U.S. corporate bonds were divided into two classes: "Investment grade" (Moody's Baa or Standard & Poor's B1+ or better, or the equivalent) and "other." In 1952 approximately the same amount was held in each type, 4 percent in investment grade and 3.5 percent in "other." In 1958 the ratio between them was over 2:1 in favor of investment grade, the two classes accounting for about 4½ percent and 2 percent of net assets, respectively. Throughout the period there was a gradual decrease in the relative importance of the "other" category. The investment grade bonds increased in relative importance, but not in a smooth pattern. Between 1952 and 1955 a decrease occurred in the percentage of assets held in both grades of bonds, but the period 1955–57 saw an increase in the percentage held in investment grade to a high point of 5.9 percent. By September 1958 the figure had dropped back to 4.7 percent. These movements maintained a fairly steady percentage of assets in U.S. corporate bonds as a whole, at the same time as a shift occurred toward investment grade within the bond section.

The investment company industry, therefore, has invested its assets primarily in corporate securities, principally those of U.S. corporations. In 1958 some 93.0 percent of assets was held in corporate securities, and U.S. corporate issues accounted for 87.9 percent. The total proportion of assets held in corporate issues was remarkably constant for the period under study (92.4 percent in 1952, 93.7 in 1955, and 93.4 in 1957) and the U.S. corporate figure showed only a slight drop from 90.6 percent in 1952.

The increase in the holdings of foreign common stocks was accomplished in two stages. The percentage of assets held in Canadian stocks doubled between 1952 and 1955, from 1.8 percent to 3.6 percent, but it grew much less rapidly between 1955 and 1958, rising by only a further small amount to 3.9 percent. Holdings in non-Canadian foreign common stocks, on the other hand, have grown appreciably throughout the period of study. In December 1952 these holdings were very small (0.04 percent of assets) and were still small in September 1958 (1.18 percent of assets), but the growth continued between 1955 and 1958, though the growth in holdings of Canadian stocks had by that time slackened.

Holdings of U.S. Government securities remained in the 3- to 3½-percent range for all four benchmark dates, but there were shifts within the maturity distributions of the Government portfolio. Between 1955 and 1957 there was a large absolute decrease in the holdings of both long-term and intermediate governments, although on balance market prices were only slightly lower at the later date. By September 1958, though the decline in prices of long-term governments had regained momentum, there had been a reversal of investment fund holdings toward the longer maturities.

TABLE IV–5a.—*Distribution of net assets of open-end investment funds, by type of asset, all funds, December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$104,360	2.67	$162,731	2.03	$182,538	2.03	$210,056	1.72
Near cash	45,749	1.17	97,029	1.21	118,882	1.32	250,591	2.06
U.S. Government securities:								
(i) Maturing under 1 year	61,523	1.57	106,504	1.33	176,436	1.96	178,214	1.46
(ii) Maturing 1 to 5 years	11,643	.30	64,562	.81	61,669	.69	137,028	1.12
(iii) Maturing after 5 years	64,382	1.65	98,859	1.24	43,898	.49	110,803	.91
Total U.S. governments [1]	138,232	3.54	270,628	3.38	282,503	3.15	426,044	3.50
Total liquid items	288,341	7.38	530,387	6.63	583,924	6.50	886,691	7.28
Less liabilities	36,559	.94	126,442	1.58	107,016	1.19	164,853	1.35
Net liquid position	251,782	6.45	403,946	5.05	465,908	5.31	721,839	5.92
State and municipal bonds	968	.02	18,543	.23	17,358	.19	17,983	.15
Foreign government bonds	32,251	.83	59,761	.75	46,055	.51	56,973	.47
Canadian corporate bonds	9,302	.24	18,150	.23	36,506	.41	38,450	.32
Non-Canadian foreign corporate bonds	493	.01	1,273	.02	8,333	.09	11,099	.09
Canadian preferred stocks	1,451	.04	1,670	.02	6,286	.07	5,083	.04
Non-Canadian foreign preferred stocks	227	.01	506	.01	369	.00	788	.01
Canadian common stocks	70,143	1.80	290,011	3.64	375,416	4.18	480,496	3.94
Non-Canadian foreign stocks	1,551	.04	38,789	.48	72,700	.81	144,042	1.18
Total foreign securities	115,418	2.95	411,160	5.14	545,667	6.08	736,930	6.05
U.S. corporate bonds:								
(i) Investment grade	155,047	3.97	269,728	3.37	529,977	5.90	569,082	4.67
(ii) Other	135,197	3.46	180,073	2.25	197,542	2.20	247,987	2.04
Total U.S. corporate bonds	290,244	7.43	449,801	5.62	727,519	8.10	817,069	6.71
U.S. preferred stocks	329,059	8.42	510,638	6.38	503,046	5.60	622,268	5.11
U.S. common stocks	2,918,650	74.71	6,206,378	77.57	6,707,894	74.71	9,268,903	76.06
Total U.S. corporates	3,537,953	90.57	7,166,817	89.57	7,938,458	88.41	10,708,240	88.88
Other assets	350	.01	713	.01	628	.01	585	0
Total net assets	3,906,471	100.00	8,001,179	100.00	8,979,019	100.00	12,185,578	100.00

