

Monthly
Mutual
Fund
Report

November 3, 2006

November 3, 2006

Monthly Mutual Fund Report

Statistics for September 2006 – October 2006

Sales and Redemptions

Total assets for all funds increased in September by \$137.5 billion, or 1.4 percent, to \$9.7 trillion. Money market funds had a net cash inflow of \$15.5 billion compared to an inflow in August of \$42.9 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of \$11.7 billion, compared to an inflow of \$11.9 billion in August. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were \$124.7 billion in September, down from \$130.4 billion in August. The value of non-money market assets appreciated by \$94.0 billion in September, following an appreciation of \$143.4 billion in August.

Total assets of **equity funds** increased by \$94.0 billion, or 1.8 percent, to \$5.5 trillion. There was \$6.5 billion net cash inflow into equity funds in September, compared with an inflow of \$5.1 billion in August. The market value of assets appreciated by \$82.0 billion in September. Equity funds had an inflow of \$125.3 billion year-to-date, compared to an inflow of \$98.2 billion during the first nine months of 2005.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased by 1.7 percent, or \$10.3 billion, to \$613.0 billion. In September, there was \$640.0 million net cash inflow into these funds, compared to an inflow in August of \$236.0 million. Hybrid funds have experienced an inflow of \$1.7 billion year-to-date, compared to an inflow of \$24.5 billion during the first nine months of 2005.

Bond funds experienced a cash inflow of \$4.6 billion, while their total assets increased by \$12.5 billion, to \$1.4 trillion. The market value of bond funds assets increased by \$4.0 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds and tax-exempt bond funds both increased by 1.0 percent. The 2006 inflow is \$35.1 billion, compared to an inflow of \$33.8 billion through September of 2005.

Assets of taxable and tax-exempt **money market funds** increased \$20.7 billion, to \$2.2 trillion, an increase of 1.3 percent for taxable money market funds and a decrease of 0.8 percent for tax-exempt funds. The 2006 inflow is \$120.2 billion, compared to an outflow of \$35.3 billion through September of 2005.



Liquidity Ratio

The liquidity ratio for bond and hybrid funds decreased to 5.8 percent in September from 6.0 percent in August, while the ratio for equity funds decreased to 4.3 percent in September from 4.4 percent in August (figure 4).

Weekly Flows

Please note that this section has been discontinued.

Capital Market Returns and Volatility

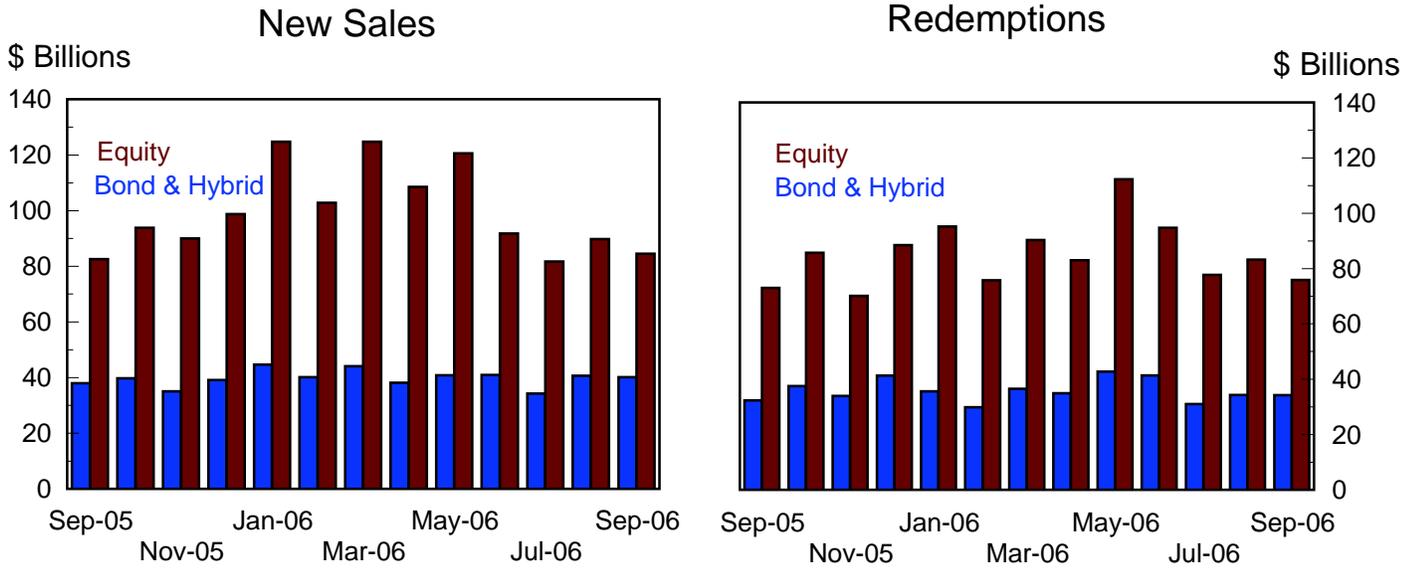
The S&P 500 ended October 31 at 1377.9, an increase of 3.1 percent from the previous month. The 12-month gain was 16.9 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.8 percent.

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 7).

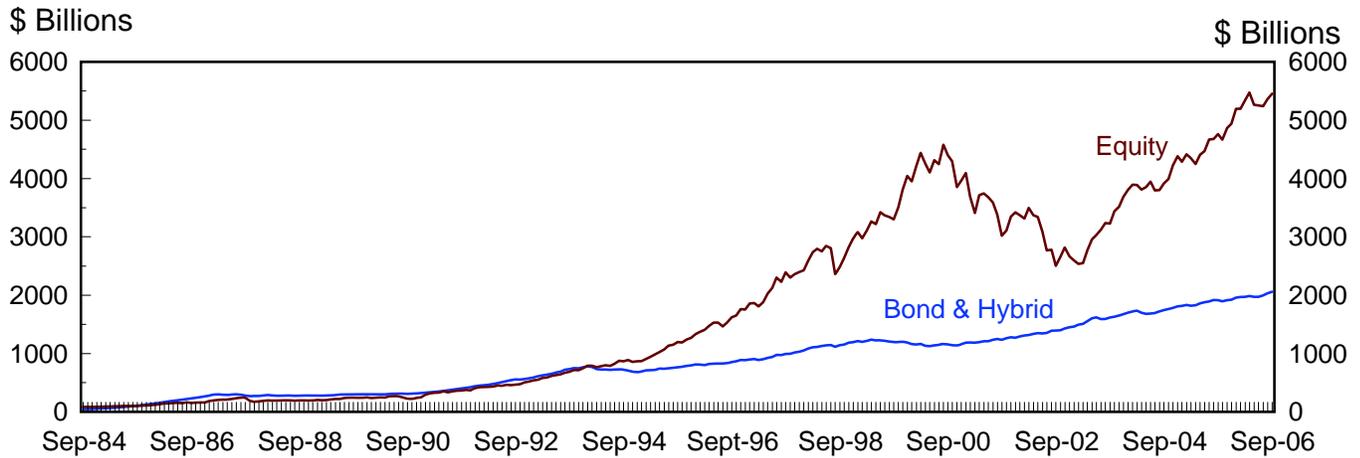
Price-Earnings Ratio

The macro projections for the growth of earnings for the Standard and Poor's 500 index over the next two years have been revised to 7.9. During the third quarter of 2006, the price-earnings ratio for the Standard and Poor's 500 Index was at 16.9, down from 17.0 in the second quarter of 2006. The price-earnings ratio for the Small-Cap 600 Index decreased to 20.6 in the third quarter of 2006, from 22.4 in the second quarter of 2006 (figure 8).

