relative share. The potential market significance of investment funds of different types (as distinct from their actual impact shown by portfolio turnover, money inflows, and trading techniques) depends upon their absolute holdings of assets and on the forms in which these holdings are distributed throughout their portfolios. Between 1952 and 1958 the total assets of the largest 10 funds increased by $3,576 million or 166 percent. Regardless of trading activity, this change brings a large increase in the potential impact of these funds. An examination of differences between balanced funds and common stock funds again emphasizes the more rapid increase in importance of the latter.

AVERAGE SIZES OF FUNDS

The foregoing analysis has instanced in various ways the marked skewness existing within the size distribution of funds in the investment company industry and its various type classes. The impression is gained of a large number of small and medium sized funds, and a small number of very large funds which control a large proportion of the assets of the industry. Before investigating this skewness further, a study of the average size of the funds is in order. Because of the marked skewness, the discussion will be based on the median size, but the arithmetic mean and the size of the largest fund for each type of fund at nine dates are also presented in table III–7.

TABLE III-7.—*Net assets of largest fund, arithmetic mean, and median by type of fund, 1952 through 1958*

[In millions of dollars]

Type of fund	December 1952	December 1953	December 1954	December 1955	December 1956	June 1957	December 1957	June 1958	September 1958	Percent increase, 1952–58
Foreign security funds:										
Largest	23.5	23.9	54.6	64.3	107.7	105.2	120.4	146.7	161.9	589.1
Arithmetic mean	23.5	23.9	20.5	32.6	39.1	47.5	36.4	43.3	47.0	100.0
Median	23.5	23.9	16.2	31.5	27.8	31.3	22.8	25.2	26.4	12.4
Specialty funds:										
Largest	68.0	87.6	157.0	215.5	211.9	243.0	223.9	272.5	298.6	339.3
Arithmetic mean	10.4	10.7	17.3	22.8	23.7	26.4	23.5	27.2	30.2	189.4
Median	1.5	1.3	2.0	2.7	2.9	2.8	2.7	3.2	3.6	140.4
Bond and preferred stock funds:										
Largest	43.6	43.5	56.8	66.2	63.8	63.7	55.3	60.7	63.4	45.4
Arithmetic mean	13.0	12.7	15.2	16.3	15.2	14.7	13.3	14.2	14.7	12.9
Median	6.4	6.4	6.7	6.6	6.0	5.8	4.8	5.0	4.8	[1] (24.0)
Balanced funds:										
(*a*) Income:										
Largest	94.5	102.0	141.4	165.3	174.5	180.3	161.8	180.2	187.3	98.2
Arithmetic mean	21.1	21.9	27.9	32.6	35.4	37.2	31.7	37.4	40.8	93.3
Median	11.7	16.4	14.1	23.6	17.3	26.7	25.6	27.6	27.1	131.6
(*b*) Growth:										
Largest	30.4	32.3	41.4	49.8	53.7	57.9	55.8	64.0	67.8	123.1
Arithmetic mean	8.7	9.2	11.9	15.3	12.6	13.4	12.6	14.4	13.4	53.7
Median	1.6	1.7	2.6	4.8	4.0	4.7	4.6	5.5	3.5	116.7
(*c*) Mixed:										
Largest	435.6	512.1	732.2	890.2	1,005.2	1,052.5	992.1	1,151.2	1,217.9	179.6
Arithmetic mean	35.5	38.5	54.0	65.2	71.5	75.5	71.2	82.7	88.9	150.5
Median	6.4	6.6	7.5	10.6	10.0	10.2	11.1	11.1	11.8	83.9
All balanced funds:										
Largest	435.6	512.1	732.2	890.2	1,005.2	1,052.5	992.1	1,151.2	1,217.9	179.6
Arithmetic mean	29.5	31.9	43.5	51.6	55.6	58.7	54.0	62.9	66.6	125.8
Median	6.4	7.1	6.3	9.5	10.0	10.2	8.1	9.0	9.6	50.6
Common stock funds:										
(*a*) Income:										
Largest	119.4	120.7	170.2	201.9	213.3	219.0	199.5	229.8	246.5	106.4
Arithmetic mean	24.9	23.8	37.5	45.5	51.7	51.6	45.3	55.2	61.8	148.0
Median	3.9	5.5	12.9	28.8	23.6	22.7	20.6	26.2	29.1	644.3
(*b*) Growth:										
Largest	241.8	250.8	311.5	349.7	372.2	406.6	347.6	418.5	463.5	91.7
Arithmetic mean	28.3	29.2	42.4	53.4	60.9	63.4	54.5	65.2	74.8	164.2
Median	9.5	8.1	11.8	17.4	15.6	17.8	15.2	20.6	25.2	164.4
(*c*) Mixed:										
Largest	512.4	522.4	791.1	957.5	1,098.6	1,156.0	976.1	1,149.8	1,295.3	152.8
Arithmetic mean	36.4	37.9	57.2	72.2	86.3	92.0	80.1	102.2	115.7	218.1
Median	6.6	7.1	10.7	15.0	21.7	22.4	21.0	31.7	38.6	486.4

