March 4, 2005

Monthly Mutual Fund Report

Statistics for January-February 2005

Sales and Redemptions

Total assets for all funds decreased in January by $109.4 billion, or 1.4 percent, to $8.0 trillion. Money market funds had a net cash outflow of $28.3 billion compared to an outflow in December of $8.1 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $18.9 billion, compared to an inflow of $13 billion in December. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $140.7 billion in January, slightly up from $140.6 billion in December. The value of non-money market assets depreciated by $107.1 billion in January, following an appreciation of $146.7 billion in December.

Total assets of **equity funds** decreased by $94.3 billion, or 2.2 percent, to $4.3 trillion. There was an $8.7 billion net cash inflow to equity funds in January, compared with an inflow of $10.2 billion in December. The market value of assets depreciated by $103.3 billion in January. In the first month of 2004 equity funds had an inflow of $8.7 billion, compared to an inflow of $42.9 billion in the first month of 2003.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 0.5 percent, or $2.4 billion, to $516.9 billion. In January, there was a $5.3 billion net cash inflow for these funds, compared to an inflow in December of $1.9 billion. Hybrid funds have experienced an inflow of $5.3 billion year-to-date, compared to an inflow of $5.4 billion during the same period in the previous year.

Bond funds experienced a cash inflow of $4.8 billion, while their total assets increased by $11.6 billion, to $1.3 trillion. The market value of bond funds assets increased by $4.1 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.84 percent, while the assets of tax-exempt bond funds increased by 1.06 percent. The 2005 inflow is $4.8 billion, compared to an outflow of $0.3 billion in January of 2004.

Assets of taxable and tax-exempt **money market funds** decreased $24.2 billion, to $1.89 trillion, a decrease of 1.91 percent for taxable money market funds and an increase of 2.04 percent for tax-exempt funds. The 2005 inflow of $6.1 billion is less than the outflow for January of 2004, $10.1 billion.

Liquidity Ratio
The liquidity ratio for bond and hybrid funds decreased from 7.5 to 6.6 percent, while the ratio for equity funds decreased from 4.6 to 4.2 percent (figure 4).

Weekly Flows
In February, there were outflows from equity funds of 0.3 percent of total assets, with gains of 3.3 percent (figure 6a). Bond funds had outflows of 0.1 percent and returns of 0.8 percent.

Index funds had monthly inflows of 0.6 percent and returns of 4.6 percent. Aggressive growth funds had outflows of 0.2 percent and gains of 4.1 percent. Small-cap funds had an inflow of 1.2 percent and returns of 5.9 percent.

Technology funds had an outflow of 1.3 percent and returns of 1.1 percent (figure 6b). There was an outflow to real estate funds of 0.3 percent and gains of 3.6 percent.

There were inflows to international funds in February of 0.5 percent of assets and returns of 4.0 percent. Latin American funds had outflows of 0.4 percent and returns of 14.4 percent. Japan funds had outflows of 0.3 percent and gains of 1.1 percent of assets. Pacific funds that do not invest in Japan had outflows of 0.5 percent and returns of 4.3 percent of assets. Emerging Markets funds had outflows of 2.1 percent and returns of 2.1 percent.

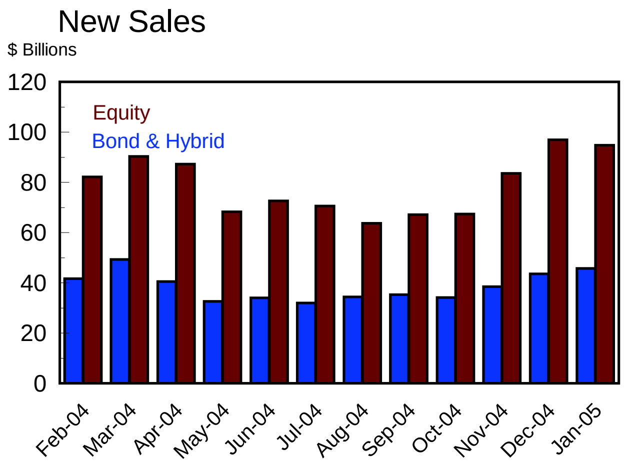
Capital Market Returns and Volatility
The S&P 500 ended February 28 at 1203.6, an increase of 2.7 percent from the beginning of the month. The 12-month gain was 6.5 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 11.2 percent.

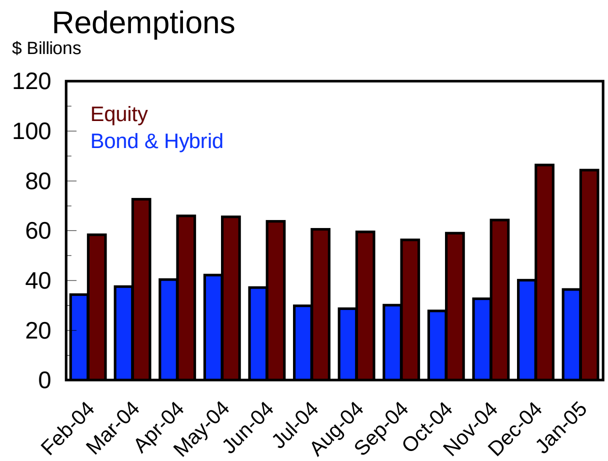
The 12-month average return on the Citigroup Bond Index was 2.5 percent for February. Volatility remained at 4.1 percent (figure 8).

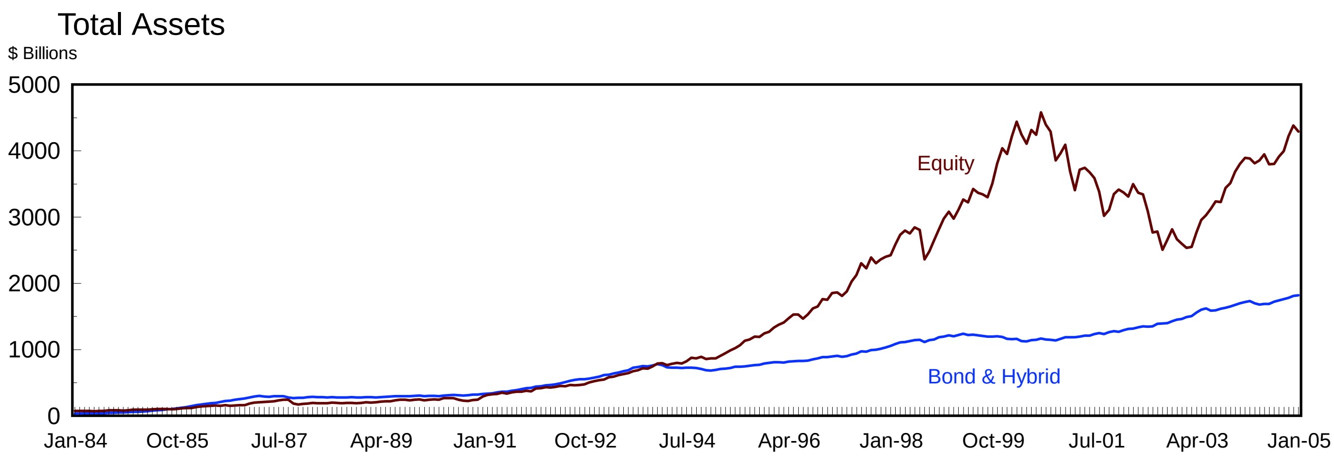
Price-Earnings Ratio
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have increased in the fourth quarter to 7.0 percent from current levels. The trailing price-earnings ratio decreased from 18.9 in the fourth quarter of 2004 to 18.7 in the first quarter of 2005, while Thomson Financial/First Call's forward price-operating earnings is 16.3 during the first quarter of 2005, down from 17 in the fourth quarter of 2004. During the fourth quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index rose to 24.8 from 24.3 (figure 9).

