

In 1956-57 (table IV-75) the funds' turnover rate exceeded that of the market in only 13 of the 30 stocks.⁴⁸ Among these, fairly high fund turnover rates were recorded for Westinghouse (24.5 percent), American Telephone & Telegraph (16.1 percent) and Kennecott Copper (15.8 percent). In four other stocks (Gulf Oil, International Business Machines, Phillips Petroleum and Socony Mobil), the fund turnover rate was in excess of 10 percent. In only two instances did the turnover rate for the largest funds exceed 10 percent: Westinghouse Electric, 19.8 percent, and Socony Mobil, 11.4 percent. The last mentioned stock, moreover, was the only one in which the largest funds' turnover rate in 1956-57 exceeded the corresponding rate for all funds combined, but the margin of difference was only about one-half of 1 percentage point.⁴⁹ In only six of the instances in which the combined funds' turnover rate exceeded the market rate was the largest funds' rate also larger than that of the market: American Telephone & Telegraph, a stock very actively traded by the funds in both 1956-57 and 1958 periods, General Electric, General Motors, Shell Oil, Socony Mobil and Westinghouse Electric.

In 1958 (table IV-76) the funds' aggregate turnover rate for the 30 stocks combined exceeded the corresponding rate for the market by a larger margin than in the 1956-57 period. This again reflects the earlier conclusions that the funds' turnover rates for total portfolio had climbed further above the corresponding market rate in 1958 than had been the case earlier in the period under study. In the present instance 21 of the 30 stocks showed a higher turnover rate in the funds' portfolios in 1958 than they did in the market as a whole. The highest rate recorded by the funds was for American Telephone & Telegraph, 24.3 percent, and this was followed closely by Union Carbide at 24.1 percent. The funds showed turnover rates in excess of 15 percent for five other stocks, Atchison Topeka & Santa Fe, General Electric, National Lead, Socony Mobil, and Westinghouse Electric, and the rates for three other stocks exceeded 10 percent.

In 11 of the 30 stocks, therefore, the funds' turnover rates were higher than the corresponding market rate in both the 1956-57 and 1958 periods: American Telephone & Telegraph, du Pont, General Electric, General Motors, Gulf Oil, Phillips Petroleum, Shell Oil, Socony Mobil, Standard Oil (New Jersey), Union Carbide, and Westinghouse Electric. Of these 11 stocks with consistently high turnover rates, only four were among the highest 10 in the ranking of the funds' holdings of these 30 stocks in dollar value as of September 1958: Standard Oil (New Jersey), Gulf Oil, General Motors, and American Telephone & Telegraph ranking 4th, 6th, 9th, and 10th, respectively.⁵⁰

In 1958 the turnover rates of the largest funds were again consistently below those for all funds combined, with the exception of General Public Utilities, where the rate for these funds was approximately twice the corresponding market rate, and Union Carbide, in which the largest funds' trading was heavy relative to their holdings, to attain a turnover rate of 32.6 percent, some seven times the corresponding market rate.

⁴⁸ The higher combined turnover rate for the investment funds was produced by relatively high rates in those stocks having considerable total market values while the New York Stock Exchange rates were rather low for these securities.

⁴⁹ Heavy holdings by these larger funds in the 30 stocks make the generation of high turnover rates more difficult for them than it would be for funds without such heavy holdings.

⁵⁰ Six of these 11 stocks were included in the highest 10 ranks among the sample 30 stocks when ranked by total market values of all listed shares. These six stocks included those occupying the first five ranks.

It was found that in one case in 1956-57 and in 12 cases in 1958 the turnover rate for all of the largest funds combined was equal to zero. This resulted from the fact that in these cases the largest funds either had no portfolio transactions in the stocks covered, or had purchases or sales respectively without the offsetting portfolio action necessary to complete a turnover in the stocks. In eight of the 30 stocks the alternative formula for all funds combined gave negative turnover rates for the reasons adduced earlier in this section. No such results were obtained from the alternative formula in 1958, and in that year some very high turnover rates under this formula were recorded. The American Telephone & Telegraph stock recorded a rate of 56.6 percent (table IV-76), National Lead 25.5 percent, and Union Carbide 24.2 percent. In each of the first two cases high turnover rates were recorded by the normal formula used in this analysis, but the alternative formula recorded even higher rates owing to the weighting effect of high purchase and sale activity in the stocks. It was explained earlier that such activity, however, need not constitute part of genuine turnover operations. It was found that in the 1958 period the funds had purchased American Telephone & Telegraph stock very heavily and had sold large quantities of National Lead stock. Both formulas yielded high rates for Union Carbide because both purchases and sales were high during the period.

