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# MASS BUSINESS REPORT

**UMASS Boston Financial Services Forum**  
Semi-Annual Review  
*Spring 2010*



## FIRE in Massachusetts

Welcome to the College of Management, UMASS – Boston, *Financial Services Forum's* Spring 2010 report on the Massachusetts economy. The spotlight of this report is the Finance, Insurance and Real Estate (FIRE) sector in Massachusetts.

The *Forum* is a source of current information and commentary about critical issues facing the industry in Boston and at the national level, as well as the health of financial services in general. Please visit the Forum's website ([www.management.umb.edu/businesscenter/financial\\_forum.php](http://www.management.umb.edu/businesscenter/financial_forum.php)) for more information.

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- Research Associates: Professor Atreya Chakraborty and Professor James Grant
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# Table of Contents

<b>FIRE in Massachusetts – Overview and Comparison</b> .....	3
Key Points .....	3
Supporting Charts .....	3
<b>The Firms in FIRE</b> .....	6
Key Points .....	6
Supporting Charts .....	6
<b>The Mutual Fund Industry – A Detailed Look</b> .....	8
Brief History of the Mutual Fund Industry .....	8
Snapshot of the Mutual Fund Industry.....	12



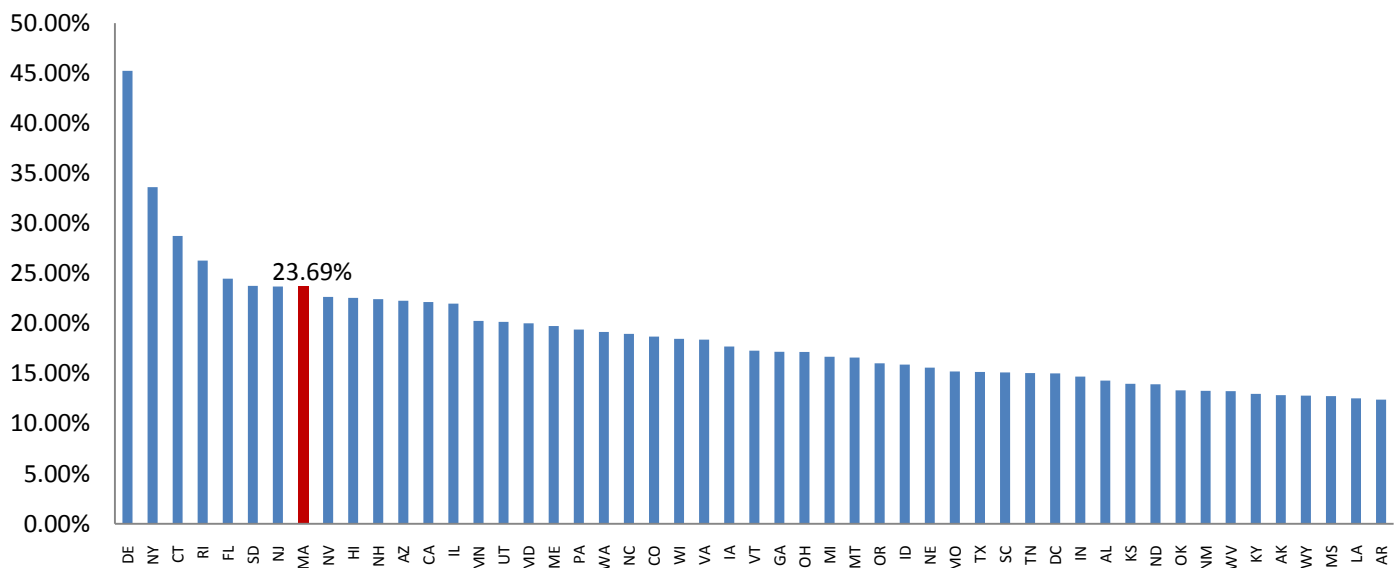
# FIRE in Massachusetts – Overview and Comparison

