Mutual Fund Developments in 1998

by Brian Reid and Kimberlee Millar

SUMMARY
The U.S. economy and world financial markets provided a mixed setting for mutual funds in 1998. On the positive side, the U.S. economy grew at a robust 4.1 percent annual rate during its eighth year of expansion. Low levels of inflation, combined with the Federal Reserve's decision to ease monetary policy, contributed to a decline in most interest rates. This favorable economic environment buoyed the U.S. stock market, and broad market indexes dominated by large-capitalization companies once again posted strong gains.

On the downside, the strength in the U.S. economy and the gain in large-cap stocks occurred in a year when stock indexes experienced their largest intrayear declines since 1990. In addition, stock prices for many small companies ended the year lower. Financial developments abroad were also mixed, as the dollar value of stock prices rose in many European countries but fell in many emerging markets.

Against this backdrop, total mutual fund assets rose 24 percent to $5.5 trillion. About half of the growth was attributable to net new investments by mutual fund shareholders, which totaled a record $479 billion; most of the remainder was largely attributable to investment performance. Money market and bond funds had heavier inflows, while inflows to equity and hybrid funds slowed last year.

This issue of Perspective reviews these and other mutual fund developments in 1998. Highlights of the review include the following.

Equity Funds
- Assets of equity mutual funds rose 26 percent in 1998, the smallest percentage increase since 1994. At yearend, assets stood at $2.98 trillion.
- Net new cash flow to equity funds slowed to $159 billion in 1998 from $227 billion in 1997. Funds investing predominantly in stocks of large-capitalization U.S. companies continued to capture the majority of the net inflow, with lesser amounts going to funds investing in stocks of small-capitalization domestic firms and foreign companies.
- Households continued to shift away from holding stocks directly towards holding equity through mutual funds. Households remained net sellers of equity for the fifth consecutive year as liquidations of direct stock holdings continued to exceed purchases through mutual funds.
- The response of equity fund shareholders to the summer selloff in the stock market was muted. Net outflows totaled only 0.3 percent of domestic equity fund assets in August even though major market indexes posted their largest declines since 1990.

1 Mr. Reid is Senior Economist and Director of Industry Research and Financial Analysis, and Ms. Millar is Senior Research Associate in the Division of Industry Research and Financial Analysis, Investment Company Institute. Janet Thompson prepared the charts and tables.
The response of portfolio managers to the summer selloff was also subdued, as mutual funds' sales of common stock did not increase materially during the stock market selloff.

**Money Market Funds**

Assets of money market funds increased 28 percent to $1.35 trillion in 1998. Net new cash flow to money market funds was a record $235 billion, more than double the previous record of $102 billion set in 1997.

The higher net inflow appears to have been driven largely by a favorable interest rate environment. Inflows began the year well ahead of the previous year's pace and strengthened even further with the decline in short-term interest rates in the fall.

Increased household demand for liquidity after the sharp drop in the stock market may have bolstered the net flow. However, retail funds did not gain much cash directly from shareholders exchanging money out of long-term funds into money market funds.

**Bond Funds**

Assets in bond funds rose 15 percent in 1998 to $831 billion. Falling interest rates helped to stimulate net new cash inflows, which rose to $74 billion, the largest since 1986.

The direct effect of the stock market selloff on the net flow to bond funds was likely minimal, as the net inflow to these funds did not pick up during the second half of the year. The composition of the flow shifted away from high-yield bond funds to other taxable and tax-exempt bond funds.

**Hybrid Funds**

Assets in hybrid funds—funds investing in a mix of stocks and bonds—rose 15 percent in 1998 to $365 billion.

The net inflow declined to $10.5 billion in 1998 from $16.5 billion in 1997. The slowdown reflected reduced net flows during and following the stock market selloff.

**Other Developments**

Mutual funds distributed an estimated $161 billion in long-term capital gains to shareholders in 1998, down from $184 billion in 1997. About half of the capital gains distributions

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**FIGURE 1**


(billions of dollars)

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<td>10.5</td>
<td>235.2</td>
<td>478.9</td>
<td>5,530.4</td>
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</table>

Source: Investment Company Institute
were not subject to taxation because the gains were paid to shareholders holding funds in tax-deferred accounts.

- Portfolio turnover rates do not seem to have contributed to the rising level of capital gains distributions during the 1990s. Sales of common stock, as a percentage of their assets, have remained nearly unchanged throughout the decade.