[1] Parentheses indicate decrease.

TABLE III-7.—*Net assets of largest fund, arithmetic mean, and median by type of fund, 1952 through 1958*—Continued

[In millions of dollars]

Type of fund	December 1952	December 1953	December 1954	December 1955	December 1956	June 1957	December 1957	June 1958	September 1958	Percent increase, 1952-58
All common stock funds:										
Largest	512.4	522.4	791.1	957.5	1,098.6	1,156.0	976.1	1,149.8	1,295.3	152.8
Arithmetic mean	30.2	30.7	45.8	57.1	66.2	68.7	59.5	73.1	83.2	175.3
Median	5.9	6.2	11.8	16.1	20.4	19.5	16.5	23.7	28.0	376.2
All funds:										
Largest	512.4	522.4	791.1	957.5	1,098.6	1,156.0	922.1	1,151.2	1,295.3	152.8
Arithmetic mean	25.7	26.7	37.8	46.4	52.0	55.0	48.6	58.5	64.8	151.9
Median	5.4	5.3	8.9	13.3	13.2	14.3	13.0	14.3	15.6	190.9

The median size in 1952 was only $5.4 million. During the ensuing 5¾ years, the median increased by 191 percent to $15.6 million. These are total industry figures which obscure rather substantial differences among types. Many of the conclusions with respect to medians may appear similar to the previous findings with respect to total assets held by all funds within the various categories. It should be noted, however, that the focus is different. Here the average size of fund within a type class is considered. The previous discussion examined the total assets of all funds in each of the various type classes. The conclusions are similar because those classes which have grown in size have done so in two ways: (*a*) The number of funds included in the type class has increased; and (*b*) the average size of such funds has also increased.

The medians for all common stock funds and for each subgroup within the common stock class were above $25 million in 1958. At the same date only two other groups—foreign security funds and balanced income funds—had medians of this magnitude. The arithmetic means of the common stock group were approximately double that of these other two groups. This relationship is in sharp contrast to that of 1952. At that point in time there was much less dispersion among the medians of the various type classes, and the medians for the common stock funds were slightly below those of the other types.

The growth of balanced funds failed to keep pace with that of the common stock funds. The median for the balanced funds was comparable with that of the other types at $6.4 million in 1952, but increased by only 50 percent between then and September 1958. Bond and preferred stock funds fared even worse. The median in this case fell by 24 percent during this period. Specialty funds have shown a steady increase during the period, but they are still relatively small.

The degree of skewness can be examined by comparing the median and arithmetic mean in each of the several cases. An additional statistic which is useful in this examination is the size of the largest fund within each group. The size distribution of the investment company industry as a whole, and the comparable distributions of the various type of funds reveal the same general pattern. In each case the median size is considerably smaller than the mean, and the median is a small fraction of the size of the largest fund of the same type. These relationships show the very pronounced positive skewness throughout the industry.