## Key Points

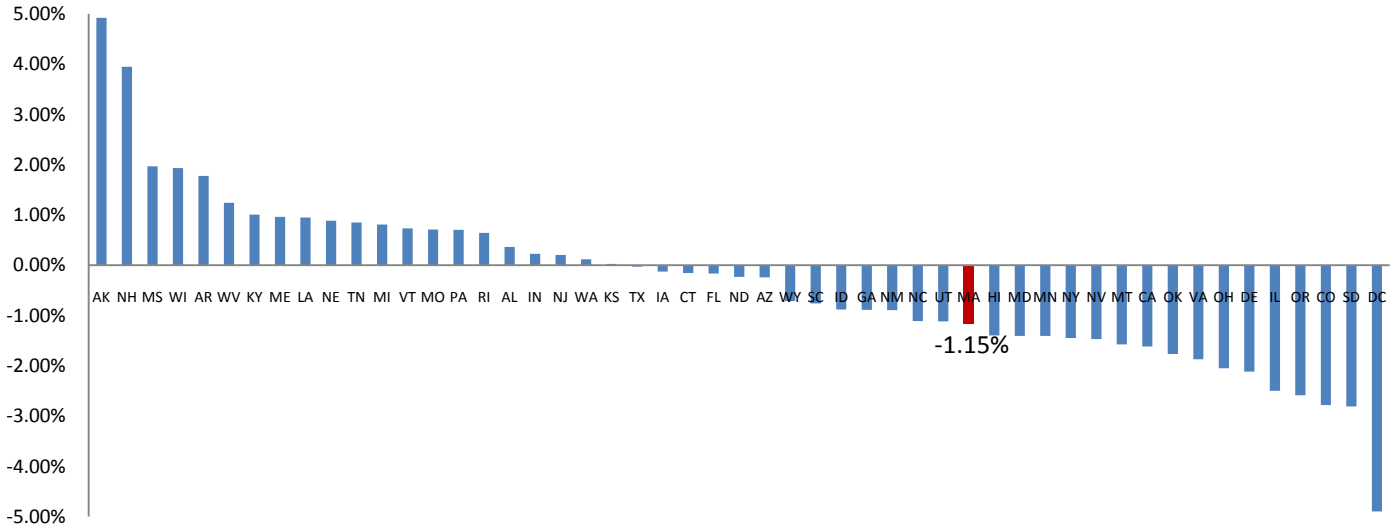
- FIRE in Massachusetts GDP continues to be a significant sector accounting for 23.69% of the state GDP (see **Chart 1**).
- Nonetheless, the sector output as a percentage of state GDP declined by 1.15% between 2007 and 2008. Alaska (4.92%), New Hampshire (3.95%) and Mississippi (1.97%) expanded at the fastest rate while the District of Columbia (-4.9%), South Dakota (-2.81%) and Colorado (-2.78%) experienced the largest contractions (see **Chart 2**).
- Currently, in terms of the FIRE sector output to the state GDP ratio, Massachusetts ranked 7th as compared to other states. The top three states are Delaware (45.24%), New York (33.62%) and Connecticut (28.75%). (See **Chart 1**.)
- However, MA’s FIRE rank slid from 5<sup>th</sup> to 7<sup>th</sup> from 1999 to 2008. During this period Delaware, New York and Connecticut have maintained their respective rankings, Rhode Island has consistently ranked 4<sup>th</sup> and Florida has experienced the largest jump in ranking (from 10<sup>th</sup> to 5<sup>th</sup>) (see **Chart 3**).
- Roughly 7% of the labor force in Massachusetts is employed in FIRE, ranking 9<sup>th</sup> in the country. Currently, as well as in the last decade, Delaware, Connecticut, New York and South Dakota are the top four states in terms of employment in the sector (see **Chart 4**). Although New England’s ranking has been rising steadily since 2001 and the region as a whole ranked 5<sup>th</sup> in 2009, Massachusetts suffered a decline during the dot com bust and has not recovered since then.
- In 2008, Massachusetts ranked 8<sup>th</sup> in terms of labor productivity in the FIRE industry. Delaware, New York, California, Nevada, and Connecticut are the top five states in this category (see **Chart 7**).

## Supporting Charts (Source: U.S. Department of Commerce, Bureau of Economic Analysis)

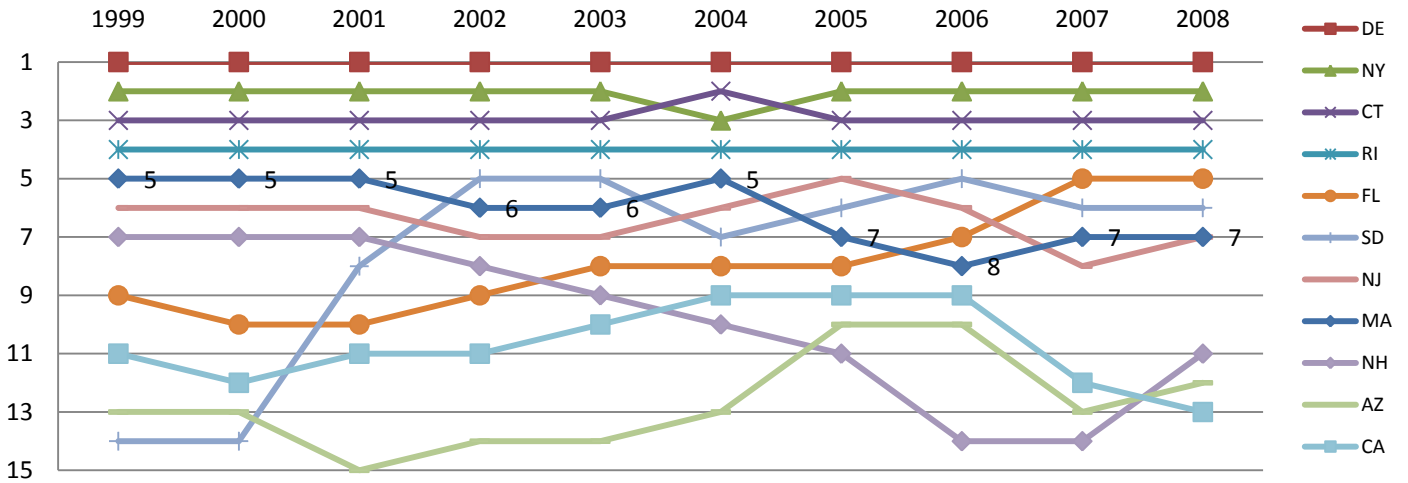
**Chart 1 - 2008 FIRE Output as a Percentage of State GDP**



