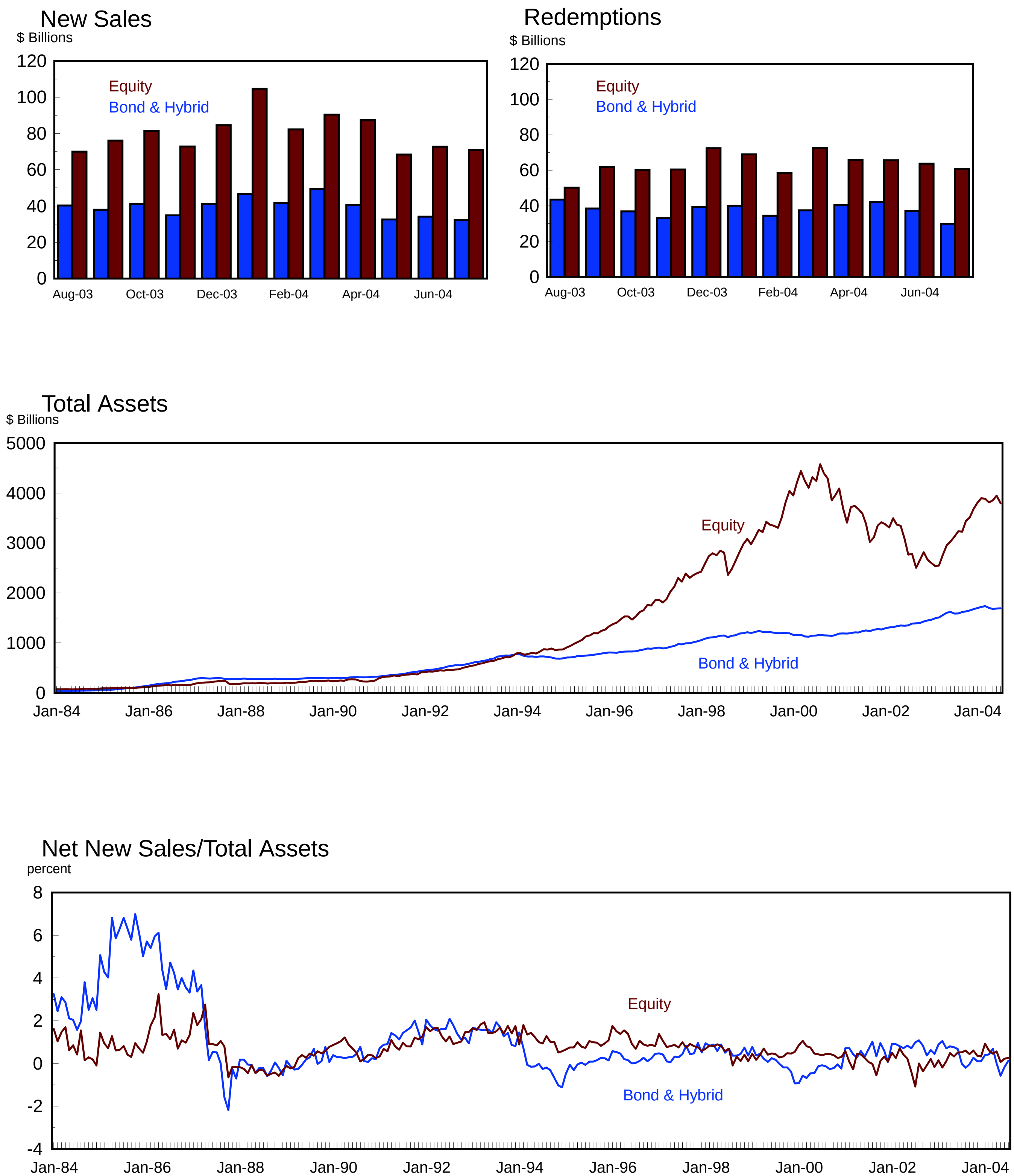
The Monthly Mutual Fund Report is available online at http://www.bos.frb.org/economic/mmfr/mmfr.htm.

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.

[1] Due to a small error, we have refined the formula used to calculate monthly flows and returns. For past results using the new formula, please contact the author.