VOLUME OF INVESTMENT FUNDS' PORTFOLIO ACTIVITY JANUARY 1953
THROUGH SEPTEMBER 1958

The investment funds' portfolio activity during the 5¼ years covered by the present study is analyzed in this section in terms of the volume of purchases and sales effected during designated time periods, and in terms of the relations between changes in portfolio operations and changes in stock market volumes and price levels.⁵¹

TABLE IV-77.—Open-end investment fund portfolio transactions, January 1953 to September 1958

[In millions of dollars]

Date	Purchases			Sales			Net purchases		
	Pre-ferred stocks	Com-mon stocks	All se-curities	Pre-ferred stocks	Com-mon stocks	All se-curities	Pre-ferred stocks	Com-mon stocks	All se-curities
1953—January.....	8.0	72.6	114.6	3.4	39.7	72.8	4.6	32.9	41.8
February.....	9.5	64.4	102.1	2.6	29.3	53.9	6.8	35.1	48.2
March.....	11.1	77.6	109.0	4.8	44.1	64.5	6.3	33.5	44.5
April.....	7.8	60.9	100.0	3.7	23.5	71.1	4.1	37.4	28.9
May.....	13.1	50.2	96.2	3.1	30.1	55.0	10.0	20.1	41.2
June.....	3.2	46.0	87.7	1.8	23.0	50.6	1.4	23.0	37.1
July.....	4.1	45.4	74.6	4.1	33.0	58.8	—1	12.4	15.9
August.....	2.6	51.7	90.8	2.0	30.2	64.9	1.0	21.6	25.8
September.....	7.9	42.4	85.1	2.0	20.7	52.2	5.9	21.7	32.9
October.....	6.0	51.8	89.6	4.5	40.5	87.2	1.5	11.3	2.4
November.....	6.8	51.2	91.3	3.6	37.6	68.3	3.2	13.6	23.1
December.....	7.2	54.6	97.8	3.6	38.9	74.3	3.5	15.7	23.5
1955—July.....	11.9	101.6	169.8	6.0	79.2	113.3	6.0	22.4	56.5
August.....	6.4	103.1	190.9	6.2	62.7	118.7	3	40.4	72.2
September.....	12.5	99.5	194.3	7.7	71.9	132.5	4.7	27.6	61.8
October.....	10.9	93.4	175.2	4.4	53.6	125.7	6.5	39.8	49.5
November.....	11.3	92.6	208.9	8.0	54.7	133.8	3.3	37.8	75.1
December.....	6.3	90.3	166.2	3.9	54.3	136.0	2.4	36.0	30.1

⁵¹ The analysis in this section relates to the portfolio operations of 185 funds in existence as of September 1958. This number is four funds less than those included in the growth analysis in ch. III of this report. The funds excluded owing to the unavailability of data were all very small funds and their combined net assets as of the final benchmark date of the study amounted to less than \$2,000,000.

TABLE IV-77.—Open-end investment fund portfolio transactions, January 1953 to September 1958—Continued

[In millions of dollars]

Date	Purchases			Sales			Net purchases		
	Pre-ferred stocks	Com-mon stocks	All se-curities	Pre-ferred stocks	Com-mon stocks	All se-curities	Pre-ferred stocks	Com-mon stocks	All se-curities
1956—January	6.7	139.7	196.7	5.1	87.0	138.8	1.5	52.7	57.9
February	21.4	125.3	238.3	6.3	87.0	162.0	15.1	38.3	76.3
March	13.8	160.7	253.9	10.9	103.4	193.4	2.9	57.3	60.5
April	6.8	155.8	261.9	9.6	100.4	183.4	-2.8	55.4	78.5
May	13.3	172.0	246.6	6.6	99.7	154.4	6.8	72.3	92.2
June	12.1	132.5	207.5	5.9	79.9	146.1	6.2	52.7	61.4
July	7.7	133.6	205.0	5.2	92.3	138.8	2.5	41.2	66.2
August	10.9	137.6	229.0	5.1	116.6	158.7	5.8	20.9	70.2
September	6.5	119.9	232.5	2.0	68.7	113.9	4.5	51.2	118.6
October	14.9	98.6	179.4	5.0	76.0	132.8	9.9	22.6	46.6
November	7.8	106.4	180.5	3.9	59.7	120.8	3.8	46.7	59.7
December	4.5	106.5	211.9	6.0	70.2	160.0	-1.5	36.3	51.9
1957—January	6.9	148.9	268.2	3.8	103.9	170.4	3.1	45.0	97.7
February	3.2	147.1	241.3	4.6	77.2	157.1	-1.4	69.8	84.2
March	10.0	127.1	246.3	2.7	79.4	161.9	7.3	47.6	84.4
April	5.6	160.7	247.1	4.2	86.7	162.0	1.4	74.0	85.1
May	5.8	159.4	238.8	3.1	110.7	170.6	2.7	48.6	68.2
June	8.1	152.4	265.1	4.7	108.4	179.3	3.5	44.0	85.8
July	5.5	173.3	309.3	2.8	119.3	226.4	2.7	54.0	82.9
August	8.6	162.8	293.4	3.4	75.8	185.0	5.2	87.0	108.4
September	6.2	139.2	251.0	4.5	51.1	143.2	1.7	88.0	107.8
October	11.4	149.6	268.6	2.2	67.5	221.6	9.2	82.1	47.0
November	4.2	112.0	219.2	3.0	64.1	152.9	1.3	47.8	66.3
December	3.1	105.5	202.7	1.7	61.1	160.9	1.5	44.4	41.8
1958—January	6.0	105.2	214.8	2.7	120.1	187.4	3.3	-14.9	27.4
February	10.5	145.6	303.9	2.0	80.6	219.7	8.5	65.0	84.3
March	9.9	145.6	244.6	1.7	104.9	162.0	8.2	40.7	82.7
April	15.0	140.2	246.5	3.6	113.2	196.8	11.3	27.1	49.7
May	22.9	182.8	312.1	4.7	111.3	197.7	18.2	71.5	114.4
June	19.2	219.3	511.0	7.8	122.5	237.0	11.5	96.8	274.0
July	15.1	310.0	573.3	5.3	116.2	329.1	9.8	193.8	244.3
August	4.0	237.8	384.2	9.9	138.7	292.3	-5.9	99.1	92.0
September	18.2	270.5	443.6	6.5	170.2	362.9	11.7	100.4	80.7