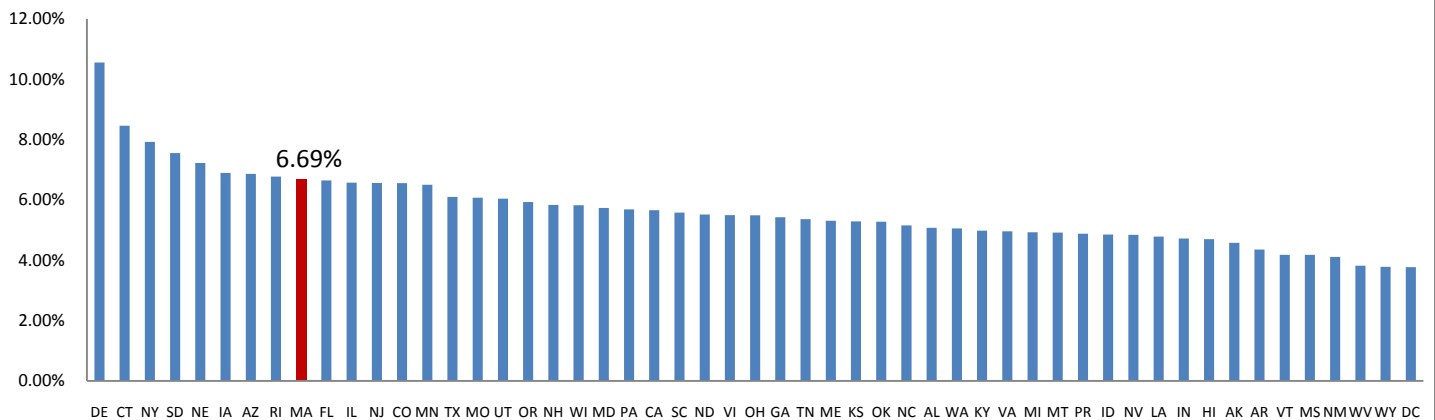
**Chart 2 - 2008 Growth of FIRE Output / State GDP**



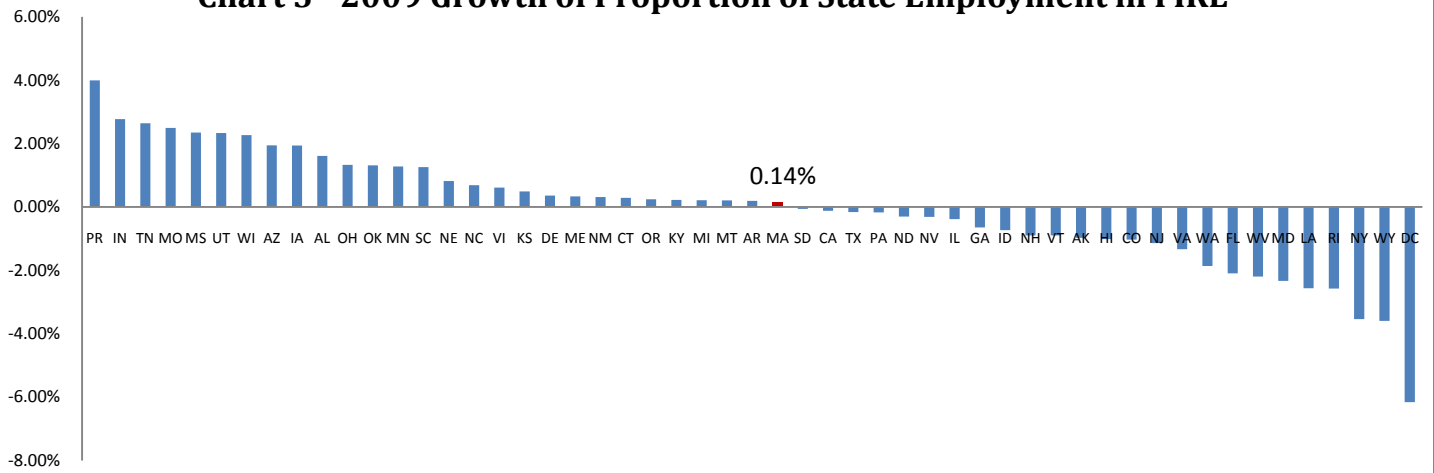
**Chart 3- State Ranking Changes Using Growth of FIRE Output / State GDP**



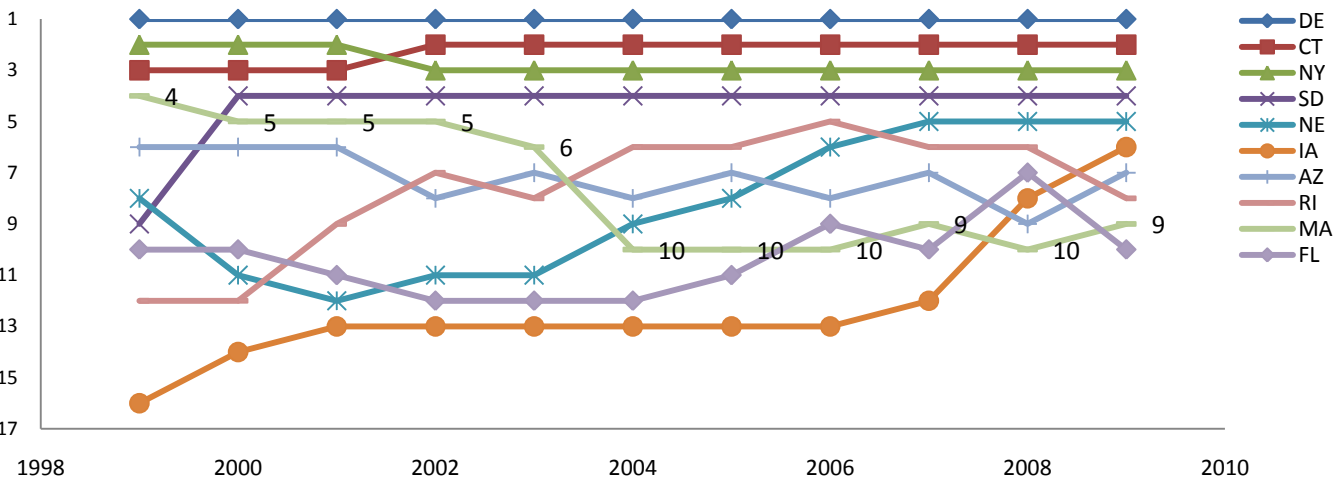
**Chart 4 - 2009 Proportion of State Employment in FIRE**