Figure 1
Sales of Mutual Funds

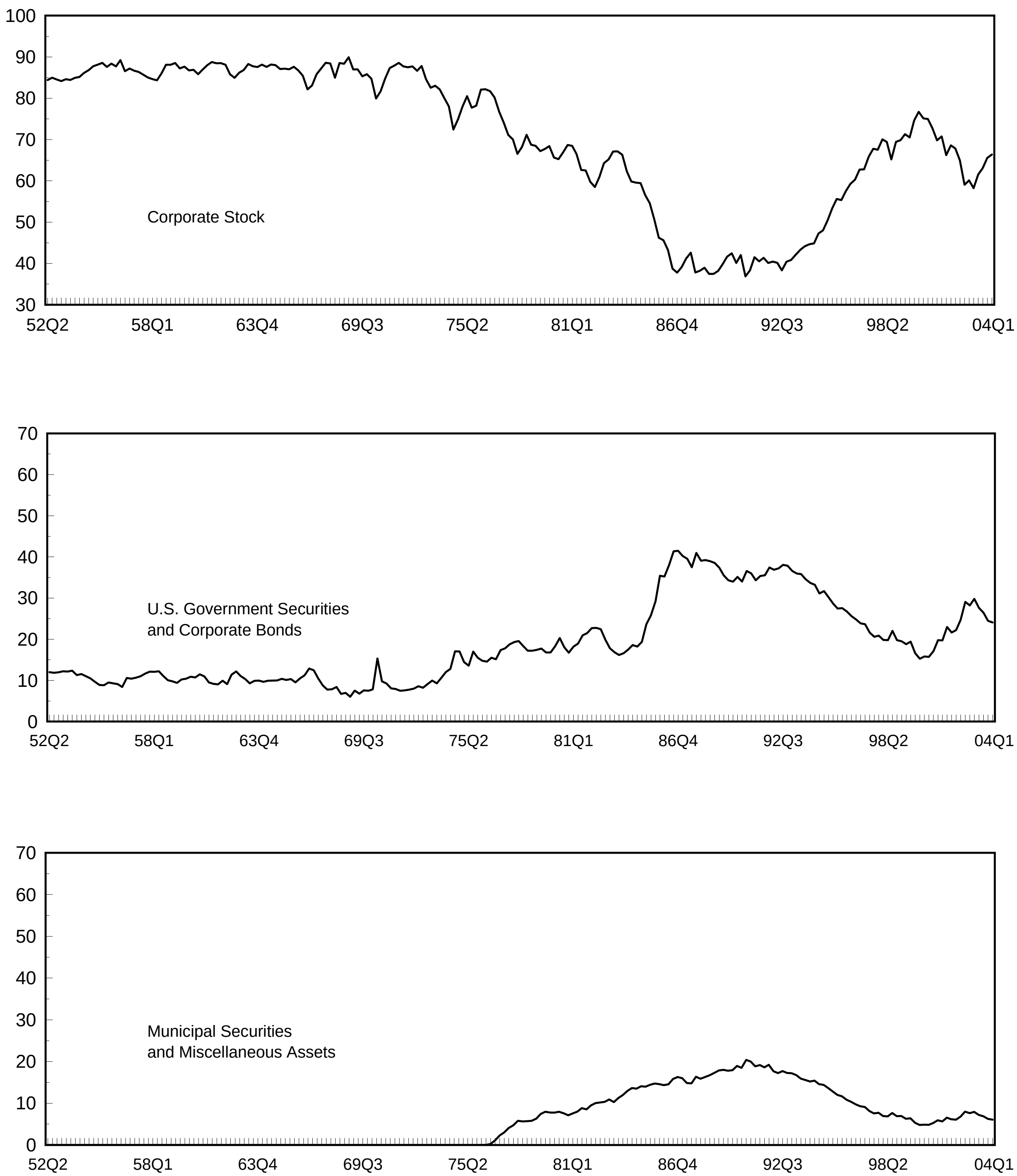


Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

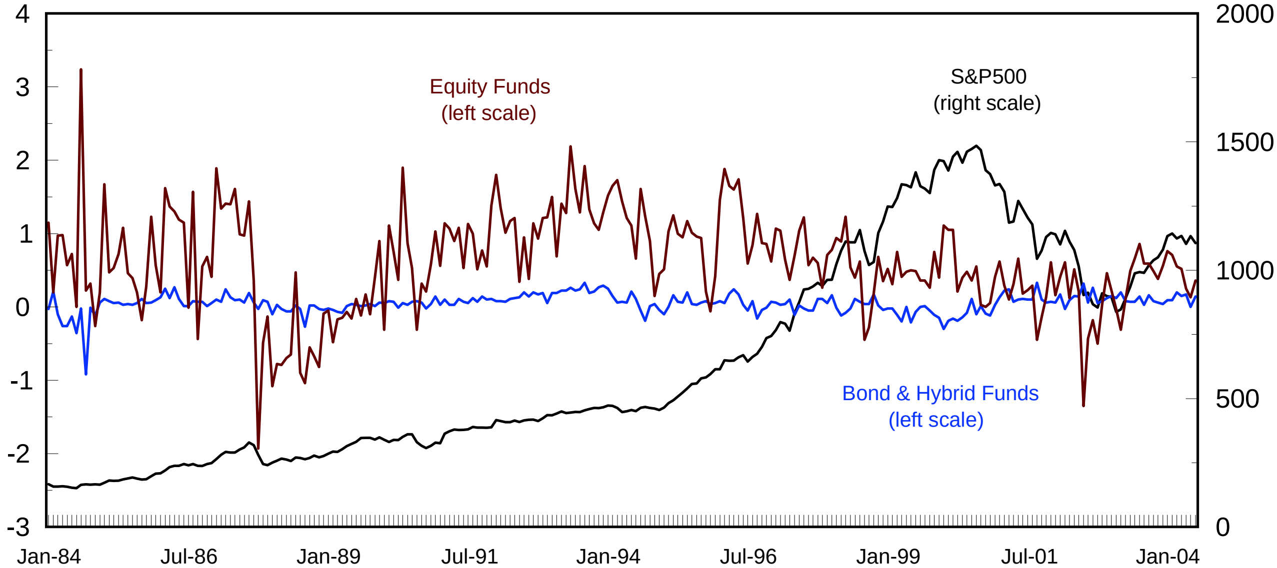
(percent of Total Financial Assets)



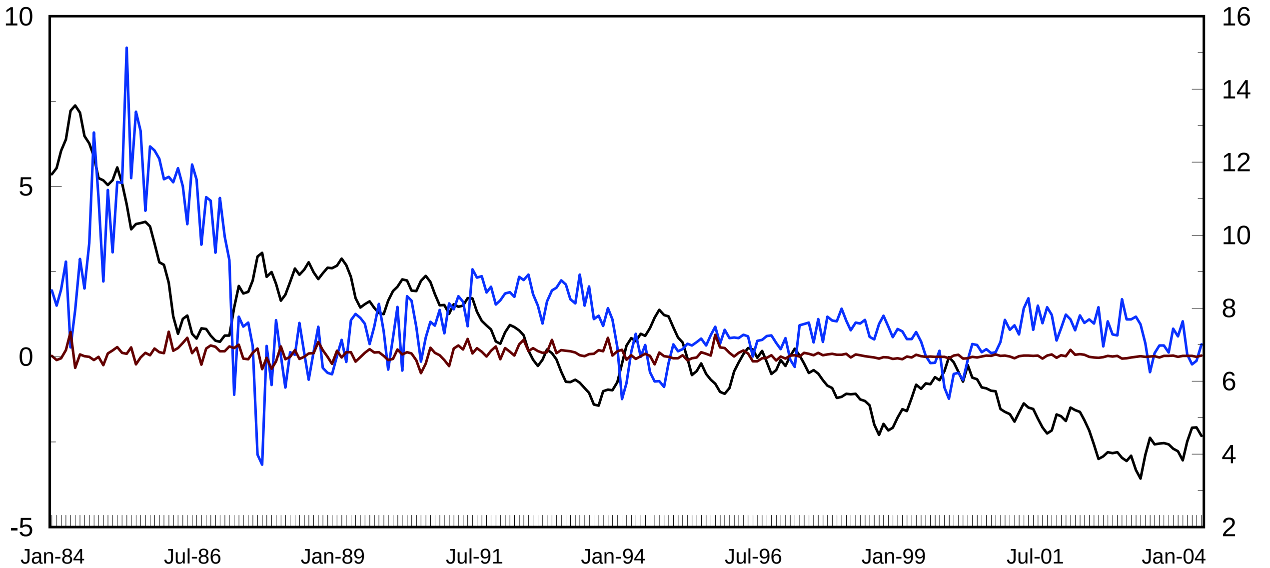
Source: Flow of Funds, Haver Analytics

Figure 3
Net Portfolio Purchases
(percent of Total Assets)

