

## TOPICAL STUDY #7

PLENTY OF CASH AROUND TO FUEL  
ADDITIONAL STOCK AND BOND GAINS

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From 1981's final week to the first week of August 1982, the S&P 500 fell 16.1% from 122.3 to 102.6. Over this same period, the money market mutual fund shares held by institutions rose \$8.1 billion to \$45.7 billion (Exhibit 1d). Obviously, the bear market induced equity portfolio managers to raise cash and, of course, the liquidation of equity positions kept the bear market going.

Institutional money market holdings peaked at \$53.3 billion during the second week of November 1982. These positions then fell sharply by \$12.3 billion to \$41.0 billion by mid-August 1983. This commitment helped to fuel the great bull market which started the first week of August 1982 when the S&P 500 troughed at 102.6 and soared 66.7% to 171.0 during the third week of June 1983. Notice that the peak in equity prices led the trough in institutional money market holdings by only eight weeks.

What were individual investors doing all this time? From the final week of 1981 to the first week in December 1982, money market mutual fund shares held by individuals rose \$40.3 billion from \$151.2 billion to \$191.5 billion (Exhibit 1c). So while individual investors undoubtedly participated in the 1982 bull market, the money market data suggest that during the initial liftoff the individual investor was not a major player. The sharp drop in individuals' holdings of money market mutual fund shares during the first half of 1983 indicates that the individual investor did participate actively in the last stages of the 1982/1983 bull market. But the money market data were greatly affected by the introduction of money market deposit accounts during December 1982. Such deposits soared to \$200 billion by the seventeenth week of 1983. Clearly, MMDAs attracted funds out of individual money market mutual funds as well as savings deposits and small time deposits (Exhibit 2). So it is hard to determine how much of the drop in individual money market fund shares went into the stock market during the first half of 1983.

The S&P 500 fell 13.0% from its peak of 171.0 during the third week of June 1983 to 148.8 during the last week of July 1984. Over this bear phase, institutional money market positions rose \$4.5 billion while individual money market assets (i.e., funds and deposits) increased \$38.0 billion.

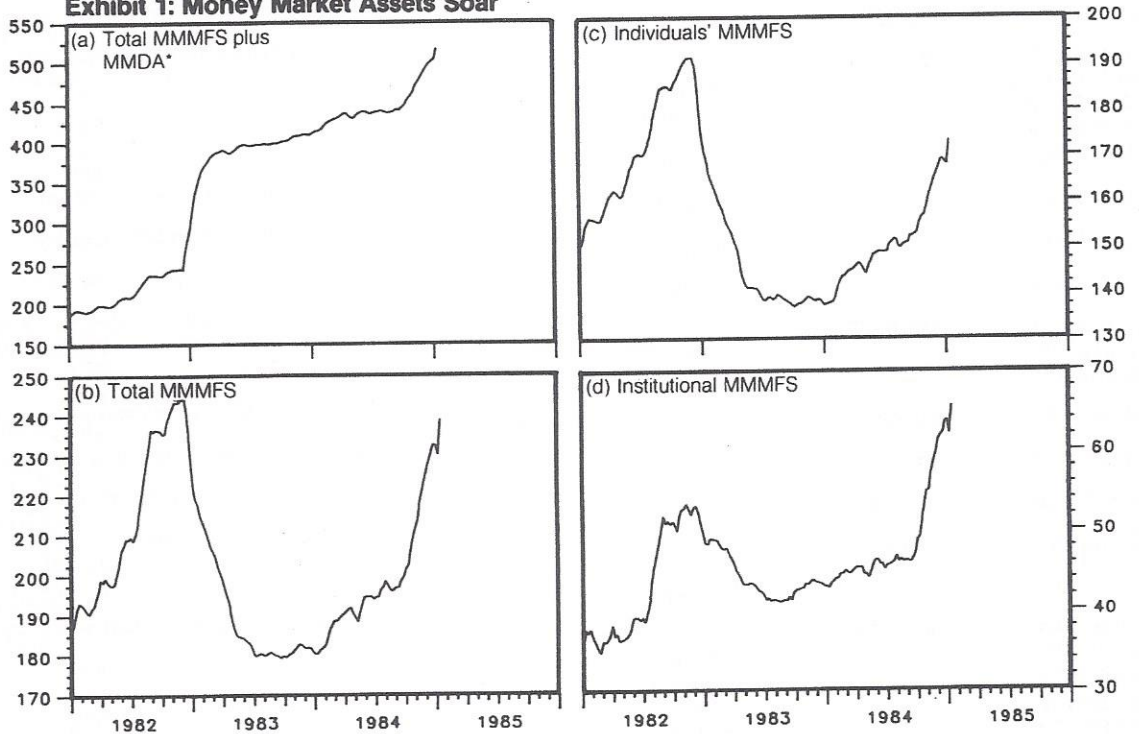
During the late summer of 1984, the stock market experienced an explosive rally which carried the S&P 500 from 147.26 on July 25 to 168.59 on August 10, a 14.5% advance. However, institutional money market assets continued to rise. By the second week of the new year, institutional money market mutual fund shares hit an all-time high of \$65.6 billion. That's up \$24.3 billion from the first week of August 1983. Fears of recession and an uninterrupted string of earnings disappointments caused institutions to pull back and play a more cautious role. As a result, the S&P 500 drifted between 160 and 170 during the last four months of 1984.

