September 6, 2002

Monthly Mutual Fund Report

Statistics for July-August 2002

In July 2002, stock funds set a record for dollar outflow, $52.6 billion, nearly doubling the previous high set in September 2001. July's outflow represented 1.7 percent of the previous month's assets, the second highest percentage of assets since Investment Company Institute started tracking flows, surpassed only by October 1987's 3.2 percent. Outflows have continued in August, though at a much slower pace, despite most investment objective categories showing a positive return.

Sales and Redemptions

Total assets for all funds decreased in July by $252.2 billion, or 3.8 percent, to $6.4 trillion. Money market funds had a net cash inflow of $54.6 billion compared to an outflow in June of $43.6 billion. Other funds (equity, hybrid, and bond) had a net cash outflow of $29.2 billion, compared to an outflow of $7.4 billion in June. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $122.8 billion in July, up from $104.5 billion in June. The value of non-money market assets depreciated by $283.4 billion in July, following a depreciation of $260.1 billion in June.

Total assets of **equity funds** decreased by $318.4 billion, or 10.3 percent, to $2.77 trillion. There was a $52.6 billion net cash outflow from equity funds in July, compared with an outflow of $20.1 billion in June. Year-to-date, equity funds have a net cash outflow of $1.4 billion, compared to a $48.0 billion inflow for the same period in 2001. The market value of assets depreciated by $266.0 billion.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, decreased 6.1 percent, or $20.7 billion, to $320.7 billion. In July, there was a $4.7 billion net cash outflow for these funds for a total of $8.4 billion in 2002, barely exceeding the inflow of $8.0 billion in the first seven months of last year.

Bond funds experienced a cash inflow of $28.1 billion, while their total assets increased by $29.6 billion, to $1.03 trillion. The market value of bond funds assets decreased by $1.2 billion, after adjusting for net sales and reinvested dividends. The assets of tax-exempt funds increased by 2.0 percent while the assets of taxable bond funds increased by 3.4

percent. There has been a net inflow into bond funds of $86.6 billion in 2002, compared to $44.8 billion in the same period in 2001.

Assets of taxable and tax-exempt **money market funds** decreased $57.3 billion, to $2.3 trillion, an increase of 2.6 percent for taxable money market funds and 2.7 percent for tax-exempt funds. After a net cash inflow of $187.2 billion in the first seven months of 2001, money market funds have an outflow of $57.4 billion so far this year.

Liquidity Ratio

The liquidity ratio for bond and hybrid funds increased from 4.8 to 5.3 percent, while the ratio for equity funds decreased from 4.7 to 4.6 percent (figure 4).

Weekly Flows

In August, there were outflows from equity funds of 0.6 percent of total assets, with returns of 9.5 percent. Bond funds had inflows of 0.8 percent and returns of 1.4 percent for the month.

Index funds had monthly inflows of 0.7 percent and losses of 5.8 percent. Aggressive growth funds had monthly outflows of 0.2 percent and returns of 9.3 percent. Small-cap funds had outflows of 0.2 percent and losses of 3.5 percent.

There were outflows from international funds in August of 0.8 percent of assets and returns of 3.5 percent. Latin America funds had outflows of 1.6 percent and returns of 2.9 percent. Japan funds had outflows of 1.2 percent and losses of 5.9 percent of assets for the month of August. Pacific funds that do not invest in Japan had outflows of 8.3 percent and losses of 3.0 percent of assets.

Capital Market Returns and Volatility

The S&P 500 ended August at 916.07, an increase of 0.4 percent from the beginning of the month. The 12-month loss was 21.3 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 23.9 percent.

The 12-month average return on the Citigroup (formerly Solomon Brothers) Bond Index was 78.0 percent for August. Volatility increased to 4.05 percent (figure 8).

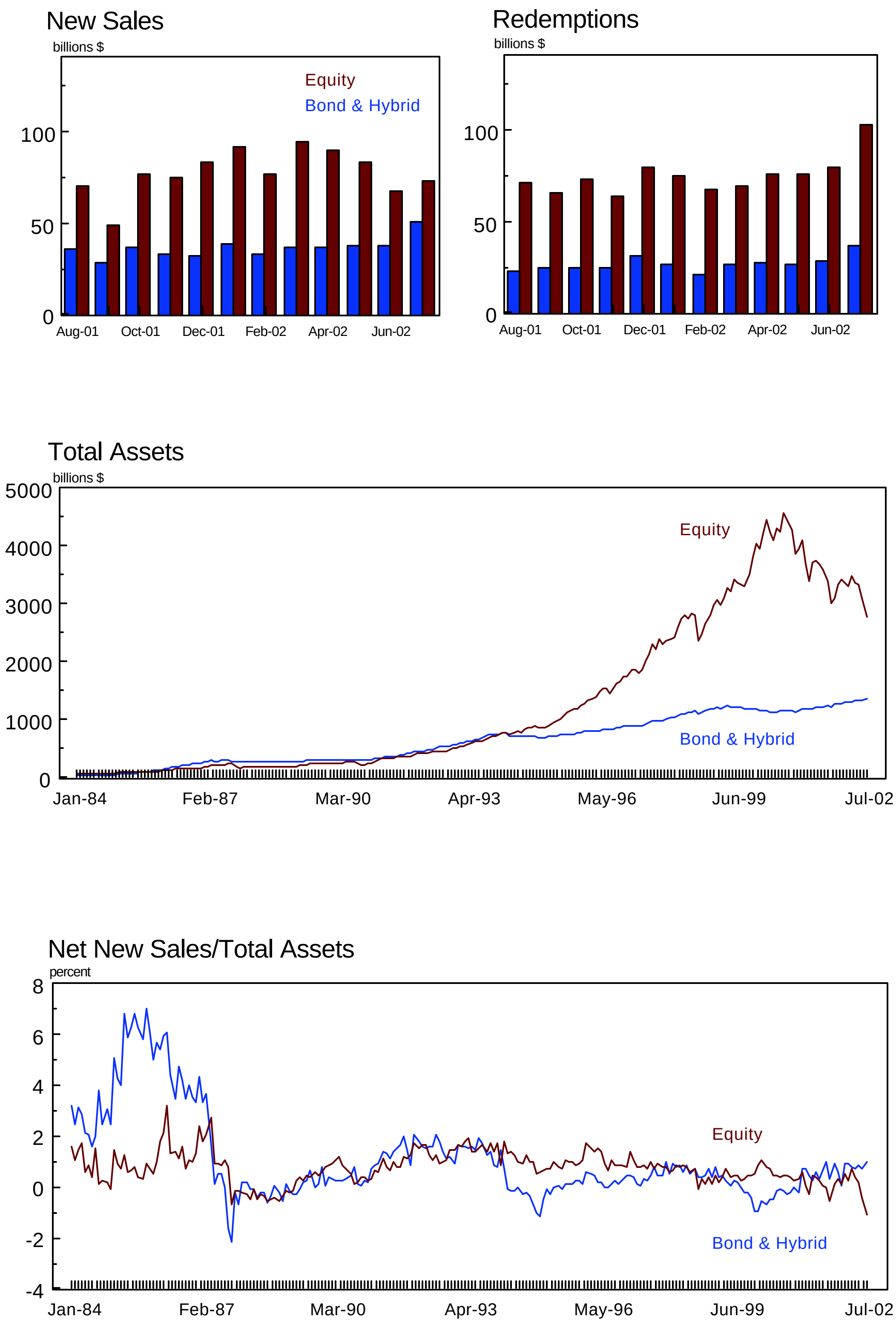
Price-Earnings Ratio

The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have decreased to 14.2 percent, though far above the 6.3 percent historical average annual growth rate.

