CHAPTER III

MUTUAL FUND GROWTH, 1952–58 [1]

The total assets of the open-end investment companies included in of the present study [2] increased by 213 percent between December 31, 1952, and September 30, 1958. This expansion, which took the total value of assets from $3.9 to $12.2 billion, was accomplished by the launching and growth of a number of new funds, as well as by the continued growth of funds in existence for the entire period. The present chapter will examine each of these aspects of growth, concentrating on (*a*) the increase in the number of funds in the industry and (*b*) the change in the sizes of funds.

The change in size of funds has been produced by a combination of factors: Net money inflow resulting from the sales of investment company shares, changes in market values of portfolio securities, and absorption of other investment companies or personal holding companies. Of the $8.3 billion increase in assets, approximately $5.6 billion was supplied by net new money inflow from sales of investment company shares. Net change in market value of portfolio holdings accounted for another $2.6 billion. The balance of $0.1 billion represented increases in asset values resulting from absorptions.

For purposes of distinguishing the factors influencing the growth of assets the following definitions will be adopted in this chapter. An "asset relative" will be defined as the assets of the companies in September 1958 (the final benchmark date of the study) divided by the assets in December 1952. An "inflow relative" will be defined as the 1952 asset values plus the net new money inflow plus the acquisition of assets by mergers during the period divided by the 1952 assets. The asset relative can be regarded as a compound of the inflow relative as just referred to, and a "market relative" which indicates the influence on asset values of changes in market valuations of portfolio securities. The "market relative" is found by dividing the inflow relative into the asset relative for the period under examination. It indicates the extent to which final asset values have been changed as a result of unrealized gains and losses between the initial and final benchmark dates of the period, plus any net realized gains resulting from portfolio switching but not distributed to shareholders. Taking the aggregate figures of all open-end companies included in the study, the above-mentioned relatives for the period covered were calculated as follows: asset relative, 313 percent; inflow relative, 248 percent; market relative, 126 percent. A detailed indication of the corresponding relatives for the various types of open-end investment companies will be presented later in the chapter.

The focus in this chapter on the investment fund as the effective operational unit in the industry is to be distinguished from the

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[2] The companies covered accounted for approximately 97 percent of the assets of all open-end companies registered with the Securities and Exchange Commission as of June 30, 1958. Mutual fund growth since 1958 is discussed in ch. II and the appendix to ch. IV.

emphasis in the preceding chapter on the investment companies comprising the industry on the one hand, and the concentration of assets in the hands of definable control groups on the other. The concept of the control group refers to the administration of an aggregation of assets over which some measure of common control is exercised, based on the interrelations and interaffiliations of investment companies, their managers, and investment advisers. The concept of the investment fund, on the other hand, is based upon the existence of separate portfolios. Each portfolio, whether administered by the same manager or by a different manager, is classified as a separate fund. These funds comprise the following: (*a*) the individual investment company in those cases in which the company operates as a single and distinct unit; and (*b*) the separate fund or series offering its own shares but operating as a part of a larger investment company or group.

For purposes of the growth and size analysis, the present chapter will present data in five main areas: (*a*) the distribution of investment funds, by numbers of funds and assets, by both size groups and type classes as of December 31, 1952 and September 30, 1958 (the initial and final benchmark dates of the first part of the study); (*b*) the average size of funds of differing-type classes at benchmark dates throughout the period; (*c*) the increase in assets controlled by the respective-type sectors of the universe between those benchmark dates, and the changes in relative importance of each of these sectors; (*d*) the separation of asset growth by type classes into the two contributing factors of (i) net inflow of new money resulting from the sale of own shares, and (ii) the change in market value of portfolio holdings; and (*e*) the division of the gross and net annual inflow of funds to the open-end investment company industry among the various types of investment funds. The type classification employed in these analyses combines funds with similar investment objectives. This classification was based largely on the investment companies' replies to a relevant question in the questionnaire and, in cases of ambiguity, on an inspection of the funds' investment portfolios. The elaborations of analysis called for in each of these areas, and the issues reserved for subsequent examination, notably in connection with the study of investment company performance, will become clear in the following sections of the chapter.