The annual changes in data can be gathered from the table and are summarized for the period as a whole in the final column, in the form of percentage increases 1952 through 1958. This final column affords a further view of the effects of the sizes of funds on the concentration of assets within the industry, as discussed in the preceding section of this chapter. The data confirm the impressions of changing concentrations exhibited in charts III–1 through III–3. The median expanded by 191 percent during the 6-year period, or by more than the mean or the maximum value, which increased by 152 percent and 153 percent, respectively. This suggests a moderate reduction in the degree of skewness in the size distribution of funds, a feature confirmed by the relevant Lorenz distribution of chart III–1 above.

In the case of all balanced funds combined, the maximum value expanded during the period by 180 percent, while the mean expanded by only 126 percent and the median by the considerably smaller rate of 51 percent. This relationship suggests an increase in the skewness of the size distribution of balanced funds, a characteristic confirmed by the Lorenz distribution of chart III–2. This pattern of change was not exhibited by each of the three types of balanced funds, though the large group of such funds pursuing a mixed investment objective—over 60 percent of the number of balanced funds—did show sufficiently marked changes in this direction to establish the trend for the type class as a whole. The balanced funds which announce an income objective did not exhibit the same degree of skewness as the mixed funds and had the effect of moderating the tendency toward an increased skewness in the size distributions in the balanced fund section as a whole. The balanced funds which have announced an investment objective of growth account for a very small part of the total industry—four funds in 1952 and seven in 1958—and do not contribute very much to the shape of the distribution of all balanced funds.

The common stock fund section of the industry, whose more dynamic and more consistent growth has been noted already, exhibits again a more consistent pattern of change. While the size of the largest common stock fund increased by 153 percent during the 1952–58 period, the arithmetic mean increased by the larger amount of 175 percent, and the median expanded by the considerably greater rate of 376 percent. The implied suggestion of a reduction in the degree of skewness is confirmed again in chart III–3. The uniformity of this pattern of change is noteworthy, and each of the three types of common stock funds participated in the same trend of changing size. In each case the expansion of the mean was greater than that of the largest value, while an even greater percentage increase occurred for the median. The increase in median size was particularly large in the income common stock funds, 644 percent, and in the numerically more important mixed objective funds, 486 percent. The growth common stock funds increased both their mean and median size by 164 percent, while the maximum value of this type grew by only 92 percent.

CHANGES IN OPEN-END INVESTMENT FUND ASSETS BETWEEN 1952 AND 1958

Against the background of the foregoing analysis, this section will examine in more detail the annual changes in the structure of the industry between December 31, 1952, and September 30, 1958, from the viewpoint of both the number of funds and total net assets. The basic distributions of funds in 1952 and 1958 and the overall changes in these distributions over this period have been discussed earlier in the chapter.

TABLE III–8.—*Total net assets of all funds within each type class as percentage of Dec. 31, 1952, assets (stated benchmark dates through Sept. 30, 1958)*

Type of fund	December 1953	December 1954	December 1955	December 1956	June 1957	December 1957	June 1958	September 1958
Foreign security funds	101.6	697.4	1,108.9	1,496.2	1,818.2	1,393.0	1,657.0	1,799.3
Specialty funds	107.6	174.0	260.1	271.4	301.4	269.0	311.1	344.6
Bond and preferred stock funds	98.0	117.0	125.8	116.9	113.1	102.1	109.2	112.9
Balanced funds:								
(*a*) Income	103.6	142.0	166.3	180.7	189.6	172.9	204.5	223.0
(*b*) Growth	105.8	137.3	220.3	217.8	230.7	217.4	247.8	269.0
(*c*) Mixed	111.9	156.7	189.3	213.8	225.9	213.0	247.6	266.1
All balanced funds	110.2	153.4	185.7	207.6	219.1	205.5	239.4	258.0
Common stock funds:								
(*a*) Income	111.3	188.3	243.1	276.7	293.3	257.4	313.9	351.3
(*b*) Growth	103.1	158.1	204.2	245.5	268.6	236.5	302.6	347.2
(*c*) Mixed	104.2	164.8	208.0	248.6	265.2	230.5	307.8	348.1
All common stock funds	104.6	165.0	211.3	251.2	270.9	237.3	306.2	348.1
All funds	106.6	162.4	206.3	237.9	255.9	228.4	281.4	313.2