Figure 1
Sales of Mutual Funds



Total Assets



Net New Sales/Total Assets

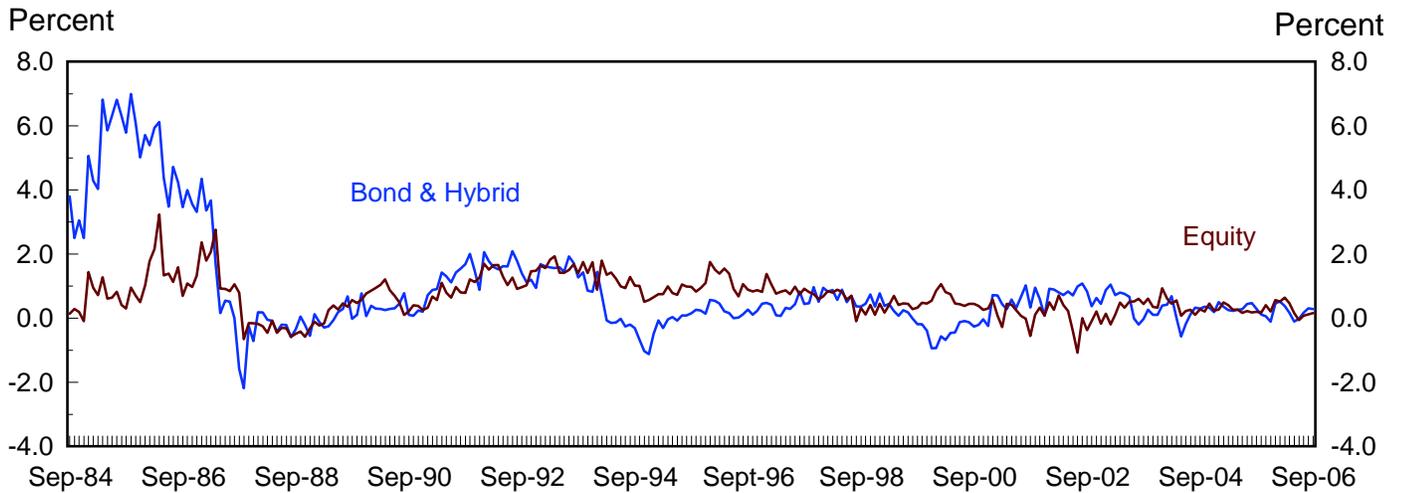
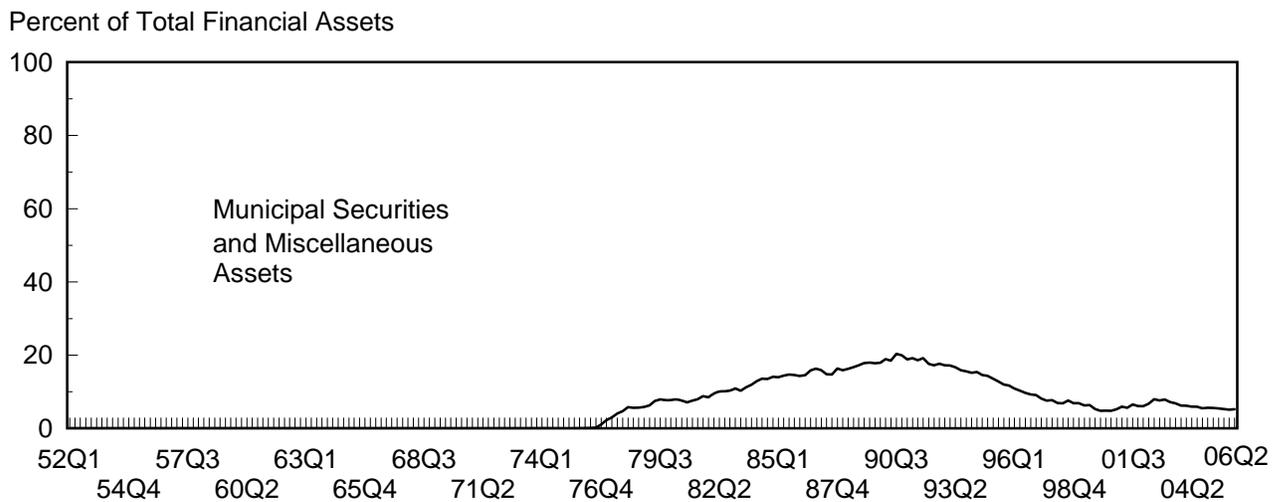
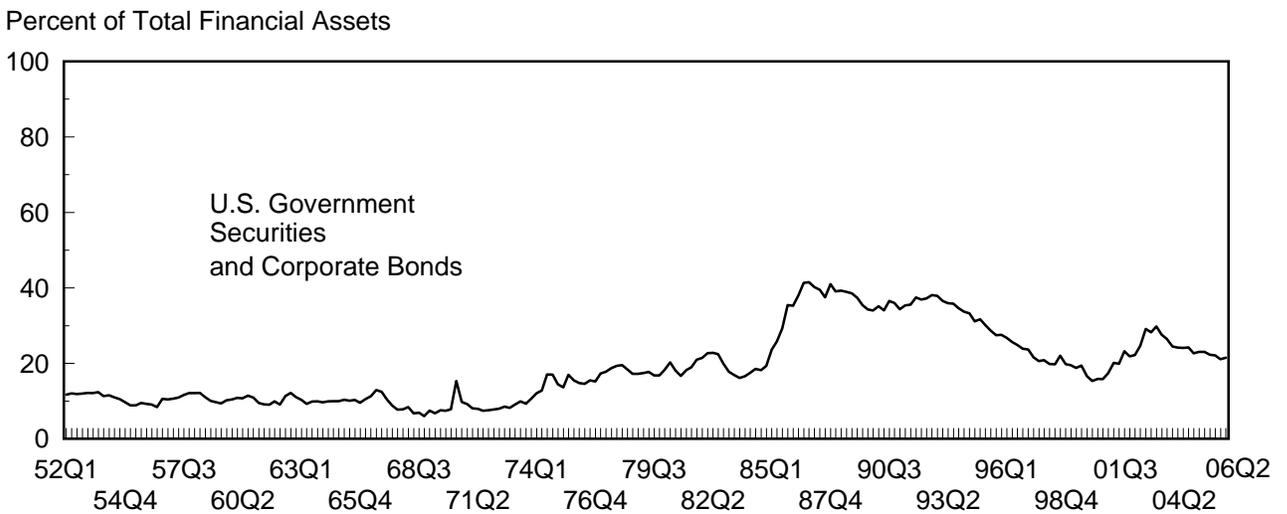
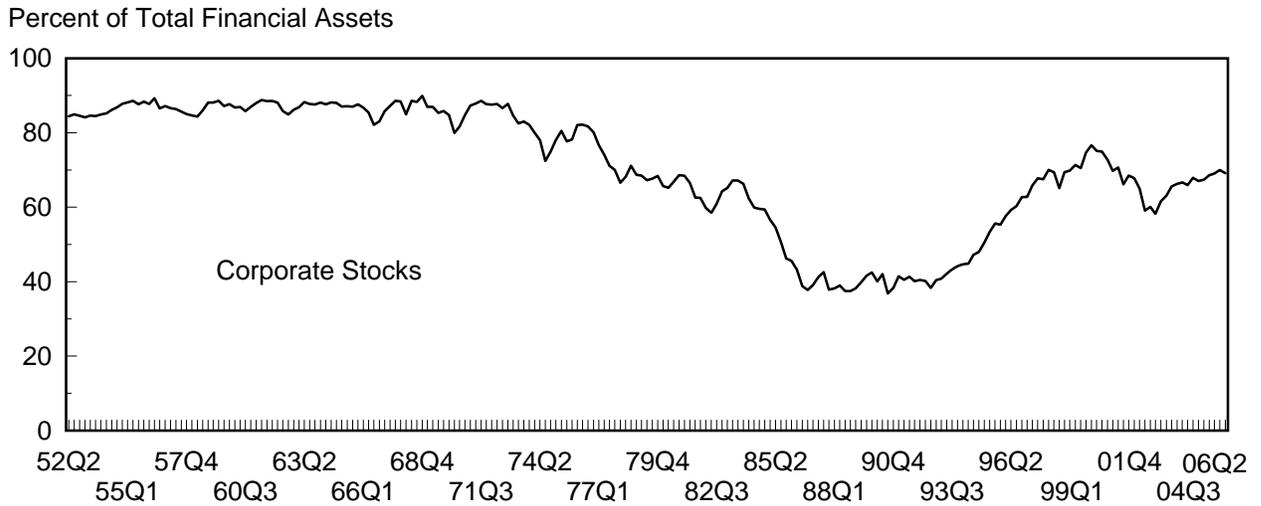