SUMMARY

1953—1st quarter	28.6	214.7	325.7	10.9	113.2	191.2	17.7	101.5	134.5
2d quarter	24.1	157.2	283.9	8.6	76.7	176.7	15.5	80.5	107.2
3d quarter	14.5	139.5	250.5	8.0	83.8	175.9	6.5	55.7	74.6
4th quarter	20.0	157.7	278.8	11.7	117.1	229.8	8.3	40.6	49.0
Year	87.2	669.1	1,139.0	39.2	390.8	773.6	48.0	278.3	365.3
1954—Year	135.3	1,114.6	1,836.6	73.2	737.5	1,282.3	62.1	337.0	554.3
1955—1st half	88.5	714.4	1,174.1	53.8	448.2	743.1	34.7	226.2	431.1
2d half	30.8	304.2	555.0	19.8	213.8	304.5	11.0	90.4	190.5
4th quarter	28.5	276.2	550.3	16.3	162.6	395.5	12.2	113.6	154.8
Year	147.8	1,294.8	2,279.4	89.9	824.6	1,503.1	57.9	470.3	776.4
1956—1st quarter	41.8	425.8	688.9	22.3	277.4	494.2	19.6	148.4	194.8
2d quarter	32.2	460.4	716.0	22.1	280.0	483.8	10.1	180.4	232.1
3d quarter	25.1	391.1	666.5	12.3	277.7	411.4	12.8	113.4	255.1
4th quarter	27.2	311.5	571.8	15.0	205.9	413.6	12.3	105.7	153.2
Year	126.4	1,588.8	2,643.2	71.7	1,040.9	1,803.1	54.7	547.9	840.2
1957—1st quarter	20.1	423.0	755.9	11.0	260.6	489.5	9.0	162.5	266.3
2d quarter	19.5	472.5	751.1	12.0	305.8	511.9	7.5	166.6	239.1
3d quarter	20.3	475.3	853.7	10.7	246.3	554.6	9.6	229.0	299.1
4th quarter	18.7	367.0	690.6	6.8	192.7	535.5	11.9	174.3	155.1
Year	78.6	1,737.8	3,051.2	40.5	1,005.4	2,091.6	38.1	732.5	959.6
1958—1st quarter	26.5	396.4	763.4	6.4	305.6	569.0	20.0	90.7	194.3
2d quarter	57.1	542.3	1,069.7	16.1	346.9	631.5	41.0	195.4	433.2
3d quarter	37.4	818.3	1,401.2	21.8	425.0	984.3	15.6	393.3	416.9
9 months	120.9	1,757.0	3,434.2	44.2	1,077.6	2,184.8	76.7	679.4	1,049.4
Total, 69 months	696.2	8,162.2	14,183.7	358.7	5,076.8	9,638.4	337.5	3,085.4	4,545.3

The expansion in the scale of portfolio trading is indicated in table IV-77. Between 1953 and 1957 the total annual value of security purchases expanded by 168 percent from \$1,139 to \$3,051.2 million, and security sales rose by 170 percent from \$773.6 to \$2,091.6 million. Net portfolio purchases thus increased by 163 percent from \$365.3 to \$959.6 million. In common stock transactions, also, annual sales volumes rose as rapidly as purchases during the study period (by 157 and 160 percent, respectively), giving rise to an increase of approximately 163 percent in annual net common stock purchases between 1953 and 1957. The general rise in portfolio activity continued throughout the first 9 months of 1958, and net purchases of securities, at \$1,049.4 million, were some 30 percent higher than in the first 9 months of the preceding year. Net purchases of common stocks during the same three-quarters of 1958 showed a slightly lower rate of expansion, 22 percent.