- Individual investors making purchases of directly marketed mutual funds accounted for 23 percent of new sales of all equity, bond, and hybrid funds in 1998. Such purchases do not include those made in employer-sponsored pension plans or with the assistance of financial advisors.

**MUTUAL FUND ASSETS AND FLOWS**

**Overview**

Total mutual fund assets increased 24 percent in 1998 to $5.5 trillion (Figure 1). Asset growth in 1998 was paced by record net new cash inflow of $479 billion.\(^2\) Net flows to bond and money market funds increased in 1998, reflecting favorable interest rate developments. Net flows to equity and hybrid funds were strong in the first half of the year but slowed after the summer stock market selloff.

The increased inflow to mutual funds came from both households and institutional investors. Households, the predominant buyer of mutual funds, continued to shift away from directly holding securities to holding them indirectly through mutual funds.\(^3\) The shift away from direct to indirect equity holdings through equity mutual funds has been an important factor in the growth of the mutual fund industry in recent years. Households also have been net sellers of debt securities for the past several years while simultaneously increasing their purchases of bond funds. Similarly, households have been relying more on money market funds as a short-term liquid asset. Institutional investors also have increased their demand for money funds, in part reflecting favorable interest rate developments.

**Equity Funds**

Assets of equity mutual funds rose 25.9 percent to $2.981 trillion in 1998, the slowest rate of growth since 1994. The slowdown was attributable to lower investment performance\(^4\) and a slowdown in net new cash flow.

The investment performance of equity mutual funds increased their assets about 18 percent in 1998, down from 23 percent in 1997. Strong price gains of large-cap and technology stocks were offset by weakness in small-cap stock prices. For example, the S&P 500, a large capitalization index, rose 27 percent while the Russell 2000 index, which is comprised of small companies, fell 3.4 percent. Furthermore, the dollar value of stocks in many Asian and Latin American markets declined.

Against this backdrop, net flow to equity funds slowed to $159 billion in 1998 from $227 billion the year before (Figure 1). The year started out strong, with the pace of net new cash flow to equity funds during the first seven months of 1998 exceeding that for the same period in 1997 by 8 percent. The stronger inflow was driven entirely by domestic funds, as the inflow to international funds weakened further after slowing in 1997. During the last five months of 1998, the net flow to domestic equity funds slowed considerably in conjunction with a downturn in the U.S. stock market.

**Role of households.** Although households’ net purchases of equity mutual funds slowed slightly last year, households continued to shift away

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\(^2\) Net new cash flow is the difference between (1) sales of shares including those from exchanges from other funds within the same family of mutual funds but excluding those from reinvested distributions and (2) redemptions of shares including those through exchanges into other funds within the same fund family. In the aggregate, mutual fund exchanges net to zero, but subgroups can have positive or negative net exchanges.

\(^3\) Household financial asset data, which include nonprofit organizations, were primarily obtained from the Flow of Funds Accounts of the United States: Flows and Outstandings Third Quarter 1998 (December 11, 1998), Board of Governors of the Federal Reserve System, Washington, D.C. The Flow of Funds Accounts provide financial asset data for nonprofit organizations only for 1988-1995, the latest year for which data are available. In order to maintain consistency, the nonprofit data are not separated from the household financial data. In 1995, nonprofit organizations accounted for 4 percent of household financial assets. Net purchases of financial assets include purchases through employer-sponsored pension plans. Purchases of assets through mutual funds include those purchases via mutual funds held in personal trusts and pension plans. Purchases of financial assets through variable annuities are included here in purchases through mutual funds, whereas variable annuities are treated as a life insurance product in the Flow of Funds Accounts.

\(^4\) Investment performance is the difference between a fund’s change in assets and net new cash flow. On a yearly basis, performance roughly equals unrealized gains or losses plus reinvested dividends and capital gains distributions. The breakdown in the change in assets between performance and net new cash flow is computed for each fund on a monthly basis and then aggregated by type of fund. Assets of funds that did not report data for the previous month introduce a third component into the aggregate change in assets; that is, assets of new reporters.
from direct ownership of stocks to indirect ownership through mutual funds. The shift to indirect holdings of equity through mutual funds in part reflects the growth in household demand for tax-deferred investments such as employer-sponsored pension plans and individual retirement accounts, which have a large component of equities. Such products have grown from under 10 percent of all household financial assets in the mid 1980s to nearly 20 percent in recent years. Furthermore, as households have made the shift toward tax-deferred accounts, they have increasingly relied on equity mutual funds as the investment vehicle in these accounts.