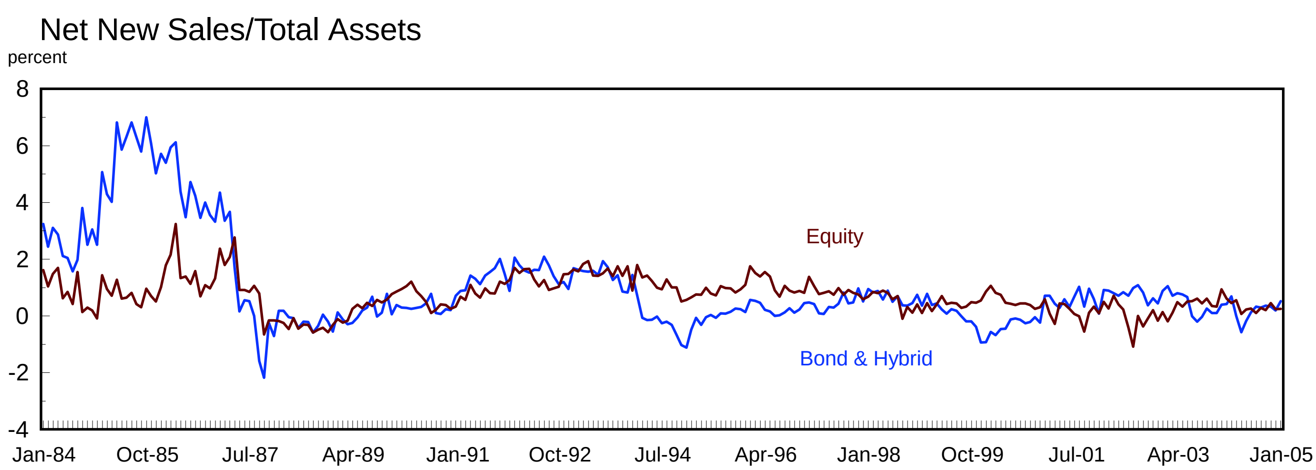
Please contact Maria Giduskova for questions and comments at Maria.Giduskova@bos.frb.org, or by phone at (617) 973-3198

Figure 1
Sales of Mutual Funds







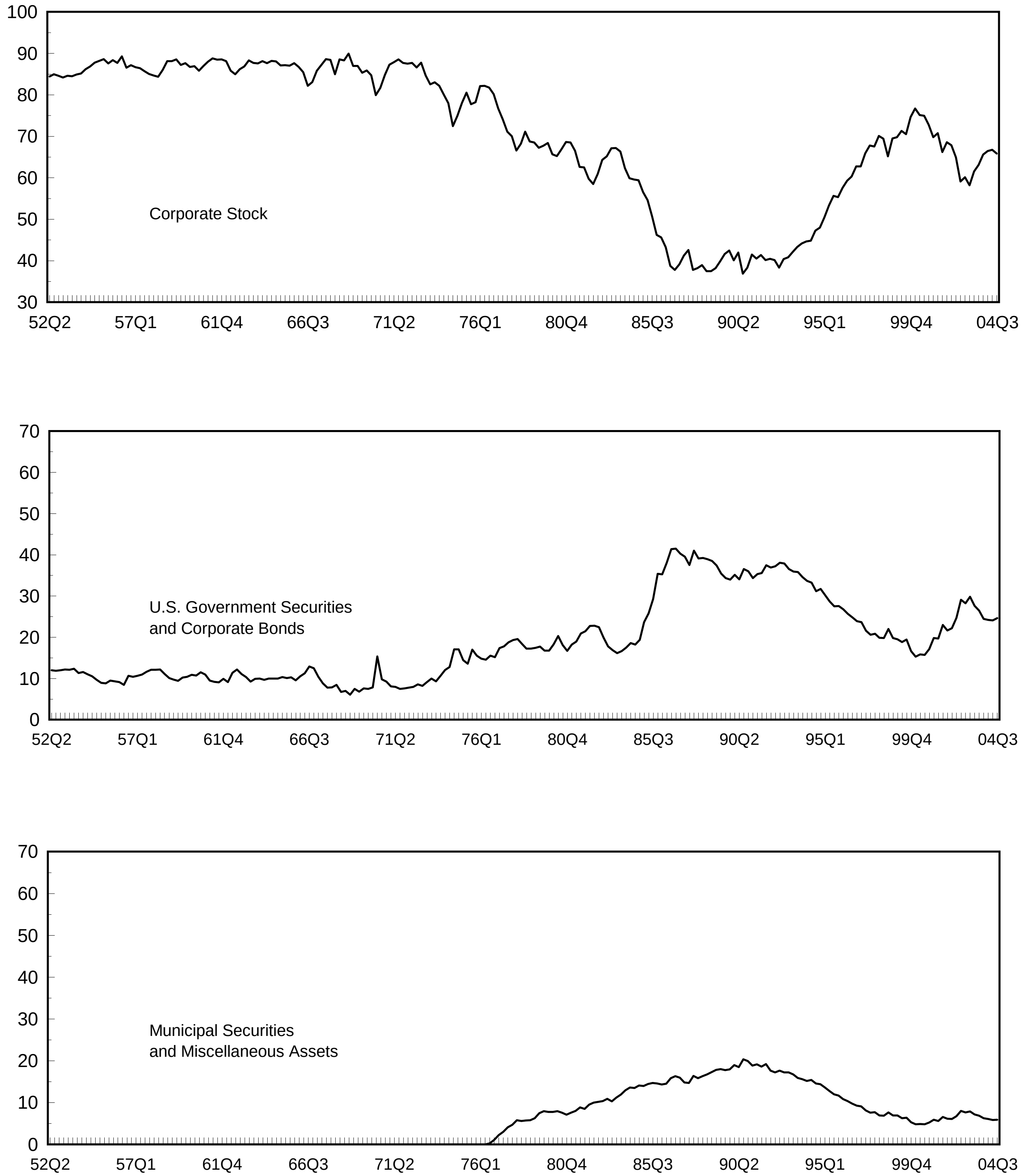


Source: Investment Company Institute

Figure 2

Composition of Mutual Funds' Financial Assets

(percent of Total Financial Assets)