The trailing price-operating earnings ratio decreased from 22 in the second quarter to 18.8 for the third quarter, while the forward price-operating earnings ratio decreased from 18.2 in the second quarter to 16.1 during the third quarter of 2002 (figure 9). During the second quarter the price-earnings ratio for the Standard and Poor's Small-Cap 600 Index decreased to 40.5 from 44.6.

For more information please contact Matthew S. Rutledge (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)

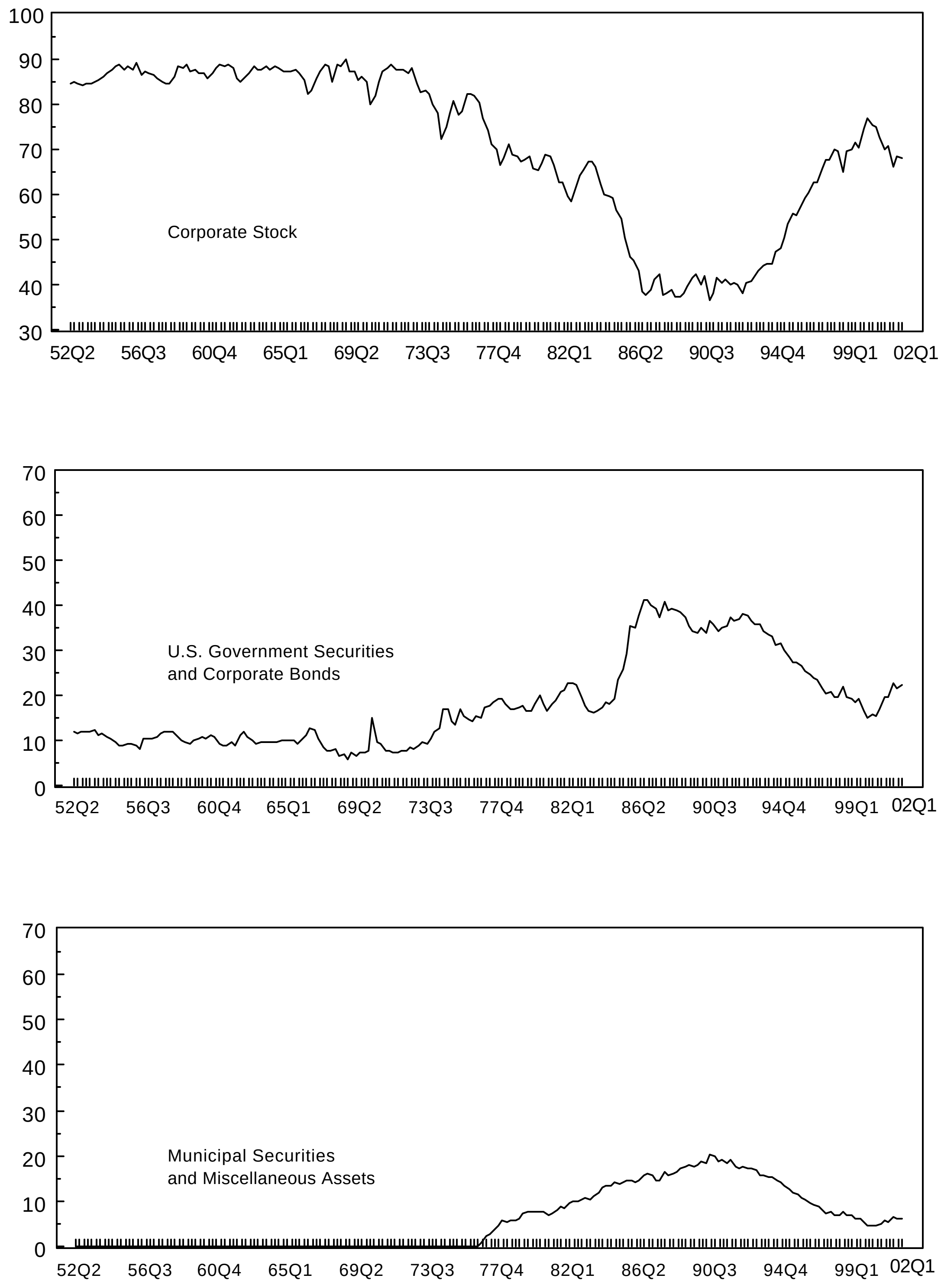
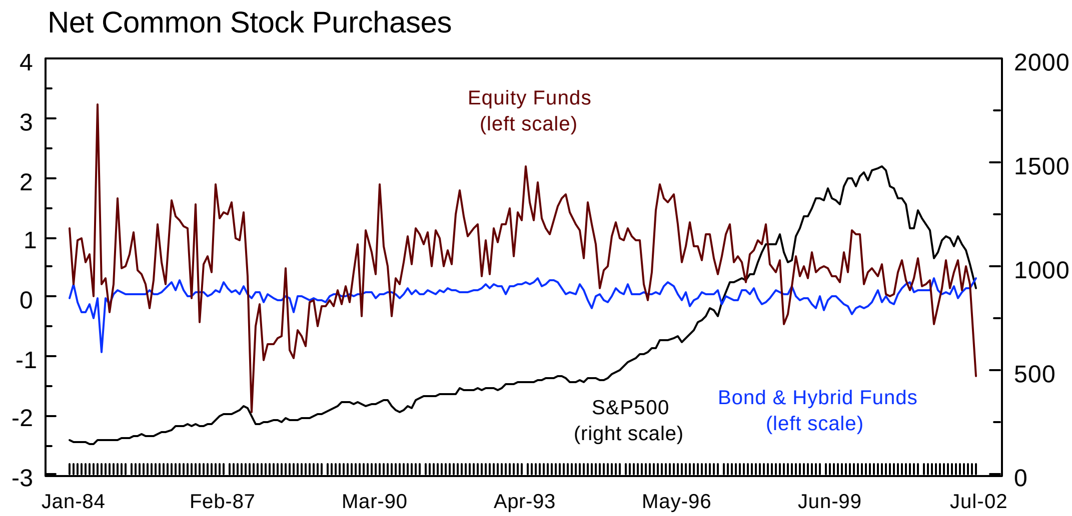