[1] Sum of (i), (ii), and (iii) may not equal "Total U.S. Governments" as the distribution of U.S. Governments by maturity dates was not presented by all funds.

TABLE IV–5b.—*Distribution of net assets of open-end investment funds, by type of asset, funds with net assets less than $10,000,000,*[1] *December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$4,195	2.91	$6,213	2.77	$8,907	3.56	$12,130	3.49
Total U.S. governments	21,334	14.78	17,865	7.98	20,215	8.08	16,571	4.77
Net liquid position	24,636	17.07	24,819	11.08	27,999	11.19	26,459	7.62
State and municipal bonds	41	.03	99	.04	3,907	1.56	4,818	1.39
Canadian common stocks	1,016	.70	3,714	1.66	5,153	2.06	8,182	2.36
Total foreign securities	4,306	2.98	9,376	4.19	11,161	4.46	15,587	4.49
U.S. corporate bonds:								
(i) Investment grade	15,326	10.62	19,917	8.89	20,575	8.22	25,811	7.43
(ii) Other	18,688	12.95	17,976	8.02	15,873	6.34	20,370	5.87
Total U.S. corporate bonds	34,014	23.57	37,893	16.91	36,447	14.56	46,182	13.30
U.S. preferred stocks	9,992	6.92	18,648	8.33	16,137	6.45	18,139	5.22
U.S. common stocks	71,315	49.41	133,100	59.42	154,340	61.66	235,892	67.93
Total U.S. corporates	115,321	79.90	189,641	84.66	206,925	82.67	300,213	86.45
Total net assets	144,327	100.00	224,001	100.00	250,316	100.00	347,275	100.00

[1] Assets as of September 1958.

TABLE IV–5c.—*Distribution of net assets of open-end investment funds, by type of asset, funds with net assets $10,000,000 and less than $50,000,000,*[1] *December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$20,395	4.27	$29,908	3.09	$37,650	3.44	$44,212	3.07
Total U.S. governments	36,228	7.59	48,416	5.00	36,396	3.32	45,205	3.14
Net liquid position	52,352	10.96	74,688	7.71	72,854	6.65	90,749	6.31
State and municipal bonds	---------	---------	50	.01	425	.04	439	.03
Canadian common stocks	19,776	4.14	67,133	6.93	66,274	6.05	78,582	5.46
Total foreign securities	37,403	7.83	93,939	9.70	105,359	9.62	129,681	9.02
U.S. corporate bonds:								
(i) Investment grade	35,409	7.41	42,607	4.40	60,742	5.55	64,224	4.47
(ii) Other	48,992	10.26	57,192	5.91	51,740	4.73	61,409	4.27
Total U.S. corporate bonds	84,401	17.67	99,799	10.31	112,482	10.27	125,633	8.74
U.S. preferred stocks	43,711	9.15	78,378	8.09	74,176	6.77	86,700	6.03
U.S. common stocks	259,452	54.32	620,846	64.12	729,340	66.62	1,004,676	69.86
Total U.S. corporates	387,565	81.15	799,023	82.52	915,999	83.66	1,217,009	84.62
Total net assets	477,611	100.00	968,274	100.00	1,094,857	100.00	1,438,177	100.00

[1] Assets as of September 1958.