This general expansion of activity is a reflection, of course, of the two phenomena previously analyzed at some length, the increasing rate of inflow of new money to the investment funds during the period, and the rising rates of portfolio turnover. Both these factors are evidenced clearly in the summary data in table IV-77, where in 1954, for example, a year previously shown to be one of sharply rising inflows and higher turnover rates, total purchases increased by 61 percent over those effected in 1953, and sales increased by 66 percent. Common stock purchases and sales in the same year increased by 67 and 89 percent. In the first 9 months of 1958, also, another period exhibiting higher money inflows and higher turnover rates, total security purchases and common stock purchases increased by 45 and 28 percent above the corresponding totals for the first 9 months of the preceding year, and total security sales and common stock sales rose during the same period by 40 and 33 percent. In 1957, on the other hand, a year in which the rate of increase of inflows slackened, total security purchases rose by only 15 percent and security sales by 16 percent. The year 1957 was the only year under study in which the sales of common stocks by the funds included in this analysis declined below the level of the preceding year. The decline was fractional, however, from \$1,040.9 to \$1,005.4 million, and both gross and net purchases of common stocks were higher than in 1956 (by 9 and 34 percent, respectively).

Considerable variation occurred in purchase and sales volumes from month to month throughout the period examined in table IV-77. Common-stock purchases, which had averaged only \$56 million per month in 1953, had risen to a monthly total well in excess of \$100 million by the beginning of 1956, and were marginally lower than \$100 million in only 1 month between that date and September 1958. During 1958 the monthly average level of common-stock purchases had increased to \$195 million, or 3½ times their level in 1953. The average monthly sales of common stocks in 1953 were slightly more than \$30 million, and an average monthly level of \$100 million was not reached until 1958. Net purchases of common stock averaged \$23 million in 1953 and \$75 million in 1958. In only one of the months examined in table IV-77 were the funds net sellers of common stocks, in January 1958, when net sales of \$14.9 million were effected. In that month, as well as the 2 preceding months, relatively low common-stock purchases were made. This was a period of uncertain

stock market price movements following a sharp market decline and preceding a gradually strengthening upward movement in 1958. The funds portfolio adjustments at this time were followed by heavy purchases throughout the remainder of the 1958 period.

The analysis in the remainder of this section will be centered principally on the funds' common stock and preferred stock transactions and several preliminary points may be noted briefly. Firstly, preferred stocks have accounted for a fluctuating but generally declining percentage of the funds' total stock purchases and sales (table IV-78). Preferred stock purchases, which represented 11.5 percent of total stock purchases in 1953, declined progressively to 4.3 percent of the total in 1957, and amounted to the slightly higher percentage of 6.4 percent in the first 9 months of 1958. Secondly, common-stock purchases have consistently represented approximately 50 percent of total security purchases⁵² and for the 69-month period covered by table IV-78 they represented 57.5 percent of the total, while net common stock purchases accounted for 67.9 percent of the net purchases of all securities. Thirdly, a fairly consistent relationship exists between the funds net annual purchases of common stocks and their net annual inflow of money resulting from the sales of new own shares (table IV-79).

TABLE IV-78.—Total and net purchases of preferred and common stocks as a percentage of total and net purchases of all securities by open-end investment funds, January 1953 to September 1958

Date	Total purchases of preferred stock as a percent of total security purchases	Net purchases of preferred stock as a percent of net security purchases	Total purchases of common stock as a percent of total security purchases	Net purchases of common stock as a percent of net security purchases
1953—January.....	9.9	12.2	63.4	78.7
February.....	12.8	14.8	63.0	72.8
March.....	12.5	15.8	71.2	75.3
April.....	11.4	9.9	60.9	129.2
May.....	20.7	33.2	52.2	48.9
June.....	6.4	5.6	52.4	62.0
July.....	8.2	— .4	60.8	78.1
August.....	4.8	2.9	57.0	83.5
September.....	15.6	21.3	49.8	66.0
October.....	10.4	12.0	57.8	472.1
November.....	11.7	19.0	56.1	59.1
December.....	11.6	18.4	55.8	66.6
1955—July.....	10.5	21.1	59.8	39.6
August.....	5.9	.6	54.0	55.9
September.....	11.1	14.6	51.2	44.8
October.....	10.4	14.0	53.3	80.4
November.....	10.9	8.1	44.3	50.4
December.....	6.6	6.2	54.3	119.3
1956—January.....	4.5	2.8	71.0	91.0
February.....	14.5	28.3	52.6	50.2
March.....	7.9	4.9	63.3	94.7
April.....	4.2	— 5.4	59.5	70.6
May.....	7.2	8.5	69.8	78.4
June.....	8.3	10.5	63.9	85.8
July.....	5.4	5.8	65.1	62.3
August.....	7.3	21.7	60.1	29.8
September.....	5.1	8.0	51.6	43.2
October.....	13.1	30.4	55.0	48.6
November.....	6.8	7.6	57.5	78.3
December.....	4.1	— 4.2	50.2	69.9

⁵² Total security purchases, as in the earlier portfolio turnover rate analysis, include the purchases of Government securities of all maturity dates and of other shorter-term portfolio items.