Figure 2
Composition of Mutual Funds' Financial Assets

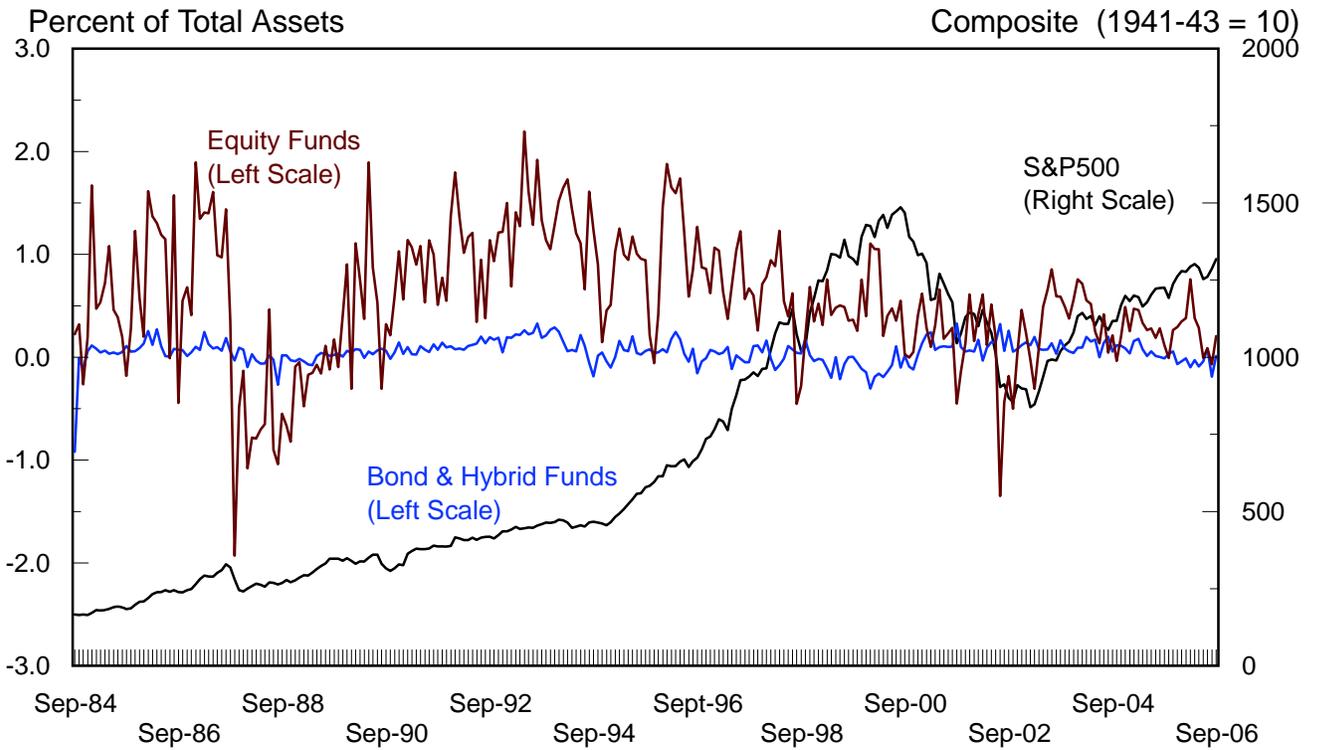


Source: Flow of Funds/Haver Analytics.