TABLE III–9.—*Total net assets of all funds within each type class as percentage of assets at preceding benchmark date (stated benchmark dates Dec. 31, 1952, through Sept. 30, 1958)*

Type of fund	December 1953	December 1954	December 1955	December 1956	June 1957	December 1957	June 1958	September 1958
Foreign security funds	101.6	686.1	159.0	134.9	121.5	76.6	119.0	108.6
Specialty funds	107.6	161.7	149.5	104.3	111.1	89.3	115.7	110.8
Bond and preferred stock funds	98.0	119.3	107.5	93.0	96.7	90.3	107.0	103.4
Balanced funds:								
(*a*) Income	103.6	137.1	117.1	108.6	105.0	91.2	118.3	109.1
(*b*) Growth	105.8	129.7	160.4	98.9	113.4	94.2	114.0	108.6
(*c*) Mixed	111.9	140.0	120.8	112.9	105.7	94.3	116.2	107.5
All balanced funds	110.2	139.2	121.0	111.8	105.5	93.8	116.5	107.8
Common stock funds:								
(*a*) Income	111.3	169.1	129.1	113.8	106.0	87.8	121.9	112.0
(*b*) Growth	103.1	153.6	129.2	120.2	109.4	88.1	128.0	114.7
(*c*) Mixed	104.2	158.2	126.2	119.5	106.7	87.0	113.5	113.1
All common stock funds	104.6	157.7	128.1	118.9	107.9	87.6	129.0	113.7
All funds	106.6	152.4	127.0	115.3	107.6	89.3	123.2	111.3

Significant differences in the rates of growth of the various types of funds at varying times during the 1952–58 period can be observed in tables III–8 and III–9. Table III–8 indicates the percentage relation between the total value of assets controlled by funds of each type on the various dates indicated, and the corresponding amount of assets held on December 31, 1952. Thus the assets of all funds combined at September 1958 amounted to 313.2 percent of their value at December 1952. Table III–9 indicates the percentage relationship between the assets of a type class at any given date and the corresponding value of assets on the last preceding benchmark date. Thus the assets of all funds combined at September 1958 amounted to 111.3 percent of their value at June 1958. These data reveal marked differences in growth among time periods and also indicate that there have been pronounced differences among the various types of funds.

A rapid expansion of asset values during the 1954–55 appreciation of stock market values is apparent. For the universe as a whole, asset values expanded by 52 percent during 1954, followed by a rise of 27 percent in 1955. In 1954 there had been an increase of 12 in the number of funds in operation, including the increase of seven in the foreign security funds to which attention was drawn earlier. In 1955 a further increase of six occurred in the total number of funds, accounted for by the three new specialty funds, two common stock funds, and one balanced fund. After these 2 years the annual rate of growth in the number of funds slackened, though, as will be seen immediately below, the annual rate of inflow of new money continued to increase.

Against the background of rising security market values, therefore, are to be placed both an increase in the rate of formation of new funds and an increased annual rate of purchases of investment fund shares. It is noteworthy that investors' preferences placed some emphasis on the foreign security and specialty funds in this dynamic market period. But equally significant is the continued increase in industry asset values in 1956, a year in which security market values recorded only a fractional increase. The Dow-Jones industrial average at the end of 1956, at 499.47, was only 11 points, or 2.27 percent, above its level at the end of the preceding year, though wide variations of values had occurred during the intervening 12 months. During 1956 the assets of all funds included in table III-9 increased by 15 percent, confirming that in the presence of fluctuating security values an impetus to investment company growth continued, due to the continued high money inflows to the industry.