TABLE IV-78.—Total and net purchases of preferred and common stocks as a percentage of total and net purchases of all securities by open-end investment funds, January 1953 to September 1958—Continued

Date	Total purchases of preferred stock as a percent of total security purchases	Net purchases of preferred stock as a percent of net security purchases	Total purchases of common stock as a percent of total security purchases	Net purchases of common stock as a percent of net security purchases
1957—January.....	4.4	6.5	55.5	46.0
February.....	2.1	-2.1	60.9	32.9
March.....	7.3	13.4	51.6	56.5
April.....	3.4	1.8	65.0	86.9
May.....	3.5	5.2	66.7	71.3
June.....	5.1	7.3	57.5	51.3
July.....	3.1	4.8	56.0	65.1
August.....	5.0	5.6	55.5	80.2
September.....	4.3	1.9	55.5	81.7
October.....	7.1	10.1	55.7	174.7
November.....	3.6	2.5	51.1	72.1
December.....	2.9	3.2	52.0	106.2
1958—January.....	5.4	-28.4	49.0	-54.4
February.....	6.7	11.6	47.9	77.1
March.....	6.4	16.9	59.5	49.2
April.....	9.7	29.5	56.9	54.5
May.....	11.1	20.3	58.6	62.5
June.....	8.1	10.6	42.9	35.3
July.....	4.7	4.8	54.1	79.3
August.....	1.7	-6.3	61.9	107.8
September.....	6.3	10.4	61.0	124.3

SUMMARY

1953—1st quarter.....	11.7	14.9	65.9	75.4
2d quarter.....	13.3	16.1	55.4	75.1
3d quarter.....	9.4	10.4	55.7	74.7
4th quarter.....	11.3	17.0	56.6	82.8
Year.....	11.5	14.7	58.7	76.2
1954—Year.....	10.8	14.1	60.7	68.1
1955—1st half.....	11.0	11.5	60.8	61.8
3d quarter.....	9.2	10.8	54.8	47.4
4th quarter.....	9.4	9.7	50.2	73.4
Year.....	10.2	11.0	56.8	60.6
1956—1st quarter.....	8.9	11.7	61.8	76.2
2d quarter.....	6.5	5.3	64.3	77.7
3d quarter.....	6.0	10.1	58.7	44.5
4th quarter.....	8.0	10.4	54.5	66.8
Year.....	7.4	9.1	60.1	65.2
1957—1st quarter.....	4.5	5.3	56.0	61.0
2d quarter.....	4.0	4.3	62.9	69.7
3d quarter.....	4.1	4.0	55.7	76.6
4th quarter.....	4.9	6.4	53.1	112.4
Year.....	4.3	4.9	57.0	76.3
1958—1st quarter.....	6.3	18.1	51.9	46.7
2d quarter.....	9.5	17.4	50.7	44.6
3d quarter.....	4.4	3.8	58.4	94.3
9 months.....	6.4	10.1	54.3	64.7
Total, 69 months.....	7.9	9.9	57.5	67.9

TABLE IV-79.—Open-end investment fund net annual purchases of common stocks as a percentage of net annual inflow of new money

[Dollars in millions]

Year	Net purchases of common stock	Net inflow	Net common stock purchases as percent of net inflow
1953.....	\$278	\$462	60
1954.....	337	672	50
1955.....	470	972	48
1956.....	548	1,159	47
1957.....	732	1,196	61
1958 (9 months).....	679	1,179	58

In 1953 net purchases of common stocks represented 60 percent of the total net inflow, and after declining to 47 percent in 1956 the percentage rose again in the following 2 years.

Finally, it should be noted that for purposes of the present analysis the funds' acquisitions of common stock by the purchase of new rights issues and by the exercise of conversion options attaching to other securities have been excluded from their total purchases. This procedure provides a clearer indication of the funds' total open market transactions and is more directly comparable with total market volumes. The portfolio sales data, however, include the total proceeds of the redemption of senior securities by call or maturity, included as an offset to the purchase of defensive and near-liquid portfolio items, such as Government securities.