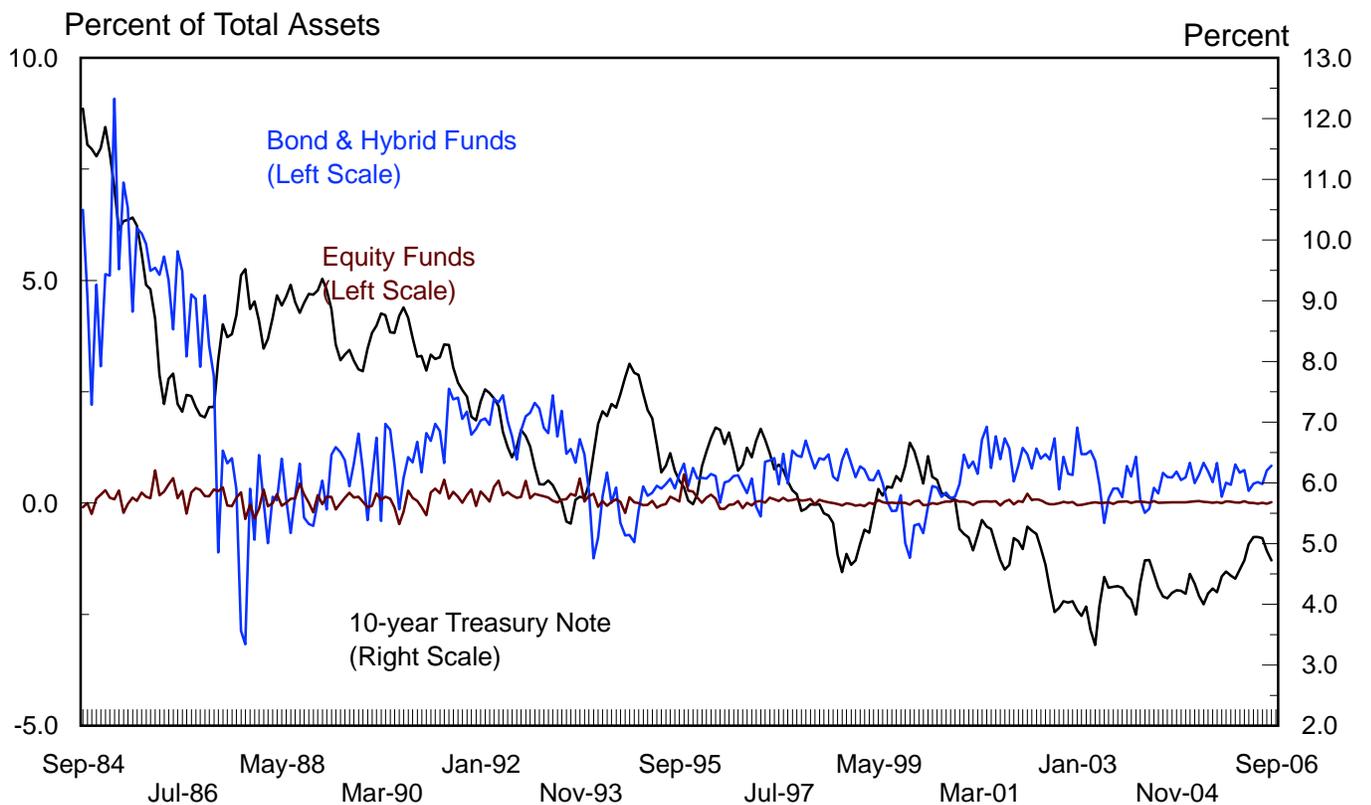
Figure 3

Net Portfolio Purchases

Net Common Stock Purchases

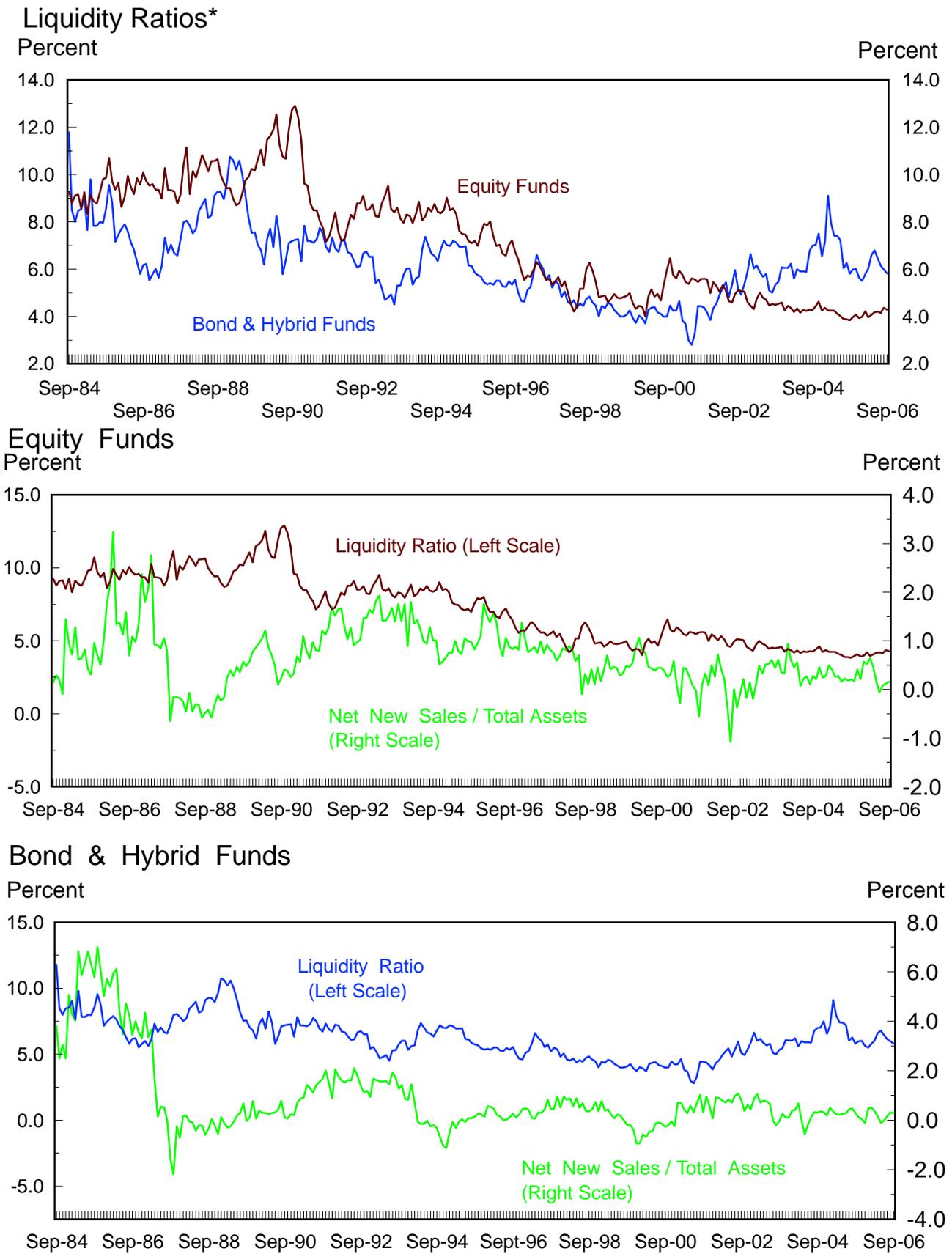


Net Purchases of Other Assets



Source: Investment Company Institute

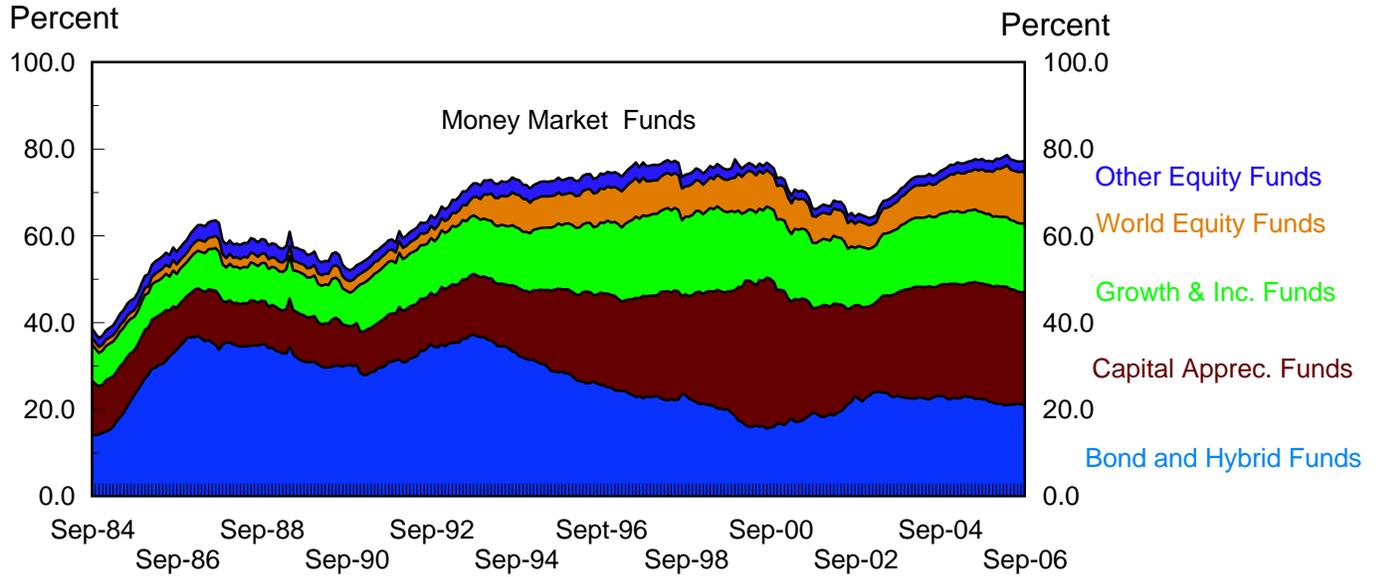
Figure 4
Liquidity Ratios



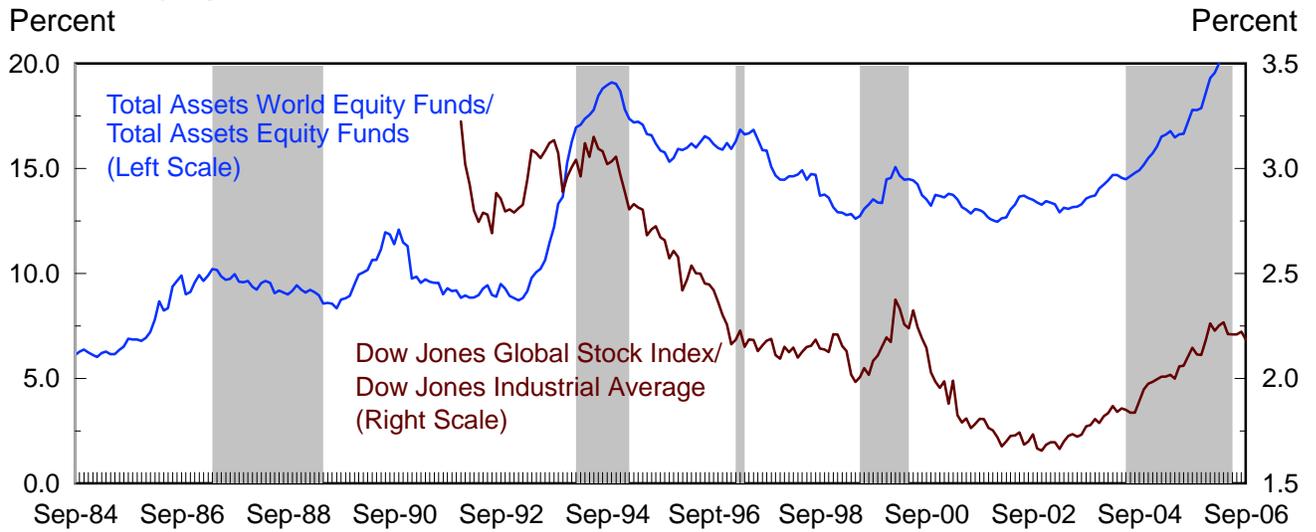
*Liquidity Ratios are the Percent of Total Assets held in Cash and Short-Term Securities.