Net Common Stock Purchases



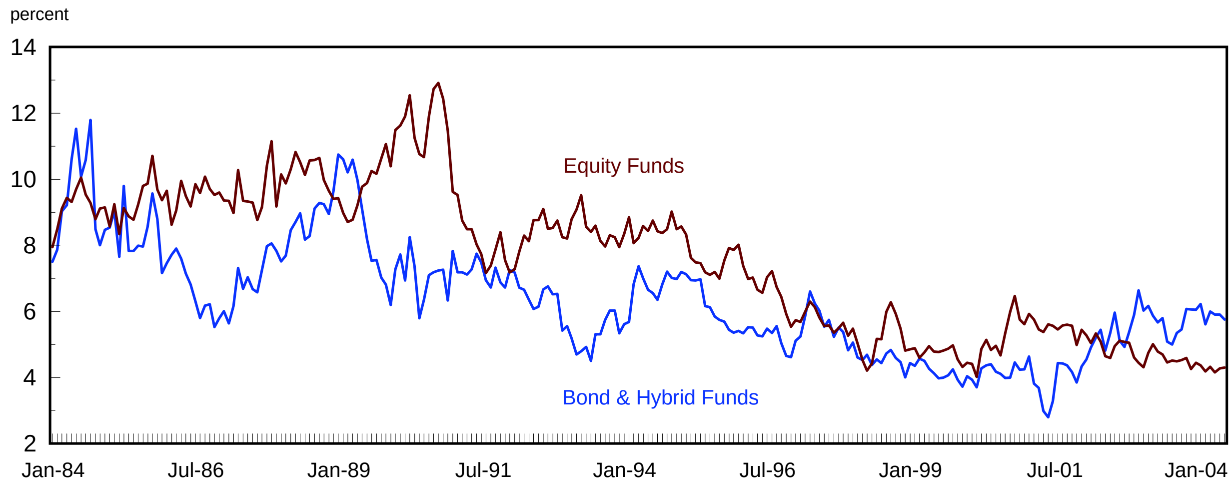
Net Purchases of Other Assets



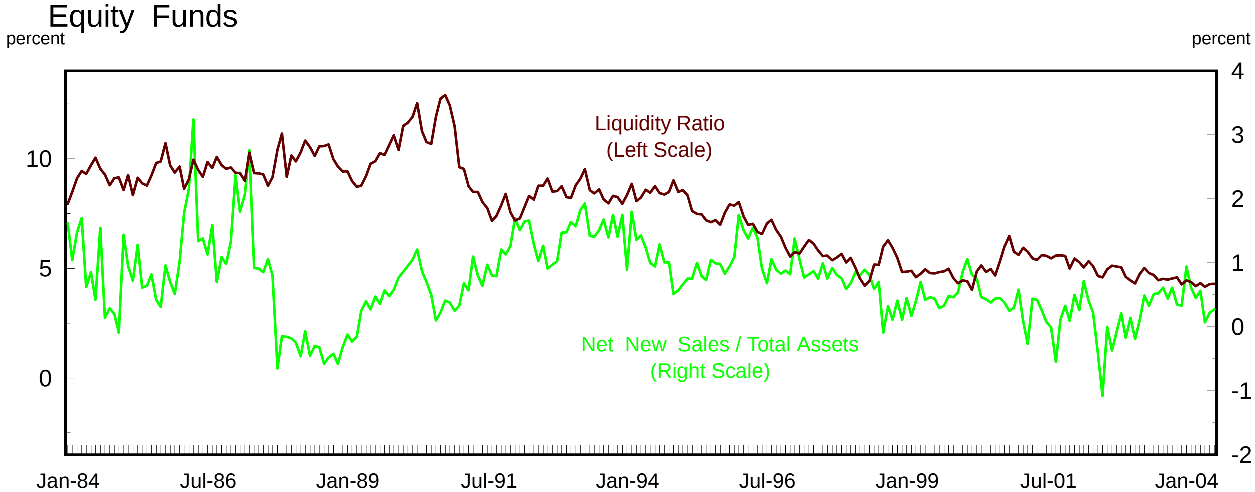
Source: Investment Company Institute

Figure 4

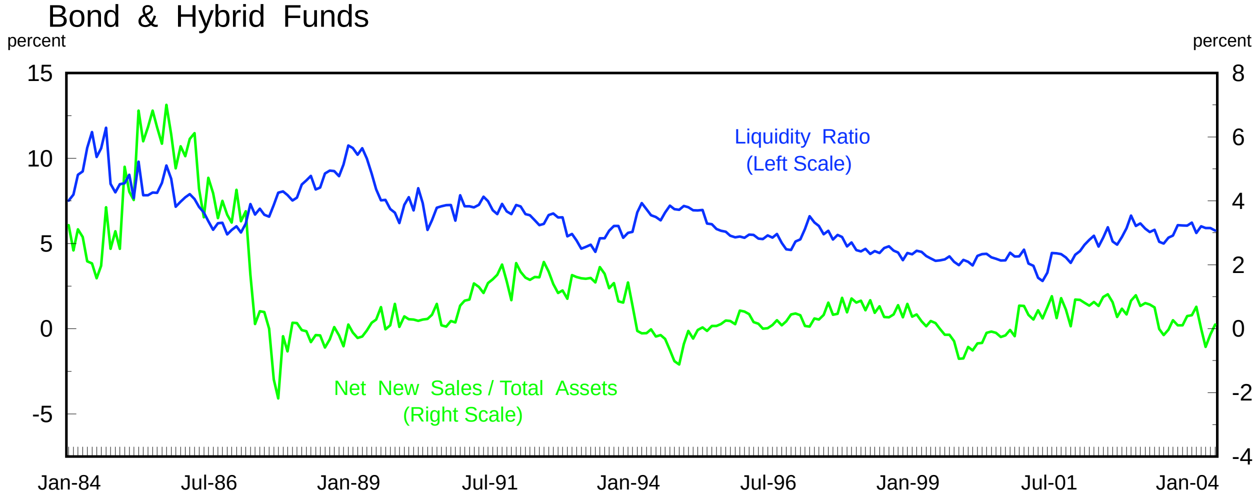
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



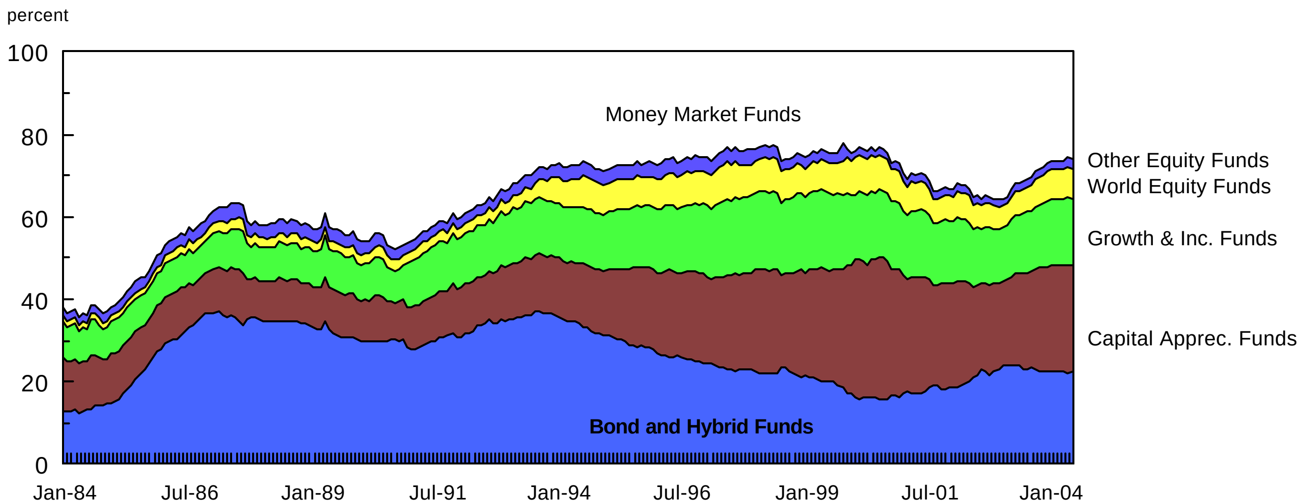
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