TABLE III-1.—*Number of funds by asset size and total assets of all funds within size class, December 1952 and September 1958*

Assets (millions)	Number of funds		Total assets (millions)		Percent of total number of funds		Percent of total assets	
	1952	1958	1952	1958	1952	1958	1952	1958
Under $5	73	51	$138.3	$130.0	48.0	27.0	3.5	1.1
$5 and less than $10	17	30	112.8	224.1	11.2	15.9	2.9	1.8
$10 and less than $50	45	56	1,061.1	1,479.4	29.6	29.6	27.1	12.1
$50 and less than $100	9	24	638.5	1,738.6	5.9	12.7	16.3	14.2
$100 and less than $200	4	16	524.6	2,499.2	2.6	8.5	13.4	20.4
$200 and less than $300	2	5	488.0	1,282.4	1.3	2.6	12.5	10.5
$300 and over	2	7	948.0	4,895.4	1.3	3.7	24.2	40.0
Total	152	189	3,911.3	12,249.1	100.0	100.0	100.0	100.0

NOTE.—Columns may not add to totals because of rounding.

TABLE III-2.—*Number of funds by type class and total assets of all funds within type class, December 1952 and September 1958*

Type of fund	Number of funds		Total assets (millions)		Percent of total number of funds		Percent of total assets	
	1952	1958	1952	1958	1952	1958	1952	1958
Foreign security funds	1	9	$23.5	$422.7	0.7	4.8	0.6	3.5
Specialty funds	21	25	218.8	753.9	13.8	13.2	5.6	6.2
Bond and preferred stock funds	13	13	168.9	190.8	8.6	6.9	4.3	1.6
Balanced funds:								
(a) Income	13	15	274.6	612.4	8.6	7.9	7.0	5.0
(b) Growth	4	7	34.8	93.5	2.6	3.7	.9	.8
(c) Mixed	32	34	1,136.3	3,024.2	21.1	18.0	29.1	24.7
All balanced funds	49	56	1,445.7	3,730.2	32.2	29.6	37.0	30.5
Common stock funds:								
(a) Income	12	17	299.1	1,050.6	7.9	9.0	7.7	8.6
(b) Growth	35	46	991.6	3,442.5	23.0	24.3	25.4	28.1
(c) Mixed	21	23	763.6	2,658.4	13.8	12.2	19.5	21.7
All common stock funds	68	86	2,054.3	7,151.5	44.7	45.5	52.5	58.4
All funds	152	189	3,911.3	12,249.1	100.0	100.0	100.0	100.0

NOTE.—Columns may not add to totals because of rounding.

DISTRIBUTIONS OF INVESTMENT FUNDS, 1952 AND 1958

Basic data relative to the distribution of funds by size, as of the initial and final benchmark dates of December 31, 1952 and September 30, 1958, are given in tables III-1 and III-2. These tables, together with other related tables in this chapter, trace the growth of 152 funds included in the universe of the study at December 1952 and 189 funds included as of September 1958. This growth analysis, while it is adequately representative of the trends in the industry as a whole, does not cover the entire investment company population from which questionnaire replies were requested. Five funds were excluded from the growth analysis since no returns were received from them: Minnesota Fund, Inc. (assets as of September 1958 approximately $7 million), Fiduciary Mutual Investing Co., Inc. (assets $7 million), Nucleonics, Chemistry & Electronics Shares, Inc. (assets $3 million), Edson B. Smith Fund (assets $2 million), and Istel Fund, Inc. (assets $14 million). The September 1958 assets of these excluded companies aggregated approximately $33 million, and amounted to only one-quarter of 1 percent of the total assets of the funds included in the analysis.

Tables III-1 and III-2 present the total assets held by all funds within the specified type and size classes as of the indicated dates, 1952 and 1958, respectively. These tables also compare the number of funds in the same type and size class as of the same benchmark dates. The variations in the distributions of assets between 1952 and 1958 are due to the growth in the number of funds of different types during the period, the differential rates of net inflow of new money to both old and new funds in the different type classes, and changes in the market values of portfolio securities.

For purposes of studying the concentration of investment fund assets at 1952 and 1958 respectively, the aggregate data in these tables are presented in the form of Lorenz distributions in charts III–1 through III–3 below.

Table III–1 indicates a heavy concentration of funds in 1952 in the relatively small size classes, though the small number of large funds accounted for a large proportion of the total assets of all funds combined. Only two funds held assets in excess of $300 million in 1952. These two funds represented only 1.3 percent of the number of funds under study but they controlled 24 percent of the assets of the universe at the same date. Similarly, the eight companies whose assets each exceeded $100 million together controlled 50 percent of industry assets.