Figure 5 Industry Composition

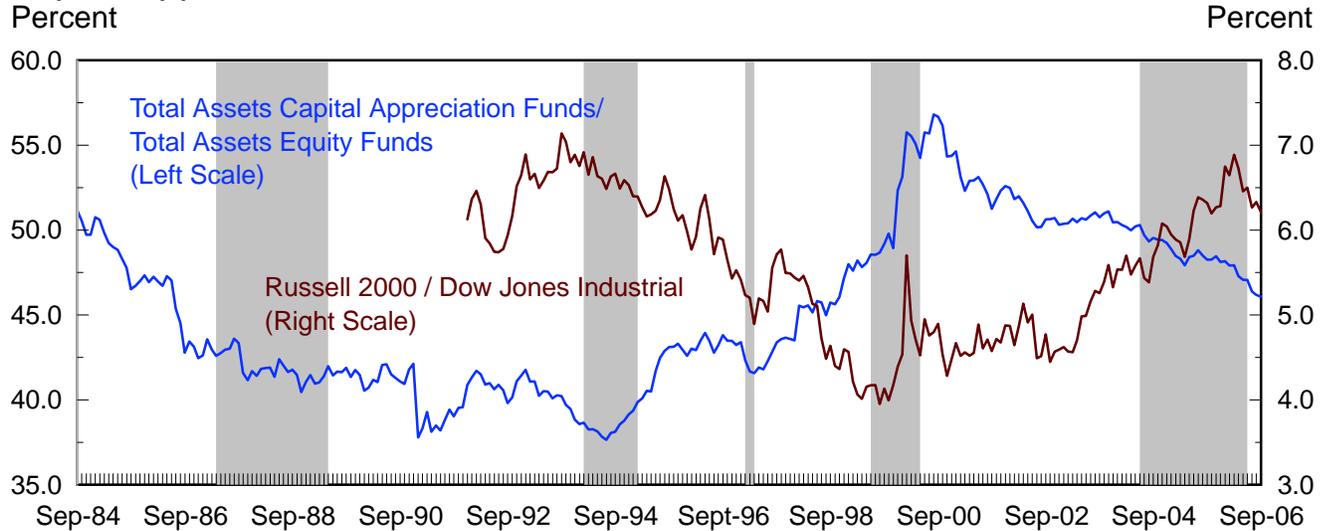
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)



World Equity Funds



Capital Appreciation Funds



Source: Investment Company Institute

Figure 6

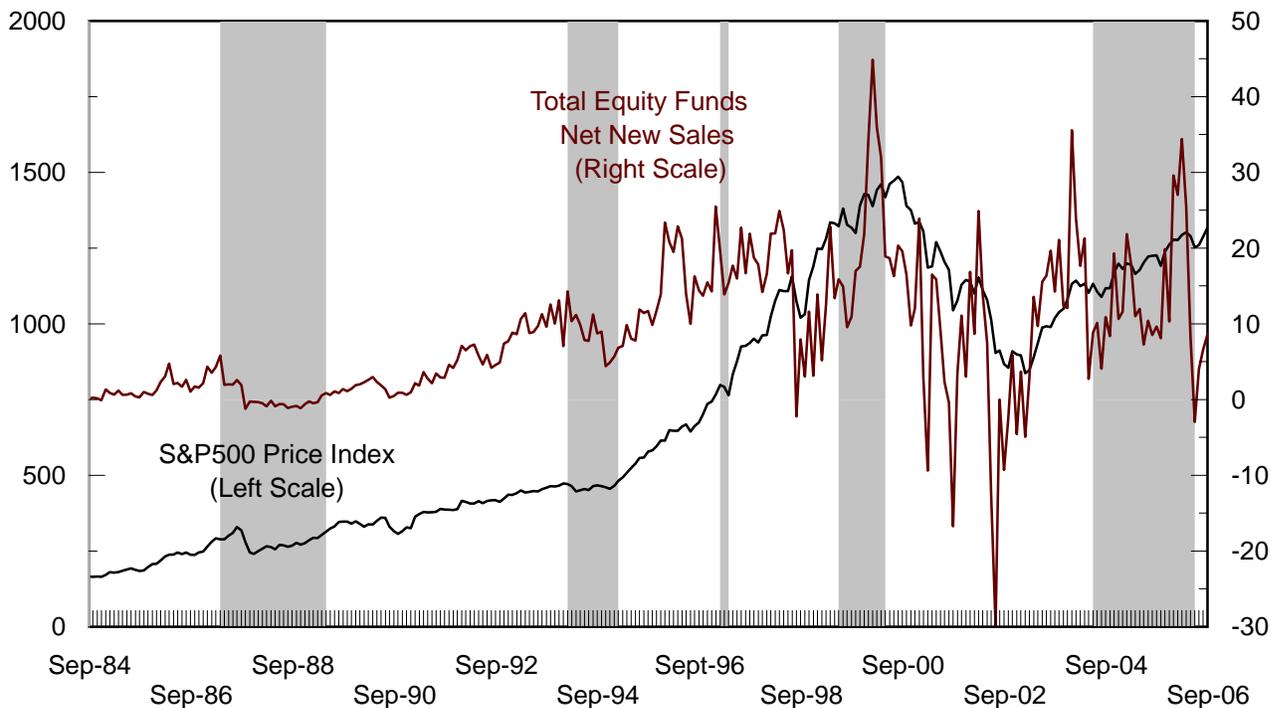
Net New Sales By Investment Objective

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

Equity Funds

Index (1941 - 43 = 10)