Figure 3

Net Portfolio Purchases

(percent of Total Assets)



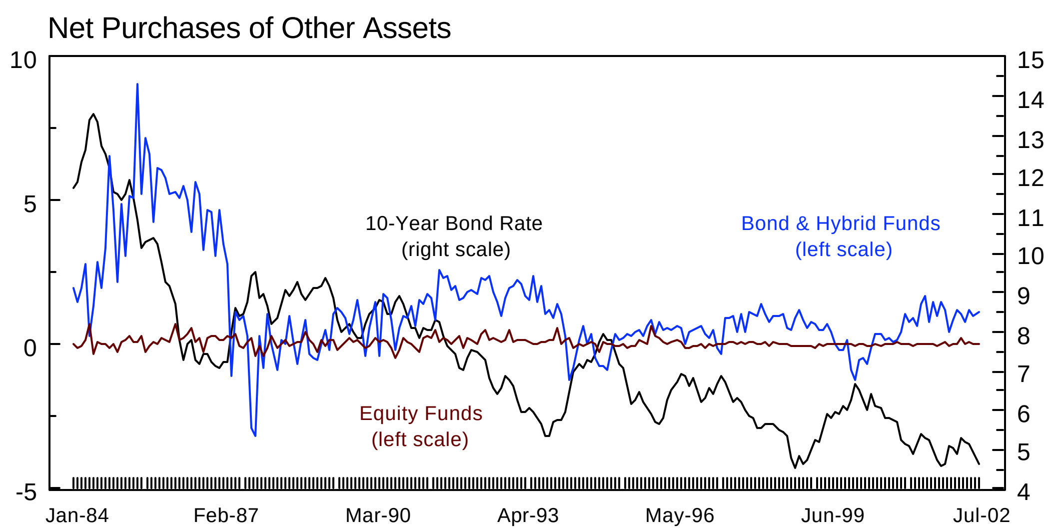
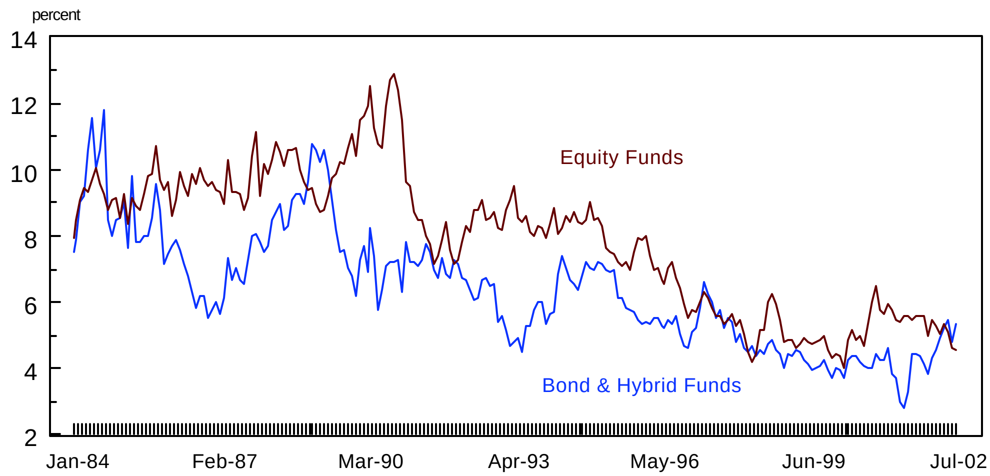
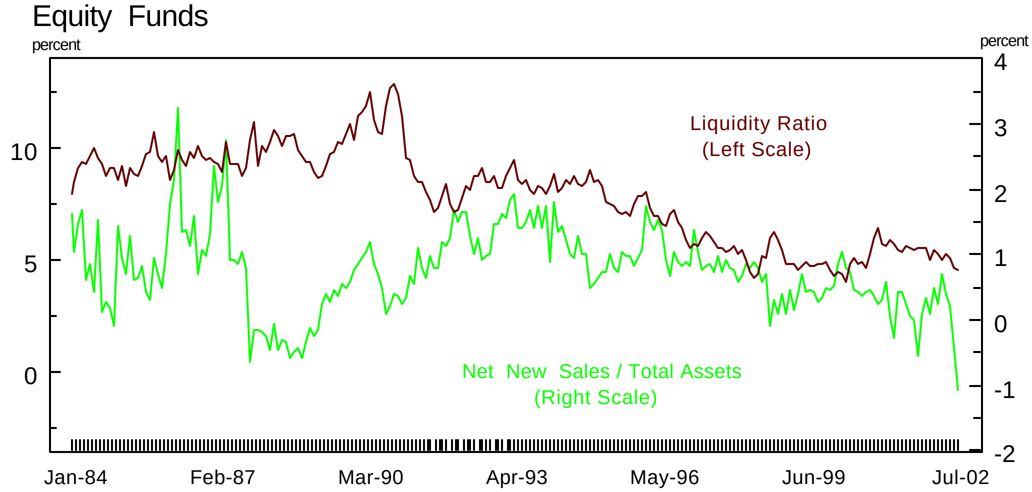