TABLE IV–5d.—*Distribution of net assets of open-end investment funds, by type of asset, funds with net assets $50,000,000 and less than $300,000,000,*[1] *December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$51,155	3.27	$78,073	2.28	$89,603	2.31	$95,672	1.74
Total U.S. Governments	56,768	3.63	98,315	2.87	124,441	3.20	246,096	4.48
Net liquid position	118,029	7.55	176,330	5.14	231,274	5.95	425,831	7.76
State and municipal bonds			1,021	.03	1,178	.03	1,852	.03
Canadian common stocks	29,987	1.92	189,935	5.54	274,215	7.06	360,062	6.56
Total foreign securities	45,770	2.93	264,524	7.71	348,551	8.97	472,502	8.61
U.S. corporate bonds:								
(i) Investment grade	57,359	3.67	85,627	2.50	158,267	4.07	194,787	3.55
(ii) Other	52,801	3.38	88,226	2.57	110,620	2.85	148,908	2.71
Total U.S. corporate bonds	110,160	7.05	173,852	5.07	268,886	6.92	343,694	6.26
U.S. preferred stocks	120,287	7.70	170,435	4.97	157,332	4.05	195,824	3.57
U.S. common stocks	1,168,611	74.77	2,643,913	77.08	2,877,465	74.07	4,050,665	73.78
Total U.S. corporates	1,399,058	89.52	2,988,200	87.12	3,303,683	85.04	4,590,183	83.60
Total net assets	1,562,891	100.00	3,430,148	100.00	3,884,770	100.00	5,490,432	100.00

[1] Assets as of September 1958.

TABLE IV–5e.—*Distribution of net assets of open-end investment funds, by type of asset, funds with net assets over $300,000,000,*[1] *December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$28,615	1.66	$48,536	1.44	$46,378	1.24	$58,042	1.18
Total U.S. governments	23,902	1.39	106,031	3.14	101,451	2.71	118,171	2.41
Net liquid position	56,765	3.30	128,109	3.79	144,781	3.86	178,799	3.64
State and municipal bonds	927	.05	17,373	.51	11,847	.31	10,874	.22
Canadian common stocks	19,363	1.12	30,230	.89	29,774	.79	33,670	.69
Total foreign securities	27,939	1.62	43,320	1.28	80,596	2.15	119,161	2.43
U.S. corporate bonds:								
(i) Investment grade	46,954	2.73	121,578	3.60	290,393	7.75	284,260	5.79
(ii) Other	14,715	.85	16,679	.49	19,310	.52	17,300	.35
Total U.S. corporate bonds	61,669	3.58	138,257	4.09	309,703	8.26	301,560	6.14
U.S. preferred stocks	155,069	9.01	243,177	7.20	255,401	6.81	321,605	6.55
U.S. common stocks	1,419,272	82.44	2,808,519	83.12	2,946,748	78.60	3,977,669	81.02
Total U.S. corporates	1,636,010	95.03	3,189,953	94.41	3,511,852	93.67	4,600,835	93.71
Total net assets	1,721,641	100.00	3,378,755	100.00	3,749,077	100.00	4,909,694	100.00

[1] Assets as of September 1958.