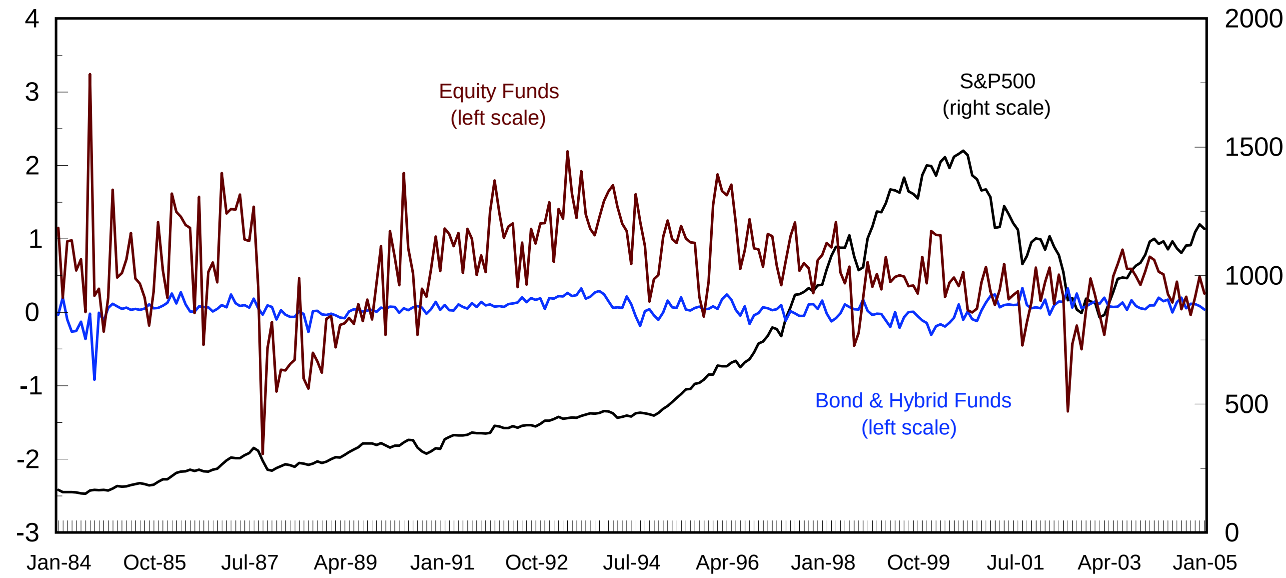
Source: Flow of Funds, Haver Analytics0

Figure 3

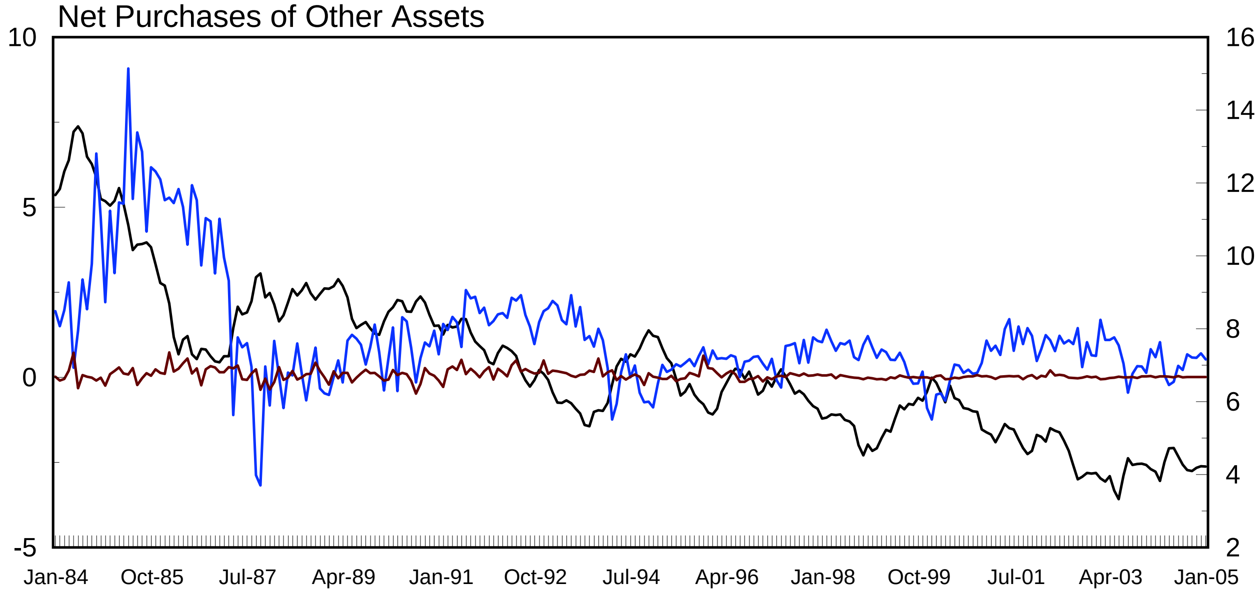
Net Portfolio Purchases

(percent of Total Assets)