Between 1952 and 1958, the number of funds with assets in excess of $100 million rose from 8 to 28 and the number whose assets exceeded $300 million increased from 2 to 7. The median fund in asset size was $5.4 million in 1952, but by September 1958 the size of the median fund had almost tripled—increasing to $15.6 million. The number of smaller funds actually decreased between 1952 and 1958 in spite of an increase in the total number of funds. In 1952, 90 funds held assets of less than $10 million, but by 1958 this total had decreased to 81.

Notwithstanding the increase in the number of large funds and the accompanying rise in their average size, no increase occurred in the concentration of industry assets. This conclusion emerges whether the analysis is based on share of assets held by a given number of funds, share held by a given percentage of funds, or the Lorenz curve associated with the latter.

The largest part of the assets of the open-end investment company industry was held, both in 1952 and 1958, by the funds classified in this study as balanced funds and common stock funds, respectively. Each of these types has been further classified into those funds which have announced investment objectives of "income," "growth," or some combination of objectives which implies principally a mixture of "income" and "growth." At December 1952 49 balanced funds, or 32 percent of the total number of funds contained in the universe of this study, held 37 percent of the total assets of all funds combined. At the same date 68 common stock funds, or 45 percent of the total number of funds, held 53 percent of the total assets. By September 1958 the number of balanced funds had grown from 49 to 56, a slight relative decrease to 30 percent of the total number of funds. The assets controlled by these funds, though they expanded from $1,446 to $3,730 million, declined in relative importance in the industry as a whole. Their share of the total assets fell from 37 to 31 percent. The common stock funds enjoyed a more rapid rate of growth between 1952 and 1958. The number of these funds increased from 68 to 86 during the period, increasing their representation in the total number of funds only marginally from 45 to 46 percent. The percentage of total assets controlled by these funds increased, however, from 53 to 58 percent.

The changes in number of funds and proportionate shares of total assets held by each of the three subclasses of funds within the categories of balanced funds and common stock funds respectively can be examined in the same way. The numbers of funds increased in all six cases, the most significant increase being in the common stock funds-growth objective. It is clear that investors' preferences for so-called growth stocks, which expressed itself in rising market values for such securities at various points during this time period, did to some extent spill over into the market for open-end investment company shares. In the subsequent analysis of the funds' proportionate shares in total annual inflows of new money to open-end investment companies it will be seen that the growth stock funds were the only type which increased their share of the total each year throughout the period. Their share of total net inflow to all companies combined rose from 19 percent in 1953 to 36 percent for the first 9 months of 1958. At the same time the total inflow had increased from $462 million in 1953 to an annual rate of $1,572 million for the first 9 months of 1958, a rise of 240 percent. The effect of these movements was to raise the share of growth stock funds in total industry assets from 25 percent in 1952 to 28 percent in 1958.

The assets of foreign security funds, specialty funds, and bond and preferred stock funds did not account for a very large part of the industry's total assets at December 1952 though in terms of the number of funds these three types were much more important. The 35 funds within these categories comprised 23 percent of the total number of funds, but accounted for only 10.5 percent of industry assets. The relative importance of these three types of funds had, in the aggregate, not changed very much by 1958. The percentage of industry assets held in 1958 by funds of these types was only slightly higher at 11.3 percent. The number of such funds had increased from 35 to 47, but as a percentage of all funds in the industry the increase was very small (23 to 25 percent).

Within the grouping of funds in this combined section of the industry, however, important changes had occurred during the period. First, a moderate increase occurred in the number of specialty funds in existence, rising from 21 to 25, and their share of total assets increased from 5.6 to 6.2 percent. Second, a more significant increase occurred in the number of foreign security funds, eight new funds of this type having been established during the period. These are all funds whose portfolios contain principally the securities of Canadian corporations. The assets of these funds grew from $23.5 million in 1952 to $422.7 million in 1958, their share in the total assets of the industry having increased from 0.6 to 3.5 percent.