TABLE IV-6a.—*Distribution of net assets of open-end investment funds, by type of asset, all balanced funds, December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$35, 773	2. 48	$49, 240	1. 84	$43, 736	1. 47	$46, 561	1. 25
Total U.S. Governments	79, 244	5. 49	127, 408	4. 77	107, 057	3. 60	150, 673	4. 04
Net liquid position	119, 937	8. 31	173, 638	6. 50	152, 652	5. 13	190, 165	5. 10
State and municipal bonds	968	. 07	18, 543	. 69	13, 556	. 46	12, 697	. 34
Canadian common stocks	10, 578	. 73	21, 875	. 82	21, 209	. 71	26, 856	. 72
Total foreign securities	28, 327	1. 96	48, 410	1. 81	83, 838	2. 82	107, 517	2. 88
U.S. corporate bonds:								
(i) Investment grade	131, 260	9. 10	237, 901	8. 90	454, 848	15. 28	465, 864	12. 50
(ii) Other	34, 848	2. 42	53, 644	2. 01	69, 960	2. 35	84, 233	2. 26
Total U.S. corporate bonds	166, 108	11. 51	291, 544	10. 91	524, 807	17. 64	550, 097	14. 76
U.S. preferred stocks	289, 139	20. 04	445, 188	16. 66	429, 492	14. 43	517, 798	13. 89
U.S. common stocks	838, 063	58. 08	1, 693, 894	63. 40	1, 771, 311	59. 52	2, 348, 590	63. 01
Total U.S. corporates	1, 293, 310	89. 63	2, 430, 625	90. 97	2, 725, 611	91. 59	3, 416, 486	91. 66
Total net assets	1, 442, 869	100. 00	2, 671, 776	100. 00	2, 975, 869	100. 00	3, 727, 156	100. 00

TABLE IV-6b.—*Distribution of net assets of open-end investment funds, by type of asset, all common stock funds, December 1952–September 1958*

Type of asset	December 1952		December 1955		December 1957		September 1958	
	Thousands	Percent	Thousands	Percent	Thousands	Percent	Thousands	Percent
Cash	$62, 296	3. 03	$99, 701	2. 31	$119, 470	2. 42	$145, 239	2. 04
Total U.S. Governments	46, 132	2. 25	121, 809	2. 82	166, 444	3. 38	268, 313	3. 76
Net liquid position	110, 714	5. 39	192, 991	4. 46	293, 487	5. 95	502, 042	7. 04
State and municipal bonds					226		916	. 01
Canadian common stocks	44, 455	2. 16	78, 385	1. 81	68, 340	1. 39	90, 589	1. 27
Total foreign securities	45, 843	2. 23	98, 833	2. 28	117, 723	2. 39	202, 190	2. 84
U.S. corporate bonds:								
(i) Investment grade	2, 223	. 11	14, 321	. 33	60, 585	1. 23	87, 563	1. 23
(ii) Other	6, 583	. 32	7, 518	. 17	29, 430	. 60	49, 954	. 70
Total U.S. corporate bonds	8, 806	. 43	21, 839	. 50	90, 015	1. 83	137, 517	1. 93
U.S. preferred stocks	19, 706	. 96	28, 344	. 66	40, 246	. 82	65, 134	. 91
U.S. common stocks	1, 868, 281	90. 99	3, 983, 253	92. 09	4, 387, 059	89. 00	6, 220, 556	87. 26
Total U.S. corporates	1, 896, 793	92. 37	4, 033, 436	93. 25	4, 517, 320	91. 64	6, 423, 207	90. 10
Total net assets	2, 053, 372	100. 00	4, 325, 412	100. 00	4, 929, 155	100. 00	7, 128, 647	100. 00

The foregoing analysis of the percentage distribution of fund portfolios is supplemented by the value data in tables IV-5a through IV-5e and IV-6a and IV-6b. The data underline the fact that throughout the period under study the investment funds were faced with the task of investing a rapidly expanding total of assets in such a way as to achieve a desired portfolio distribution.[5] The total investment in U.S. common stocks, for example, remained at about 75 percent of total net assets at each of the four benchmark dates, but the total value of such holdings grew by 217 percent during the period, from $2.9 to $9.3 billion. At the earlier date these holdings amounted to approximately 2½ percent of the market value of all

[5] See ch. III for an analysis of the differential rates of growth of funds of different type throughout this period, and for a separation in each case of the effect of new money inflows from the net sales of own shares and the changes in market values of portfolio securities.

