

# *Distribution Channels for Mutual Funds:*

## *Understanding Shareholder Choices*



*Research Report/Summer 1994*

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# *Introduction*

*T*he ability of mutual fund organizations to take an innovative approach in response to a complex financial environment is one of the hallmarks of the mutual fund industry. Because it stays attuned to investor needs, the mutual fund industry continually adapts and expands its product lines, services, and pricing structures, as well as its methods of distribution. This responsiveness has helped to propel the mutual fund industry into the ranks of financial services leaders.

Innovations in distribution have contributed significantly to the growth of the mutual fund industry in recent years. Traditionally, financial institutions offered a limited product range—banks and thrifts offered checking and savings accounts, securities firms offered stocks and bonds, and insurance companies offered insurance. Over the last decade, however, a new financial landscape has emerged. Today's financial institutions sell a broad range of financial products, including mutual funds. Mutual funds are now primarily available from six distribution channels: full-service brokers, discount brokers, insurance agents, financial planners, banks, and directly from the mutual fund company.

The increased accessibility of mutual funds, combined with the growth in the number of mutual funds offered, enables today's shareholders to choose from among many investment alternatives. Because the road shareholders travel to purchase mutual funds is a key component of mutual fund marketing, mutual fund companies must under-

stand the distribution channel's role in the investor's fund purchase process, particularly as it evolves over time. How shareholders choose a fund, the information and advice they receive during the fund purchase process, and the service received at the point of sale are critical to the continued success of the industry.

In 1988, ICI conducted its first extensive study of shareholders' use of distribution channels to purchase mutual funds. This research found that the distribution channel plays an important role in building and maintaining relationships with customers: It is the bridge that links the investor to the mutual fund. Given the tremendous growth of the mutual fund industry since 1988, it is appropriate to reexamine that nexus. Thus, the Investment Company Institute and its Research Committee undertook this study, with the assistance of the Response Analysis Corporation (RAC).

## *Research Objectives*

The overall objectives of the research are to examine mutual fund owners' current use of distribution channels for the purchase of long-term mutual funds, and to identify and describe the financial, attitudinal, and demographic factors that link active fund owners to specific distribution channels. Specifically, the study seeks to:

- Measure shareholders' use of six channels of distribution for mutual funds—full-service brokers, discount brokers, insurance agents,

banks and savings institutions, financial planners, and direct market;

- Understand why shareholders use a particular distribution channel and identify the factors that tie them to that channel;
- Identify how shareholders' use of distribution channels changes over the course of their investment history;
- Understand why shareholders no longer use particular distribution channels to purchase mutual funds, and
- Segment shareholders according to their investment needs.

### *Research Methodology*

Interviews were conducted in the fall of 1993 with a random sample of 720 mutual fund-owning households. The interviews were held with the household's primary or co-decision-maker for saving and investment. To qualify for the survey, households had to be recent buyers of long-term mutual funds, that is, they had to have purchased a long-term mutual fund from one of the six distribution channels in the five years preceding the survey. A "purchase" was defined as the purchase of shares of a long-term fund from which no previous shares had been owned before 1988. This definition, therefore, excludes instances where a respondent invested more money in a fund in which he or she already owned shares prior to 1988, as well as any mutual funds obtained through an employer. Hence, this is not a study of the average mutual fund shareholder. By definition, the survey respondents were active shareholders.

Although a respondent's level of income was not a criterion for participating in this study, the random sample was drawn from households in high-income areas in order to increase the likelihood of finding households that would qualify to participate in the study according to the definitions explained above.

The respondents who participated in the study were asked questions about the mutual funds they cur-

rently own, including any mutual funds that they purchased before 1988. Hence, they are referred to interchangeably as "owners" or "channel users." For example, respondents who currently own mutual funds from a full-service broker are referred to as "owners through the full-service broker channel" or "full-service broker channel users."

To construct a questionnaire that reflected fund owners' use of channels, ICI and RAC conducted focus groups with mutual fund shareholders who purchased funds through at least one of the six distribution channels in the last five years. The discussions revealed that some shareholders purchased their mutual funds from more than one distribution channel, and that their use of channels changed over time. The groups also identified that the availability of information and advice, the trust of an investment adviser, and the integrity of the company issuing the investment are important considerations in the fund purchase process.