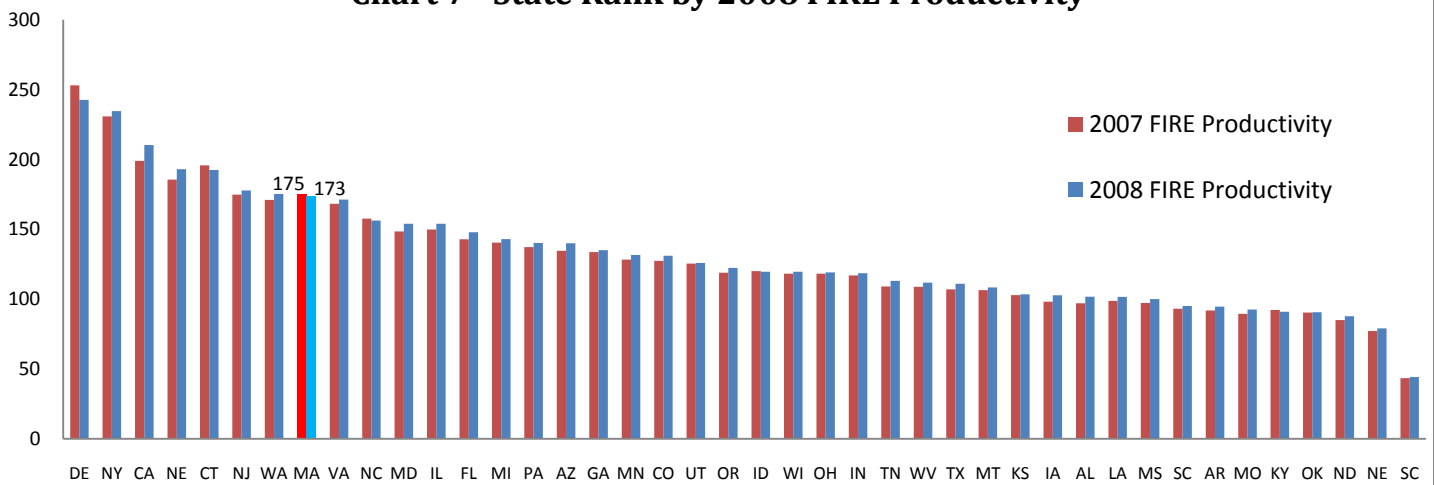
### Chart 5 - 2009 Growth of Proportion of State Employment in FIRE



### Chart 6 - State Ranking Changes Using FIRE Employment



### Chart 7 - State Rank by 2008 FIRE Productivity



# The Firms in FIRE

## Key Points

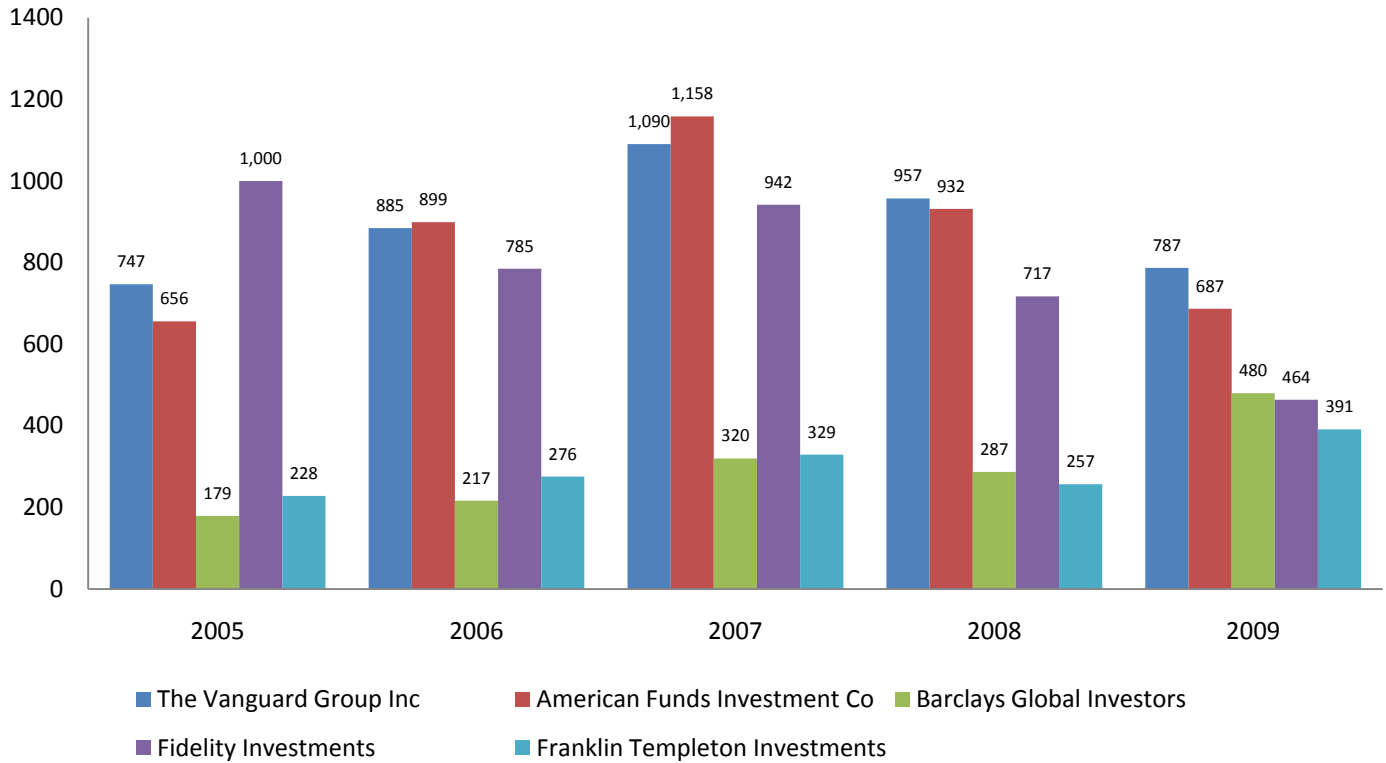
- Massachusetts is conspicuously absent among the largest firms (by revenues) in the insurance, real estate and financial services sectors. Four out of five of the largest financial services firms and two out of five of the largest real estate firms are in New York. Illinois is home to two of the largest insurance companies. Largest real estate companies are dispersed across Colorado, Maryland, California, New Jersey and Indiana.
- Mutual funds continue to be the stronghold in Massachusetts. Fidelity Investments, the largest mutual fund company in Massachusetts, is the third largest mutual fund company in the US in terms of assets under management. The second largest company in Massachusetts is State Street Global Advisors, which ranks eighth in the US. This is particularly noteworthy since the mutual fund industry is highly concentrated – in year ending 2008, 53 percent of industry total net assets were at the ten largest complexes.
- 2005-2007 was a period of growth for all top US mutual fund companies except for Fidelity. While in 2007-2009 assets under management for some of the top companies declined, assets in 2009 were greater than those in 2005 with the exception of Fidelity.
- Similar trends emerged in the largest Massachusetts firms. State Street Global Advisors, Putnam Investments and John Hancock Funds LLC, all showed overall increase in assets under management during 2005-09, even though 2007-09 was a period of contraction.
- The mutual fund industry employed 168,000 workers in 2007 (latest figures are not available) – 36 percent are in shareholder account services and 27 percent are engaged in fund management.
- In 2007 Massachusetts and New York employed nearly one-third workers in the industry. California, Pennsylvania and Texas account for about one quarter of industry employment.