stocks listed on the New York Stock Exchange, while in 1958 the corresponding percentage figure had increased to almost 4 percent.[6] Similarly, the total holdings of U.S. corporate bonds increased by 182 percent during the period from $290 to $817 million. In this case again, the percentage of total assets placed in corporate bonds had been fairly stable. The most prominent increase in percentage share of assets already referred to was in foreign securities. Holdings of Canadian common stocks, for example, increased by 586 percent from $70 to $480 million, and non-Canadian foreign stocks grew even more spectacularly from $1.6 to $144 million. During the period under study the total net assets of the funds included in the analysis of table IV–5a expanded by 213 percent. It emerges, then, that the rate of expansion in U.S. common stock holdings approximated the rate of expansion of total assets, the expansion of corporate bond investment fell slightly below this rate, and the holdings of foreign investments expanded by many times the rate of expansion of total assets.

PORTFOLIO DISTRIBUTIONS BY SIZES OF FUNDS

The portfolio data in tables IV–1 through IV–4 and tables IV–5b through IV–5c exhibit also the percentage distributions of assets of funds of varying sizes, and the actual dollar values of the principal classes of investments. The smaller funds in general maintained a larger proportionate defensive position throughout the period studied. If a certain minimum size of dollar investment is required in cash, near cash, bonds, or any other categories of senior securities, it will force the smaller funds to devote a greater percentage of their resources to these items than the larger funds hold in the same forms. It is difficult to separate this factor from a discretionary decision to take a defensive position.

The figures on net liquid position reveal the differences by size most clearly. The largest size group of all funds combined (net assets of $300 million and over) had the lowest percentage liquidity at each of the four benchmark dates. For each of the first three dates (1952, 1955, and 1957) there was a continuous reduction in the percentage liquidity as size increased.[7] In 1952 the relevant percentage declined from 17.1 percent for funds in the smallest size class (those whose assets were less than $10 million as of September 30, 1958) to 3.3 percent for funds in the largest size class. In each of the 2 years 1955 and 1957 the corresponding decline in liquidity percentage was from approximately 11 percent to approximately 4 percent. In 1958 much the same relationship was observed, with the exception that funds of the third size class (those whose assets as of September 1958 were between $50 and $300 million) were maintaining a higher net liquid position, due to a relatively higher position in U.S. Government securities. These funds had increased the percentage of assets held in Government securities during the first 9 months of 1958, while the remaining three size classes of funds held a relatively lower Government securities position in September 1958 than they had held at the end of 1957.

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[6] These figures correspond closely with the New York Stock Exchange estimate (New York Stock Exchange Fact Book, 1959) which show open-end investment company holdings of stocks listed on that market as 1.8 percent of the total value of all such stock listings in 1949 and 3.7 percent in 1958.

[7] The size classification is based on September 1958 assets, but is a fairly good division by size for the other dates.

With the passage of time the smallest funds have decreased their relative liquidity. This is to some extent related to the diminishing relative liquidity requirements as funds grow in size. Those with assets under $10 million in September 1958 had a liquidity ratio of 17 percent in 1952, but only 7½ percent in 1958. The next size group ($10 million and under $50 million) started at 11 percent in 1952 and dropped to a range of approximately 6½ to 7½ percent for each of the other three dates. The seven largest funds have maintained a ratio of between 3 and 4 percent and the net liquid position of the next largest group ($50 million and under $300 million) has remained between 5 and 8 percent.

In view of this negative relation between investment fund size and the proportionate liquidity position, an analysis was made to test the hypothesis that the high liquidity of the small funds was due to the formation of new funds. Liquidity would be dependent on the age of the fund if the managers of newly formed funds held fairly large amounts of cash, near-cash, and Government securities while they were awaiting favorable opportunities to establish more permanent portfolio positions. It appears from data summarized in table IV–7, however, that relative liquidity is not closely related to the age of the fund. The table divides those funds which held assets of less than $10 million as of December 1955, for example, into funds formed during the preceding 3 years (the first 3 years of the present study period) and those which had been formed prior to 1952. The relative liquidity positions of the two subclasses of funds were very similar on a weighted basis, and a slightly lower liquidity ratio was observed for the recently formed funds when the comparison was based on the unweighted arithmetic means. A similar comparison for 1957 does not show any clear relation between liquidity and age of fund. The most recently formed funds had high liquidity ratios in 1957, but the data do not reveal a continuous progression based upon age.