As is typically the case with survey research, response rates vary because some respondents will not or cannot answer a particular question. Where appropriate, the number of respondents answering, or "base," is provided.

### *Limitations of the Study*

The data for this study were collected through telephone interviews. The data for the 1988 study, which ICI published in the *Distribution Connection* series, were collected using in-home interviews. **Because the two studies have different data collection methodologies, it is inappropriate to compare and contrast the findings of the two studies.** The reader should also note that this research is a study of recent buyers of long-term funds and is not designed to provide demographic and financial characteristics of the general population of mutual fund shareholders. For a profile of the typical shareholder and key shareholder segments, see ICI's *Profiles of Mutual Fund Shareholders* (1992).

# Executive Summary

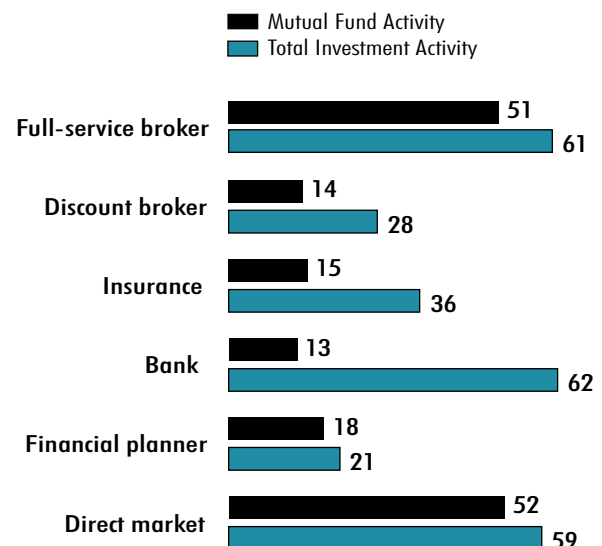
**1** The survey respondents use a variety of distribution channels to purchase mutual funds—full-service brokers, discount brokers, insurance agents, banks, financial planners, and direct market—but with differing degrees of frequency. More than half of respondents own funds purchased from the full-service broker channel and more than half own funds from the direct market channel. Less than 20 percent own funds bought from each of the remaining channels: financial planner, discount broker, insurance, and bank. These findings suggest that the financial planner, bank, insurance, and discount broker channels could benefit from marketing initiatives designed to increase consumer awareness that they offer mutual funds.

**2** Some distribution channels that are used by survey respondents for their investment activity are not necessarily used for mutual fund purchases. This disparity in usage is most evident in the discount broker, bank, and insurance channels, and suggests that a particularly attractive opportunity exists for these channels to increase their customers' awareness of mutual funds. For example, Figure 1 shows that 62 percent of respondents have some portion of their total financial assets invested through a bank, yet only 13 percent own mutual funds through this channel. This disparity in usage is much less evident with regard to the full-service broker and direct market channels. For example, about six out of ten respondents have invested some portion of their household financial assets through the full-

**FIGURE 1**

## Use of Channels for Mutual Fund Investment and Total Investment Activity\*

(percent of respondents)



Base=720

\*Multiple responses included

service broker channel, and more than half use the channel to purchase mutual funds.

## **3** Most survey respondents currently use more than one channel to purchase mutual funds.

Respondents who own funds from the discount broker, insurance, and bank channels are the likeliest to be multichannel users for mutual funds.

As seen in Figure 2, 80 percent or more of discount

**FIGURE 2**

**Number of Channels Used to Purchase Mutual Funds**

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
One channel	40	20	18	16	33	38
Two channels	40	47	32	43	40	43
Three channels	15	22	34	24	18	14
Four or more channels	5	11	16	17	9	5
	100%	100%	100%	100%	100%	100%
Mean	1.9	2.3	2.6	2.5	2.1	1.9
Median	2	2	3	2	2	2
Base =	337	120	126	107	147	384

Note: Channel users are respondents who currently own at least one fund from that channel.