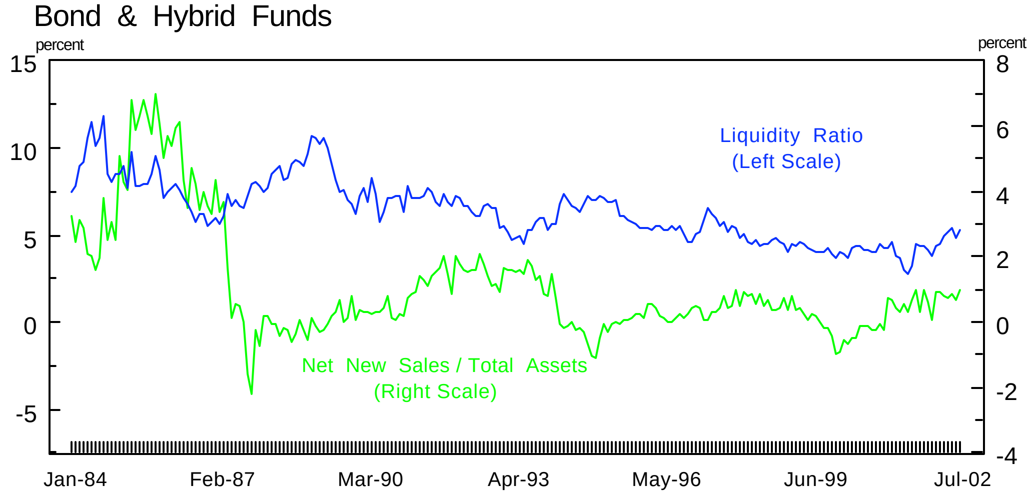
Figure 4
Liquidity Ratio*



Equity Funds



Bond & Hybrid Funds



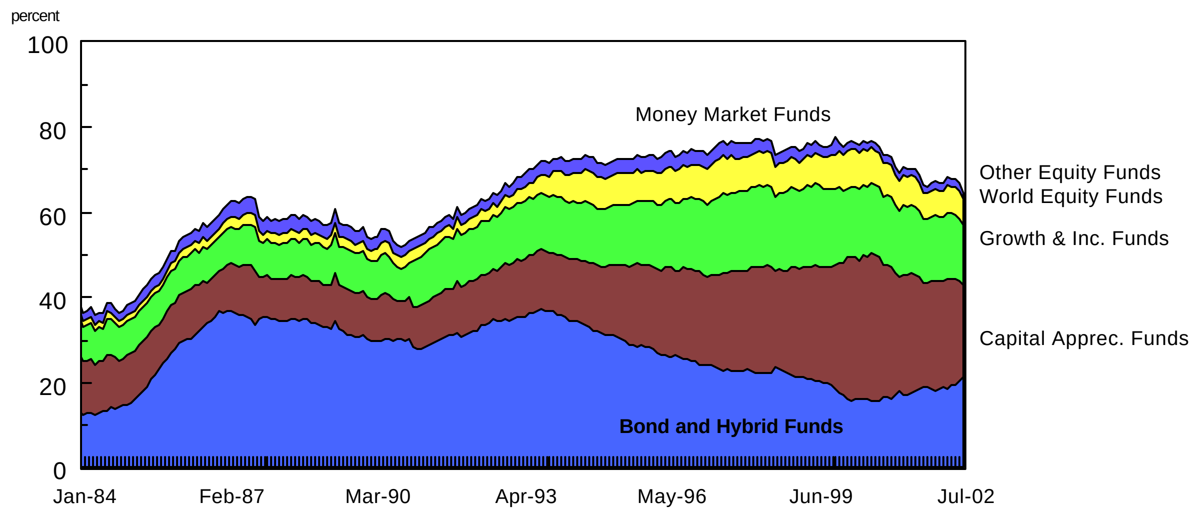
*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

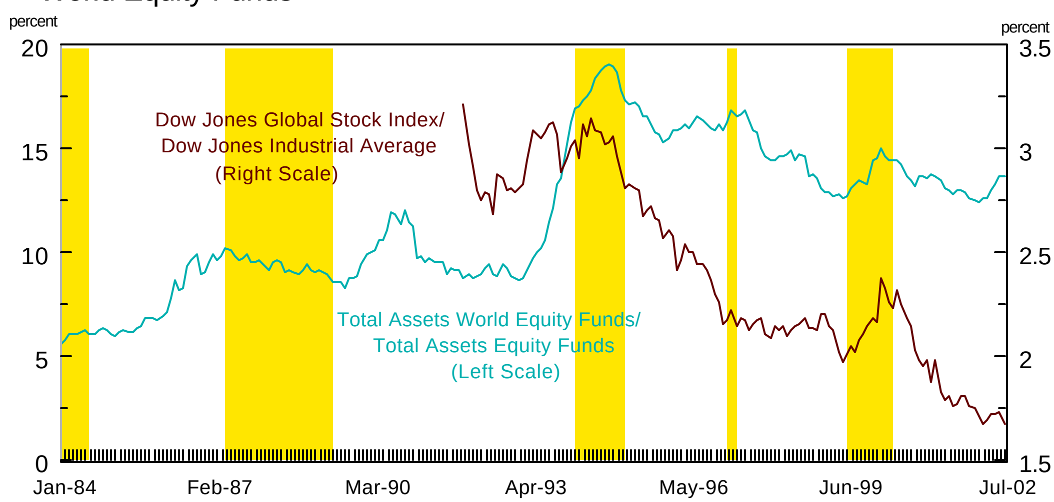
Figure 5

Industry Composition

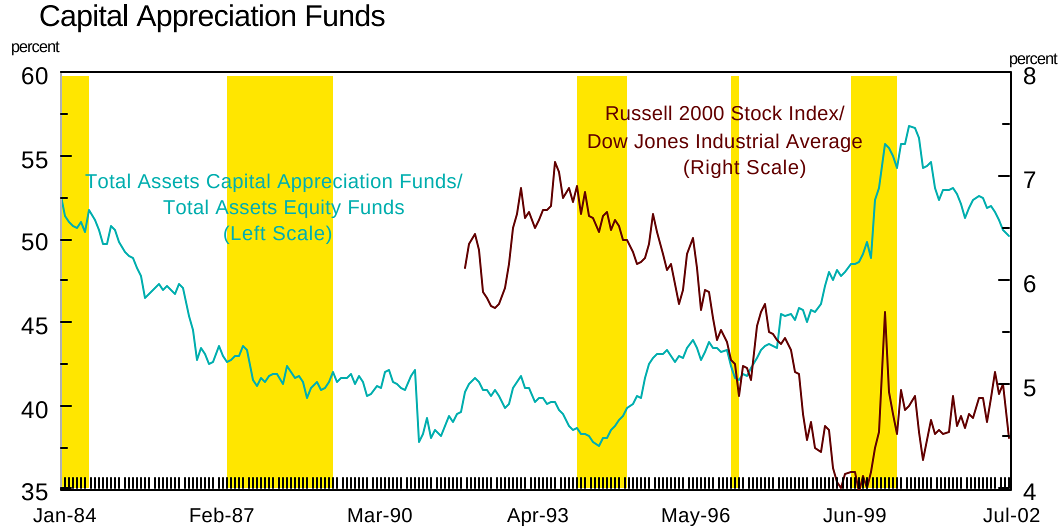
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds

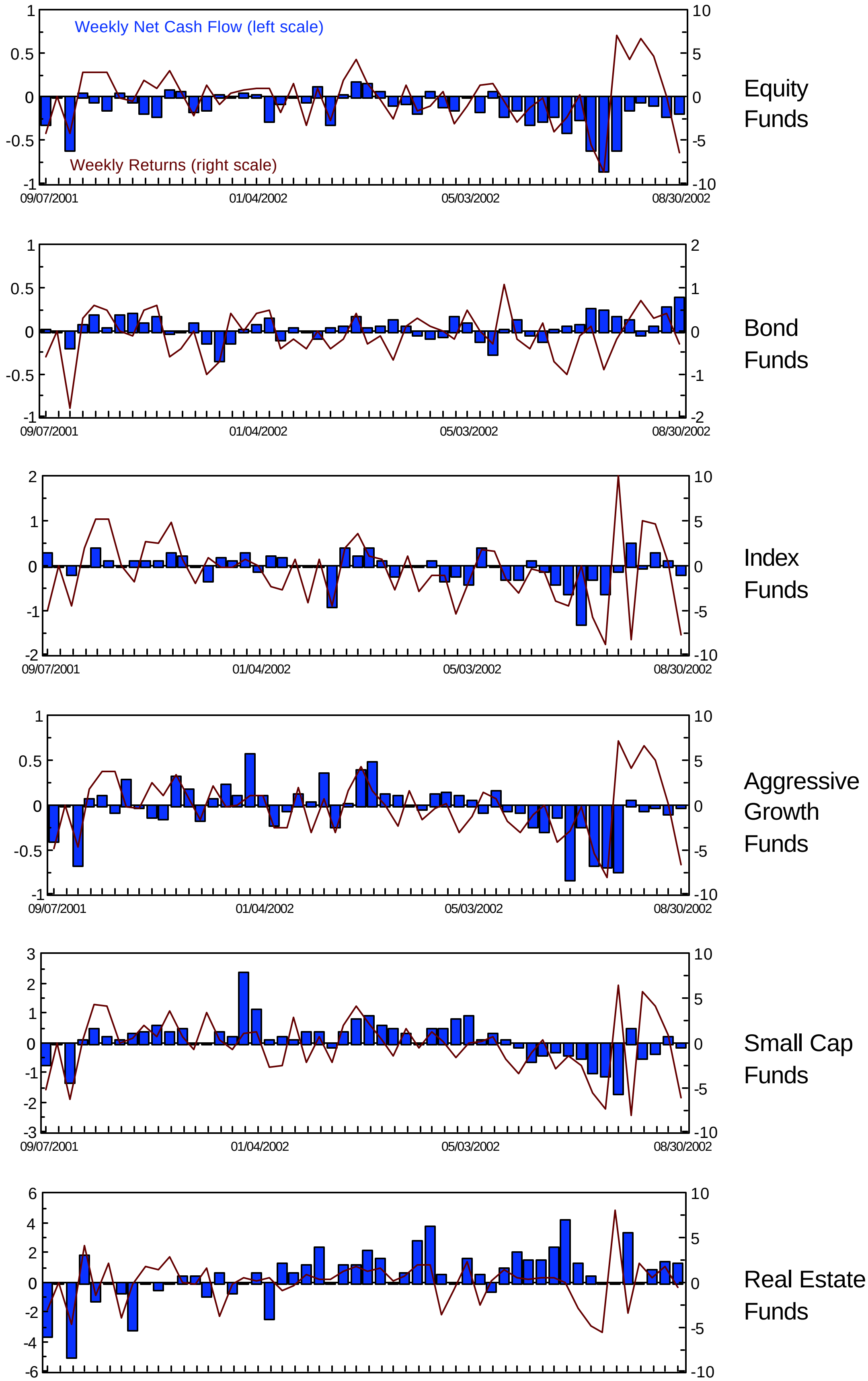


Source: Investment Company Institute

Figure 6a

Weekly Flows into Mutual Funds

(percent of Total Assets)

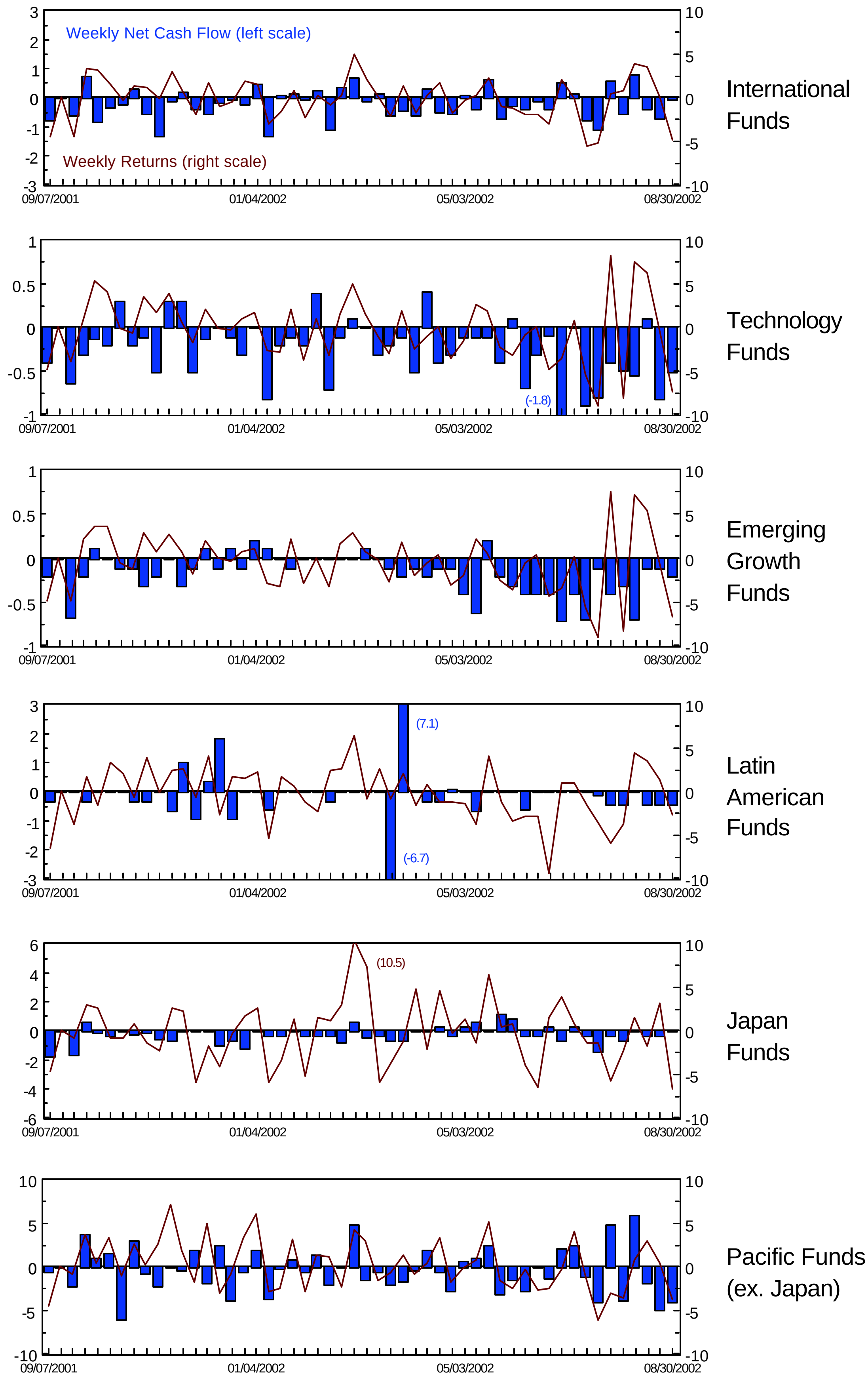


Source: Mutual Fund Trim Tabs

Figure 6b

Weekly Flows into Mutual Funds

(percent of Total Assets)