## Supporting Charts

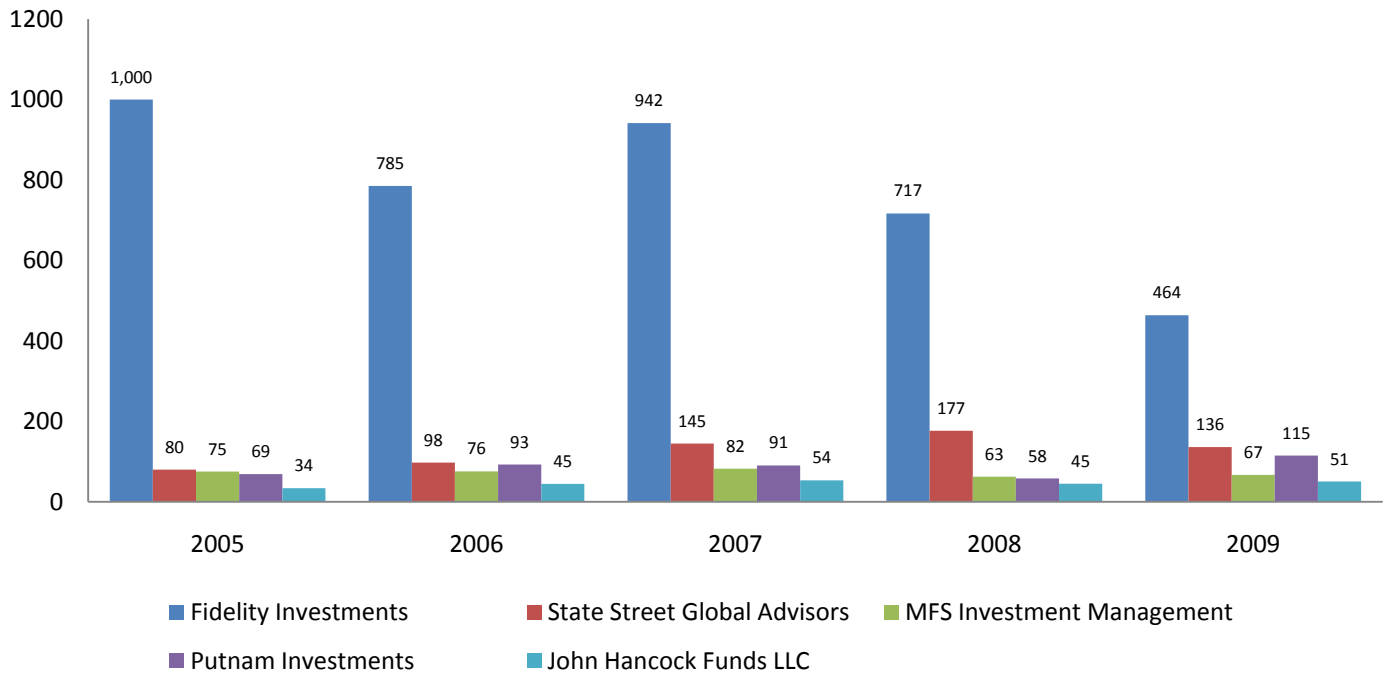
<b>Top 5 Insurance Companies</b>	<b>Revenues</b> (millions of dollars)	<b>States</b>
Berkshire Hathaway	107,786	NE
State Farm Insurance Cos.	61,343	IL
MetLife	55,085	NY
New York Life Insurance	31,416	NY
Allstate	29,394	IL
<b>Top 5 Real Estate Companies</b>		
ProLogis	5,773	CO
Host Hotels & Resorts	5,294	MD
CB Richard Ellis Group	5,130	CA
Realty	4,725	NJ
Simon Property Group	3,783	IN
<b>Top 5 Financial Services Companies</b>		
Bank of America Corp.	113,106	NC
Citigroup	112,372	NY
J.P. Morgan Chase & Co.	101,491	NY
Morgan Stanley	62,262	NY
Goldman Sachs Group	53,579	NY