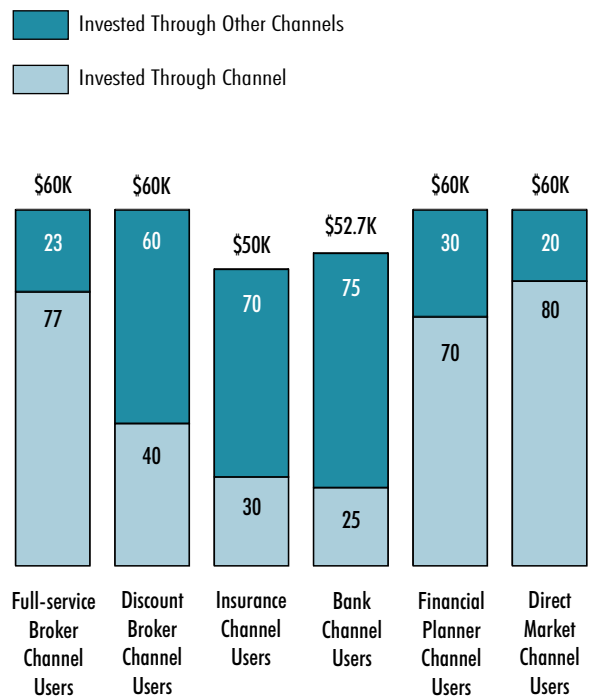
broker, insurance, and bank channel users own funds from at least one other channel. Two thirds or less of full-service broker, financial planner, and direct market channel users own funds from at least one other channel.

**4 Wide variations exist in the share of mutual fund assets that each channel group has invested through its particular channel, indicating that allegiance to some channels is stronger than for others.** Figure 3 shows that full-service broker, financial planner, and direct market channel users typically have the majority of their mutual fund assets invested through their respective channels. Discount broker, bank, and insurance channel users generally have the majority of their mutual fund assets invested in other channels.

**FIGURE 3**

**Distribution of Mutual Fund Assets**

(percent of respondents' assets)

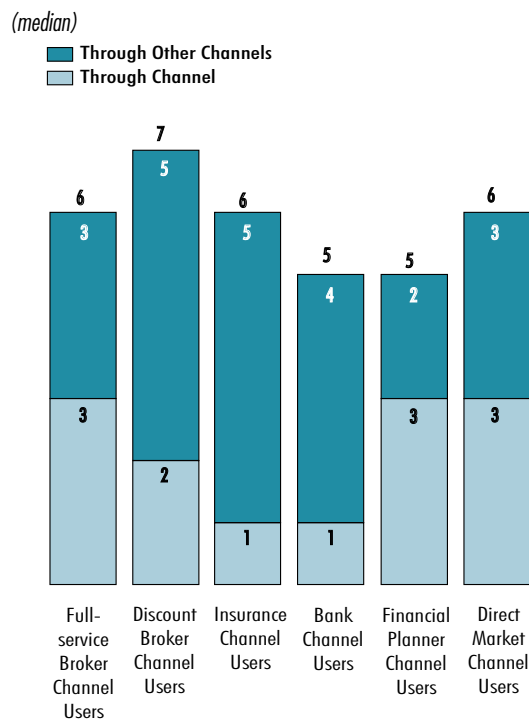


Note: Channel users are respondents who currently own at least one fund from that channel.

**5 Differences exist in the number of mutual funds that channel users own through their respective channels, another sign of variation in shareholders' commitment to channels.** This variation is especially noticeable when the total number of funds owned is broken down according to the channels through which the funds were purchased. For example, financial planner channel users own a median of five funds, three of which were purchased from a financial planner. Both direct market and full-service broker channel users own a median of six funds, three of which were purchased from their respective channels. Discount broker channel users own a median of seven funds, of which only two were purchased from a discount broker. Figure 4 shows that insurance and bank channel users own a median of six and five funds, respectively. In both cases, users purchased a median of just one of the funds they own from their respective channels.