PORTFOLIO TRANSACTIONS IN COMMON AND PREFERRED STOCKS IN
RELATION TO STOCK EXCHANGE ACTIVITY

Stock purchases and sales by the investment funds are placed in clearer focus when compared with total stock exchange volumes. Table IV-80 presents a summary of the relevant relationships for the 1953-58 period.⁵³ Between these years the investment funds' purchases increased from 5.3 percent of the total New York Stock Exchange volume to 8.7 percent, and a corresponding increase was shown in the relation between the funds' purchases and total transactions on all registered exchanges. Comparable increases were recorded in the percentage relation between investment fund sales and stock exchange volumes, and the net purchases of stocks increased from 2.3 percent of exchange volume in 1953 to 3.5 percent in 1958.⁵⁴

TABLE IV-80.—Purchases, sales, and net purchases of common and preferred stocks by open-end investment funds as a percentage of transactions on (a) the New York Stock Exchange and (b) all registered exchanges, January 1953 to September 1958

[In percent]

Date	Purchases to market		Sales to market		Net purchases to market	
	New York Stock Exchange	All registered exchanges	New York Stock Exchange	All registered exchanges	New York Stock Exchange	All registered exchanges
1953—January.....	5.7	4.9	3.1	2.6	2.7	2.3
February.....	6.3	5.4	2.7	2.3	3.6	3.0
March.....	5.5	4.7	3.0	2.6	2.5	2.1
April.....	4.5	3.9	1.8	1.5	2.7	2.3
May.....	5.6	4.8	2.9	2.5	2.7	2.3
June.....	4.5	3.8	2.2	1.9	2.3	1.9
July.....	5.5	4.6	4.1	3.5	1.4	1.1
August.....	5.7	4.9	3.4	2.9	2.3	2.0
September.....	4.7	4.0	2.1	1.8	2.6	2.2
October.....	5.8	5.0	4.5	3.9	1.3	1.1
November.....	5.8	5.0	4.1	3.5	1.7	1.4
December.....	4.6	4.0	3.2	2.7	1.4	1.2

⁵³ Both the investment fund data and the stock exchange data employed in this analysis include common and preferred stocks. The stock exchange data represent market values on a clearing basis and include odd lot and stopped stock sales, but exclude transactions in rights and warrants.

⁵⁴ The significance of this increasing relation between the funds' portfolio activity and total market volumes should be interpreted in the light of the earlier analysis of the distribution of the funds' common stock transactions by place of trading. It was found there that in both the 1953 and 1958 periods examined a fairly constant percentage of purchases was effected on the New York Stock Exchange (approximately 75 percent) but that the relative use of this market for common stock sales diminished and over-the-counter activity (notably secondary offerings) increased. Insofar, therefore, as fund transactions are effected in nonexchange markets, the data in this section are to be taken as indicative of the relative orders of magnitude involved in overall security market activity, rather than as descriptive of the impact of the funds' trading in any one particular market.

TABLE IV-80.—Purchases, sales, and net purchases of common and preferred stocks by open-end investment funds as a percentage of transactions on (a) the New York Stock Exchange and (b) all registered exchanges, January 1953 to September 1958—Continued

[In percent]

Date	Purchases to market		Sales to market		Net purchases to market	
	New York Stock Exchange	All registered exchanges	New York Stock Exchange	All registered exchanges	New York Stock Exchange	All registered exchanges
1955—July.....	4.2	3.6	3.2	2.8	1.1	0.9
August.....	4.9	4.3	3.1	2.7	1.8	1.6
September.....	3.9	3.4	2.8	2.4	1.1	1.0
October.....	4.0	3.5	2.2	2.0	1.8	1.6
November.....	4.4	3.8	2.7	2.3	1.8	1.5
December.....	3.9	3.3	2.3	2.0	1.5	1.3
1956—January.....	5.9	5.1	3.7	3.2	2.2	1.9
February.....	6.7	5.7	4.3	3.6	2.5	2.1
March.....	5.4	4.6	3.5	3.0	1.9	1.6
April.....	5.6	4.7	3.8	3.2	1.8	1.5
May.....	6.6	5.6	3.8	3.2	2.8	2.4
June.....	6.8	5.7	4.0	3.4	2.8	2.3
July.....	5.8	4.9	4.0	3.4	1.8	1.5
August.....	5.5	4.7	4.6	3.9	1.0	.8
September.....	6.1	5.2	3.4	2.9	2.8	2.3
October.....	5.1	4.4	3.7	3.1	1.5	1.3
November.....	4.8	4.1	2.7	2.3	2.1	1.8
December.....	4.9	4.2	3.4	2.9	1.5	1.3
1957—January.....	6.0	5.1	4.2	3.6	1.9	1.6
February.....	7.6	6.5	4.1	3.5	3.5	3.0
March.....	8.0	6.7	4.8	4.0	3.2	2.7
April.....	7.4	6.2	4.0	3.4	3.3	2.8
May.....	5.9	5.0	4.1	3.5	1.8	1.6
June.....	6.4	5.4	4.5	3.8	1.9	1.6
July.....	6.8	5.8	4.7	4.0	2.2	1.8
August.....	7.7	6.6	3.6	3.1	4.2	3.6
September.....	8.2	7.0	3.1	2.7	5.1	4.3
October.....	5.7	5.0	2.5	2.1	3.2	2.8
November.....	5.9	5.2	3.4	3.0	2.5	2.2
December.....	4.9	4.3	2.9	2.5	2.1	1.8
1958—January.....	4.9	4.2	5.4	4.7	-.5	-.4
February.....	8.5	7.4	4.5	4.9	4.0	3.5
March.....	7.6	6.6	5.2	4.5	2.4	2.1
April.....	7.7	6.6	5.8	4.9	1.9	1.6
May.....	8.9	7.5	5.0	4.2	3.9	3.3
June.....	10.2	8.6	5.6	4.7	4.6	3.9
July.....	11.5	9.8	4.3	3.7	7.2	6.1
August.....	8.4	7.2	5.1	4.4	3.2	2.8
September.....	9.9	8.4	6.0	5.1	3.8	3.3