The bond and preferred stock funds reveal a much more stable picture in absolute dollar terms and a marked decline in importance relative to the industry as a whole. The number of bond and preferred stock funds remained unchanged at 13 during the 1952–58 period. The total assets of these funds increased only slightly from $169 to $191 million. Their proportionate share of total assets of the universe under study declined during the same period from 4.3 to 1.6 percent.

The growth of the common stock funds exhibited in the preceding analysis has been accomplished by their superior market appreciation and relatively higher rates of new money inflow which they attracted at various times during the period. A full analysis of each of these factors of inflow and market appreciation is deferred until a subsequent section of this chapter. But immediately, the principal conclusions can be stated. The share in total net annual inflow to the open-end investment company industry (as measured by the universe

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of the present study) received by balanced funds fell almost without interruption from 46 percent in 1953 to 22 percent in the first 9 months of 1958. Common stock funds, on the other hand, increased their proportionate share annually and without interruption from 48 percent in 1953 to 76 percent in 1958.

CHART III-1

Lorenz Curves
Number of Funds vs. Dollar Assets
Open-end Investment Funds,
All Types, 1952 and 1958

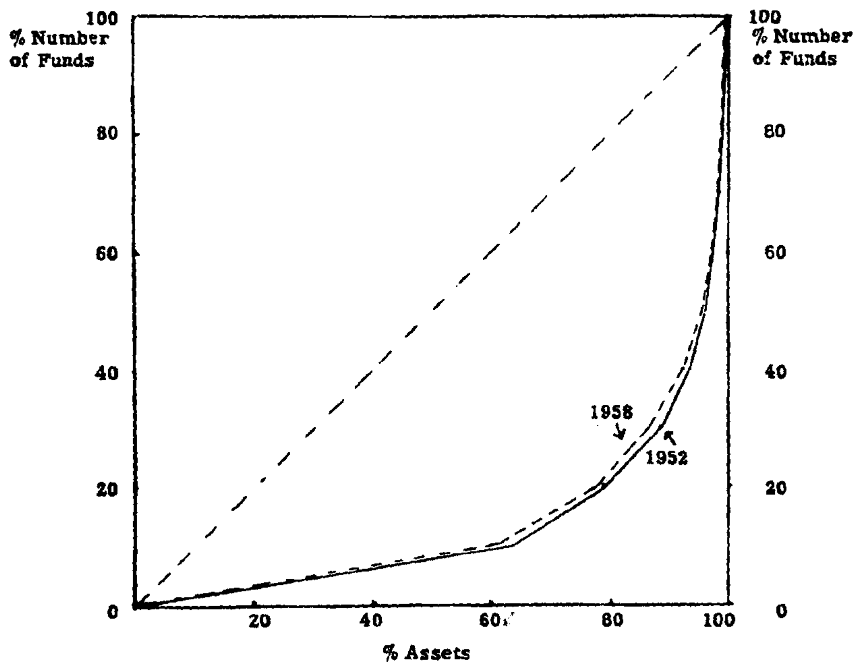


CHART III-2

Lorenz Curves
Number of Funds vs. Dollar Assets
Balanced Funds, 1952 and 1958

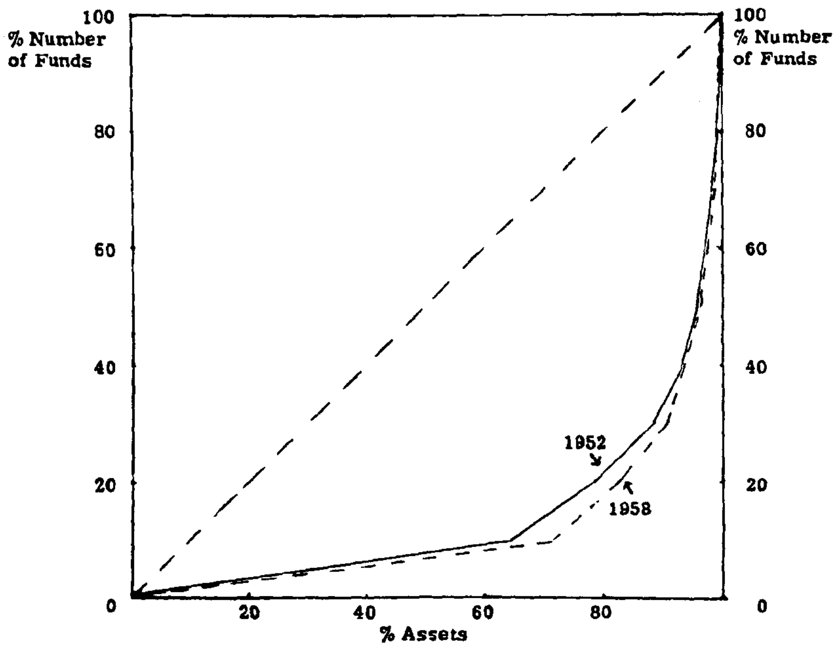
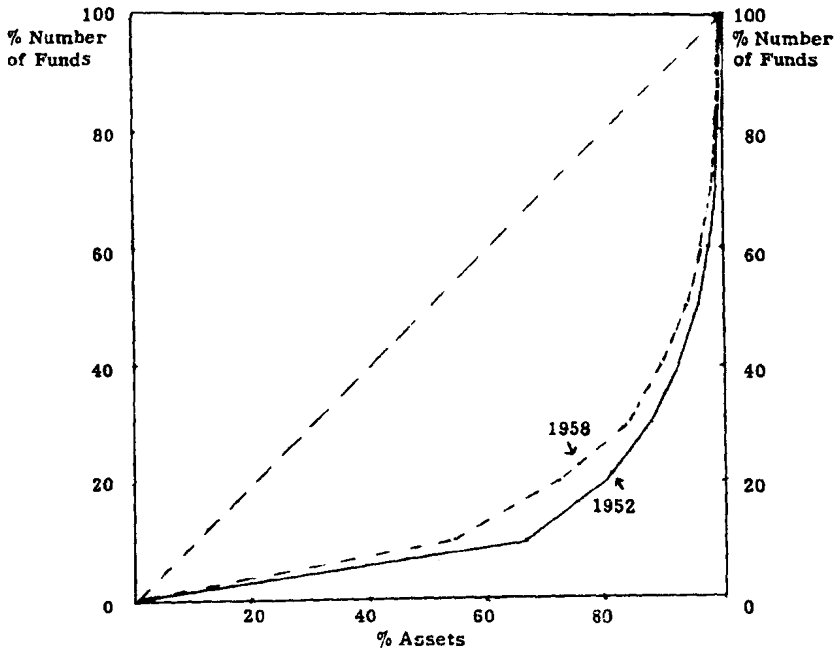


CHART III-3

Lorenz Curves
Number of Funds vs. Dollar Assets
Common Stock Funds, 1952 and 1958



The Lorenz curves of chart III-1 summarize the degree of concentration of assets existing within the industry in 1952 and 1958. The cumulative percentage of total industry assets held is plotted against the cumulative percentage of funds arrayed by asset size. Charts III-2 and III-3 afford comparative views of the concentration of assets within the balanced funds as a class in 1952 and 