TABLE IV–7.—*Percentage liquidity position of small funds,*[1] *1955 and 1957*

	Weighted average liquidity of funds in group	Unweighted mean liquidity of funds in group
1. 1955:		
(a) Funds formed prior to 1952	6.6	6.0
(b) Funds formed between 1952 and 1955	7.0	4.5
2. 1957:		
(a) Funds formed prior to 1952	11.1	8.2
(b) Funds formed between 1952 and 1955	3.0	3.2
(c) Funds formed between 1955 and 1957	9.6	12.2

[1] Funds having assets of less than $10,000,000 as of the benchmark dates.

U.S. corporate bond holdings reveal the same general pattern as the liquidity positions. The smaller funds have kept a larger percentage of their assets in bonds, but the difference between the small and large funds has diminished. In 1952, the smallest funds had 23.6 percent of their assets in U.S. corporate bonds and the largest funds had only 3.6 percent. By 1958, the smallest funds had decreased their bond holdings to 13.3 percent of their assets and the largest funds had increased their holdings to 6.1 percent. This negative relation between investment fund size and corporate bond holdings as a percentage of net assets holds continuously at each benchmark date except 1957. The relationship is broken at that date because the seven large funds already referred to as comprising the largest size class (assets of $300 million and over) had by December 1957 taken a relatively larger defensive position than previously in corporate bonds. Little change had occurred in their holdings of "other" grade bonds, but their "investment grade" position, at 7.8 percent of net assets, was more than twice as large as it had been at the preceding benchmark date of December 1955. This relatively high defensive position had been relaxed slightly by September 1958 and the normal negative relationship of bond position to investment fund size had been reestablished. This relationship is due partly to the fact that the bond funds fall into the smaller classes, but the size distinctions also appear, to a lesser extent, among funds of the same type. If attention is centered on the balanced funds as a whole, for example, the negative relationship already adduced holds almost continuously, apart from the same exception as previously in the case of 1957. Here again the investment grade bond position of the largest size class of funds had almost doubled between the benchmark dates of December 1955 and 1957. And similarly, this relative defensive position was allowed to run off between the end of 1957 and the final benchmark date of September 1958.[8]

These conclusions raise the question, of course, whether these large funds' portfolio changes were related in any "ideal" or "optimum" fashion to changing market and economic conditions. The stock market had experienced fairly volatile conditions between December 1955 and December 1957 and at the latter date it had not yet begun the firm upward movement which was to take the market averages up by something like one-third by the end of the following year. A closer analysis of the investment funds' market trading will be made later in this chapter, but it does appear that on the broader view here presented the balanced funds revealed a more defensive position associated with the market instability of 1957 and a return to the stock market in the firm advance of 1958. Tables IV–2, IV–3, and IV–4 indicate the variations in the bond and stock percentages of portfolio during these periods, and table IV–6a reveals the changes in the dollar values of holdings. Another view of the balanced funds' portfolio changes can be seen in table IV–6a. Between December 1955 and December 1957 the total balanced fund assets increased by 11.4 percent, due partly to new money inflows as analyzed in chapter III, as well as to net changes in security prices. The bond portfolio increased by the considerably higher amount of 80 percent, however, and the stock portfolio grew by the lower amount of 4.6 percent. Between December 1957 and September 1958, on the other hand, total assets expanded by 25.3 percent, while the bond investment expanded at the slower rate of 4.8 percent and stock holdings by the larger rate of 32.6 percent. This change in portfolio distribution during the first 9 months of 1958 was due partly to changes in market prices, but it appears to have been due also to deliberate portfolio decisions.