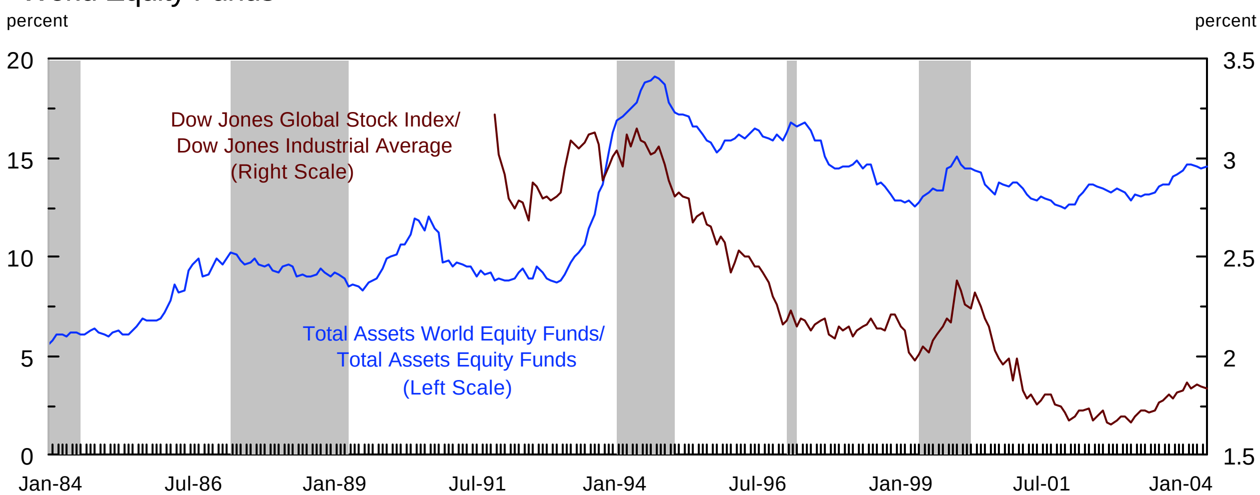
Figure 5

Industry Composition

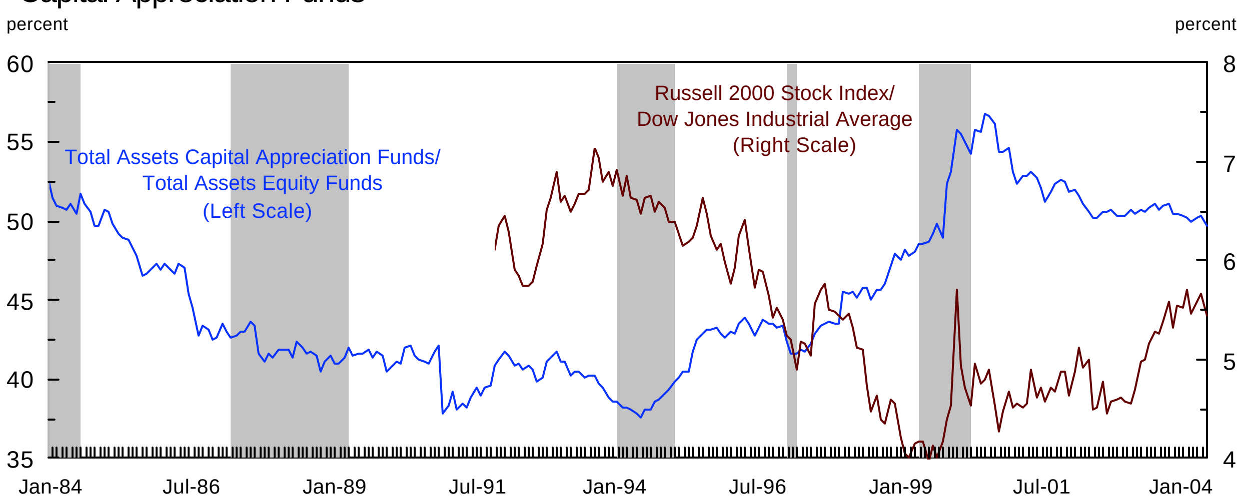
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