1958, respectively, and within the common stock funds as a class at the same respective benchmark dates. The industrywide distribution as shown in chart III-1 suggest that the distribution of assets was less uneven, though only slightly so, in 1958 than in 1952. Similarly, charts III-2 and III-3 suggest respectively a more uneven distribution of balanced fund assets in the latter year, and a more even distribution of assets within the common stock fund section of the industry.

The same data are presented in tabular form in table III-3. The marked skewness of these several distributions is emphasized by noting, for example, the share of assets held by the largest 10 percent of the number of funds in each case. In the case of all funds combined, this percentage fell only slightly from the very high figure of 64 percent in 1952 to 61 percent in 1958. The corresponding percentage figures in the case of the balanced funds increased from 64 to 71 percent. The percentage of common stock funds assets held by the largest 10 percent of such funds, on the other hand, fell during the same period from 66 to 54 percent.

These results, pointing as they do to differing degrees of asset concentration, have been produced by several underlying factors. In the first place, funds of different sizes have grown at different rates during this period. Secondly, if changes have occurred in the total number of funds in the industry or in any given type class during the period, a change will have occurred in the number of funds within any given percentage division of the total. A third factor is the relationship between the size of the largest funds at the beginning of the period and the size of the funds formed during the period. The combined effect of these factors has been a decrease in the relative importance of the largest common stock funds, but a slight increase in the relative importance of the largest balanced funds. An increase in concentration is produced when the large funds grow at a higher rate than the small funds and when new funds which are considerably smaller than the leaders enter the industry. A decrease in concentration accompanies the opposite developments.

