

TABELL'S MARKET LETTER

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A regularly released series, appearing recently in the financial news, was the monthly mutual fund activity. Sales of mutual funds, excluding money market funds, amounted to 625.4 million. Aided by rising stock prices, total net assets of these funds climbed to 46.6 billion in April. Redemptions also increased in April to 580.2 million.

The analysis of these mutual fund statistics is difficult without an explanation of the history of the series. For many years the Investment Company Institute has made available these statistics relating to the mutual fund industry. We have in turn been making available analytical measurements based on these statistics and have been maintaining the figures in our computer data bank.

Since the beginning of the series in 1954, the raw figures, as released, worked well for this purpose. Until recently, most mutual funds were in fact common-stock oriented. This is no longer the case. Around 1974, money market funds began to gain popularity as an investment vehicle, and, for a while, statistics were distorted by the growth of these funds. The ICI recognized this and properly began separating money market fund figures from those of conventional mutual funds.

More recently, however, new non-common stock vehicles have appeared on the scene. With growing investor interest in income and a wide spread between stock/bond yields, bond funds have gained increasing popularity and new sales of those funds have dramatically increased. Also, with the advent of new legislation, municipal bond funds have become an important factor. The activity of non-common stock funds, therefore, has become a major factor in this series. Unfortunately, throughout 1976 and early 1977, the necessary figures to isolate the activity were unavailable and, therefore, caused distortions. Quite correctly, this situation has changed as the ICI has released separate statistics covering bond and municipal bond funds. An interesting fact to note in factoring out bond and municipal fund sales is the plurality of redemptions over sales for the past three years. Statistics on assets, sales, redemptions, and cash position have all been modified to exclude bond and municipal bond funds thus covering common stock oriented funds only.

Having outlined the background of the series, it must be kept in mind, in looking at mutual fund statistics, that we are looking at the behavior of two different groups of individuals. When we look at sales and redemptions, we are examining the behavior of the mutual fund investor. When we look at changes in the cash position of mutual fund assets, we are noting decisions made by the mutual fund manager. With this in mind, let us look at a few of these statistics. The historical tendencies of fund redemptions have been that it dries up sharply during bear markets, rebounds a bit after bottoms, and then begins a new sharp rise as a bull market gets underway. Generally, the level of redemptions levels off fairly close, but in advance of the end of a bull market. The last redemption peak was in March, 1976. Since then, the series has dried up sharply, reaching a low in April, 1978, and, in fact, has increased considerably through April of this year suggesting the possible start of a new bull market.

Historically, sales tend to dry up along with redemptions during bear markets. After rebounding a bit, they generally do little during the early stage of upswings and generally commence a sharp increase around the middle of a bull market cycle. Thus, the recent rise in sales must be considered an encouraging factor and would, if it were to continue, suggest a healthy market. Finally, an analysis of the amount of their portfolio that mutual fund managers have chosen to retain in cash, leads us to some interesting conclusions. Cash position generally tends to reach a peak near major market lows, to decrease sharply as bull markets get underway, and, finally, to remain flat for a period of time, increasing again as bear markets begin. Thus, cash position reached an all time high of 13.5% a month before the bottom in 1974 and declined to a low of 4.92% in September, 1976, as the Dow approached its high in the 1,000 area.

Since then, the cash position has increased, as the chart on the opposite page shows, and appears to be peaking around the 10% level suggesting a possible major market low. Also, it is interesting to observe a four-year cycle, from 1958 to date, appears to have developed as the mutual fund cash/asset ratio peaks.

Therefore, the most bullish configuration of mutual fund data in the coming months would consist of a continuing rise in sales accompanied by a like rise at a somewhat slower rate in redemptions. This should also, on an historical basis, be accompanied by a willingness of managers to invest the cash inflow and reserves. It will be interesting to see how this scenario unfolds.

Dow-Jones Industrials (12:00 p.m.) 842.17
S&P Composite (12:00 p.m.) 97.98
Cumulative Indes (6/15/78) 751.80

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