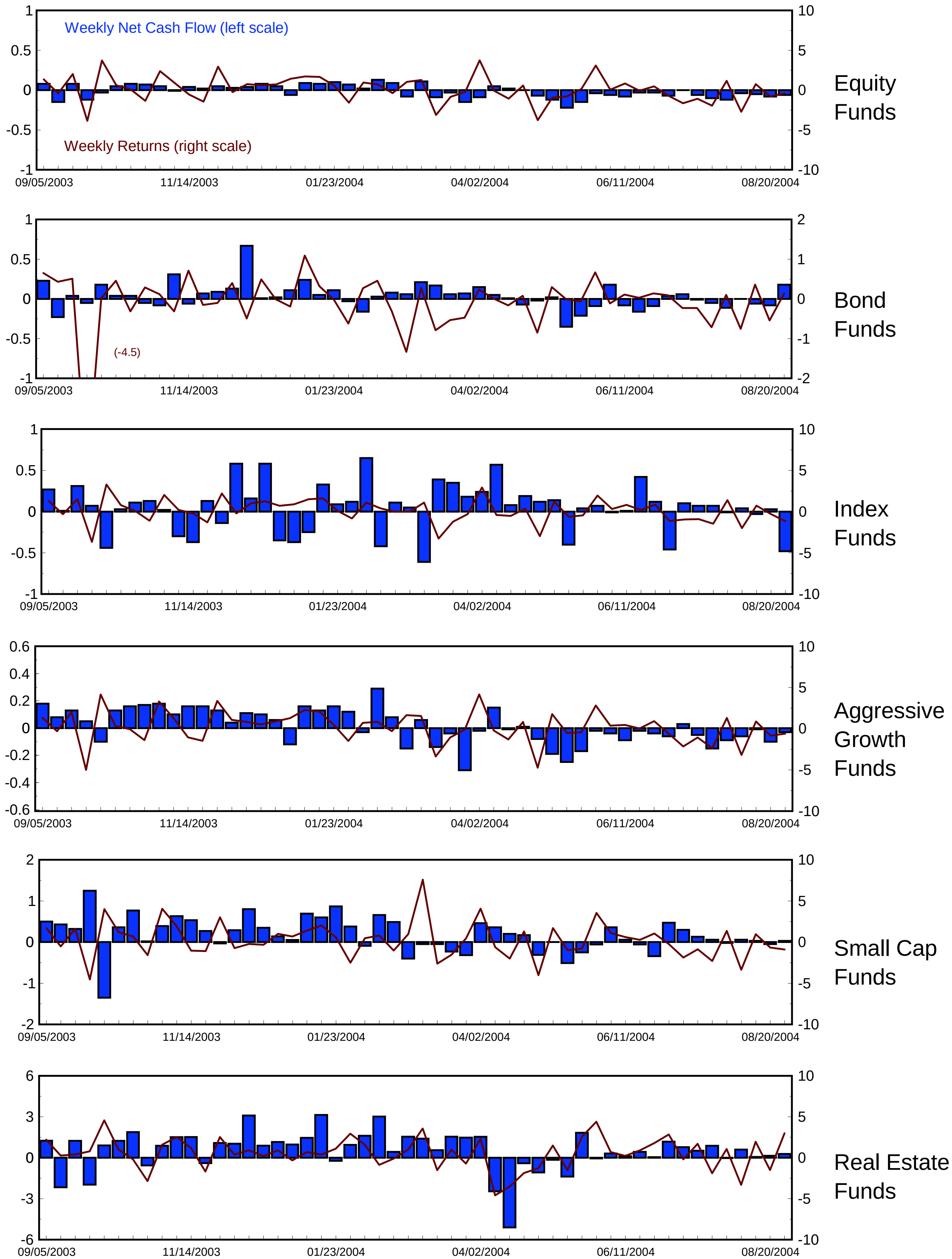


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

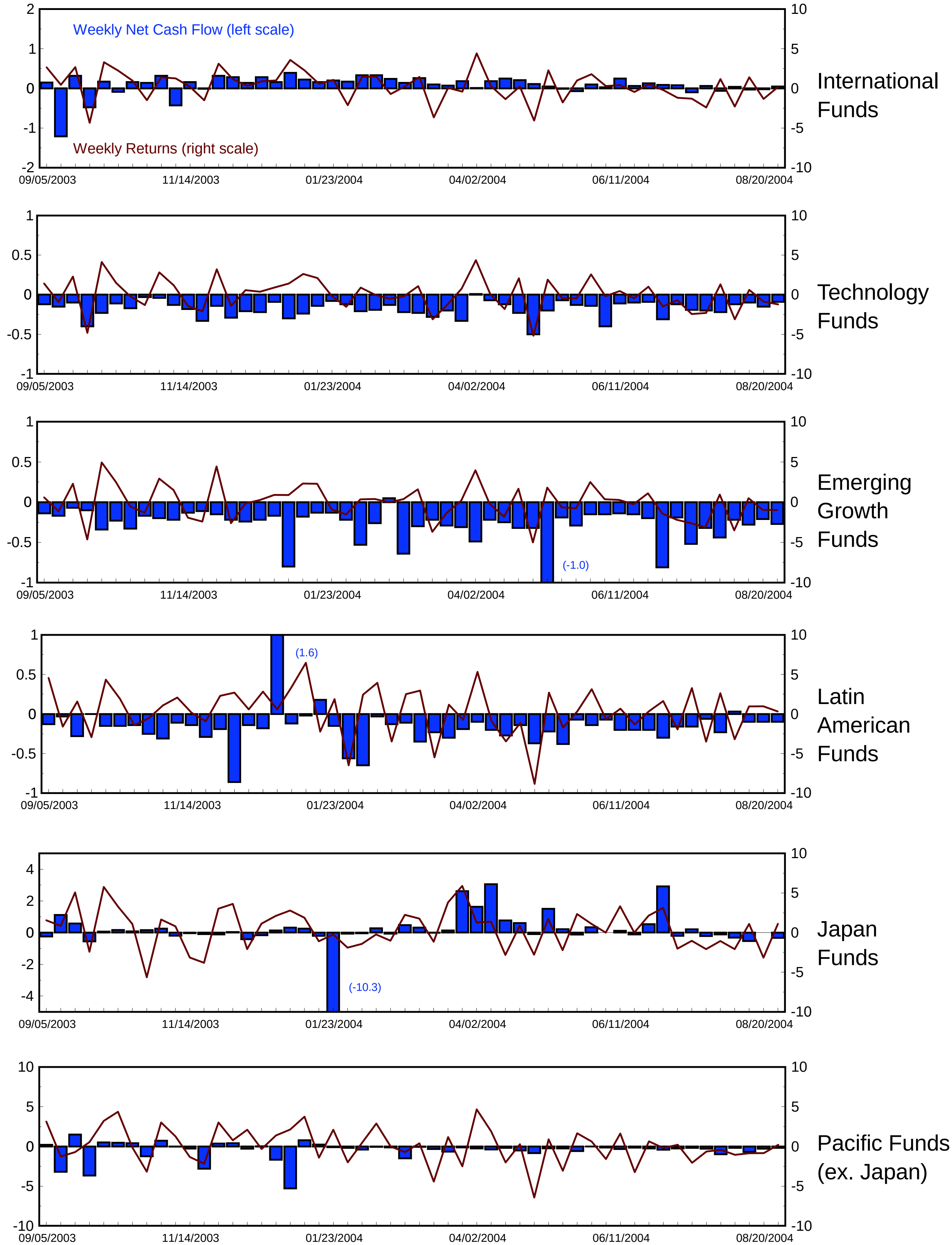


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