It will be seen from the tables here under discussion, particularly tables IV–1 through IV–4 and IV–6b, that the common stock funds

[8] There were only two balanced funds with assets greater than $300 million and both announced a mixed investment objective.

have not in general maintained a significantly large position in senior corporate securities. But for them also the net liquidity positions and bond positions tend to be negatively related to investment fund size, though this relationship is broken in several instances by the relatively large defensive position of the second largest size class of funds. It is noteworthy, however, that in December 1957 and September 1958 rather stronger corporate bond positions had been established by the common stock funds, though the movement was not shared by the funds in the largest size class of this group (five common stock funds were eligible for inclusion in this size class for purposes of the present study). It is observable that while the largest balanced funds were bolstering their defensive security positions noticeably in 1957, as already indicated, the largest common stock funds were improving their net liquidity positions.

The seven largest funds place less relative importance on foreign securities than the other funds. It is true that the funds specializing in foreign securities are small, but within the common stock funds also the larger funds tend to place relatively less importance on foreign securities.

The complement of the foregoing differences in portfolio distributions in relation to the size of fund is that the larger funds give greater relative weight to U.S. common stocks. The disparity by size was much less in 1958 than in 1952, but it was still 67.9 percent for the smallest versus 81 percent for the largest. In 1952 the figures were 49.4 percent for the smallest and 82.4 percent for the largest. It should be remembered when considering such a general conclusion as this that at the final benchmark date of the study the common stock funds accounted for approximately three-fifths of the total assets of the investment fund industry, and were almost twice as large as the assets of all balanced funds combined ($7.2 and $3.7 billion, respectively). Furthermore, the more rapid rate of growth, in terms of new money inflow as well as market appreciation, was enjoyed by the common stock funds. These expanded their asset totals by 248 percent between 1952 and 1958, while the balanced funds grew by the rather slower rate of 158 percent.

PORTFOLIO DISTRIBUTIONS BY TYPES OF FUNDS

Many of the differences of portfolio distributions among the funds are the result of differences in announced investment objectives. Common stock funds naturally have a greater portion of their assets in U.S. common stocks than do balanced funds. Foreign security funds as expected have most of their assets in foreign, predominantly Canadian, securities. Another obvious difference is found in bondholdings: bond and preferred stock funds have a much larger portion of their assets in this category.

Common stock funds held 87.3 percent of their assets, or $6.2 billion, in U.S. common stocks in September 1958. This represents a slight decrease from the 91.0 percent of 1952, but there were no pronounced relative increases in other types of assets during the 5¾ years. Funds of this type were rather liquid in September 1958 with a net liquid position of 7.0 percent. This was a higher figure than that of the other benchmark dates, and was the highest of any type fund on the terminal date of the study. Other assets of the common stock funds were quite small with 2.8 percent in foreign securities, 1.9 percent in U.S. corporate bonds, and 0.9 percent in U.S. preferreds. This portfolio pattern was adhered to fairly generally among the various type and size classes of funds within the general common stock fund section. Tables IV–1 through IV–4 reveal a fairly uniform pattern among those funds announcing respectively the investment objective of "income," "growth," or a "mixed" objective. The principal exception to the pattern is in connection with the funds' holdings of foreign securities. In the case of the growth funds the percentage of assets placed in these securities was higher at each of the four benchmark dates than it was for the remaining types of common stock funds.

Balanced funds held 63 percent of their assets in U.S. common stocks in September 1958. U.S. corporate bonds and preferreds accounted for an additional 14.8 percent and 13.9 percent, respectively. The remaining portion was distributed 5.1 percent to net liquidity and 2.9 percent to foreign securities. The changes between 1952 and 1958 were not extremely large, but there was a shift from liquidity and preferred stock holdings to U.S. common stocks and investment grade bonds. The percentage of assets held in preferred stocks was decreased from 20 percent, a drop of 6 percentage points, and net liquidity was reduced by approximately 3 percentage points from 8.3 percent to 5.1 percent, U.S. common stock holdings were increased from 58.1 percent to 63 percent, and investment grade bonds were increased by over 3 percentage points from 9.1 percent of assets to 12.5 percent. The rise in foreign holdings was less than 1 percentage point. Some indication of the general changes in structure of balanced fund portfolios was given in the preceding section when reference was made to the market swings between 1955 and 1957 and during the first 9 months of 1958. The same general movement appears now in the various type and size classes of the balanced fund section as a whole. A stronger defensive position at the end of 1957 gave way to a heavier stock investment by September 1958. Once again, however, as in the case of the common stock funds, the balanced funds which announced an investment objective of "growth" held a much higher percentage of their assets in foreign securities at each of the benchmark dates than did the remaining funds. In 1957 and 1958 slightly more than 7 percent of the "growth" balanced fund assets was held in these securities.