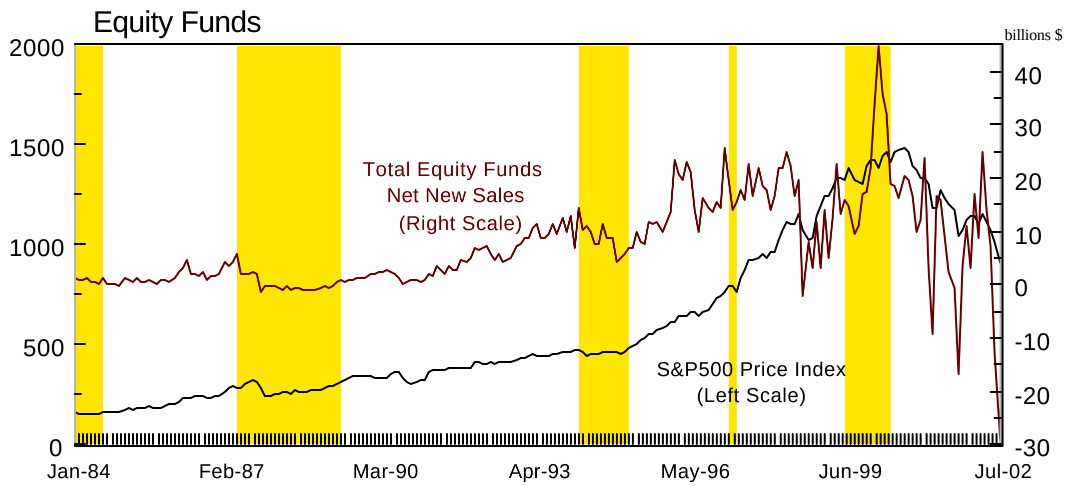


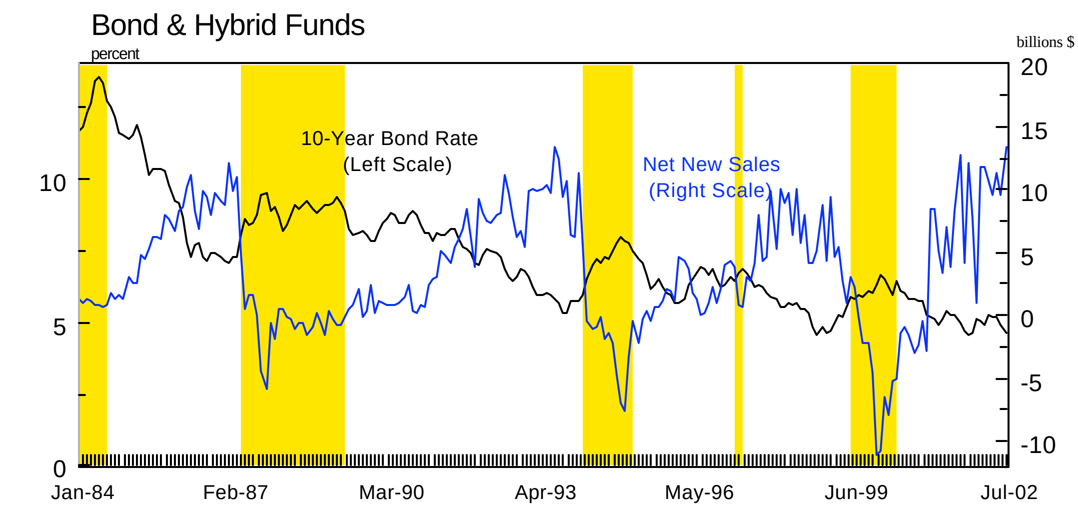
Source: Mutual Fund Trim Tabs

Figure 7

Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

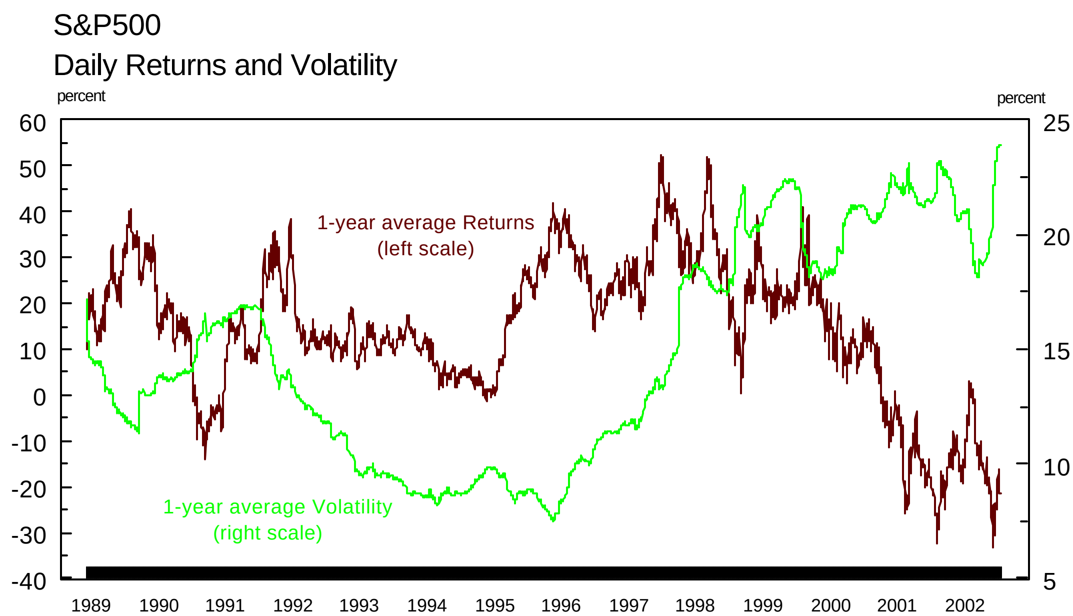