Net Common Stock Purchases



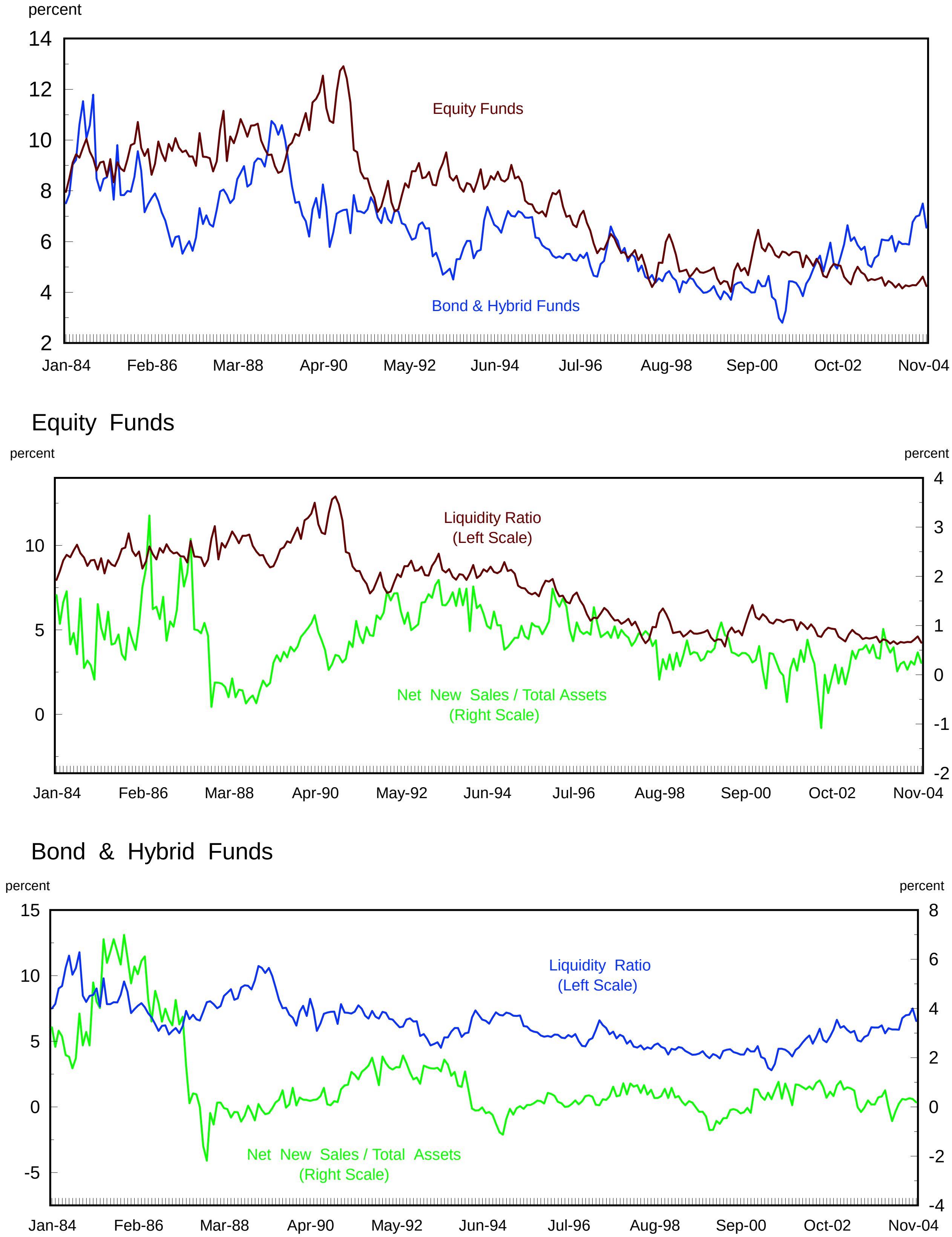
Net Purchases of Other Assets



Source: Investment Company Institute

Figure 4

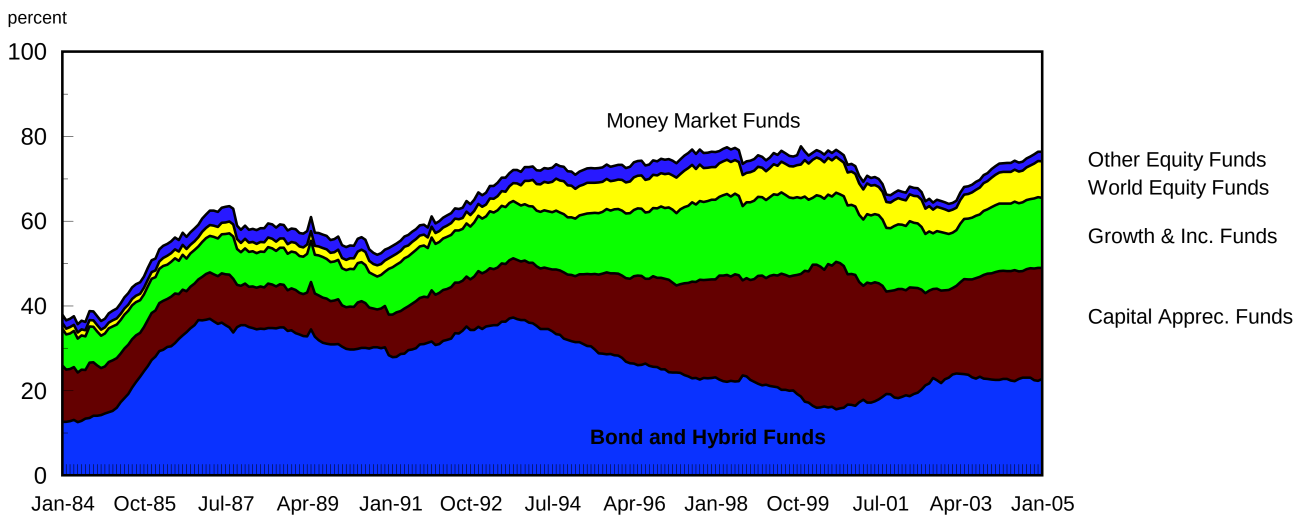
Liquidity Ratio*



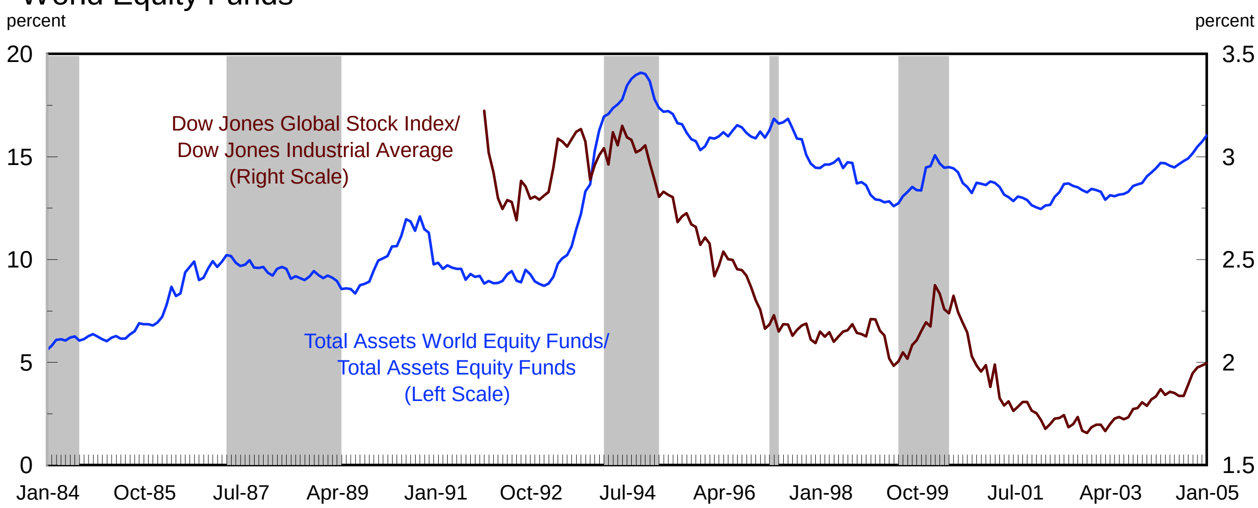
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

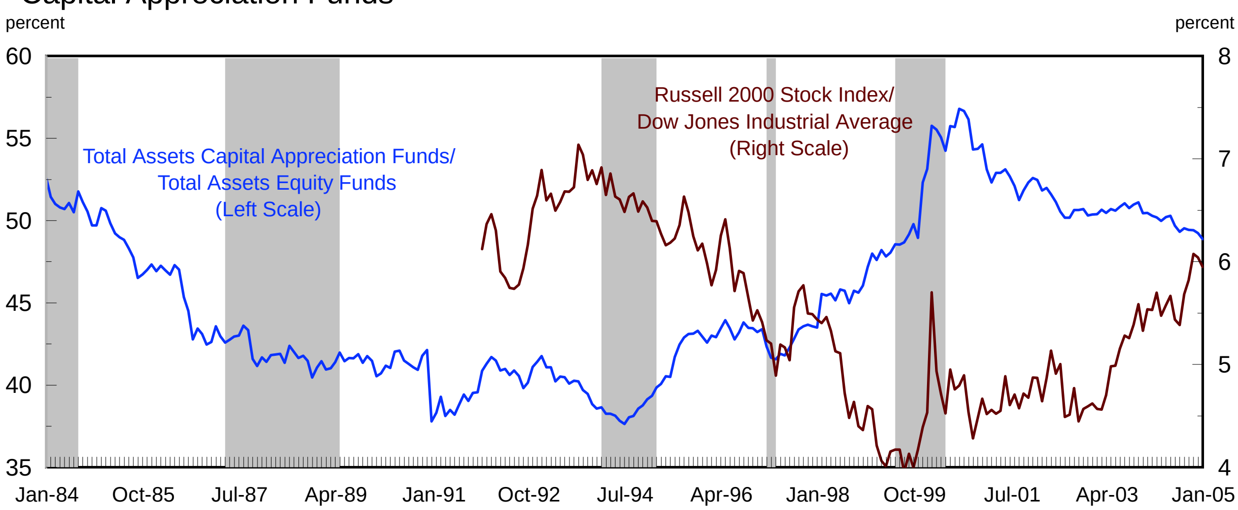
Figure 5
Industry Composition
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