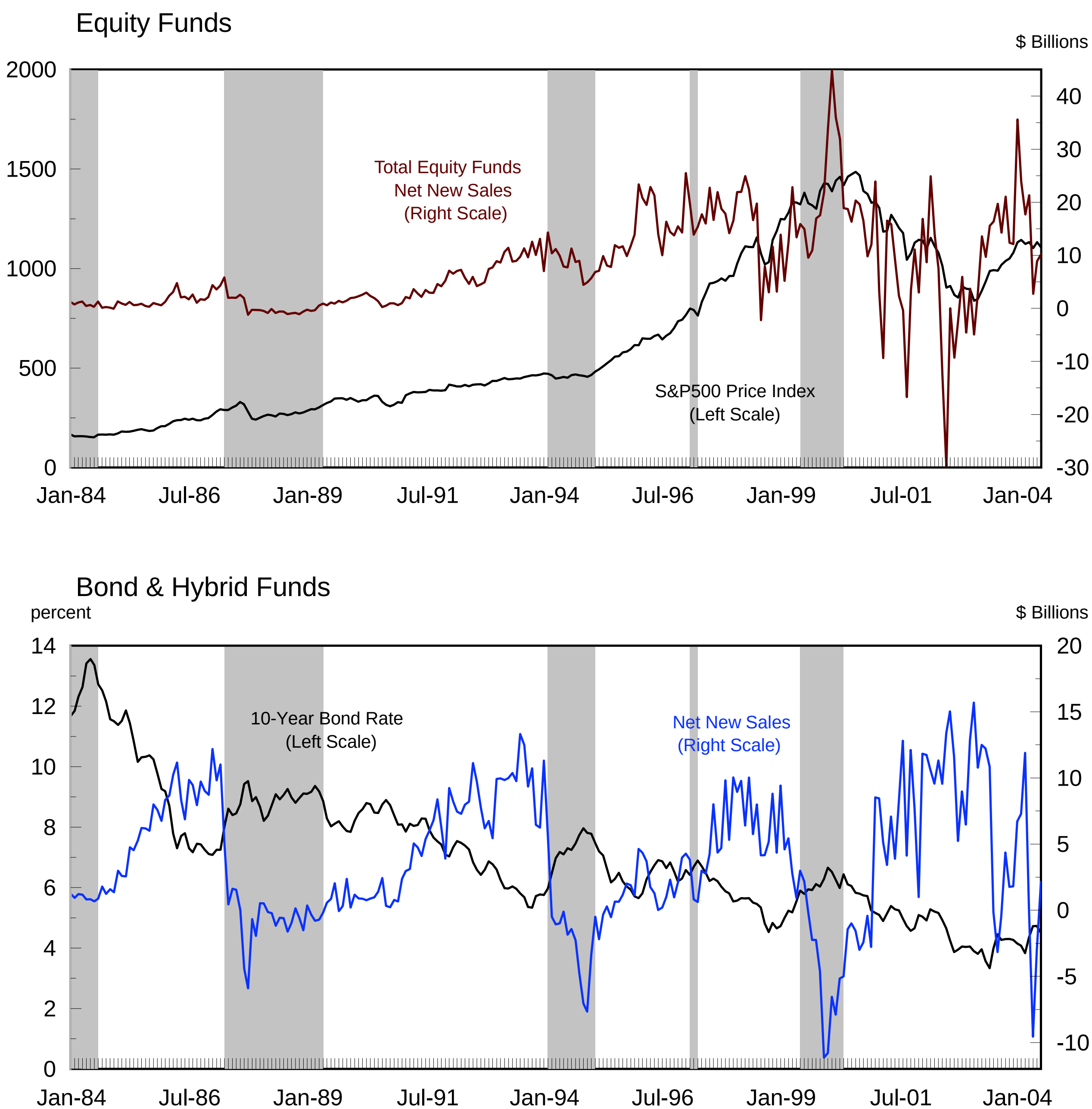


Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

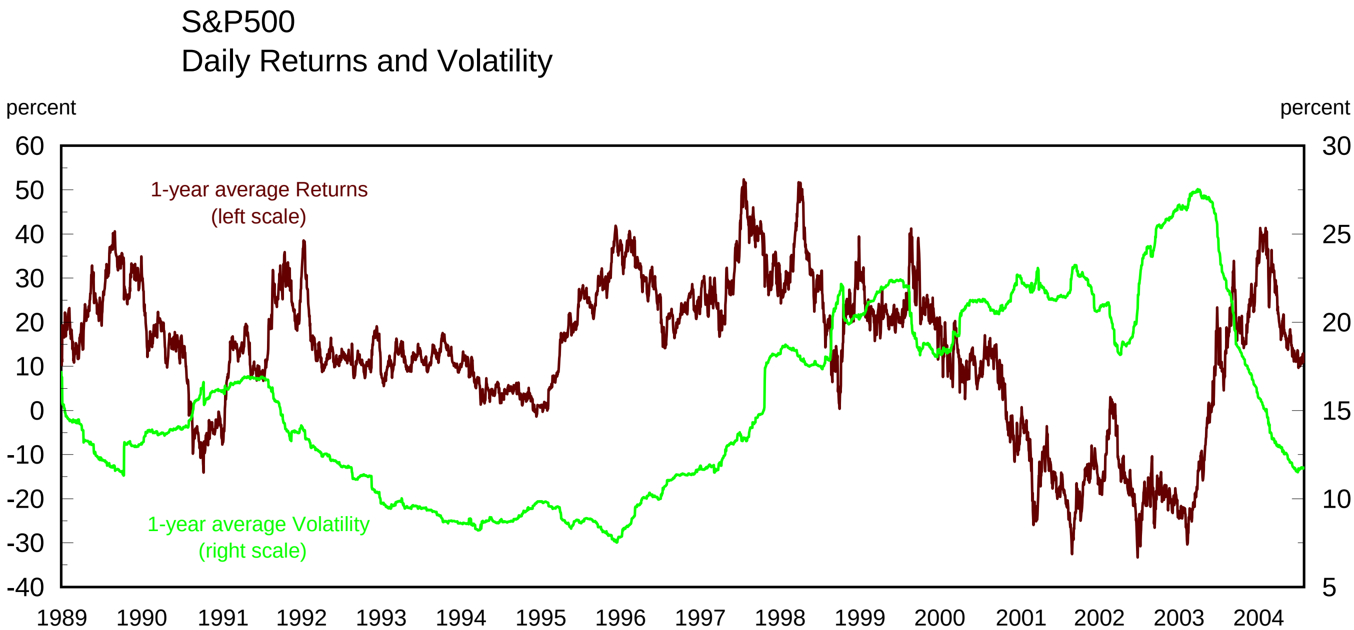
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