Source: Investment Company Institute

Figure 8

Capital Market Returns and Volatility



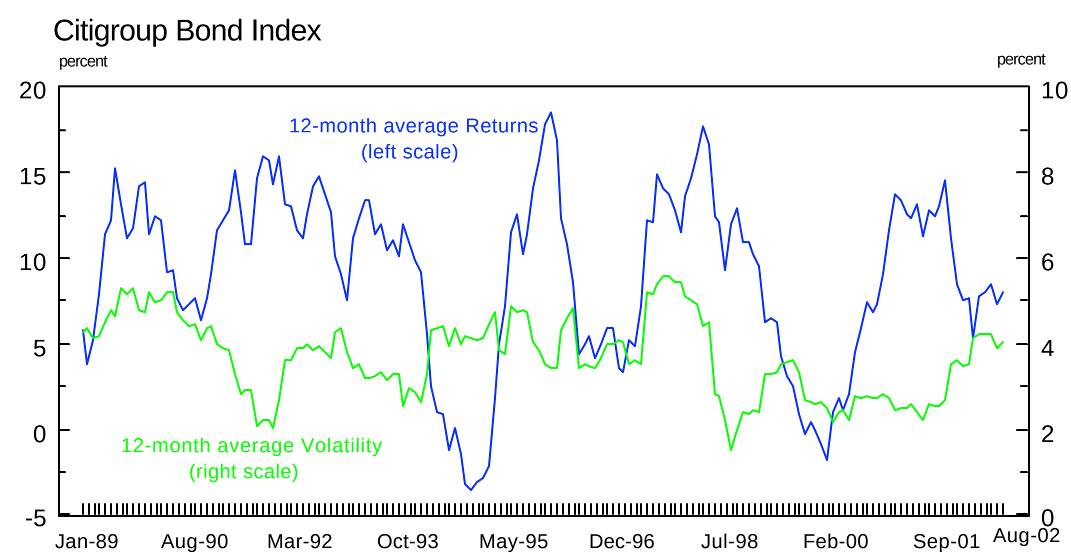
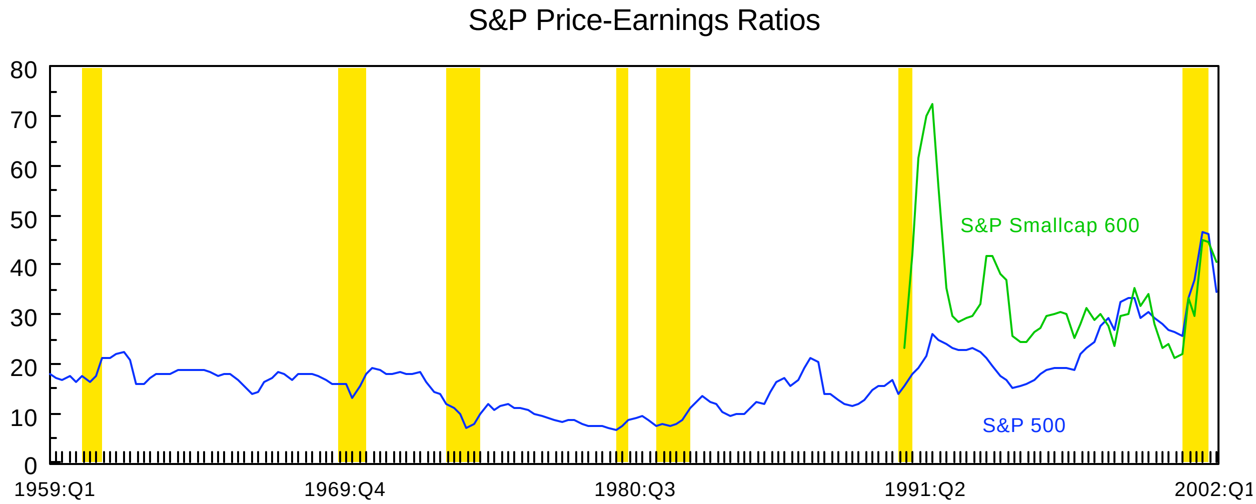
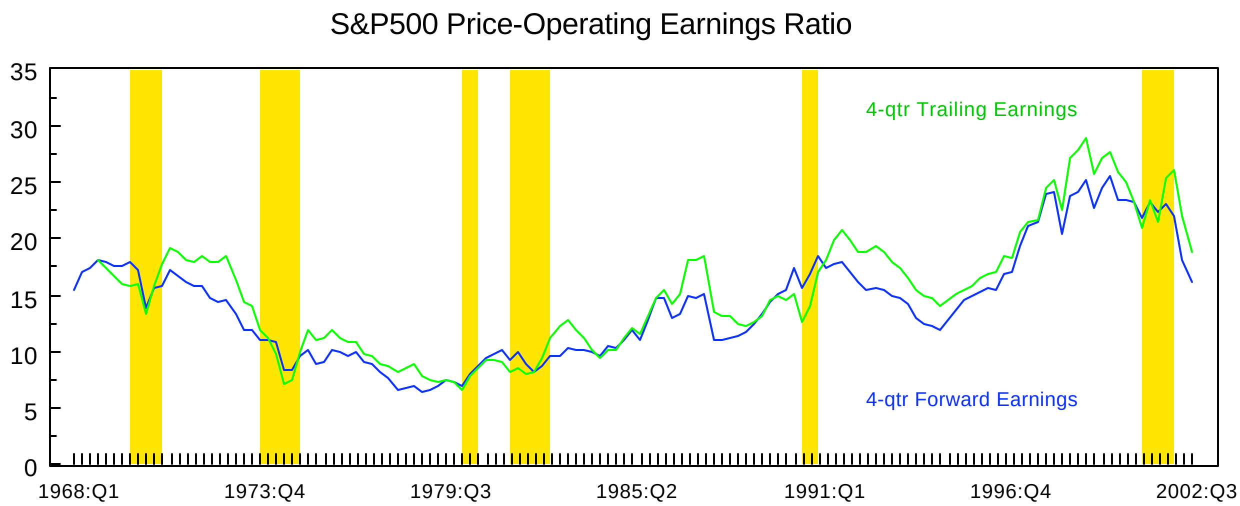
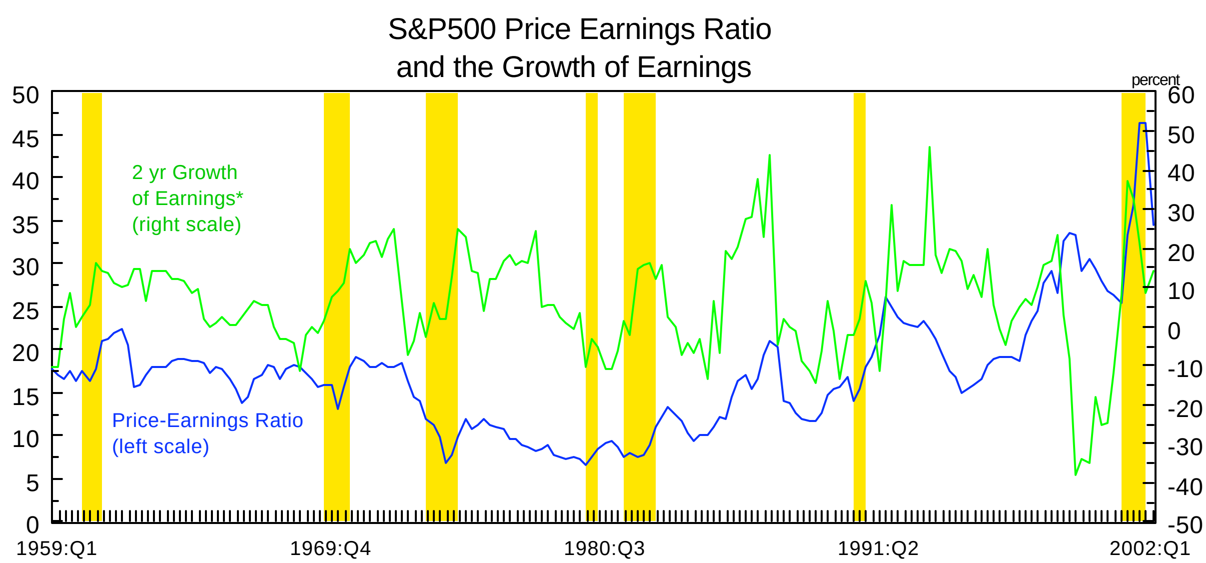