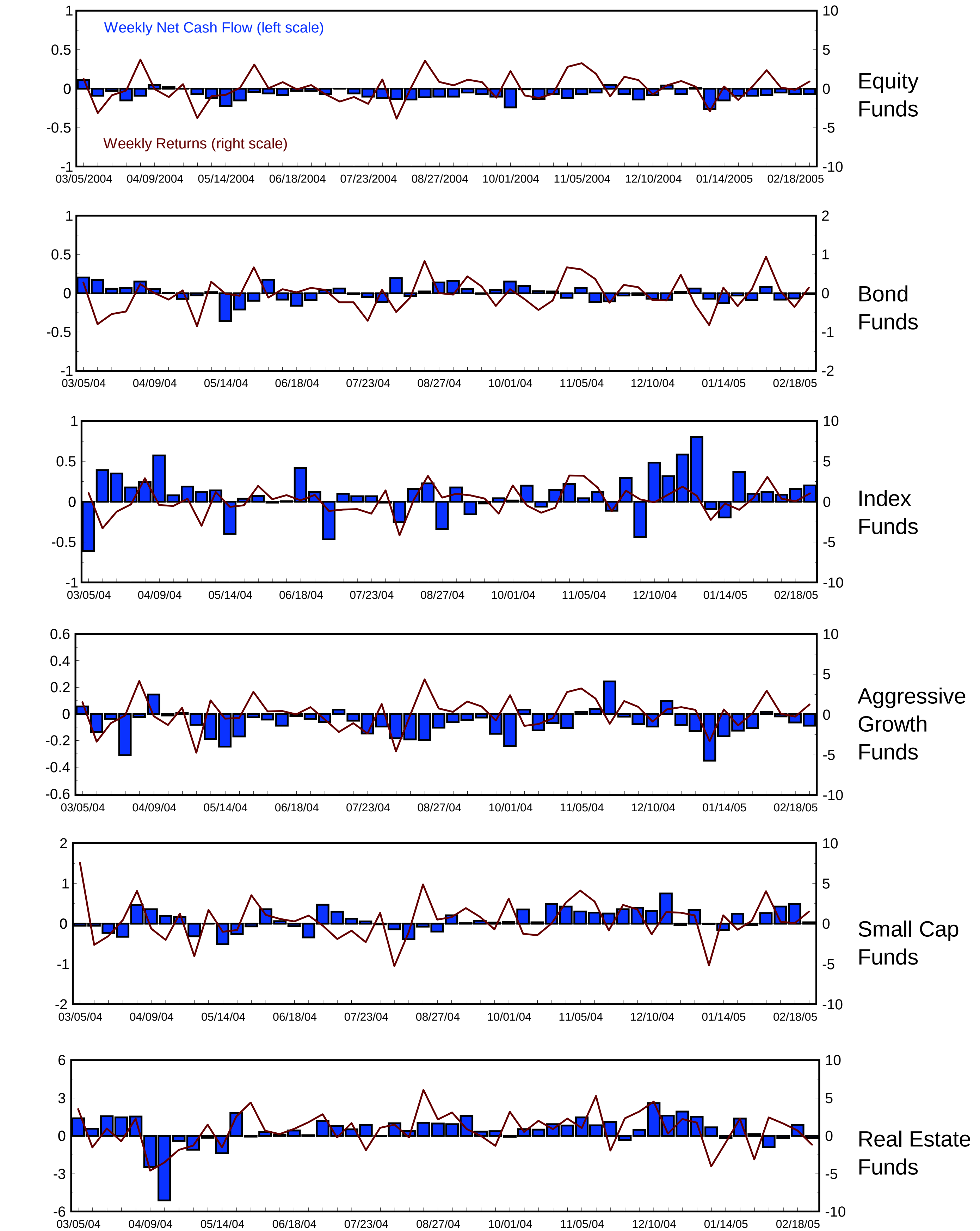


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

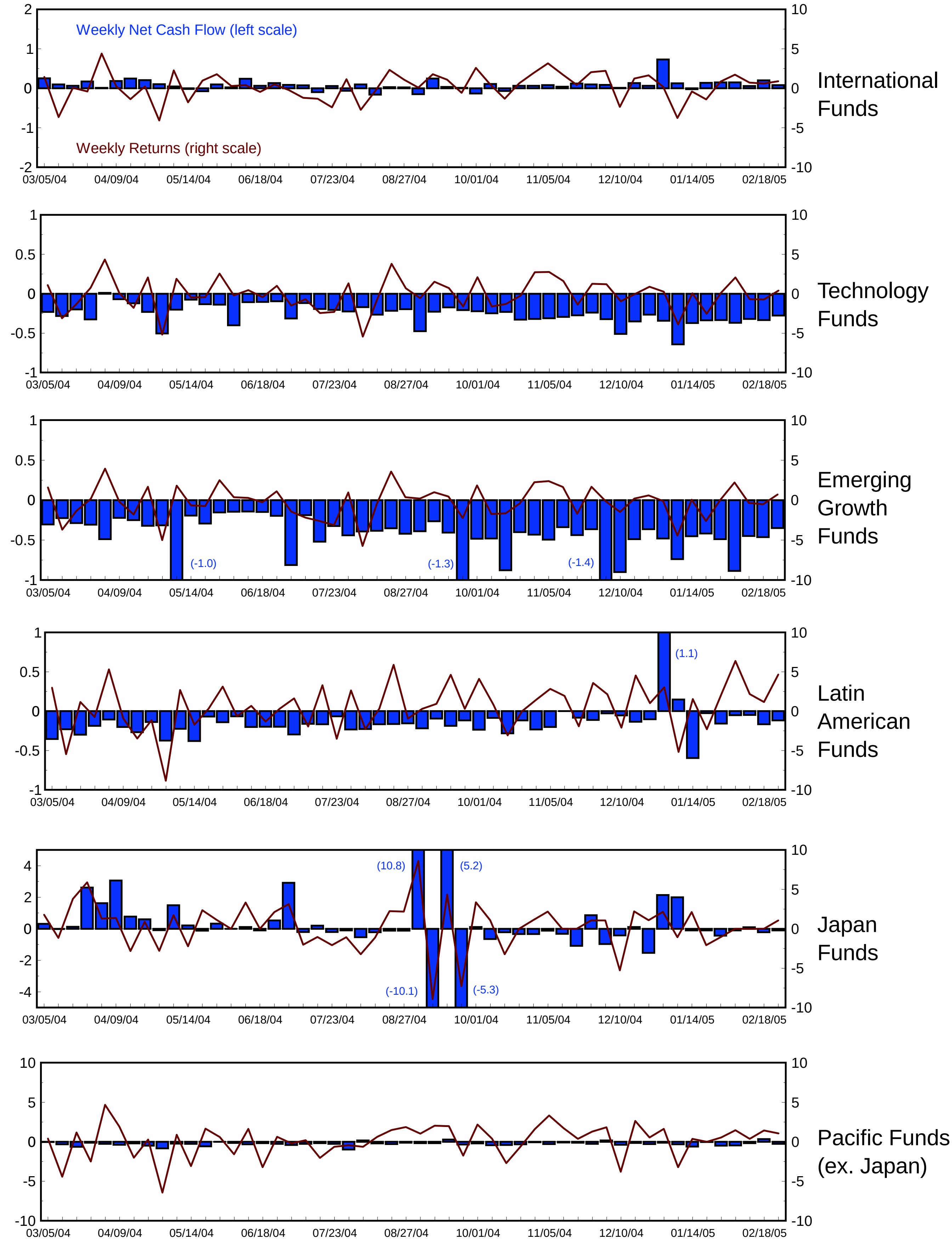


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

