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Mutual Fund Flows

An Analysis of Monthly Mutual Fund Statistics

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On February 27, 2004 the Investment Company Institute released the "Monthly Trends in Mutual Fund Investing." This report is updated through January 31, 2004.

Our web site (<http://www.biancoresearch.com>) has 76 charts using this data. To view these charts, go to the "Subscriber Area," then "Charts Archive," then "Mutual Fund Charts."

Additionally, the "Mutual Fund Flows" section of our web site has a more detailed 3-page table of mutual fund statistics.

Definitions

Net New Cash Flow: The dollar value of new sales minus redemptions, plus net exchanges. A positive number indicates new sales plus exchanges into funds exceeded redemptions plus exchanges out of funds. A negative number indicates redemptions plus exchanges out of funds exceeded new sales plus exchanges into funds.

New Sales: Dollar value of new purchases into mutual funds. Does not include shares purchased through reinvestment of dividends on existing accounts.

Redemptions: Dollar amount of shareholder liquidation of mutual funds.

Exchanges: Dollar amount of net shareholder switches into or out of funds in the same complex.

Liquid Assets or Cash: All assets that mature in less than one-year.

Chart 1 – Measuring The Public's Breakeven Point

Chart 1 shows the public's breakeven point in domestic equity mutual funds. **Currently, we estimate unrealized profits are at \$690 billion.**

As the chart shows, investors had unrealized profits of only \$12 billion back in February 2003. So how did they manage to make another \$678 billion in just 11 months?

Between October 1990 and February 2003, the public plowed \$1.44 *trillion* of new cash into equity mutual funds. So, by February 2003, the slump in the market virtually wiped out all their unrealized profits (all but \$12

billion). Despite this lack of unrealized profits, the public still had a huge amount of money in equity mutual funds -- \$2.4 trillion.

When the S&P 500 rallied 37% between February 2003 and January 2004 (46% for the Mutual Fund Index shown on the top panel), this money (\$2.4 trillion) increased in value by over one-third, or \$658 billion.

Additionally, from last February 2003 to January 2004, investors plowed another \$206 billion into equity mutual funds that also enjoyed modest gains of \$20 billion.

Despite the 2000 to 2002 bear market, the public was still sitting on a huge hoard of equity market cash in February 2003. Given this large base, any swing in the stock market will have a large effect in the public's breakeven point. **Put another way, the wealth effect from the stock market is greater than ever.**

We believe such swings in the public's profits also explain why the inflows into equity mutual funds are the third highest ever (chart 2). The public is playing with a lot of the "house's money." When this happens, they get very aggressive. This was the case in early 2000 as well. So, as long as the public's unrealized profits stay this large, don't be surprised if equity inflows remain at this high level.

(For comparison, from 1928 to 1990 the total amount of cash put into mutual funds was \$93 billion – roughly five months of cash flows at the current pace. During this period the public was never invested in a large enough size to see these types of movements in their breakeven point.)

Chart 2 – Comparing The Public's Breakeven Point To Cash: What If They Held T-Bills Instead?

This chart compares the public's investing patterns in equity mutual funds to Treasury Bills. We calculate what the public would have made if they had accumulated their net new cash flow in Treasury Bills instead of equity mutual funds. As of January 2004, the public would have been better off had they purchased equity mutual funds instead of Treasury Bills. **Stock mutual funds have given them a profit of \$690 billion vs. a profit of \$432 billion had they invested in Treasury Bills.**

Chart 3 – Net New Cash Flow Into Stock Funds

During the month of January, stock mutual funds had a net new cash **inflow** of \$43.76 billion (top panel). This is the third largest monthly inflow ever – only exceeded by January and February 2000.

The 12-month rolling sum of net new cash flows was an inflow of \$196 billion (bottom panel) - the largest 12-month inflow since February 2001. This 12-month inflow represents a dramatic turnaround from an **outflow** of \$93.11 billion in March 2003.