Households remained overall net sellers of equity for the fifth consecutive year in 1998, as indirect purchases continued to be more than offset by liquidations of direct holdings (Figure 2). Indeed, the net selling position of households deepened last year, reflecting the lower level of net purchases of equity through mutual funds. Net liquidation of direct holdings of equity by households was about unchanged in 1998.

**Domestic equity funds.** The net inflow to domestic stock funds fell from $189 billion in 1997 to $151 billion in 1998 (Figure 3). During the first seven months of the year, domestic equity fund flow was 24 percent above the 1997 pace. Domestic equity funds posted a net outflow in August. Monthly net flows returned to positive levels thereafter but were well below the levels experienced during the first seven months of the year.

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**Figure 2**

**Purchases of Equities by Households, 1984-1998**

(billions of dollars)

Net Purchases Made Through Mutual Funds

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Net Purchases Made Outside Mutual Funds

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<td>$200</td>
<td>$300</td>
<td>$400</td>
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</table>

Sources: Federal Reserve Board and Investment Company Institute

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5 Equity purchases outside of mutual funds are only those purchases for which households bear the investment risk. Such purchases include direct purchases and those via closed-end funds, personal trusts, and defined contribution plans. Because households do not bear investment risk with equity purchases through defined benefit plans, equity purchases via these plans are not included.

For 1984 and 1985, the defined contribution plan purchases are estimated by multiplying the net acquisition of equities of all private pension plans by the share of private pension plan assets held in defined contribution plans. Equity purchases in subsequent years were obtained directly from the Flow of Funds Accounts.

Equity purchases through mutual funds include those purchases via mutual funds held in personal trusts and private pension plans. Variable annuities are included in equity purchases through mutual funds. Variable annuities are treated as a life insurance product in the Flow of Funds Accounts.

6 These net equity sales do not imply that households’ demand for equities has been declining. In fact, it has been rising as indicated by the fact that household equity holdings rose for the fourth straight year in 1998.

Furthermore, even though households in the aggregate have been net sellers of equity for most of the past decade, this is not inconsistent with the fact that the percentage of households holding equity increased or that some households were net buyers of equity. For example, some households may have sold off a portion of their gains from rising stock prices in recent years in order to reposition their portfolios, leaving them net sellers. As long as other U.S. households did not purchase all of these equities, in the aggregate households would be net sellers. The Flow of Funds Accounts indicate that residents of foreign countries and state and local government pension plans continued to be large net buyers of equity.
Growth funds and growth and income funds accounted for 84 percent of domestic equity fund net flow in 1998. In recent years, domestic inflows have increasingly shifted away from aggressive growth funds toward growth funds and growth and income funds. Aggressive growth funds captured only 8 percent of the domestic equity net inflow last year, compared with more than 30 percent during the mid 1990s. Inflows to aggressive growth funds, which tend to invest in small-cap stocks, have slowed in recent years as large-cap stocks have outperformed small-cap stocks (Figure 4). During the early 1990s, when small-cap stocks outpaced large-cap stocks, the share of domestic equity fund inflows captured by aggressive growth funds rose, and then flattened out in the mid 1990s when large- and small-cap stocks performed about the same.

Stock market volatility. The U.S. stock market was more volatile during the third quarter of 1998 than it had been in more than a decade. Nearly 45 percent of the days during the third quarter had an intraday trading range that exceeded 2 percent of the previous day’s close (Figure 5). In addition, in the six weeks between mid July and the end of August, most major equity indexes experienced their steepest declines since 1990. For instance, the S&P 500 index fell 19.3 percent over this six-week period compared with a decline of 19.9 percent during the market selloff in 1990. The Russell 2000 index dropped 27.1 percent during this period, compared with a 30.5 percent decline in 1990. Although these market declines were significant, during the autumn of 1987 the S&P 500 fell 33 percent and the Russell 2000 declined 39 percent.

Mutual fund shareholder response to the broad market selloff was muted. Domestic stock funds experienced a net outflow of $6.6 billion or just 0.3 percent of assets in August, the first since the

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7 The volatility measure is based on the S&P 500 index. If volatility is measured by the standard deviation of the intraday price range of the S&P 500 index as a percent of the previous day’s closing price, the third quarter of 1998 was also the most volatile quarter since 1987.
summer of 1990. By comparison, the net outflow during the market selloff in 1990 averaged 0.6 percent per month.