SUMMARY

1953—1st quarter.....	5.8	4.9	3.0	2.5	2.8	2.4
2d quarter.....	4.8	4.1	2.3	1.9	2.5	2.2
3d quarter.....	5.3	4.5	3.2	2.7	2.1	1.8
4th quarter.....	5.3	4.6	3.9	3.3	1.5	1.3
Year.....	5.3	4.5	3.0	2.6	2.3	2.0
1954—Year.....	5.2	4.5	3.3	2.9	1.8	1.6
1955—1st half.....	4.6	4.0	2.9	2.5	1.7	1.5
3d quarter.....	4.3	3.7	3.0	2.6	1.3	1.1
4th quarter.....	4.1	3.5	2.4	2.1	1.7	1.5
Year.....	4.4	3.8	2.8	2.4	1.6	1.4
1956—1st quarter.....	5.9	5.0	3.8	3.2	2.1	1.8
2d quarter.....	6.3	5.3	3.8	3.2	2.4	2.0
3d quarter.....	5.8	4.9	4.1	3.4	1.8	1.5
4th quarter.....	4.9	4.2	3.2	2.8	1.7	1.5
Year.....	5.8	4.9	3.8	3.2	2.0	1.7
1957—1st quarter.....	7.1	6.0	4.3	3.7	2.7	2.3
2d quarter.....	6.5	5.5	4.2	3.6	2.3	2.0
3d quarter.....	7.5	6.4	3.9	3.3	3.6	3.1
4th quarter.....	5.5	4.8	2.9	2.5	2.7	2.3
Year.....	6.6	5.7	3.8	3.3	2.8	2.4
1958—1st quarter.....	6.9	6.0	5.1	4.4	1.8	1.6
2d quarter.....	9.0	7.6	5.4	4.6	3.5	3.0
3d quarter.....	9.9	8.5	5.2	4.4	4.7	4.0
9 months.....	8.7	7.5	5.2	4.5	3.5	3.0
Total, 69 months.....	5.9	5.1	3.6	3.1	2.3	2.0

During the first 3 years of the study period the portfolio transactions of the funds as a percentage of market activity declined, and in 1955 reached a low point of 4.4 percent of the New York Stock Exchange total in the case of purchases, and 2.8 percent in the case of sales. These data again reflect the lower turnover rates of the funds in 1955, and in the following year sharp increases in the relative importance of the funds in the market were again recorded. The relatively less stable market conditions of 1956 led to a higher percentage share of the funds in the market in both purchase and sale activity.⁵⁵ The increasing relative importance of the funds continued in 1957 with a slightly greater increase than in the previous year in the relation between net purchases and total market volume. In the rising and more active markets of 1958, which have been referred to at several points already, the relative importance of the funds increased even more sharply. By the middle of that year the funds' purchases were equal to 10 percent of the New York Stock Exchange volume, and for the third quarter of 1958 this relationship continued at only a slightly lower average level. The relative importance of the funds' sales also increased in this active market period, as reflected again in the sharply higher turnover rates previously examined, but the increase in the relative importance was not as great as for the purchases of stock. In 1958, therefore, a larger increase than in previous years was recorded in the percentage of the funds' net purchases to total stock exchange volumes. An exception to this trend occurred in the last 2 months of 1957 and in January 1958, a period of uncertain market movements and of lower investment fund purchases. In the last of these 3 months the funds made net sales of stocks equal to 0.5 percent of the stock exchange volume.