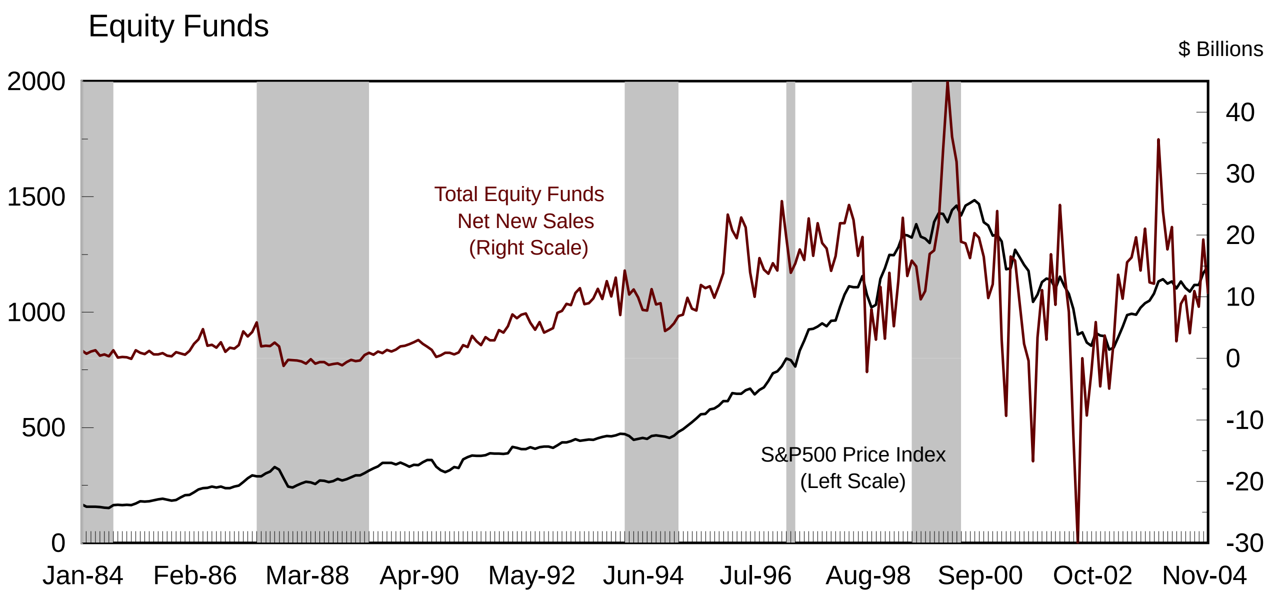


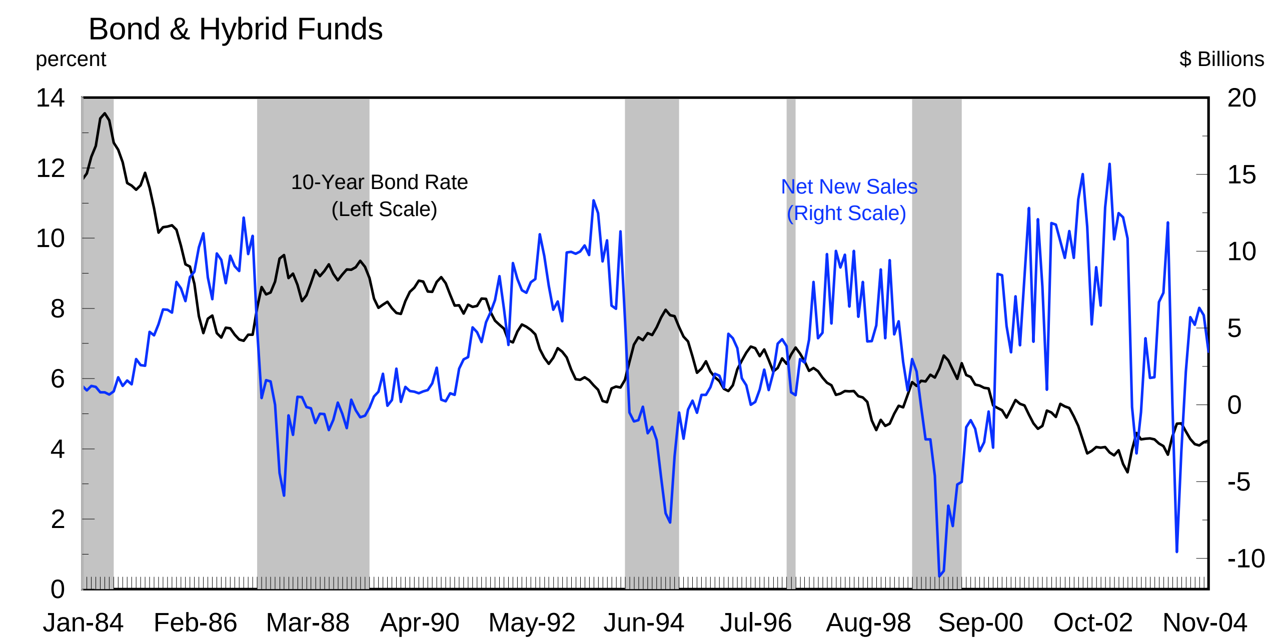
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