Likewise, portfolio managers of domestic equity funds were not heavy sellers of stock last August. Common stock sales of these funds amounted to about 4.6 percent of domestic equity fund assets in August, about the monthly average in the 1990s (Figure 6). Furthermore, domestic equity funds’ sales of stock made up a small share of sales in the U.S. equity market. Stock sales of these funds accounted for only 10 percent of the dollar volume of all stock market transactions in August, whereas these funds hold almost 20 percent of the total U.S. stock market.

After the summer selloff, stock prices rebounded rapidly and positive monthly net flows to domestic equity funds resumed, albeit at a slower pace than before the selloff. Despite the large upswing in the stock market during the months following the selloff, portfolio managers did not substantially increase their purchases of stock, and the pace of common stock purchases remained essentially unchanged from earlier in the year, totaling approximately 5 percent of assets.

**World Equity Funds.** The net flow to world equity funds slowed to $8 billion last year, amid the mixed performance in many world stock markets (Figure 3). European stock prices generally rose, while many markets in Asia and Latin America suffered losses. The slowdown in net new cash flow was broadly based across world equity funds. Funds with no specific country or regional investment objective make up the bulk of world equity fund assets, and the net flow to these funds dropped roughly 70 percent. Emerging market funds experienced an outflow of $2.5 billion.

Although emerging market funds hold only 5 percent of world equity fund assets, volatility in
the stock markets of emerging market countries has focused attention on these funds. Prices in emerging market regions fell 24 percent, on average, last year. Even so, monthly outflows remained moderate, averaging 1 percent of assets. These outflows were primarily due to a decline in sales, not an increase in redemptions. In fact, total redemptions in emerging market funds were 16 percent lower in 1998 than in 1997.

The largest monthly outflow in emerging market funds occurred in August when the Russian government defaulted on some of its debt and the IFCI composite index fell almost 30 percent. Outflows totaled 3 percent of assets that month and were driven mostly by a decline in sales. The reaction to market turmoil by shareholders in emerging market funds during August was more muted than in the past. For example, when the IFCI Composite index fell 10 percent in March 1994, outflows totaled 4 percent of assets.

Money Market Funds

Money market mutual funds posted a record net inflow of $235 billion in 1998, which contributed to the 28 percent increase in money fund assets to $1.35 trillion. The pace of inflows rose after the summer selloff in the stock market and remained at elevated levels through successive decisions by the Federal Reserve to ease interest rates in the fall. Both retail and institutional money funds contributed to the heavier net inflows.

Retail funds. The net inflow to retail money market funds—those offered primarily to individuals—rose to $125 billion from $45 billion in 1997 (Figure 7). The heavier inflow last year was

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8 The tremendous growth of emerging market mutual funds in recent years has raised concerns that they are potentially a destabilizing force if shareholders were to redeem shares en masse during a market downturn. However, assets of emerging market equity funds accounted for only 1.2 percent of the market capitalization of developing nations at the end of 1997. Thus, it seems unlikely that any actions taken by fund shareholders could significantly affect equity prices in these markets. Furthermore, an Investment Company Institute study examined the actions of shareholders and portfolio managers of U.S. emerging market equity funds in the aftermath of the turmoil that occurred in Asian and Latin American financial markets during 1997. The study found that neither shareholders nor portfolio managers behaved in a way that heightened market volatility. See Mitchell Post and Kimberlee Millar, “U.S. Emerging Market Equity Funds and the 1997 Crisis in Asian Financial Markets” Perspective, Vol. 4, No. 2, June 1998, Investment Company Institute.


10 In March 1994, securities markets worldwide experienced heightened volatility owing to a tightening of monetary policy in the United States.
partly attributable to a widening gap between yields on retail money funds and bank and thrift deposits. In the past, retail funds have experienced strong inflows when this gap was wide (Figure 8) and 1998 proved to be no exception. The spread averaged 2.42 percent, the highest annual average since 1984, and up from 2.32 percent in 1997.

This yield gap led households to rely more heavily on money market funds as a short-term liquid asset. As a result, money funds accounted for about 19 percent of household short-term liquid assets, up from 17 percent at the end of 1997. The percentage increase in 1998 continued a trend that began in 1995 when the yield spread began to widen.