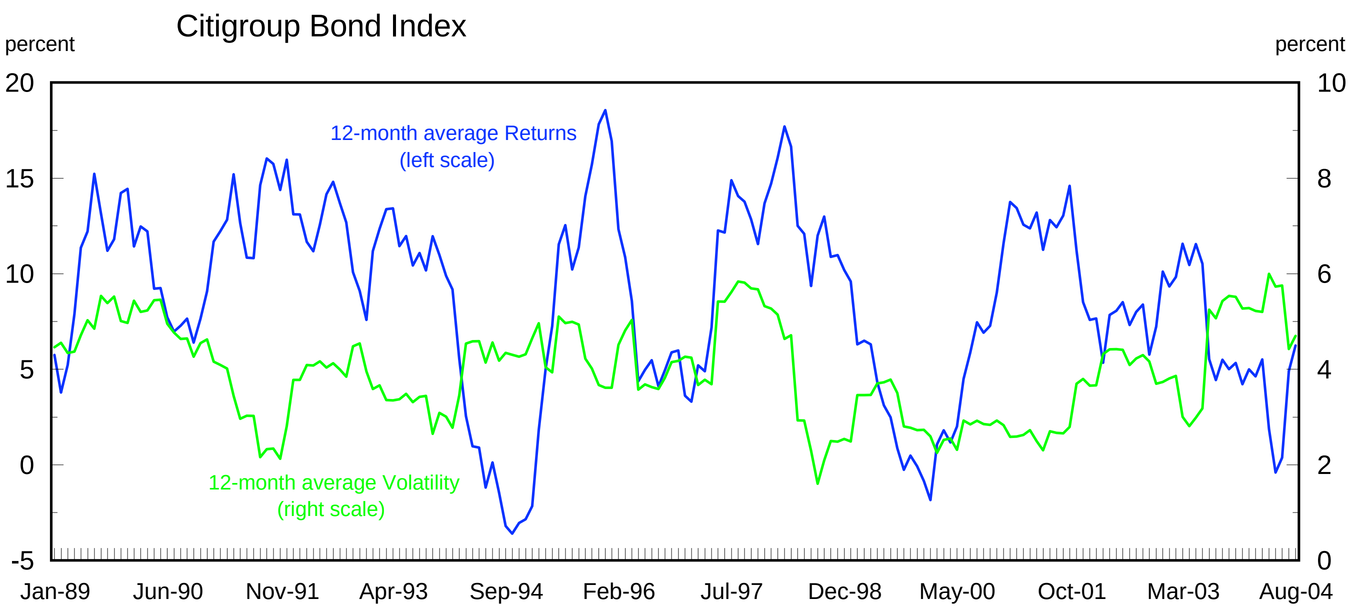


Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility

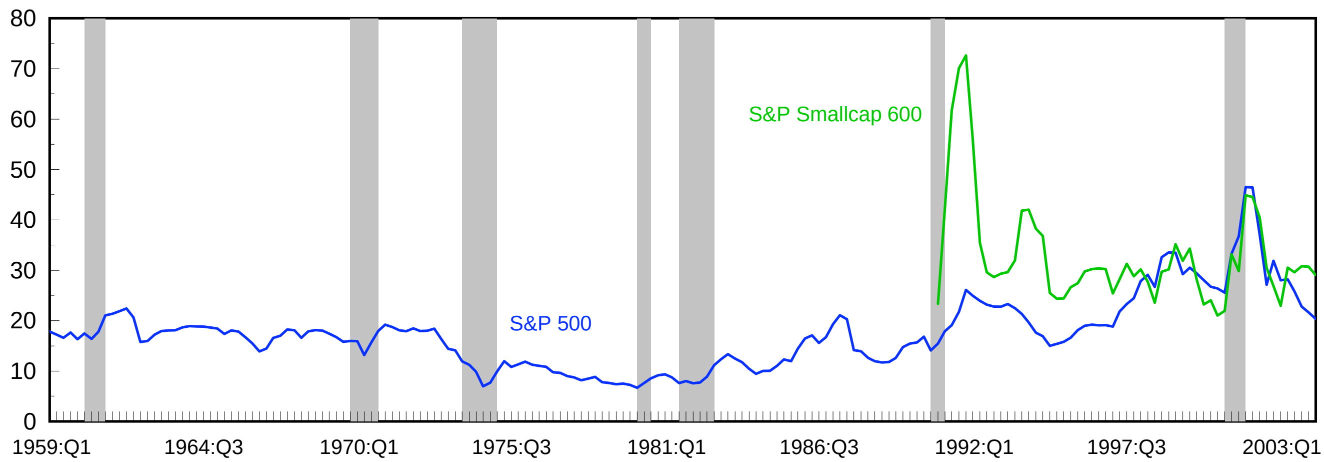




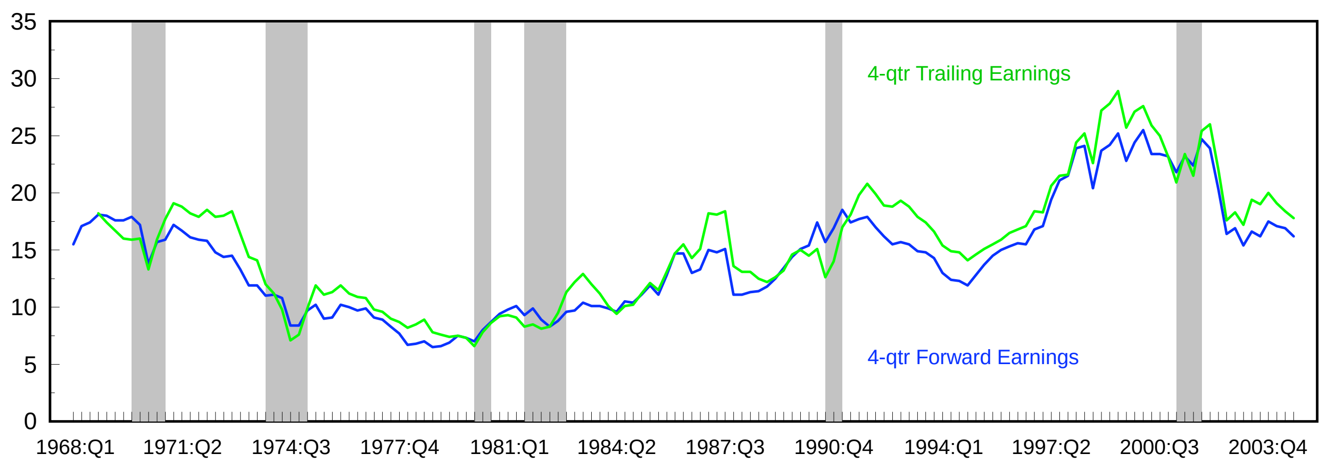
Source: FAME Database, Citigroup

Figure 9

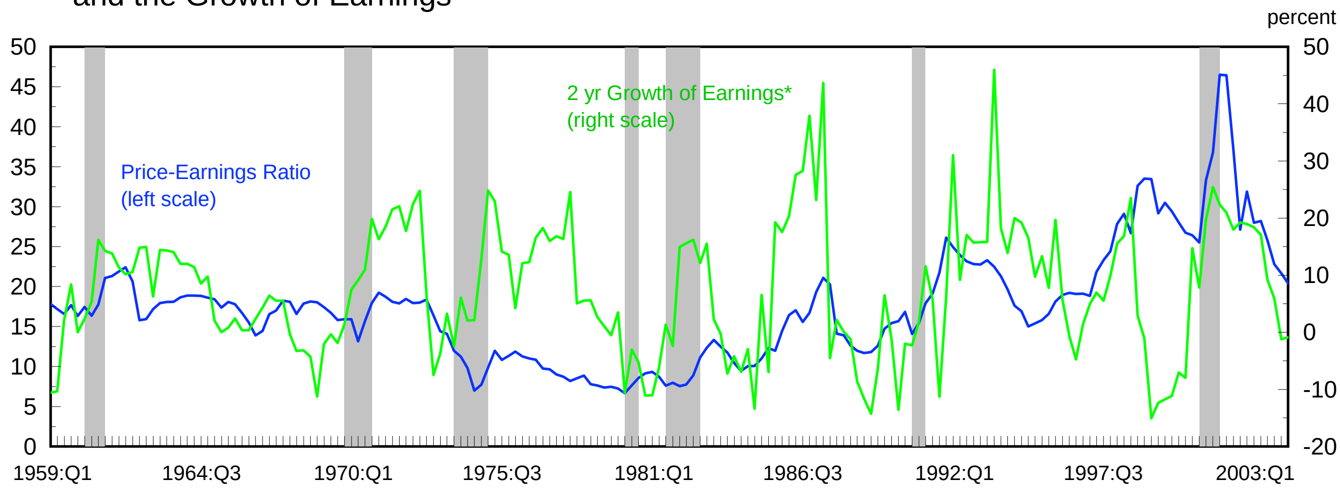
S&P Price-Earnings Ratios



S&P500 Price-Operating Earnings Ratio



S&P500 Price Earnings Ratio