TABLE III-3.—*Cumulative percentage distribution of open-end investment fund assets, by type of fund, December 1952 and September 1958*

[Percent]

Percent of number of funds	Balanced funds		Common stock funds		All funds	
	1952	1958	1952	1958	1952	1958
10	64.4	71.2	66.4	54.3	63.6	61.0
20	78.9	82.1	80.0	72.1	79.0	78.0
30	88.6	90.3	87.8	83.7	88.2	87.0
40	93.9	93.9	92.6	89.4	93.3	92.4
50	96.0	96.2	95.7	93.7	96.1	95.6
60	97.8	97.6	97.5	96.5	97.7	97.5
70	98.7	98.5	98.7	98.1	98.7	98.6
80	99.4	99.3	99.4	99.2	99.4	99.4
90	99.8	99.8	99.8	99.7	99.8	99.8
100	100.0	100.0	100.0	100.0	100.0	100.0
Total number of funds	49	56	68	86	152	189
Total assets in million dollars	1,445.7	3,730.2	2,054.3	7,151.6	3,911.3	12,249.1

The principal factor responsible for the decrease in concentration of the total industry was the difference in rates of asset growth by size of fund. Inspection of the asset relatives by 1952 size groups reveals a marked inverse relationship: the larger the fund, the smaller the percentage increase in assets during the period. The smallest funds (assets less than $5 million in 1952) increased in total assets by 426 percent during the 5¾ years. The largest funds (assets over $100 million in 1952) increased by only 151 percent. Columns 2 and 3 of table III-4 clearly indicate that this differential was produced by the inflow of new money rather than by changes in the market value of retained securities. The inflow relative declined markedly as size increased.

The decrease in concentration among common stock funds was due to the same factors as caused the decrease in concentration in the total industry. The large common stock funds (assets over $100 million) increased by 128 percent during the 5¾ years, while the small funds (assets less than $5 million) grew by the much larger percentage of 736 percent. The balanced funds, on the other hand, did not reveal this consistent pattern. In this case, the smallest funds again experienced a higher rate of growth (356 percent), than the remaining three size classes, but the largest class grew by a larger percentage (193 percent) than the two intermediate classes (141 percent and 101 percent), thus contributing to a change in concentration contrary to that of the common stock funds. In both the common stock funds and the balanced funds, it was the inflow of new money, rather than changes in market values, that produced these differences in asset growth. The crucial element in growth, thus, has been the ability of the funds to attract a large share of the total annual inflow to the industry. Newer funds of differing kinds emerge to take advantage, presumably, of real or supposed changes in investors' preferences, though their success or failure in attracting these investors is not solely dependent upon such preferences. Sales efforts may have considerable influence in determining the distribution of inflow among the various types of funds. This study will not attempt to isolate the effect of these two forces.

TABLE III-4.—*Growth relatives of open-end investment funds, all funds, balanced funds, and common stock funds, by size of fund, December 1952–September 1958*

Type and size of fund (in millions of dollars)	Asset relative percent	Inflow relative percent	Market relative percent
All funds	313	248	126
Less than $5	526	454	116
$5 and under $25	364	307	119
$25 and under $100	272	216	126
$100 and over	251	186	135
Balanced funds	258	218	118
Less than $5	456	409	111
$5 and under $25	241	214	113
$25 and under $100	201	169	119
$100 and over	293	245	119
Common stock funds	348	264	132
Less than $5	836	722	116
$5 and under $25	519	425	122
$25 and under $100	374	280	114
$100 and over	228	155	147

NOTE.—The size classification in this table is based upon 1952 asset values and includes only those funds whose assets at Sept. 30, 1958, exceeded $1,000,000. This may create a slight upward bias in the asset relative for the smallest size group. The growth relatives for "All funds," "Balanced funds," and "Common stock funds" include all funds included in the present universe, whether in existence in 1952 or not. The growth relatives for each size class include only those funds in continuous existence between 1952 and 1958.