The net inflow to retail funds strengthened noticeably during the last five months of the year, averaging $12.9 billion per month compared with $8.6 billion per month prior to the stock market selloff. The strengthening was partly seasonal, as this pattern matches recent intrayear movements in net flows. In addition, increased household demand for liquidity after the sharp drop in the stock market during the summer may have bolstered the net flow. It does not appear, however, that retail funds directly gained much

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**FIGURE 8**

**Interest Rate Spread and Net New Cash Flow to Retail Money Market Funds, Monthly 1985-1998**

(%)  

Net New Cash Flow  

Interest Rate Spread  


-1.5 -1.0 -0.5 0.0 0.5 1.0 1.5 2.0 2.5 3.0 3.5 4.0

Note: Net new cash flow is a percentage of retail money market fund assets and is shown as a six-month moving average. The interest rate spread is the difference between the taxable money market fund yield and the average interest rate on savings deposits; the series is plotted with a six-month lag.

Sources: IBC Financial Data Inc., Federal Reserve Board, and Investment Company Institute

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11 Short-term liquid assets are defined as deposits and money market mutual funds.

12 Some research has suggested that both increases and decreases in the stock market have boosted the demand for money funds. The reason may be that money market funds serve as a conduit for some investors through which they move money in and out of the stock market. Hence, as more money is moved in and out of the stock market, the assets in money market funds rise. For a further discussion of this finding, see James Dow and Douglas Elmendorf, “The Effect of Stock Prices on the Demand for Money Market Mutual Funds,” Federal Reserve Working Paper, May 1998.
Brought them to their lowest level since 1994. Yields on institutional money market funds fell as well, but at a slower pace. This lag occurs because money funds pay dividends based on the securities held in their portfolios that were acquired prior to the drop in market interest rates. As a result of the widening gap between money fund yields and money market rates, some institutional investors moved cash into money market funds from direct investments in money market instruments.

**Bond Funds**

Assets in bond funds rose 15 percent in 1998 to a record $831 billion. The net inflow, which accounted for 70 percent of the increase in assets, rose to $74 billion in 1998 from $28 billion in 1997. Most of the remaining asset growth was attributable to investment performance.

Since the mid 1980s, inflows to bond funds generally have occurred during extended periods of falling interest rates and rising returns on bond funds (Figure 9). The yield on ten-year Treasury notes, which had been cash from other funds, as exchanges into retail money funds exceeded exchanges out during the last five months of the year by only $5.8 billion.

**Institutional funds.** The net inflow to institutional money funds—those held primarily by businesses, governments, institutional investors, and pension plans—rose for the fourth straight year to $110.5 billion from $57.1 billion in 1997 (Figure 7). In recent years, institutional investors have increasingly outsourced their cash management needs to institutional money market funds. This trend has been an important component of the asset growth in these funds.

Institutional money market fund inflows strengthened during the autumn in part because of the sharp drop in short-term interest rates that brought them to their lowest level since 1994. Yields on institutional money market funds fell as well, but at a slower pace. This lag occurs because money funds pay dividends based on the securities held in their portfolios that were acquired prior to the drop in market interest rates. As a result of the widening gap between money fund yields and money market rates, some institutional investors moved cash into money market funds from direct investments in money market instruments.

falling during the last half of 1997, fell an additional 1 percentage point in 1998. At the same time, the net inflow to bond funds, which had picked up during the second half of 1997, further accelerated in 1998, averaging about $6.2 billion a month, compared with $4.4 billion during the last half of 1997.

The direct effect of the stock market selloff on bond fund inflows was minor, as net inflows remained steady during the second half of the year. The stock market selloff along with the sharp drop in Treasury yields sparked by investor concern about credit quality, however, did affect the composition of the net flow. Net inflows to government, municipal, and high-grade corporate bond funds increased during and after the market selloff. Over the same period, rates on high-yield bonds rose and high-yield bond funds experienced outflows.

**FIGURE 10**

(billions of dollars)

*Estimate based on preliminary data.
Source: Investment Company Institute

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<th>Year</th>
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**Hybrid Funds**

Assets in hybrid funds—funds investing in both stocks and bonds—rose 15 percent in 1998 to $365 billion. Inflows, which accounted for about one-quarter of the increase in assets, slowed to $10.5 billion in 1998 from $16.5 billion in 1997. During the first seven months of the year, the net inflow was slightly ahead of that during the same period in 1997. With the selloff in stock prices in mid summer, these funds experienced a small outflow in August that continued through October. Net inflows resumed in November and December.