(Source: [http://cgi.money.cnn.com/tools/fortune/custom\\_ranking\\_2009.jsp](http://cgi.money.cnn.com/tools/fortune/custom_ranking_2009.jsp))

## US Top 5 Mutual Fund Companies by Assets (billions of dollars)



## Boston Top 5 Mutual Fund Companies by Assets (billions of dollars)



(Source: <http://www.jhfunds.com/>, <http://www.statestreet.com/>, <http://www.thefreelibrary.com/>, <http://genxfinance.com/>, <https://www.mfs.com/>, <http://www.foxbusiness.com/>)



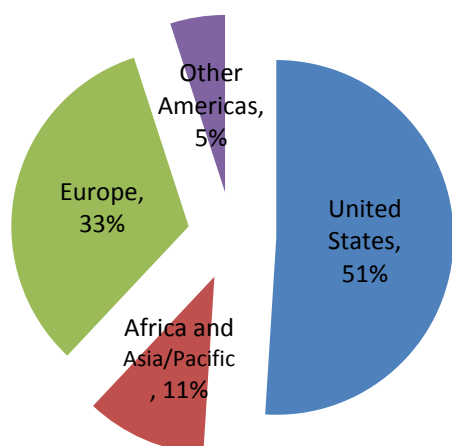
# The Mutual Fund Industry - A Detailed Look

## Brief History of the Mutual Fund Industry

<b>1924</b>	<b>The first mutual funds are established in Boston.</b>
<b>1951</b>	The total number of mutual funds surpasses 100, and the number of shareholder accounts exceeds one million for the first time.
<b>1989</b>	Mutual fund assets top \$1 trillion.
<b>1996</b>	Enactment of the National Securities Markets Improvement Act of 1996 (NSMIA) provides a more rational system of state and federal regulation, giving the SEC exclusive jurisdiction for registering and regulating mutual funds, exchange listed securities, and larger advisers.
<b>1998</b>	The SEC approves the most significant disclosure reforms in the history of U.S. mutual funds, encompassing “plain English,” fund profiles, and improved risk disclosure.
<b>2001</b>	The enactment of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 significantly expands retirement savings opportunities for millions of working Americans.
<b>2003</b>	The Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) provides mutual fund shareholders with the full benefits of lower tax rates on dividends and capital gains.
<b>2007</b>	Investment company assets top \$13 trillion.
<b>2008 Jan.</b>	Investors added \$159 billion in new cash to money market funds, the largest inflow since 1984.
<b>2008 Feb.</b>	More than 80 percent of ARS auctions fail; major banks declare the market frozen.
<b>2008 Sep.</b>	Institutional money market fund assets shrank by \$119 billion, to \$2.16 trillion, in the week ending September 17.
<b>2008 Oct.</b>	Investors added \$149 billion in new cash to money market funds, the third largest inflow since 1984. Investors withdrew \$128 billion, on net, from stock, bond, and hybrid funds, the largest outflow as a percentage of assets since October 1987.

## Percentage of Total Worldwide Mutual Fund Net Assets in 2008

Total worldwide mutual fund assets: \$19.0 trillion



The U.S. mutual fund market, with \$9.6 trillion in assets under management as of year-end 2008, remained the largest in the world, accounting for 51 percent of the \$19.0 trillion in mutual fund assets worldwide.

(Source: Investment Company Institute)