Bond and preferred stock funds held 63.2 percent of their assets in U.S. corporate bonds and almost 19.5 percent in preferred stocks in September 1958. Foreign government security holdings accounted for an additional 10.4 percent of assets while 2.3 percent was in State and municipal securities. Both of these figures were considerably higher than the comparable percentages for any other type of fund. The net liquidity percentage of bond and preferred stock funds in 1958 was only 2.9 percent and U.S. governments accounted for only 1.4 percent of assets. During the period covered by the study the number of bond and preferred stock funds remained unchanged at 13 and these funds attracted a diminishing share of the total net inflow of new money to the investment fund industry. In 1957 they experienced a small net outflow. The managers of these funds were confronted as a result with the task of redistributing a fairly constant level of total security values. The assets of the bond and preferred stock funds increased only from $169 million to $191 million between 1952 and 1958. The principal portfolio changes effected during the period were a reduction of bond holdings from 67.5 percent of assets to 63.2 percent, an increase of preferred stock holdings from 11.3 percent to 19.5 percent, a reduction of foreign government holdings from 12.9 percent to 10.4 percent, and a reduction of liquidity, accounted for principally by a consistent reduction of the government securities position, from 7.4 percent of assets to 2.9 percent. The State and municipal securities did not appear in the portfolios until after the end of 1955.

Bond and preferred stock funds do not stress the holding of investment grade bonds. Only 6.8 percent of their assets was invested in this form in September 1958, and "other" grade bonds accounted for 56.5 percent of assets. This division of the bond portfolio had been adhered to fairly consistently throughout the period under study, with a tendency for the significance of the "other" grade bonds to increase relatively to the investment grade securities. At September 1958 the "other" grade bonds accounted for 89.3 percent of the total U.S. corporate bond holdings, while the corresponding percentages at the 1952, 1955, and 1957 benchmark dates had been 81.4 percent, 87.4 percent, and 87.8 percent, respectively. This division also is in marked contrast to that of funds of other types, where investment grade securities are emphasized within the bond sections of the portfolios. The division for balanced funds, for example, was rather better than 5:1 (12.5 percent of assets against 2.3 percent) in favor of the investment grade in September 1958. Bond holdings by other types of funds were quite small, but the decided preference for "other" grade bonds was found only among the bond and preferred stock funds. The balanced funds were actually committing a larger portion of their assets to investment grade bonds than were bond and preferred stock funds, although the latter had a far greater portion of their assets in bonds of both classifications combined.

Specialty funds and foreign security funds are unique types of funds. The specialty funds held a very high proportion of their assets in U.S. common stocks throughout the period, between 92.5 percent and 95.5 percent at each of the four benchmark dates. Three and two-tenths percent of their assets was in foreign common stocks in 1958, representing an increase of over 2 percentage points since 1952.

The foreign security funds held 97.4 percent of their assets in foreign securities in 1958. In 1952 the figure had been only 70.7 percent, with 6.5 percent in cash and 23.0 percent in U.S. common stocks. Apparently this was an initial and temporary condition. During the period of study, cash was reduced to 2.5 percent and U.S. common stocks were almost completely liquidated. The position in September 1958 seems to be in keeping with the funds' announced investment objective. A further shift between 1952 and 1958 was that from 10.9 to 2.4 percent of assets in foreign government securities.

These differences of portfolio distributions among the various types of funds are mainly those that could be inferred from the differing announced investment objectives. The stress of the bond and preferred stock funds on "other" grade U.S. corporate bonds rather than investment grade is a possible exception. This emphasis within the bond section would seem to indicate a strong desire for income or possibly capital gains, rather than safety. An alternative interpreta-