**OTHER DEVELOPMENTS**

**Capital Gains Distributions**

Mutual funds distributed an estimated $161 billion in capital gains to shareholders in 1998, down from the record $184 billion in 1997 (Figure 10). Capital gains distributions represent net gains realized from the sale of securities held more than one year. For a fund to avoid being taxed on the realized gains, it must distribute virtually all those realized in the twelve months ending in October by the end of the calendar year. Most investors elect to have capital gain distributions automatically reinvested in shares of the distributing funds rather than to receive the distribution in cash. For example, in 1998, almost 90 percent of the $161 billion of distributions was reinvested.

The drop in capital gains distributions in 1998 likely resulted from the sharp selloff in the stock market during July and August. Nonetheless, the

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14 Net exchanges into bond funds did rise slightly during the second half of the year, suggesting that bond fund inflows may have been boosted slightly by stock fund outflows.

15 Short-term capital gains are included in dividends distributions.

16 As a result, capital gains distributions tend to be concentrated in November and December. For example, in 1998, mutual funds made an estimated 78 percent of the distributions in these two months.
$161 billion was the second highest on record and largely reflected the upward trend in stock prices during the 1990s. In general, capital gains distributions have risen with stock prices over the decade. Portfolio turnover, measured as fund sales of common stock as a percent of fund assets, has been relatively constant over the decade, indicating that the growth in capital gains distributions has not been the result of higher trading activity by mutual funds.17

Higher capital gains distributions do not translate dollar-for-dollar into higher tax liabilities for mutual fund investors. Equity funds, which accounted for nearly 90 percent of the capital gains distributions in 1998, had approximately 60 percent of their assets held in tax-deferred accounts such as IRAs, employer-sponsored pension plans, and variable annuities. Thus, probably less than half of the capital gains distributions in 1998 were subject to taxation.

**Structure of Sales of Long-term Mutual Funds**

In 1998, 60 percent of $897 billion in new sales of equity, bond, and hybrid mutual funds, other than variable annuities, occurred through sales force funds (Figure 11).18 These funds are sold primarily through networks of sales representatives, such as broker-dealers, banks, and insurance agents. The remaining 40 percent of new sales of long-term funds were in direct market funds, which are sold primarily by the fund directly to investors without the use of a sales representative or agent.

Over the past decade, changes in the distribution of mutual fund shares have resulted in the distinction between these two categories of funds becoming increasingly less meaningful. For example, in 1998, an estimated two-fifths of the new sales of direct market, long-term funds represented sales to institutional investors19 or to individual investors through such nontraditional methods as 401(k) plans, fee-based financial advisers, and wrap accounts. In differing ways, these nontraditional methods involve a third party standing between the individual investor and the direct market fund, either in the form of an employer selecting the investment options in a 401(k) plan or an adviser providing advice and assistance to the investor. Thus, only three-fifths of new sales of direct market funds in 1998 represented conventional direct purchases by individual investors.20, 21 For all long-term funds, direct sales to such investors accounted for an estimated 23 percent of new sales in 1998.

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**Figure 11**

**New Sales of Long-Term Funds by Method of Sales, 1998**

<table>
<thead>
<tr>
<th>Method of Sales</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Force</td>
<td>60</td>
</tr>
<tr>
<td>Direct Market, Conventional Sales to Institutional Investors and to Individual Investors Through 401(k) Plans, Fee-based Advisors, and Wrap Accounts</td>
<td>23</td>
</tr>
<tr>
<td>Direct Market, Sales to Individual Investors</td>
<td>17</td>
</tr>
</tbody>
</table>

*Source: Investment Company Institute*

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17 Common stock sales have averaged 4.7 percent of assets per month during the 1990s.

18 New sales are sales of shares other than through reinvested distributions and exchanges from other funds within a family of funds. Variable annuities have not been classified by method of sale and thus are excluded from the breakdown. New sales of variable annuities were $107 billion in 1998.

19 Institutional investors include businesses, trusts, financial institutions, nonprofit organizations, and other nonpersonal accounts.

20 New sales for the two groups, conventional individual investors and other types of investors, are not available. The estimates use the share of assets in 1997 that fall within these two groups to allocate new sales to the two groups. Asset data for the two groups are not available for 1998.

21 The estimated share of new sales to such investors in direct market funds declined from nearly three-fourths in 1986.
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