An alternative approach to the measurement of concentration is presented in table III-5. Here the percentage of total assets held by the largest fund, the largest 5 funds, and the largest 10 funds of each type class is considered. These distributions focus attention on the relative importance of a given small number of funds, as opposed to the given percentages of funds as was done in the Lorenz analysis. The principal conclusions are consistent with those of charts III-1 through III-3. The Lorenz distribution depicted in chart III-1 shows a slightly smaller concentration of assets in the hands of any given percentage of large funds in 1958 than in 1952. This is confirmed by the final row of table III-5, which shows that the percentage of industry assets held by the largest fund, the largest 5 funds, and the largest 10 funds fell in each case in 1958 as compared with 1952. The reduction in the percentages of assets held by a given number of funds is greater than is suggested by the Lorenz curve in chart III-1. The principal reason for this difference is the growth in the number of funds.

In the same way, a comparison of the "total balanced fund" data in table III–5 with the corresponding chart III–2, and of the "total common stock fund" figures with chart III–3, reveal similar changes of concentration of assets. The remaining rows of table III–5 are largely self-explanatory, and the most significant is that relating to growth stock funds. In this case the reduction of the percentage figures between 1952 and 1958 is much more marked, consistent with the change in the Lorenz distribution for the common stock funds as a whole, but due, also, to the relatively large increase in the number of growth stock funds, as analyzed earlier in this chapter.

TABLE III–5.—*Percentage of assets of each type class held by largest fund, largest 5 funds, and largest 10 funds, December 1952 and September 1958*

Type of fund	Largest fund		Largest 5 funds		Largest 10 funds	
	1952	1958	1952	1958	1952	1958
Foreign security funds	100.0	38.3	(1)	89.0	(1)	(1)
Specialty funds	31.1	39.6	88.9	86.3	95.7	96.0
Bond and preferred stock funds	25.8	33.3	81.1	87.1	98.2	99.3
Balanced funds:						
(*a*) Income	34.4	30.6	85.1	77.5	99.4	97.6
(*b*) Growth	87.4	72.5	(2)	96.9	(2)	(2)
(*c*) Mixed	38.3	40.3	78.9	81.6	90.9	91.8
Total balanced funds	30.1	32.7	64.4	67.6	78.9	80.3
Common stock funds:						
(*a*) Income	39.9	23.5	95.5	73.2	99.6	92.9
(*b*) Growth	24.4	13.5	70.0	51.4	84.4	75.0
(*c*) Mixed	67.1	48.7	87.9	79.0	95.6	93.2
Total common stock funds	24.9	18.1	56.5	40.6	74.7	57.1
Total all funds	13.1	10.6	40.6	34.4	54.9	46.7

[1] There were 9 foreign security funds in 1958 and only 1 in 1952.
[2] There were 7 balanced funds—growth—in 1958 and only 4 in 1952.

TABLE III–6.—*Value of assets held by largest fund, largest 5 funds, and largest 10 funds of each type class, December 1952 and September 1958*

[In millions of dollars]

Type of fund	Largest fund		Largest 5 funds		Largest 10 funds	
	1952	1958	1952	1958	1952	1958
Foreign security funds	23.5	161.9	(1)	376.3	(1)	(1)
Specialty funds	68.0	298.6	194.5	650.9	209.3	723.7
Bond and preferred stock funds	43.6	63.4	136.9	166.2	165.9	189.4
Balanced funds:						
(*a*) Income	94.5	187.3	233.7	475.5	272.9	597.7
(*b*) Growth	30.4	67.8	(2)	90.7	(2)	(2)
(*c*) Mixed	435.6	1,217.9	896.2	2,468.8	1,033.3	2,775.1
Total balanced funds	435.6	1,217.9	930.4	2,522.2	1,140.6	2,994.2
Common stock funds:						
(*a*) Income	119.4	246.5	285.7	768.6	297.8	975.8
(*b*) Growth	241.8	463.5	694.1	1,770.6	836.8	2,580.6
(*c*) Mixed	512.4	1,295.3	671.3	2,100.5	730.3	2,478.0
Total common stock funds	512.4	1,295.3	1,161.4	2,900.1	1,534.1	4,081.2
Total all funds	512.4	1,295.3	1,586.9	4,211.5	2,147.7	5,723.2

[1] There were 9 foreign security funds in 1958 and only 1 in 1952.
[2] There were 7 balanced funds, (b) Growth, in 1958 and only 4 in 1952.

A third approach to concentration is presented in table III–6. Once again the focus is upon a small number of funds, but the characteristic is now the absolute value of assets held rather than the