Individuals moved heavily into money market funds and deposits throughout 1984 (Exhibit 2). During the first half of the year, such assets rose \$24.7 billion. During the second half of the year, they rose \$45.9 billion. By the second week in January 1985, individuals' money market assets stood at \$451.7 billion, up a whopping \$59.6 billion since the end of August.

So total money market assets of institutions and individuals rose a spectacular \$79.1 billion from the third week of August 1984 to \$517.3 billion during the second week of January 1985. That's \$3.7 billion per week on average.

The point is there is plenty of cash around to fuel additional stock and bond gains.

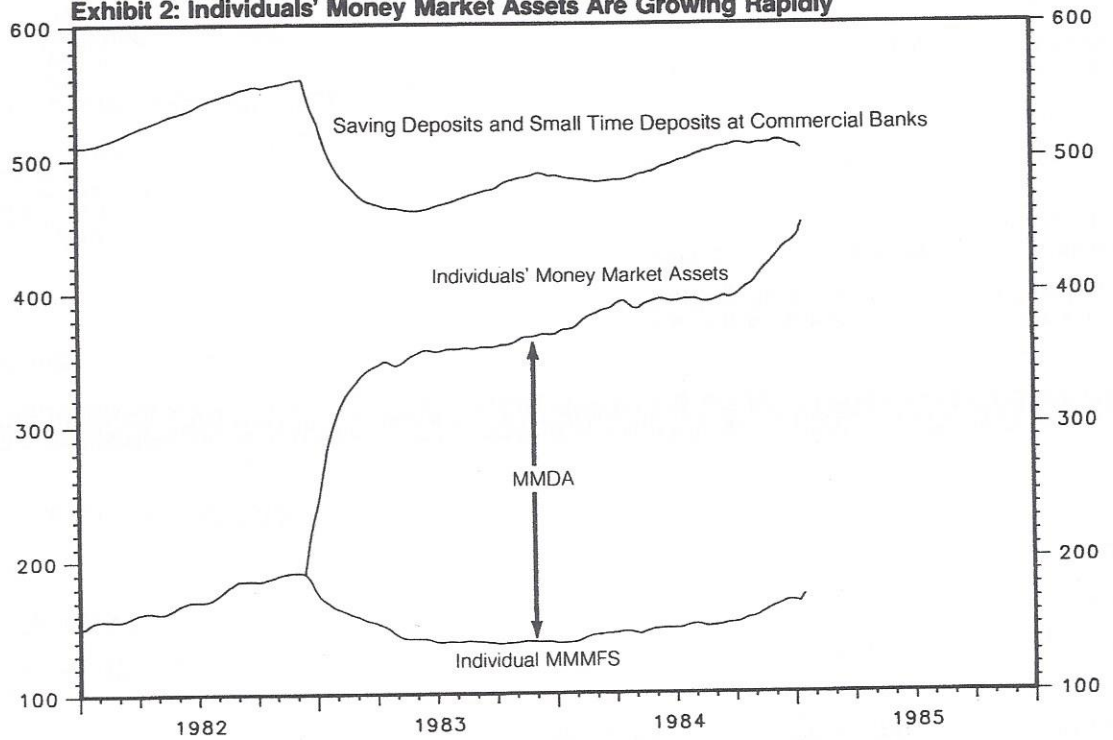
**Exhibit 1: Money Market Assets Soar**



\*MMMFS = Money market mutual fund shares.  
MMDA = Money market deposit accounts.  
All series in billions of dollars.

Latest data through 1/14/85

**Exhibit 2: Individuals' Money Market Assets Are Growing Rapidly**



All series are in billions of dollars.

Latest data through 1/14/85.

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