\$ Billions



Bond & Hybrid Funds

Percent

\$ Billions

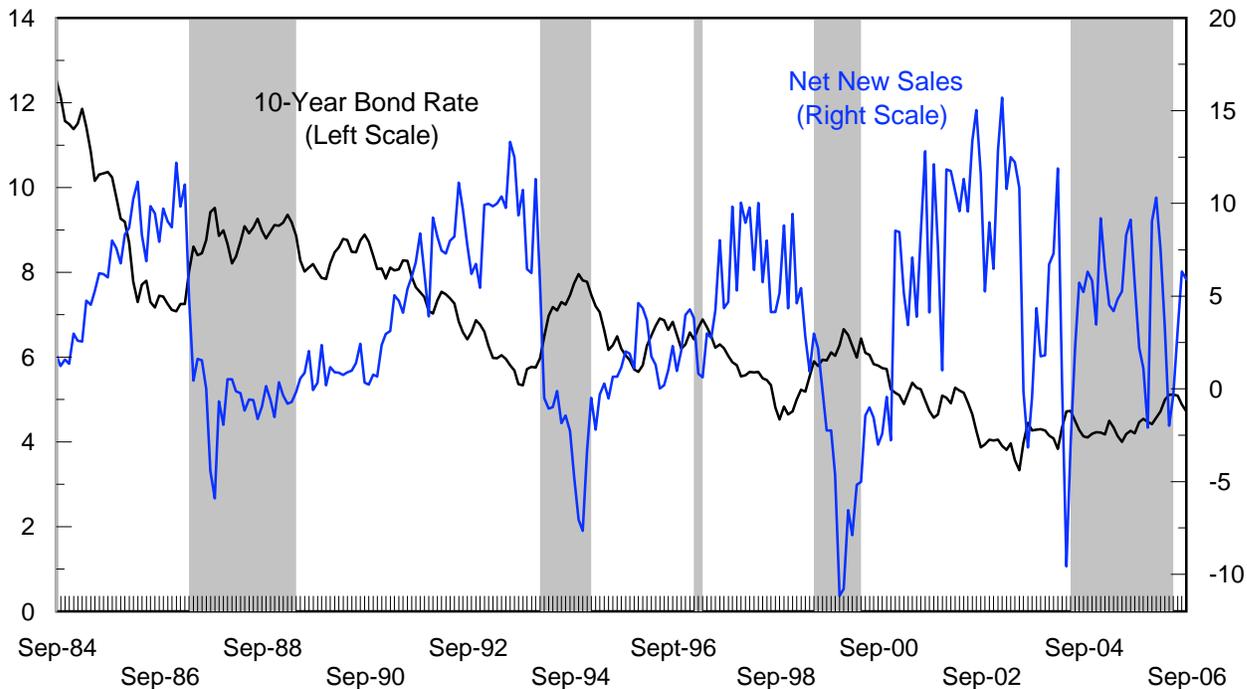
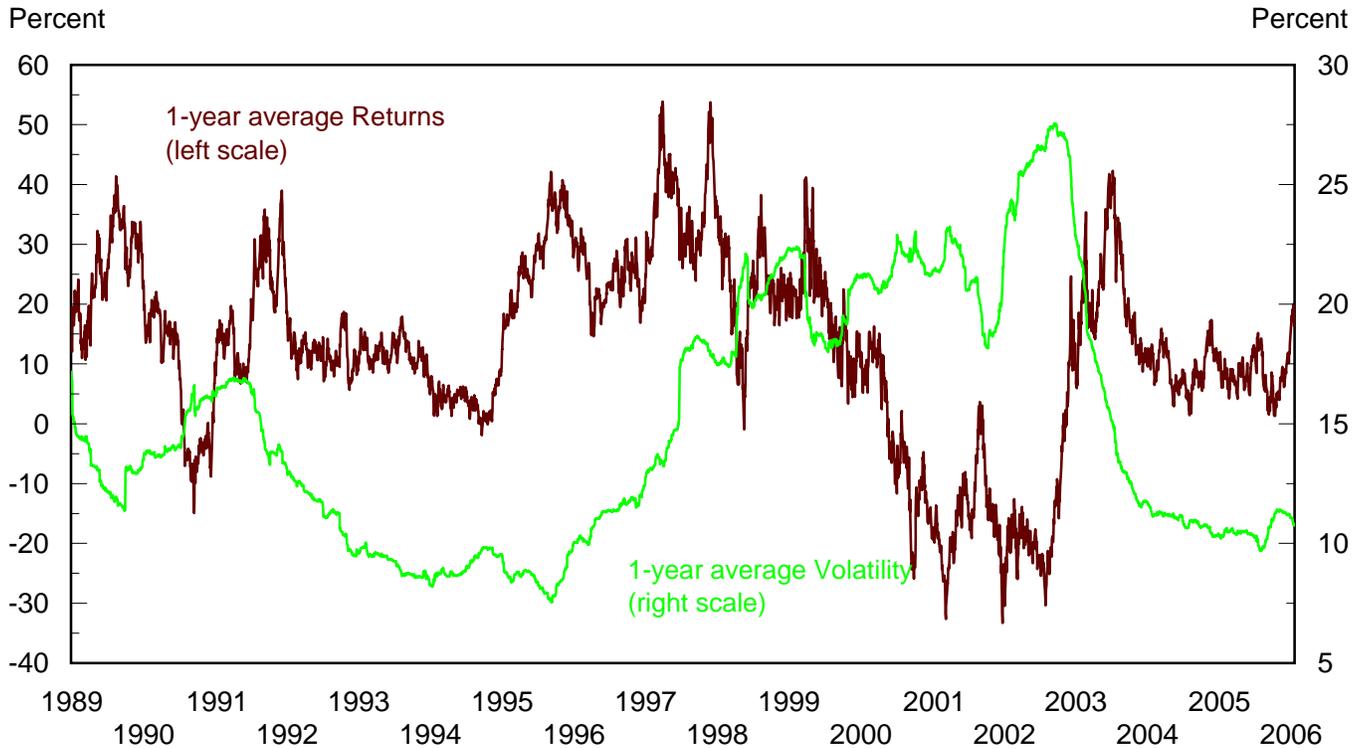
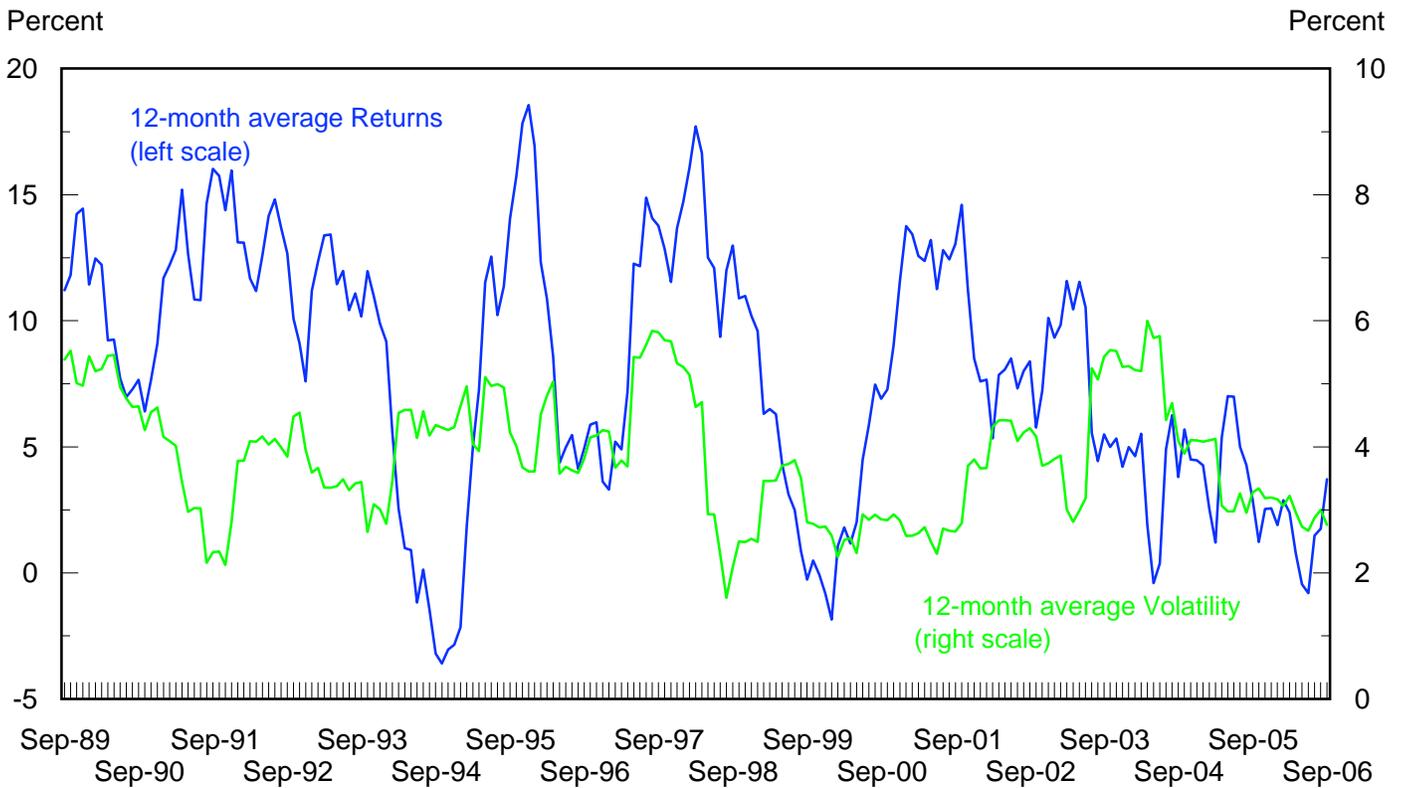