The fluctuation in security market values between 1956 and the final benchmark date of September 1958 are delineated more fully in an appendix to chapter IV and the wide swings in 1957 and the rising market in 1958 are highlighted. During the three semiannual periods following December 1956 the combined assets of all funds rose by 8 percent, declined by 11 percent, and rose by 23 percent. This performance is to be set against wide variations in market values, the major swings in which coincide roughly with the first and second halves of 1957. In total, the assets of all funds combined were about 4 percent lower at December 1957 than at the beginning of the year, though the market, as measured by the Dow-Jones industrial average, showed a larger decline of approximately 11 percent.

The combination of inflow and market value effects permitted the common stock funds as a group to expand asset values more rapidly than the balanced funds in the years 1954, 1955, and 1956. In the first of these years common stock fund assets increased by 58 percent against a balanced fund increase of 39 percent, and in 1955 the increases amounted in the same order to 28 and 21 percent. During the more widely fluctuating market conditions of 1956, the balanced funds recorded an overall increase of 12 percent while common stock funds realized a growth for the year of 19 percent. As might be expected again from the differing kinds of portfolios held, the common stock fund assets declined more seriously in the downswing of the second half of 1957, falling by 12 percent as compared with a decline of 6 percent for balanced funds. During the upswing to June 1958, however, and again during the quickening market advance in the third quarter of the same year, the common stock funds outpaced all of the other types.

As a summary view of the rates of asset expansion of funds of various types, table III-10 presents a distribution of the rates of asset growth of the 152 funds which were in continuous existence during the period covered by this study. The median rate occurred in the 100- to 200-percent class for all funds combined. The median for balanced funds was 123 percent as contrasted to 283 percent for common stock funds. Ten common stock funds and 1 balanced fund expanded during the period by more than 800 percent, while 13 other common stock funds and 5 balanced funds expanded by between 400 and 800 percent. This relatively large expansion of common stock funds is already implicit in the foregoing discussion. Six of the common stock funds whose asset expansion exceeded 800 percent had announced investment objectives of "growth."

TABLE III-10.—*Distribution of open-end investment funds, by percentage growth in net assets, December 1952 through Sept. 30, 1958*

Percent growth in assets	Number of funds											
	Foreign security funds	Specialty funds	Bond and preferred stock funds	Balanced funds				Common stock funds				Total, all funds
				Income	Growth	Mixed	Total	Income	Growth	Mixed	Total	
Less than 0		5	7	1		2	3					15
0 and less than 100	1	8	6	4	2	9	15		5	4	9	39
100 and less than 200		1		6	1	11	18	4	8	4	16	35
200 and less than 300		3				4	4	4	2	5	11	18
300 and less than 400		2			1	2	3	1	6	2	9	14
400 and less than 500		1				1	1		2	2	4	6
500 and less than 600		1							2		2	3
600 and less than 700						1	1		3		3	4
700 and less than 800				1		2	3		1	3	4	7
800 and over				1			1	3	6	1	10	11
Total	1	21	13	13	4	32	49	12	35	21	68	152

MONEY INFLOWS TO INVESTMENT FUNDS AND MARKET APPRECIATION

Preparatory to a more detailed analysis of the annual distribution of new money inflows to the investment company industry, the two tables in this section compare the annual changes in asset values with annual rates of money inflow, and isolate the contribution of unrealized changes in market values. Data on changes in new money inflows to investment funds and changes in total asset values are shown in table III–11.

TABLE III–11.—*New money inflows to investment funds, 1953–September 1958*

Year	Net inflow (millions of dollars)	Inflow as percentage of assets at end of preceding year	Annual percentage increase (+) or decrease (−) in total assets
1953	462	12	+7
1954	672	16	+52
1955	972	15	+27
1956	1,159	14	+15
1957	1,195	13	−4
1958 (9 months)	1,179	13	+37