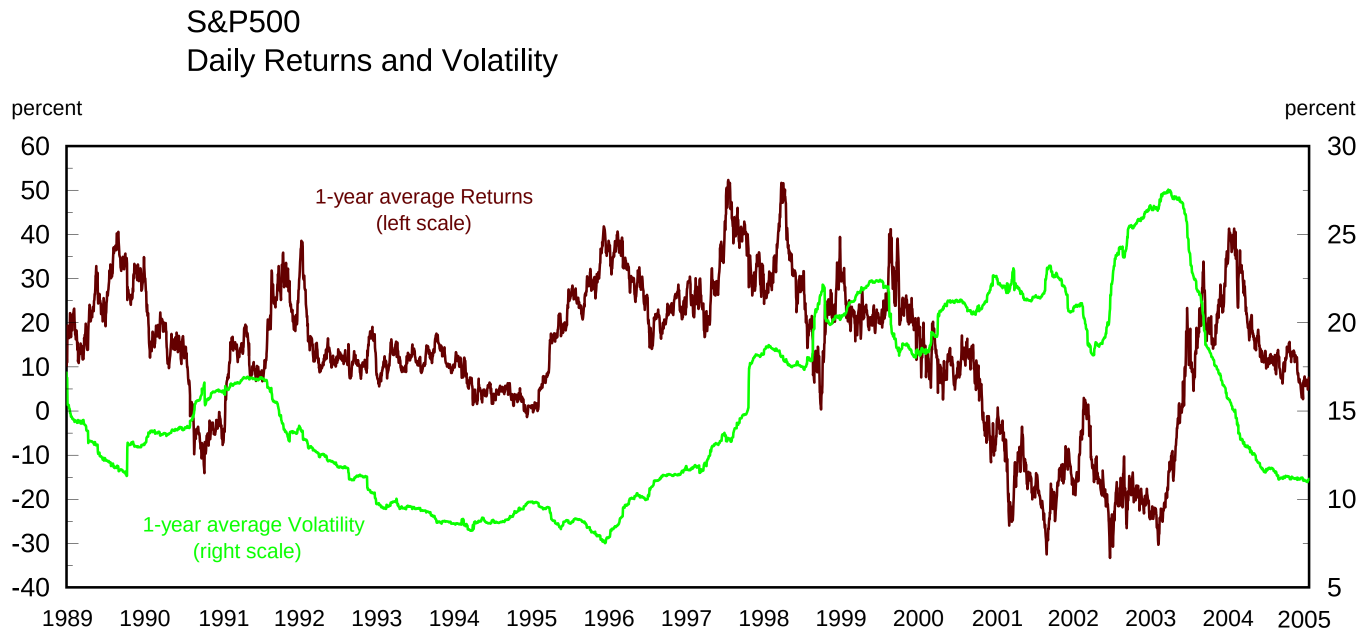


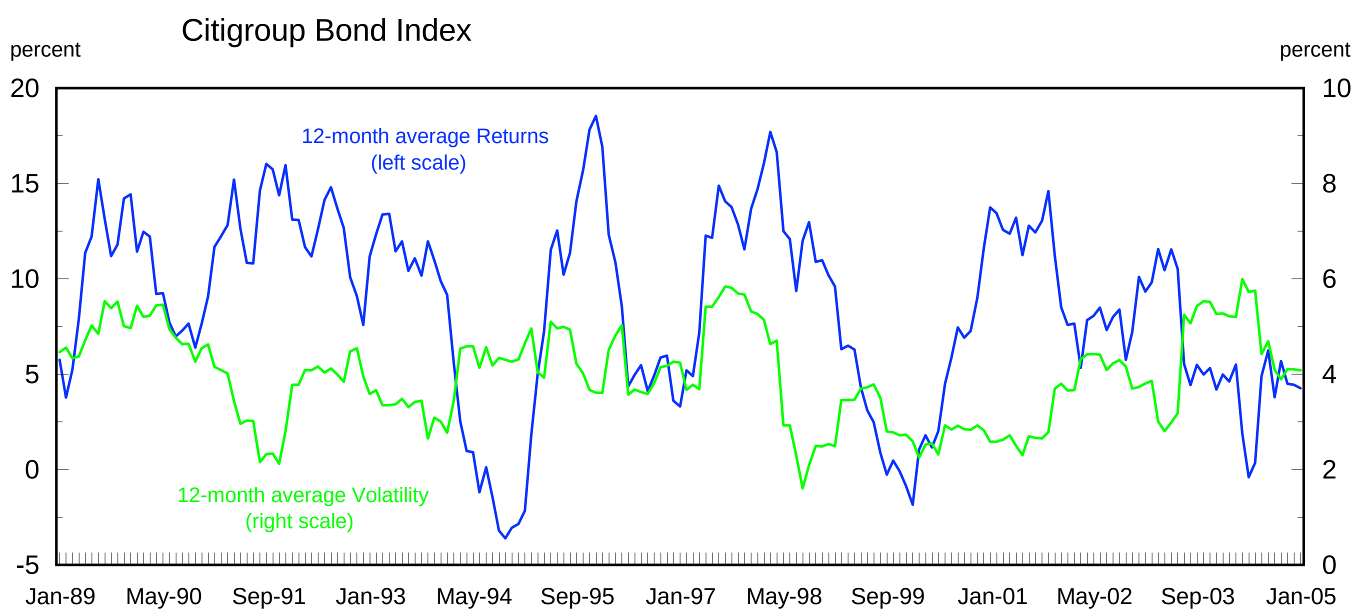


Source: Investment Company Institute

Figure 8

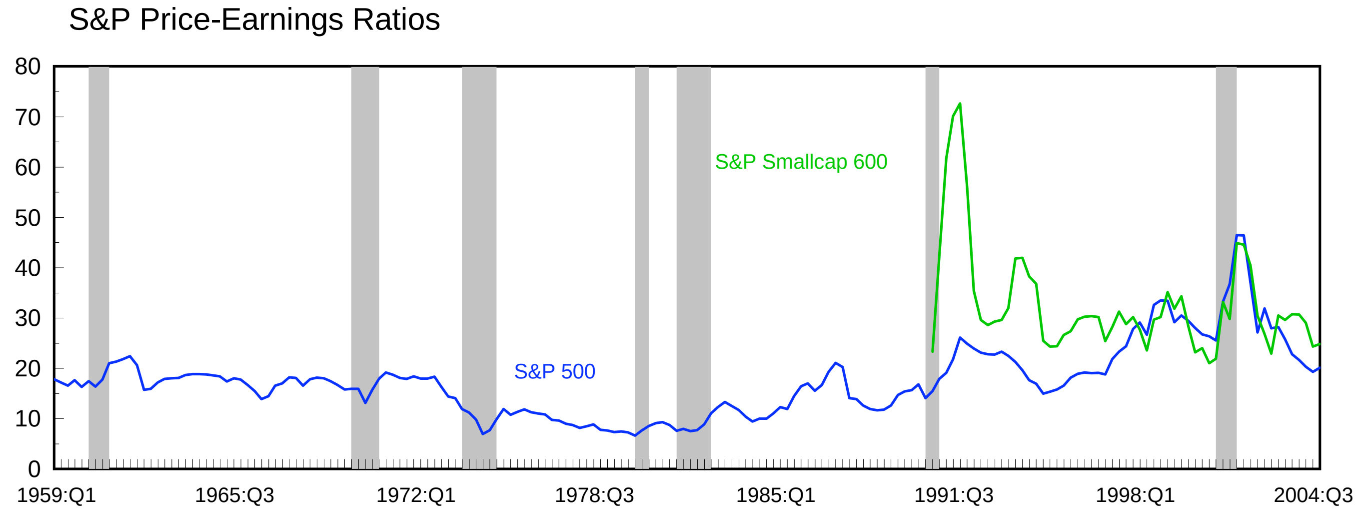
Capital Market Returns and Volatility

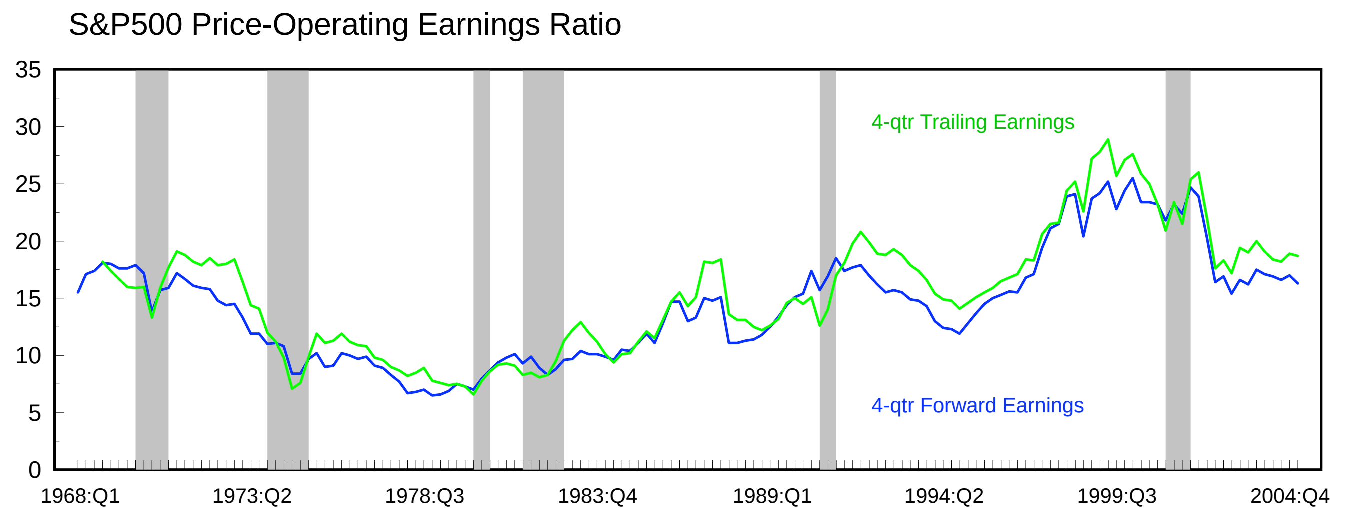


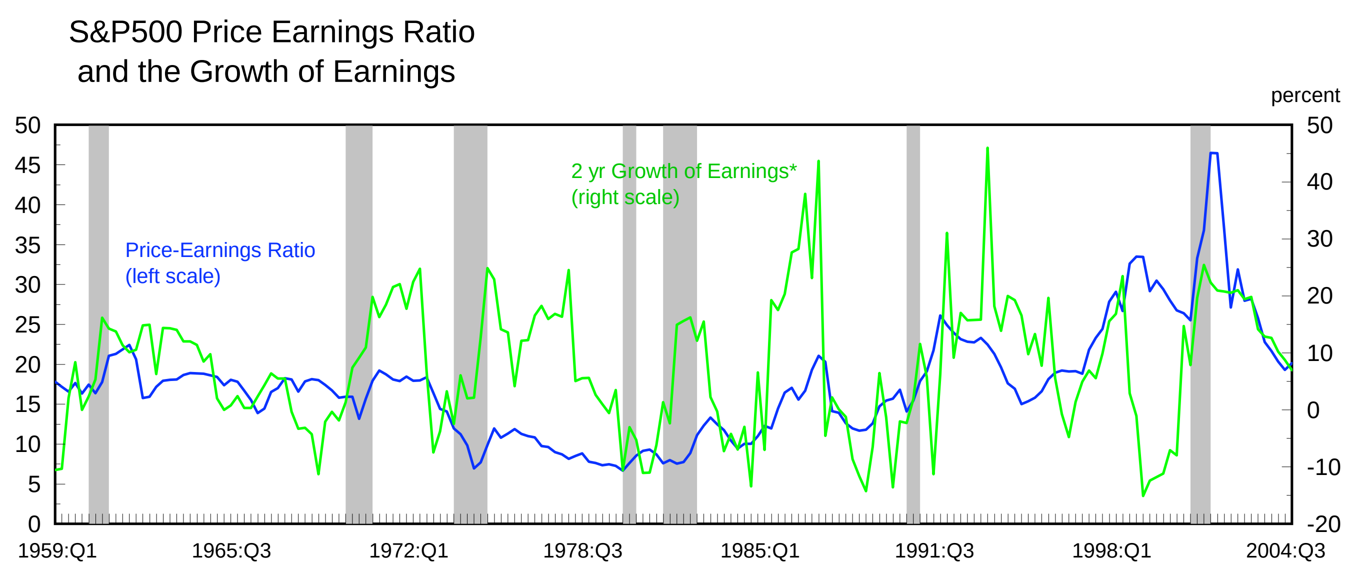


Source: FAME Database, Citigroup

Figure 9