Chart 4 – Net New Cash Flow Into Bond Funds

During the month of January, bond mutual funds had a net new cash **inflow** of \$0.50 billion (top panel) – the first positive inflow since June 2003, the top in bond prices.

The 12-month rolling sum of net new cash flows was an **inflow** of \$18.86 billion (bottom panel) – the smallest such inflow since April 2001. Just nine months earlier (April 2003), the 12-month flow into bond mutual funds was an inflow of 158.42 billion – over eight times the latest level.

Chart 5 – Rolling 12-Month Sum Of Net New Cash Flow Into Total Funds

As is often the case, stock and bond funds cash flows move in opposite directions. This chart illustrates this phenomenon nicely.

The Latest Mutual Fund Statistics

	Total Funds	Stock Funds	Bond Funds	Hybrid Funds
Net New Cash Flow (in billions)				
January 31, 2004	49.78	43.76	0.50	5.52
December 31, 2003	14.56	14.18	(3.25)	3.63
January 31, 2003	13.72	(0.26)	12.89	1.09
5 Year High	49.78	55.62	28.08	5.52
(Date)	1/31/2004	2/29/2000	7/31/2002	1/31/2004
5 Year Low	(29.21)	(52.63)	(13.54)	(6.25)
(Date)	7/31/2002	7/31/2002	12/31/1999	1/31/2000
12 Month Rolling Sum of Net New Cash Flow (in billions)				
January 31, 2004	252.15	195.57	18.86	37.71
December 31, 2003	216.09	151.55	31.25	33.29
January 31, 2003	102.91	(47.38)	142.77	7.51
5 Year High	252.15	337.86	158.42	37.71
(Date)	1/31/2004	9/30/2000	4/30/2003	1/31/2004
5 Year Low	65.41	(93.11)	(67.61)	(36.47)
(Date)	3/31/2003	3/31/2003	8/31/2000	10/31/2000
Total Assets (in billions)				
January 31, 2004	5,502.95	3,804.66	1,250.64	447.65
December 31, 2003	5,362.40	3,684.80	1,240.92	436.68
January 31, 2003	4,057.20	2,591.84	1,137.73	327.63
5 Year High	5,737.02	4,571.71	1,250.64	447.65
(Date)	8/31/2000	8/31/2000	1/31/2004	1/31/2004
5 Year Low	3,899.45	2,504.42	777.31	305.53
(Date)	9/30/2002	9/30/2002	5/31/2000	9/30/2002
Number of Funds				
January 31, 2004	7,149	4,597	2,046	506
December 31, 2003	7,153	4,601	2,043	509
January 31, 2003	7,244	4,733	2,037	474
5 Year High	8,428	4,782	3,180	535
(Date)	7/31/2002	9/30/2002	7/31/2002	1/31/2000
5 Year Low	6,347	3,572	2,029	472
(Date)	2/28/1999	2/28/1999	11/30/2002	10/31/2002
Liquid Assets or Cash (in billions)				
January 31, 2004	269.67	168.00	72.21	29.47
December 31, 2003	258.59	156.97	72.58	29.05
January 31, 2003	214.70	115.52	77.71	21.47
5 Year High	300.27	254.73	77.71	29.47
(Date)	10/31/2000	10/31/2000	1/31/2003	1/31/2004
5 Year Low	196.78	109.46	12.50	19.41
(Date)	9/30/2002	2/28/2003	6/30/2001	3/31/2000
Cash/Asset Ratio				
January 31, 2004	4.90%	4.42%	5.77%	6.58%
December 31, 2003	4.82%	4.26%	5.85%	6.65%
January 31, 2003	5.29%	4.46%	6.83%	6.55%
5 Year High	6.00%	6.47%	6.83%	7.66%
(Date)	11/30/2000	11/30/2000	1/31/2003	9/30/2001
5 Year Low	3.96%	4.02%	1.45%	5.43%
(Date)	3/31/2000	3/31/2000	6/30/2001	3/31/2000