Figure 7
Capital Market Returns and Volatility

S&P500, Daily Returns and Volatility



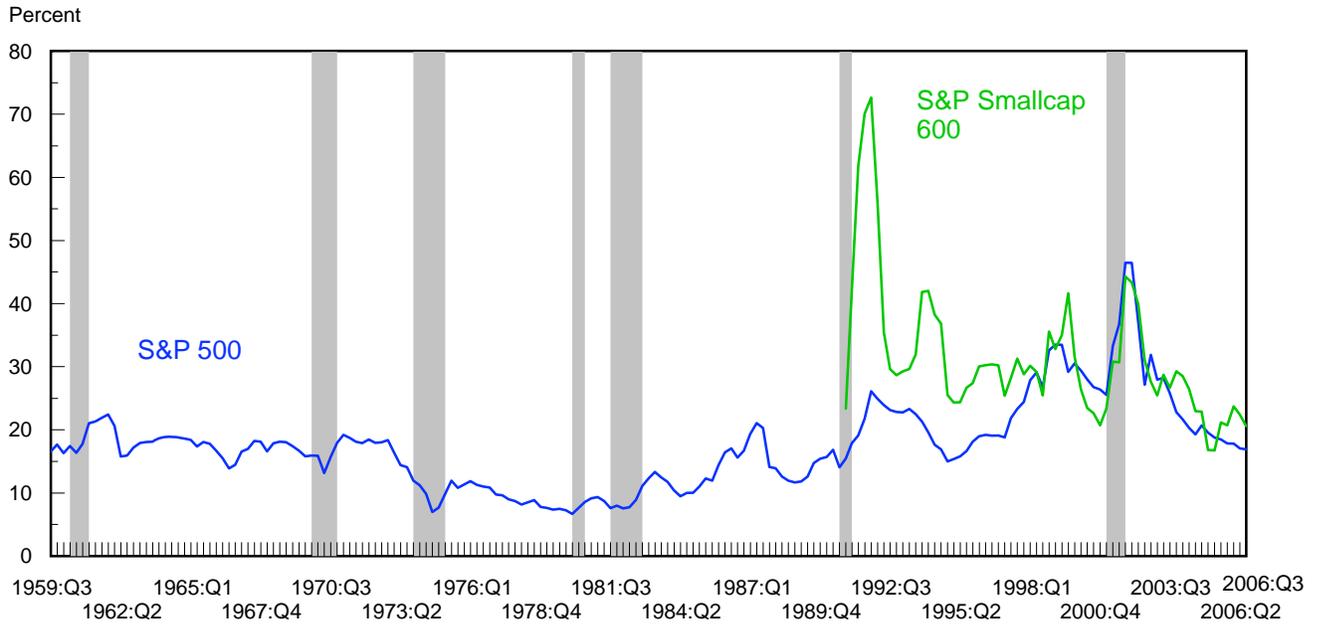
Citigroup Bond Index



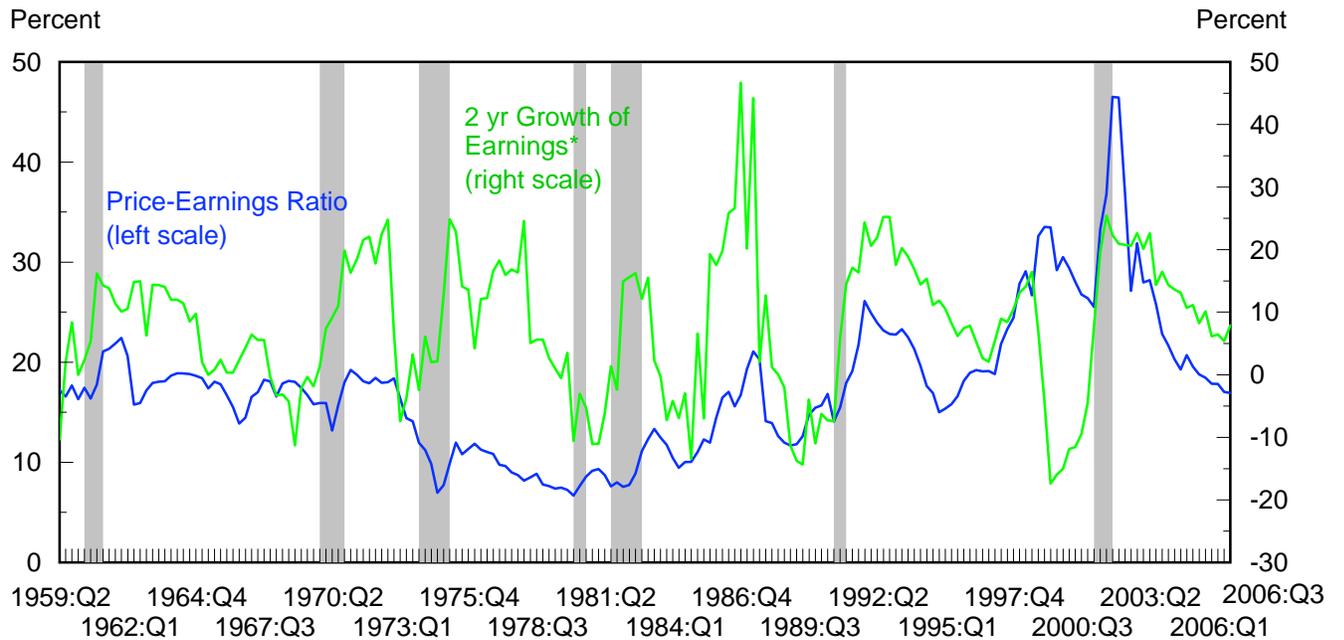
Source: FAME Database, Citigroup.

Figure 8

S&P Price-Earnings Ratios



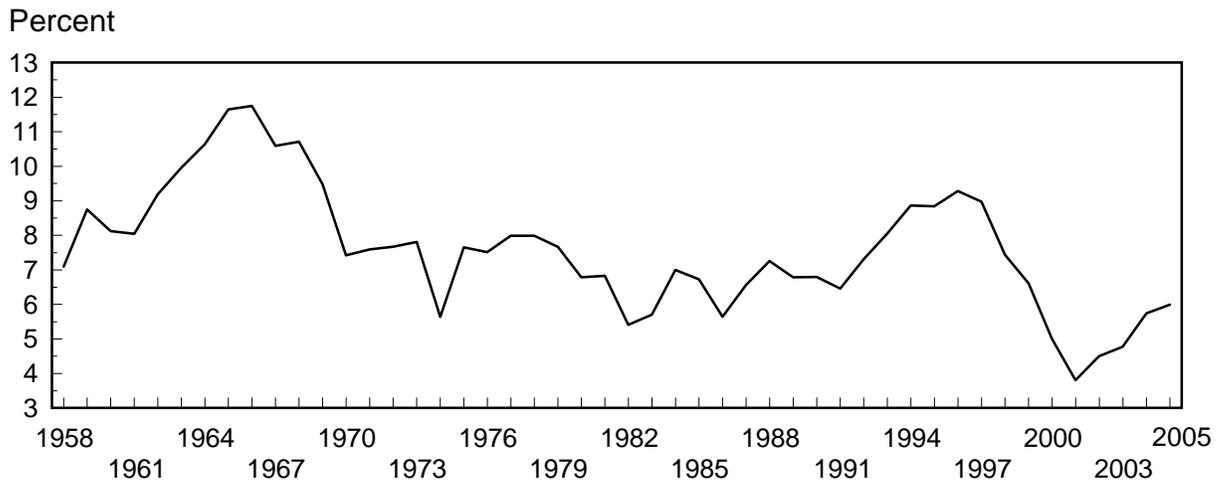