Perspective on the changing importance of investment fund activity can be established by noting that the increase in the funds' share in total market volumes is considerably less than the increase in the absolute value of their portfolio operations. Between 1953 and 1957 (the last full year covered in this study) the funds' purchase, sales, and net purchase volumes increased by 140 percent, 143 percent, and 136 percent, respectively. Their shares of corresponding New York Stock Exchange activity, however, increased during the same period by only 25 percent, 27 percent, and 22 percent. During the first 9 months of 1958, however, the relative importance of the funds in the market showed a greater increase than in the entire preceding 5 years. Net purchases of stocks by the funds were 30 percent greater than in the corresponding period of the preceding year, and the relation between these net purchases and total New York Stock Exchange volume also rose sharply, by some 23 percent.

⁵⁵ See appendix to this chapter for a summary of stock market movements during this period.

MONTHLY CHANGES IN INVESTMENT FUND NET PURCHASES OF COMMON STOCK IN RELATION TO CHANGES IN STOCK MARKET PRICE LEVELS⁵⁶

An analysis was made of the relations between the changes, by monthly intervals, in the investment funds' net purchases of common stocks and changes in the stock market price levels as measured by the Dow-Jones industrial average.⁵⁷ The time period selected for analysis covered the 3 years of fluctuating market conditions between July 1955 and September 1958. The Dow-Jones industrial average moved from 465.85 at the end of July 1955 to 532.09 at the end of September 1958, a net rise of only 14 percent, though two fairly pronounced price cycles had developed in 1956, followed by a wider price cycle in 1957 and a firm upward movement in 1958.

The data indicative of these relations are summarized in tables IV-81 through IV-83. The entries within table IV-81 show the direction of change in the various statistics between successive months. A plus (+) indicates that there was an increase in the series and a minus (-) means there was a decrease.⁵⁸

⁵⁶ There exist within the data many exceptions to the tendencies cited in this section, but the relationships presented are consistent with the general pattern of the evidence. The authors are unwilling to assume that the data for the 38 months constitute a random sample of months, and do not believe statistical tests of significance to be appropriate in this analysis. The 38 months represent a distinct period of history for investment companies, and the subsequent period has been characterized by changes in both investment fund size and management personnel. If the sample were accepted as random, it would be found that only one of the differences cited was "significant" at the 5-percent level and some would not be "significant" at the 10-percent level (using 2 by 2 contingency tables).

⁵⁷ Throughout the period studied the funds received a rather substantial inflow of new money. The investment of inflow might be expected to exert a continual upward pressure on market prices. The fact that the funds were net purchasers of common stock in 38 of 39 months (table IV-77) might be interpreted as a confirmation of such pressure. Detailed analysis of the market impact of investment funds will be presented later in the study, but at this point the focus will stress the apparent reaction of fund managements to fluctuations in market prices. Net purchases, per se, are not necessarily the most appropriate indication of changes in the funds' investment policies, as net purchases are almost always positive because of the need to invest a continual inflow of new money. Changes in net purchases, however, may yield an approximation to changes in managements' appraisal of market conditions. See further discussion of quarterly inflow changes below.

⁵⁸ The average Dow-Jones industrial average for each month was obtained by calculating an arithmetic mean of the opening, closing, high and low readings of the Dow-Jones average for each month. Tables IV-82 and IV-83 are derived from table IV-81 and compare changes in the 4 series.

TABLE IV-81.—Direction of change in common stock purchases, by open-end investment funds and in market price levels (measured by the Dow-Jones industrial average) August 1955-September 1958

Year and month	Direction of change of—			
	Closing D.J.I.A.	Average D.J.I.A.	Fund net purchases of common stock	Fund net purchases of common stock as percent of N.Y.S.E. total transactions
1955—August.....	+	+	+	+
September.....	+	+	+	+
October.....	-	-	+	+
November.....	+	+	-	+
December.....	+	+	-	+
1956—January.....	-	-	+	+
February.....	+	+	+	+
March.....	+	+	+	+
April.....	+	+	+	+
May.....	-	-	+	+
June.....	+	-	-	-
July.....	+	+	-	-
August.....	-	+	-	-
September.....	-	-	+	+
October.....	+	-	+	+
November.....	-	+	+	+
December.....	+	+	-	+
1957—January.....	-	-	+	+
February.....	-	-	+	+
March.....	+	+	-	+
April.....	+	+	+	+
May.....	+	+	-	+
June.....	-	+	-	+
July.....	+	+	+	+
August.....	-	-	+	+
September.....	-	-	+	+
October.....	-	-	-	-
November.....	+	-	-	-
December.....	-	-	-	-
1958—January.....	+	+	-	-
February.....	+	+	+	+
March.....	+	+	-	-
April.....	+	+	-	-
May.....	+	+	+	+
June.....	+	+	+	+
July.....	+	+	+	+
August.....	+	+	+	+
September.....	+	+	+	+

NOTE.—+ = increase; - = decrease.