## Net Assets (billions of dollars) and Number of Investment Companies

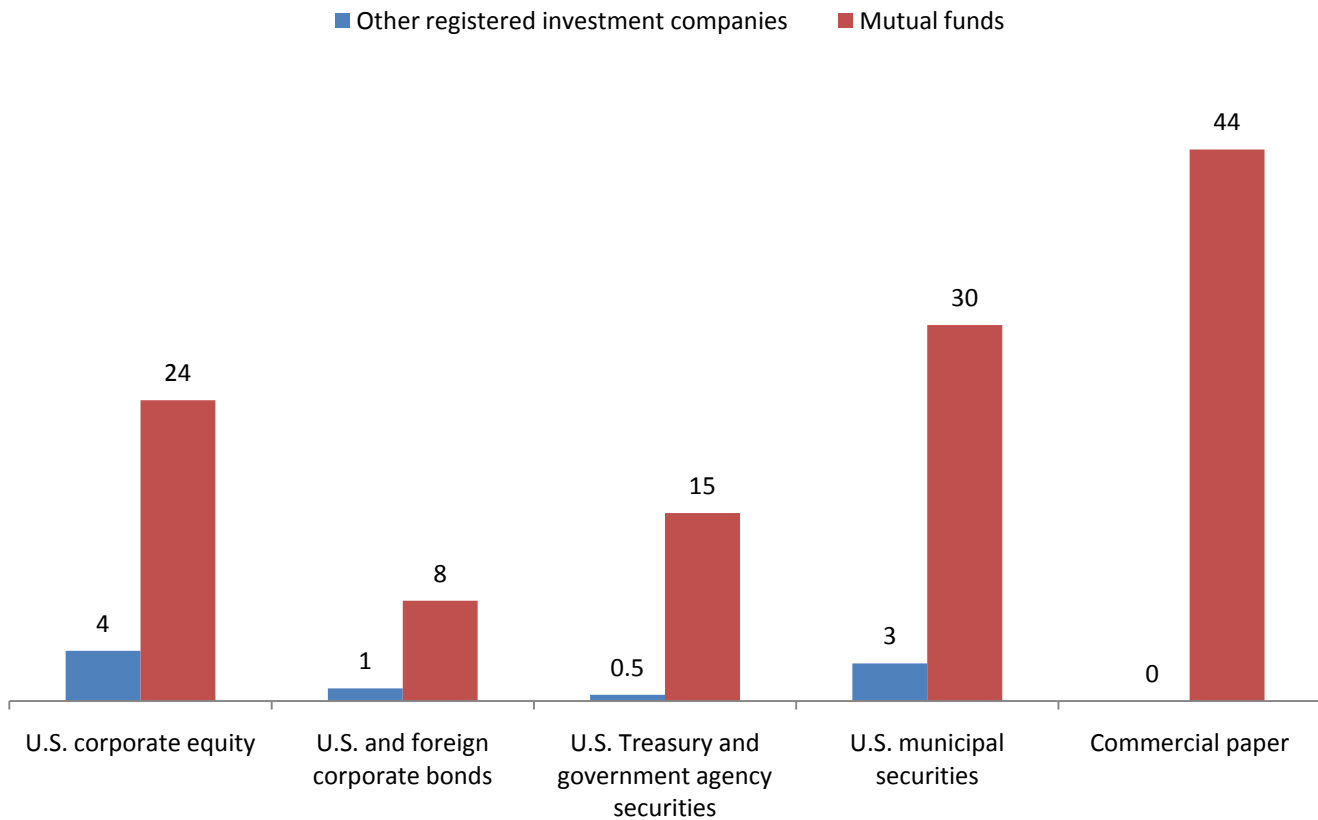
	Mutual funds		Closed-end funds		ETFs		UIT		Total	
	Net Assets	Number of Companies	Net Assets	Number of Companies	Net Assets	Number of Companies	Net Assets	Number of Companies	Net Assets	Number of Companies
1995	\$2,811	5,761	\$143	500	\$1	2	\$73	12,979	\$3,028	19,242
1996	3,526	6,293	147	498	2	19	72	11,764	3,747	18,574
1997	4,468	6,778	152	488	7	19	85	11,593	4,712	18,878
1998	5,525	7,489	156	492	16	29	94	10,966	5,791	18,976
1999	6,846	8,004	147	512	34	30	92	10,414	7,119	18,960
2000	6,965	8,371	143	482	66	80	74	10,072	7,248	19,005
2001	6,975	8,519	141	492	83	102	49	9,295	7,248	18,408
2002	6,390	8,512	159	545	102	113	36	8,303	6,687	17,473
2003	7,414	8,427	214	584	151	119	36	7,233	7,815	16,363
2004	8,107	8,419	254	619	228	152	37	6,499	8,626	15,689
2005	8,905	8,451	277	635	301	204	41	6,019	9,524	15,309
2006	10,397	8,723	298	647	423	359	50	5,907	11,167	15,636
2007	12,000	8,749	313	664	608	629	53	6,030	12,974	16,072
2008	9,601	8,889	188	646	531	743	29	5,984	10,349	16,262

(Source: Investment Company Institute)

U.S.-registered investment companies managed \$10.3 trillion in 2008, a \$2.6 trillion decrease from 2007. Major U.S. stock price indexes declined about 40 percent during the year, significantly lowering total net assets of funds invested in domestic equity markets. Declines in stock prices abroad had a similar effect on funds invested in foreign stocks.

The total number of other investment companies has fallen considerably since 2000, while the number of mutual fund companies has increased. Sponsors of UITs have been creating fewer new trusts and the total number of UITs has declined substantially. Additionally, closed-end fund sponsors shut down 18 more funds than they opened in 2008. Sponsors of ETFs, however, opened over 100 new funds, on net, in 2008.

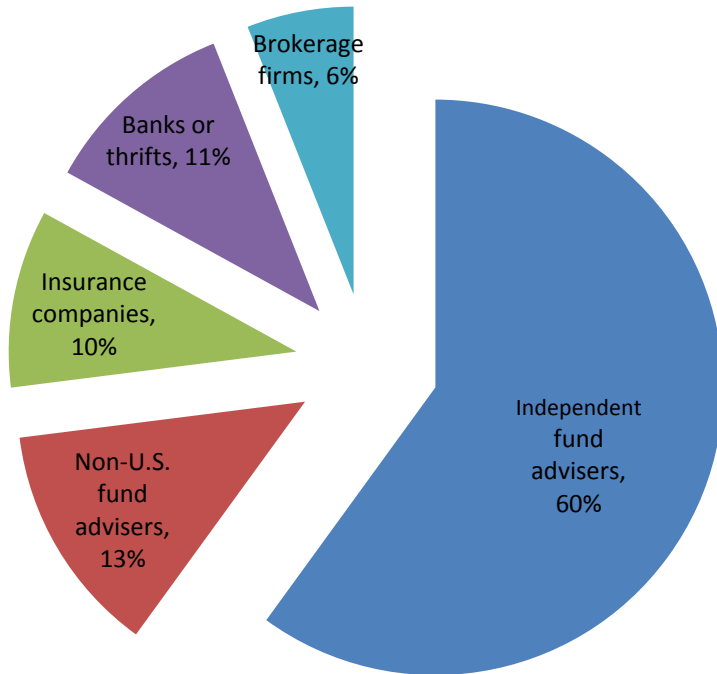
### Percentage of Total Market Securities Held by Investment Companies in 2008