S&P500 Price Earnings Ratio and the Growth of Earnings



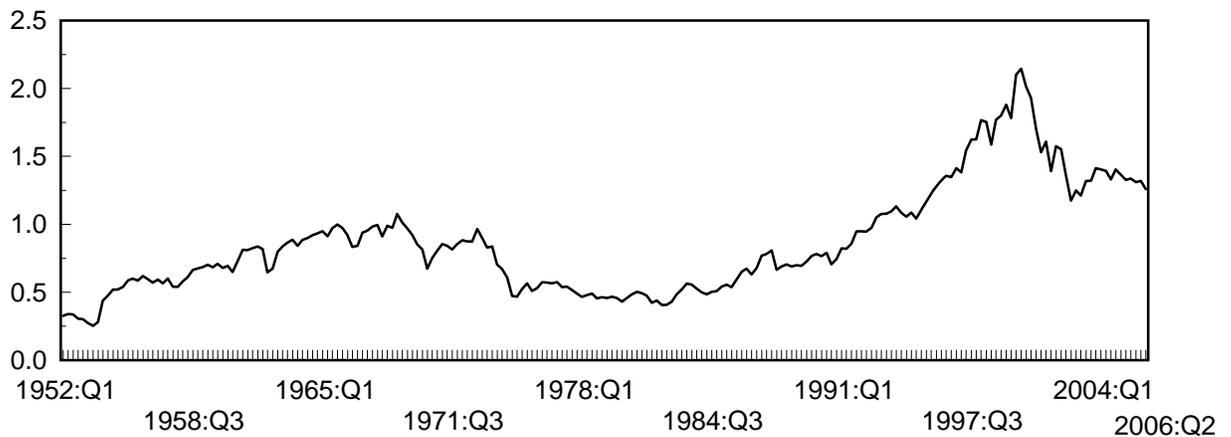
* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

Figure 9

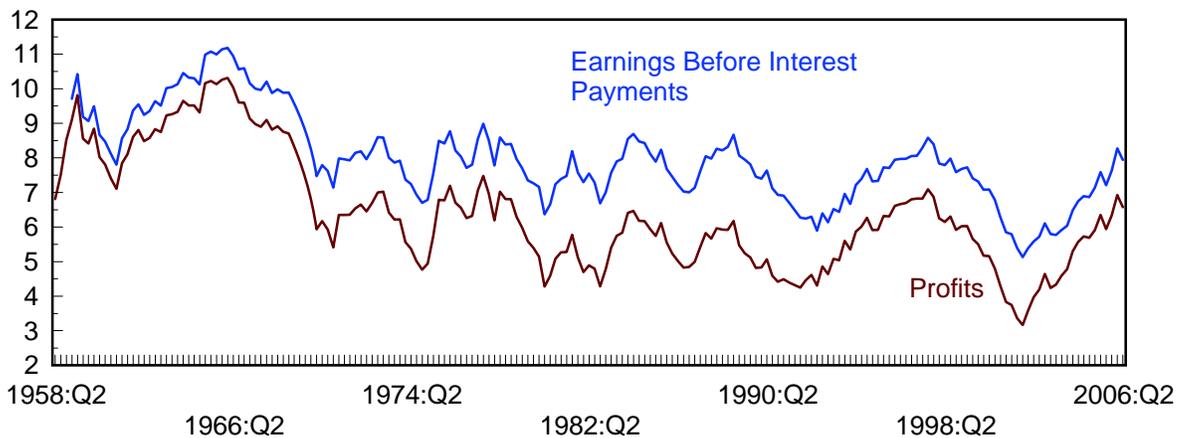
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)



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