Chart 1

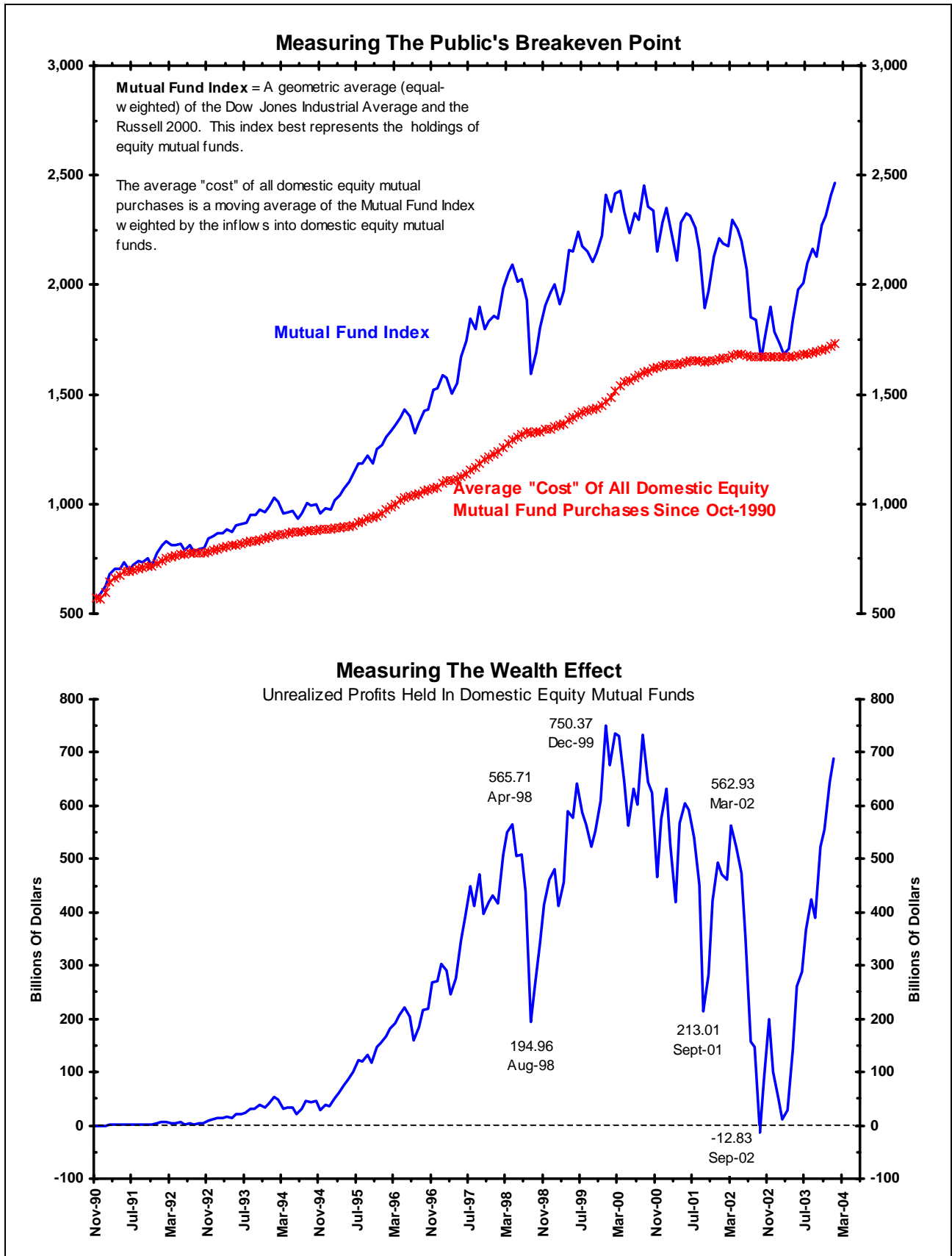


Chart 2