and the Growth of Earnings

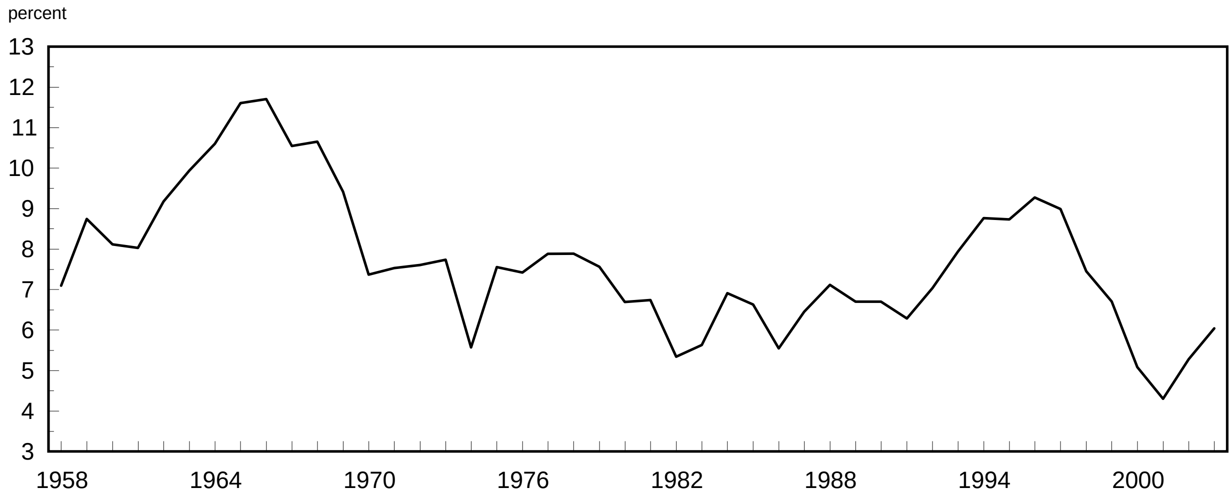


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

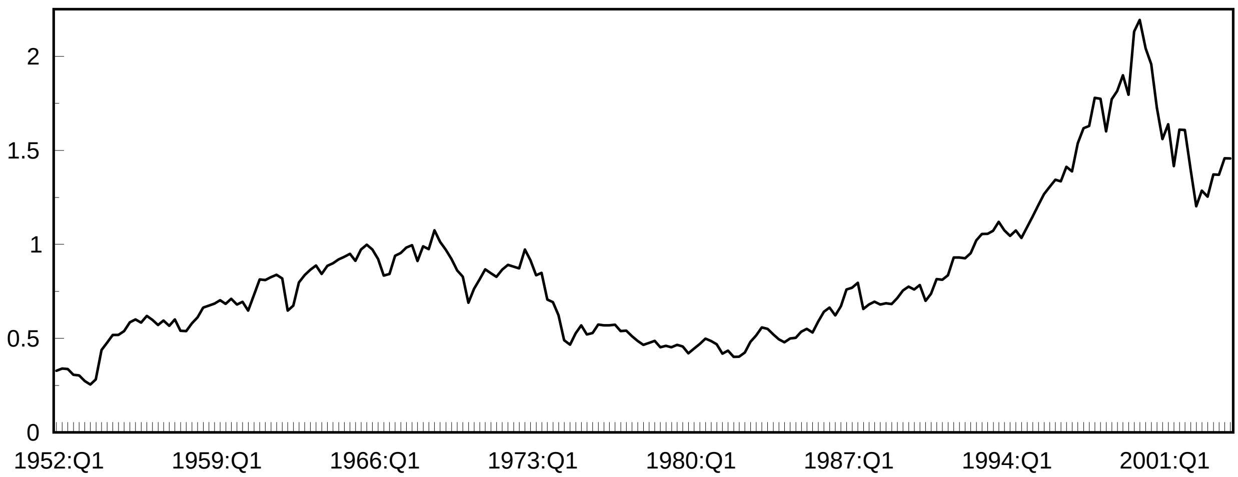
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

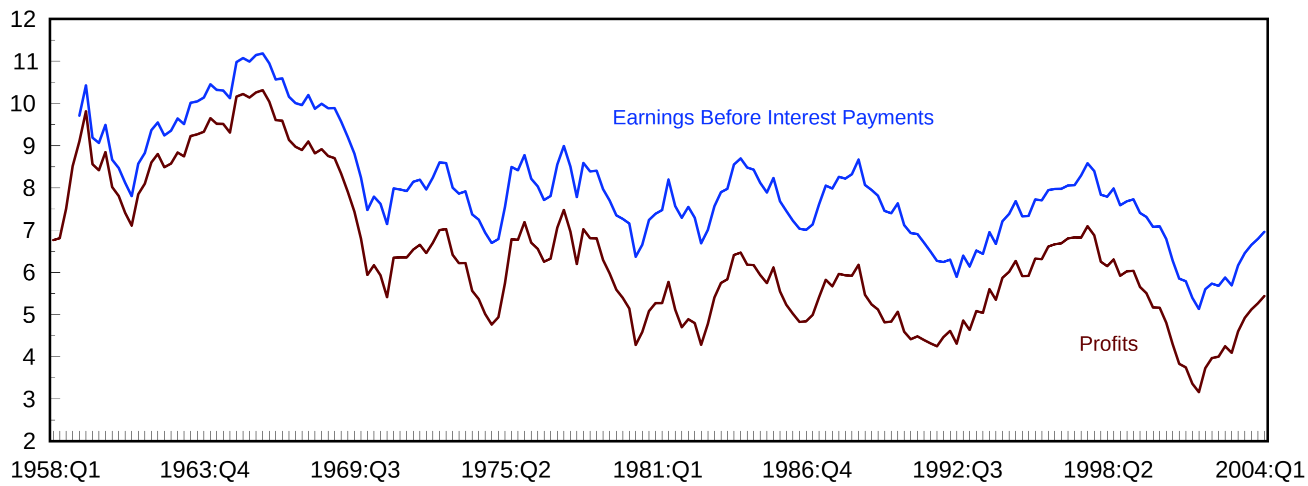
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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