The inflow figures refer to the total net sales of investment fund shares, including reinvestment of dividend income and capital gains distributions, but excluding those additions to total assets which certain funds reported as resulting from their absorption of the assets of other investment companies or personal holding companies. The inflow figures, therefore, can be taken as net money acquisitions by investment funds, provided reinvestments are regarded as involving actual exchanges of cash between the investment fund and its shareholders. It is known that in some cases such reinvestments do not involve actual cash transfers.[3]

The initial comparisons contained in table III–11 reveal clearly again the manner in which asset values were affected to marked degrees by the investment market upswing in 1954 and 1955, the downswing in 1957, and the upward movement again in 1958. These changes were superimposed, however, on an increasingly high rate of inflow of new money, which expanded from $462 million in 1953 to an annual rate of $1,572 million in 1958. The annual inflow throughout this period averaged approximately 14 percent of the increasingly high asset base of the industry, and was remarkably stable, varying between a low of 12 percent and a high of 16 percent.

[3] It should be noted that consistently throughout this study the net inflow of new money to the funds has been defined to include reinvestments of both income dividends and capital gains distributions. These, therefore, are reflected in the inflow relatives. An alternative procedure would have been to include only reinvested income dividends in the inflow relative, and to include reinvested capital gains, along with unrealized capital gains, in the market relative. Data were not uniformly available from the funds to permit this to be done. In any event, the treatment of reinvested capital gains employed in this study appears to be preferable, for it acknowledges the discretionary authority over the reinvestment enjoyed by the shareholder.

TABLE III–12.—*Growth relatives, by type of fund, December 1952–September 1958*

Type of fund	Asset relative percent	Inflow relative percent	Market relative percent
Foreign security funds	1,799	1,508	119
Specialty funds	319	241	132
Bond and preferred stock funds	113	127	89
Balanced funds:			
(a) Income	223	195	114
(b) Growth	269	241	112
(c) Mixed	266	223	119
Total balanced funds	258	218	118
Common stock funds:			
(a) Income	351	285	123
(b) Growth	346	266	130
(c) Mixed	348	255	137
Total common stock funds	348	264	132
Total all funds	313	248	126

NOTE.—The asset figures forming the basis of this table have been adjusted to exclude the 10 funds which failed to supply inflow data (see note 2, table III–13). The inflow relative in this case has been defined to include the effects on assets values of all factors other than changes in portfolio security prices. These include, therefore, not only the reinvestment of all types of distributions to shareholders as referred to previously, but also the small amount of increase in asset values resulting from the absorption by funds in the present universe of the assets of other investment or personal holding companies. It was noted at the beginning of this chapter that the increase in assets from this source during the period amounted to the relatively small figure of $100,000,000, or only about 1.8 percent of the total cash inflow from net sales of the investment funds' own shares.

The changes in asset valuation during the 5¾ years covered by the study are examined in more detail in table III–12. New inflow to the industry was sufficient to produce an increase in assets of 148 percent, while unrealized market appreciation was responsible for an additional increase of 26 percent. The two factors combined yielded an overall increase in assets of 212 percent. As in other analyses, differences were again observed between common stock funds and balanced funds. The common stock funds as a whole and each of the three types of such funds experienced markedly greater increases than those of the corresponding classes of balanced funds. This was not due simply to the greater volatility of the market prices of portfolio securities in the case of common stock funds. The inflow relatives for all types of common stock funds, as well as the market relatives and asset relatives, were larger than those for any of the types of balanced funds. In making these broad comparisons, however, it should be recognized that the market relative for the period as a whole will be dependent not only upon the general portfolio and trading policies of the respective funds, but also upon the timing of inflows to the funds. An analysis will, therefore, be given in the next section of this chapter of the differential rates of inflow during the period.

The distribution of changes in asset values (all of which are quoted in table III–12 at market values) between the effects of new money inflow on the one hand and market appreciation on the other will be affected by varying management policies in relation to the realization and distribution to shareholders of the appreciation of book values existing in the funds' portfolios. A fund which realized at any given date, distributed, and received again as reinvestment all its available capital gain, would by that means show the same overall increase in asset values (ignoring the effects of capital gains tax) as a fund with