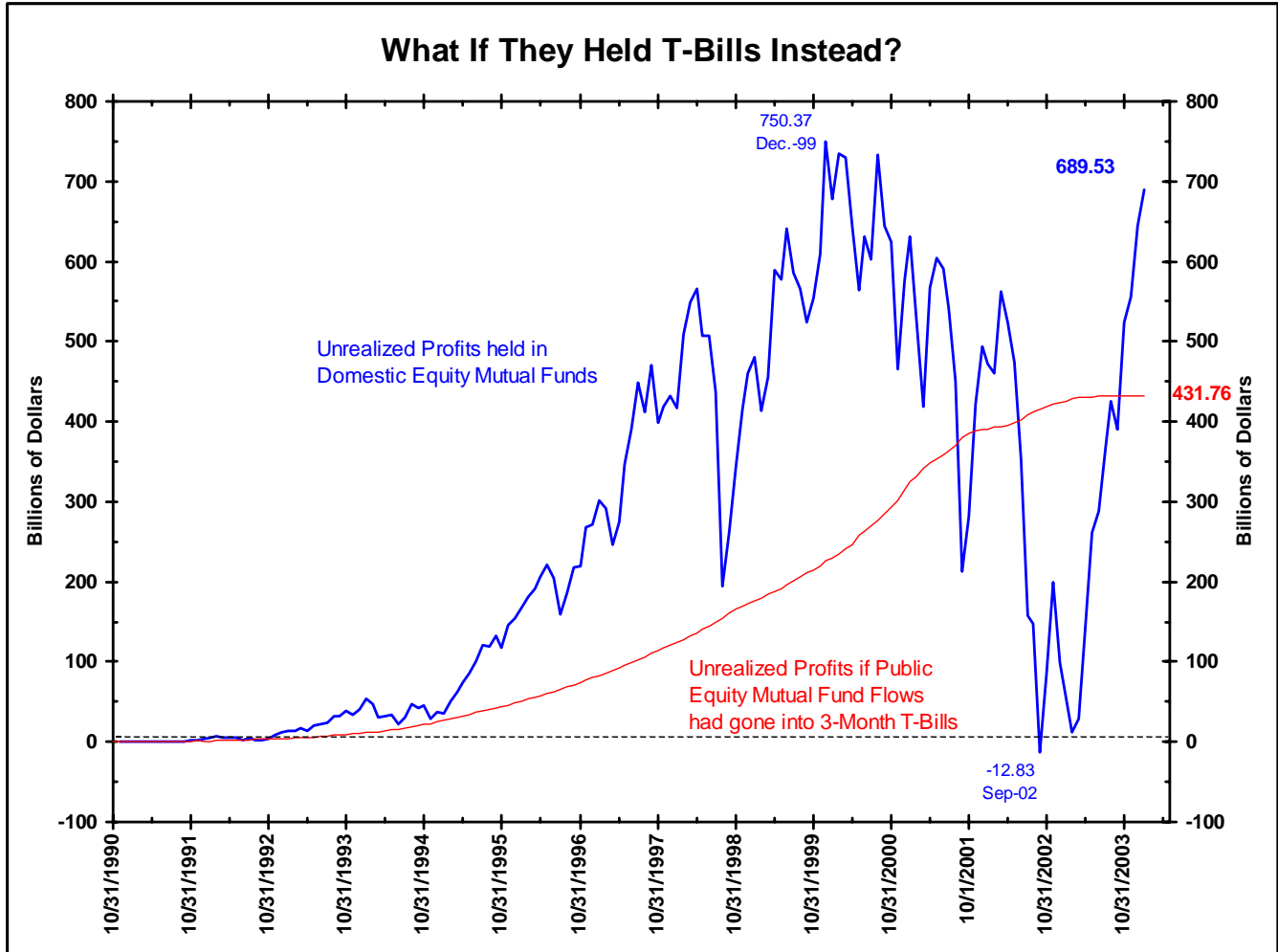


Chart 3