Figure 9



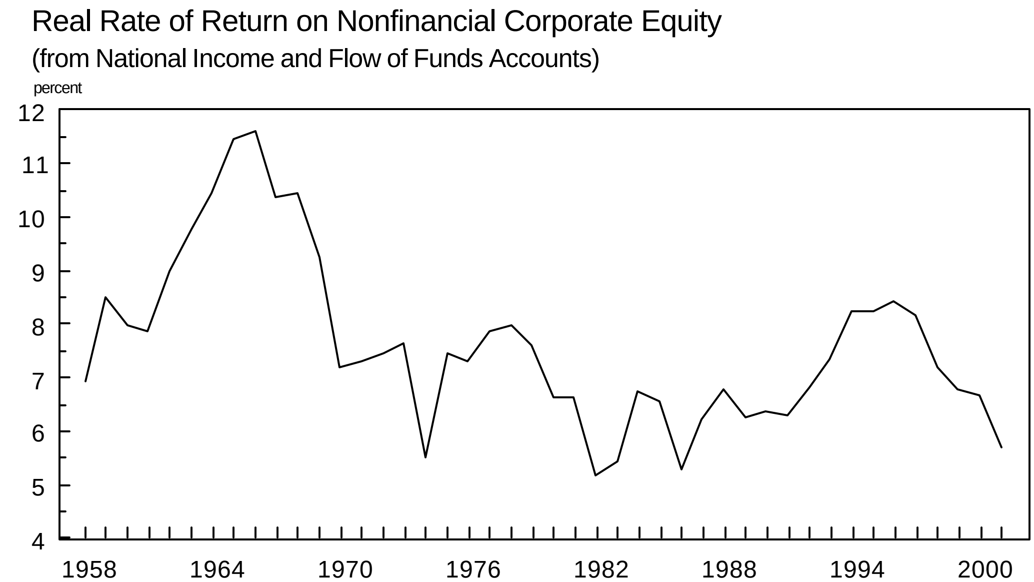


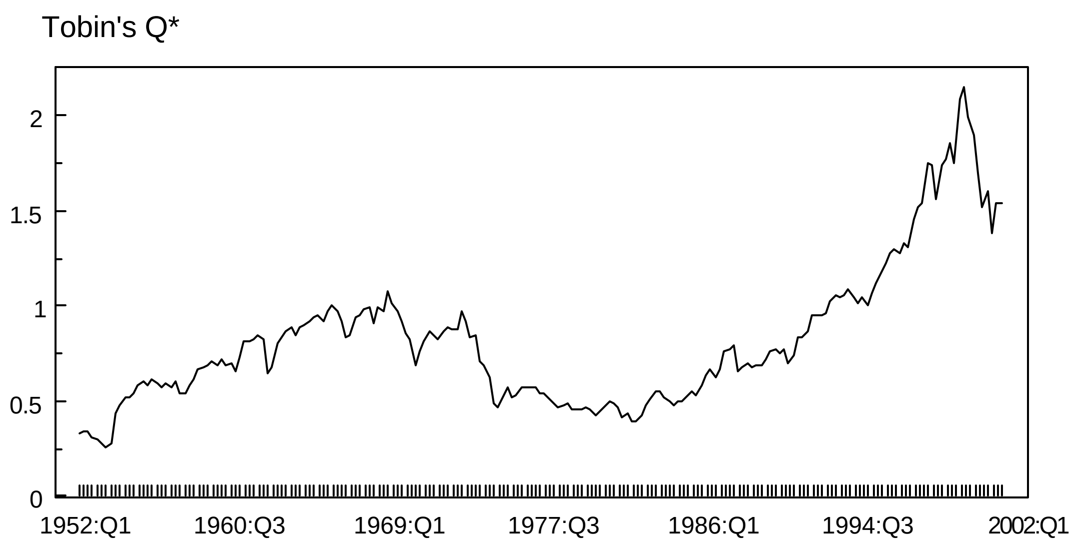


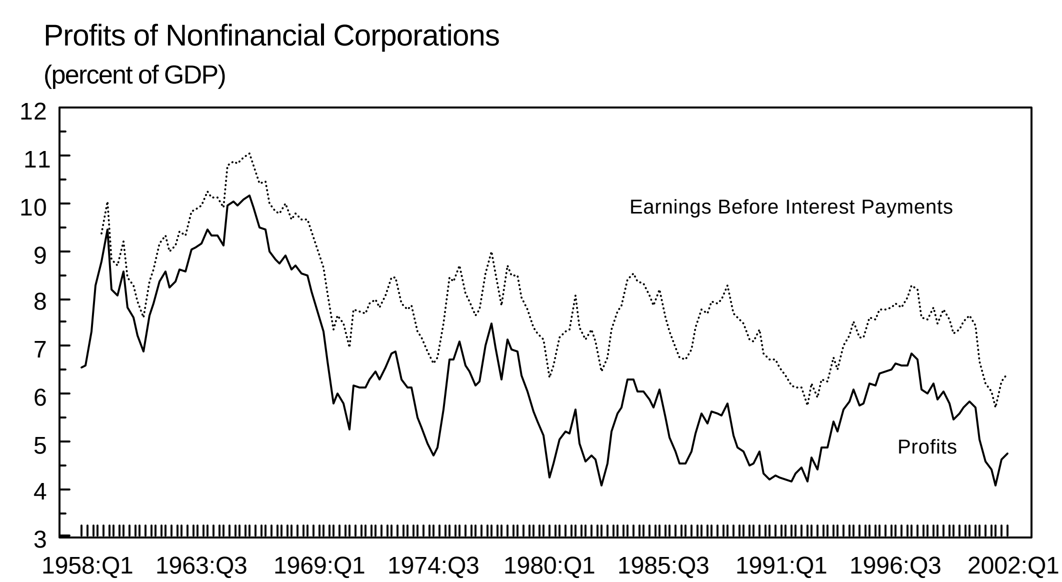
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

source: First Call, DRI, Bloomberg

Figure 10







* Market Value of Equity plus Net Interest Bearing Debt/ Current value of Land, Inventories, Equipment, and Structures