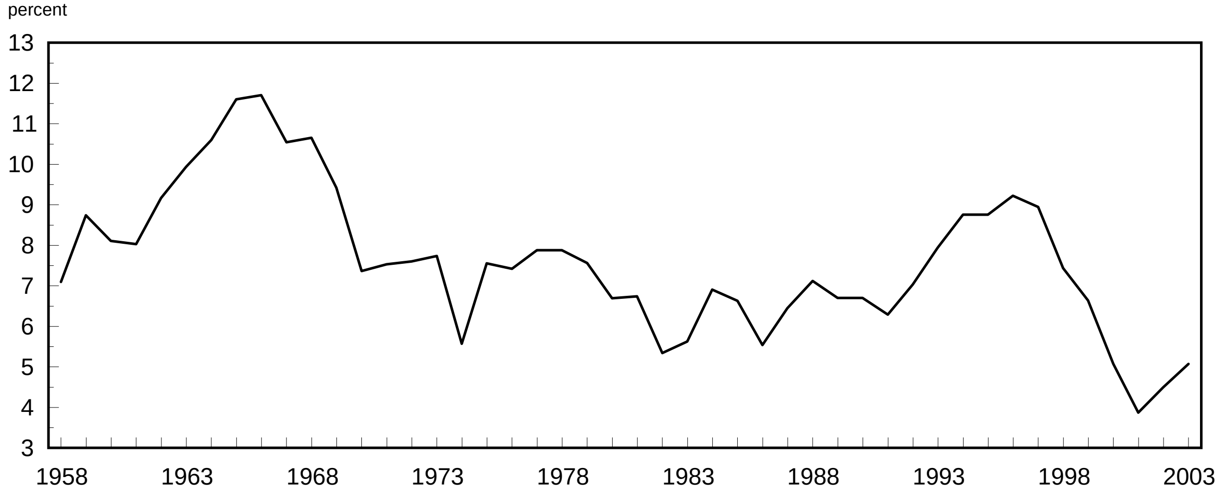


* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

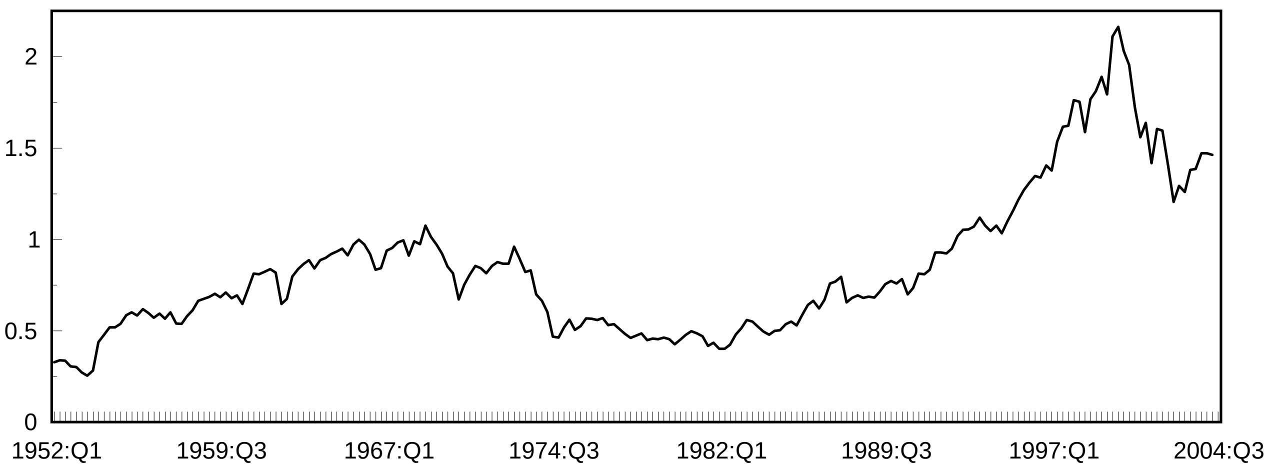
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

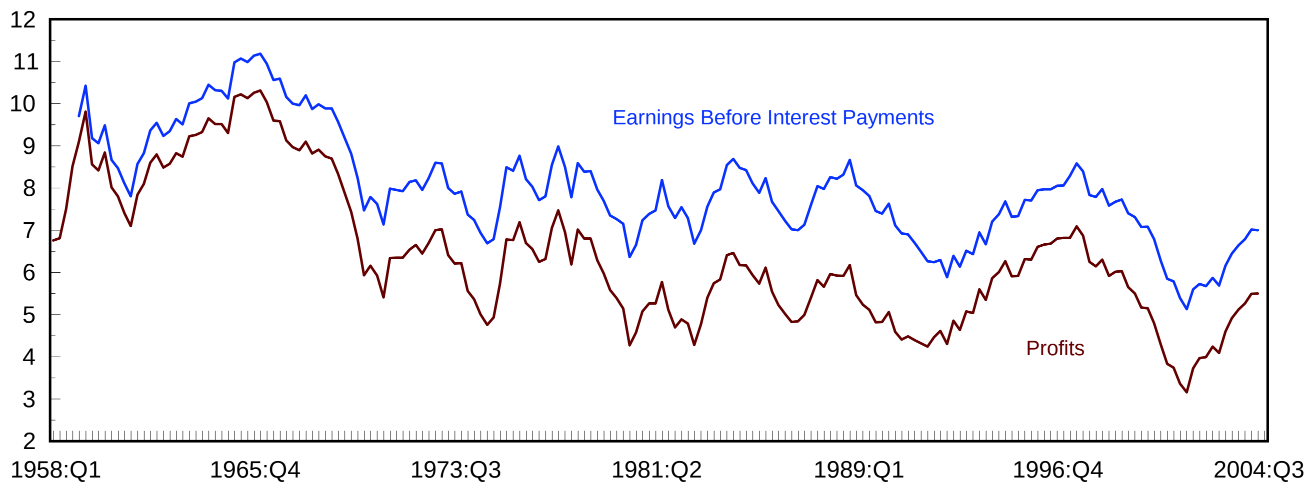
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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