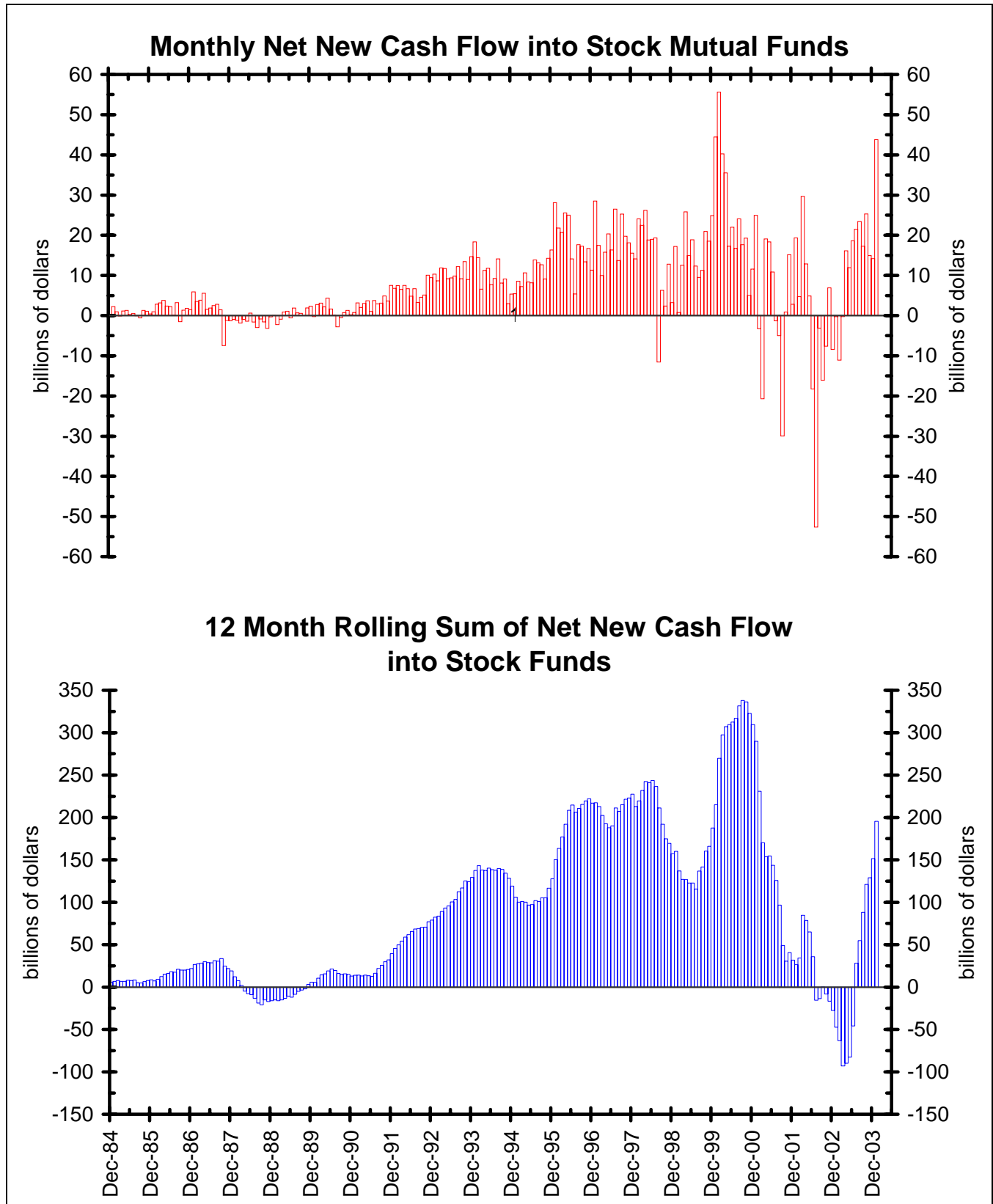


Chart 4

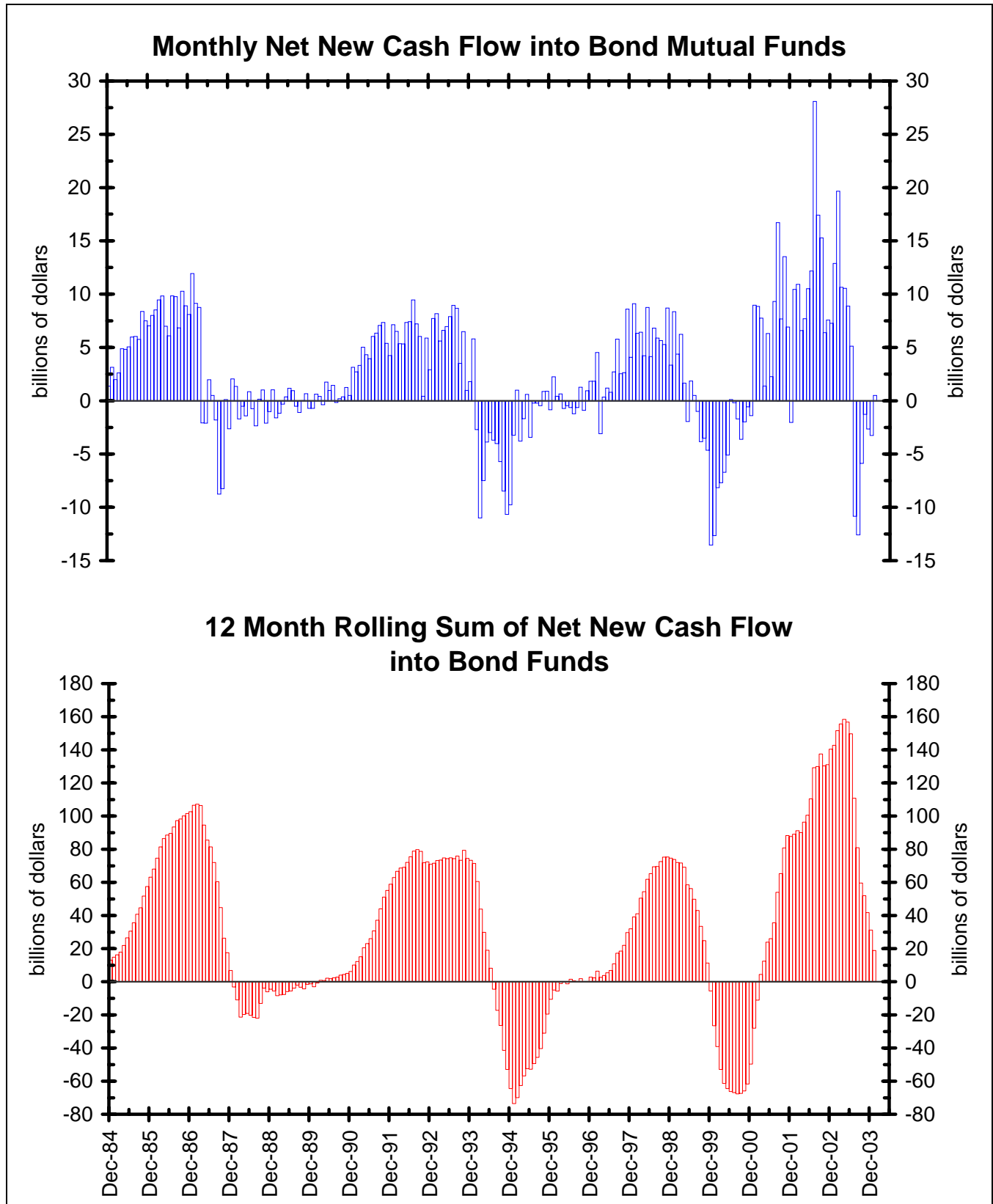