(Source: Investment Company Institute)

Investment companies have been among the largest investors in the domestic financial markets for much of the past 15 years and held a significant portion of the outstanding shares of U.S.-issued stocks, bonds, and money market securities at year-end 2008. Investment companies as a whole were the largest group of investors in U.S. companies, holding 28 percent of their outstanding stock at year-end 2008. Investment companies also held the largest share of U.S. commercial paper. At year-end 2008, investment companies held 33 percent of tax-exempt debt issued by U.S. municipalities. Funds held 15 percent of U.S. Treasury and government agency securities at year-end 2008.

## Percentage of Investment Company by Type of Intermediary in 2008

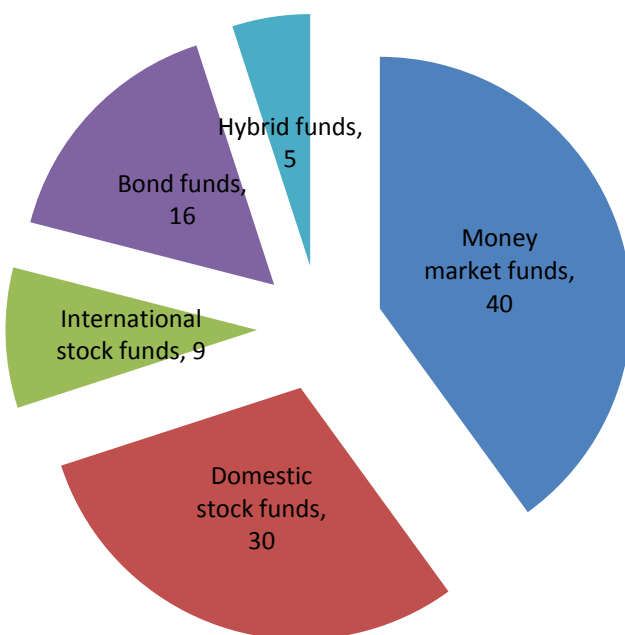


Sixty percent of U.S. fund and trust sponsors were independent fund advisers, and these sponsors managed more than half of investment company assets. Banks, thrifts, insurance companies, brokerage firms, and non-U.S. fund advisers are other types of fund sponsors in the U.S. marketplace.

(Source: Investment Company Institute)

## Percentage of U. S. Mutual Fund Net Assets by Type of Fund in 2008

Total U.S. mutual fund assets: \$9.6 trillion



Money market funds accounted for 40 percent of U.S. mutual fund assets at year-end 2008. Stock mutual funds made up 39 percent of U.S. mutual fund assets, the smallest share since 1994. In 2008, domestic stock funds held 30 percent of total industry assets; international stock funds accounted for another 9 percent. Bond funds (16 percent) and hybrid funds (5 percent) held the remainder of total U.S. mutual fund assets.

(Source: Investment Company Institute)

## Net New Cash Flows to Mutual Funds (billions of dollars)



(Source: Investment Company Institute)

Investor demand for mutual funds slowed substantially in 2008. Net new cash flow to all mutual funds was \$411 billion, less than half the frenetic record pace set in 2007, but comparable to that of 2006. Outflows from stock mutual funds and reduced inflows to taxable bond mutual funds accounted for much of the deceleration.

## Snapshot of the Mutual Fund Industry

<b>HOW MANY PEOPLE OWN MUTUAL FUNDS?</b>	<ul style="list-style-type: none"> <li>✓ 92 million individuals</li> <li>✓ 52.5 million U.S. households</li> </ul>
<b>WHO ARE THEY?</b>	<ul style="list-style-type: none"> <li>✓ 49 years of age (median head of household)</li> <li>✓ 76 percent are married or living with a partner</li> <li>✓ 46 percent are college graduates</li> <li>✓ 78 percent are employed (full- or part-time)</li> <li>✓ 46 percent are Baby Boomers</li> <li>✓ 24 percent are Generation X</li> <li>✓ \$80,000, median household income</li> </ul>
<b>WHAT DO THEY OWN?</b>	<ul style="list-style-type: none"> <li>✓ \$200,000, median household financial assets</li> <li>✓ 69 percent hold more than half of their financial assets in mutual funds</li> <li>✓ 68 percent own IRAs</li> <li>✓ 78 percent own DC retirement plan accounts</li> </ul>
<b>WHAT IS IN THEIR FUND PORTFOLIOS?</b>	<ul style="list-style-type: none"> <li>✓ 58 percent bought their first fund before 1995</li> <li>✓ Four mutual funds, median number owned</li> <li>✓ \$100,000, median mutual fund assets</li> <li>✓ 59 percent purchased first mutual fund through an employer-sponsored retirement plan</li> <li>✓ 80 percent own equity funds</li> </ul>
<b>WHY DO THEY INVEST?</b>	<ul style="list-style-type: none"> <li>✓ 95 percent are saving for retirement</li> <li>✓ 52 percent hold mutual funds to reduce taxable income</li> <li>✓ 45 percent are saving for emergencies</li> </ul>

(Source: Investment Company Institute and U.S. Census Bureau)