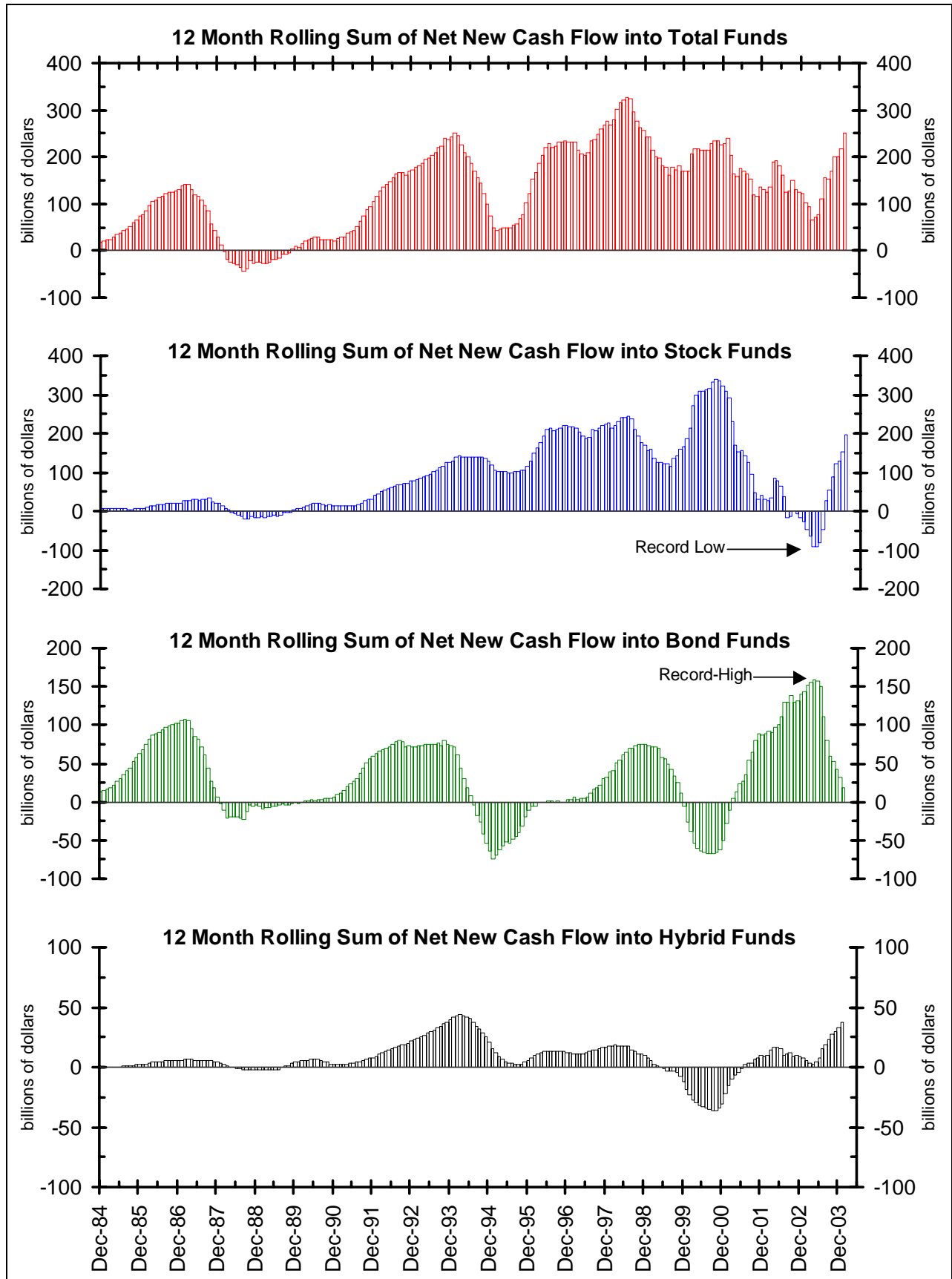


Chart 5



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