**FIGURE 4**

**Number of Funds Owned by Channel Users**



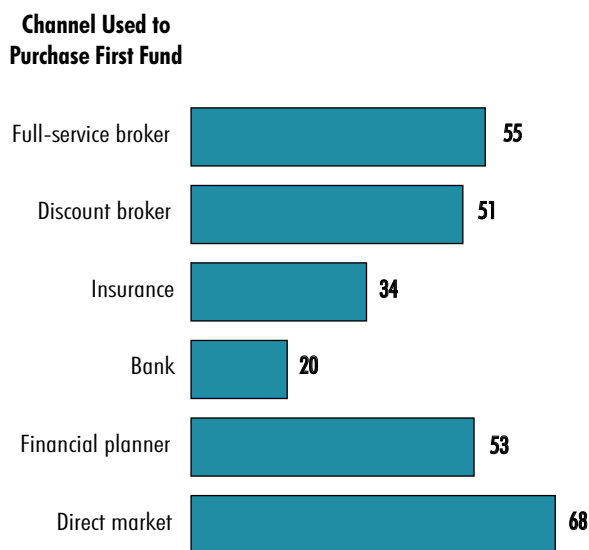
Note: Channel users are respondents who currently own at least one fund from that channel.

**6 Some channels are more successful than others in garnering repeat business from their customers.** This is evident from the share of respondents who purchased their most recent fund from the same channel they used to purchase their first mutual fund, and from the share of respondents who say they will purchase their next fund from the same channel they used to purchase their most recent fund. Figure 5 shows that the majority of respondents who were introduced to mutual funds through the full-service broker, discount broker, financial planner, and direct market channels returned to these channels, respectively, to purchase their most recent fund. However, most of those who purchased their first fund from the insurance or bank channel purchased their most recent fund from some other channel. Figure 6 shows that the majority of respondents who bought their most recent fund from the full-service broker, discount broker, financial planner, and direct market channels plan to purchase their next fund from these channels. In contrast, most of those who purchased their most recent fund from the insurance or bank channel expect to purchase their next fund from some other channel.

**FIGURE 5**

**Repeat Channel Use\***

(percent of respondents who bought most recent fund from same channel used to purchase first fund)

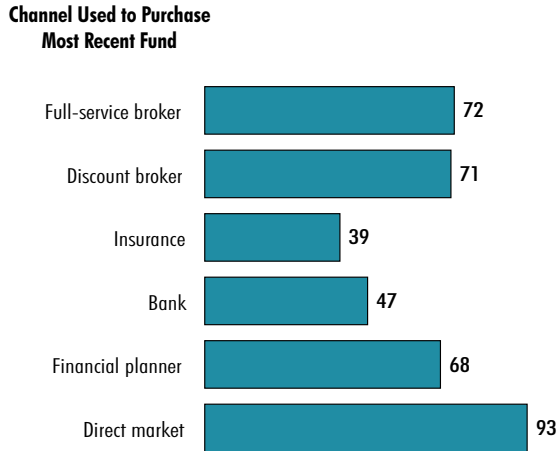


\*For respondents who have owned more than one fund.

**FIGURE 6**

**Anticipated Channel Use\***

(percent of respondents who expect to purchase next fund from same channel used to purchase most recent fund)



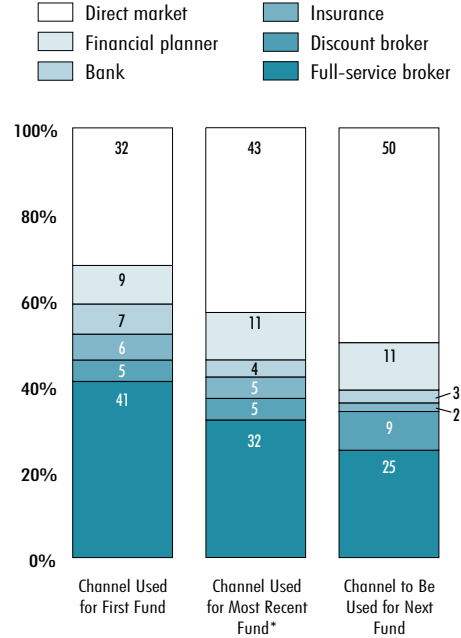
\*For respondents who have owned more than one fund

**7** Although many respondents are, or expect to be, repeat customers of their respective channels, there is a tendency to move toward the **direct market channel**. As shown in Figure 7, the largest proportion of respondents, 41 percent, bought their first mutual fund from a full-service broker, compared with 32 percent for the direct market channel. Thirty-two percent of respondents who have owned more than one fund bought their most recent fund from a full-service broker, compared with 43 percent for the direct market channel. Only a quarter of respondents expect to purchase their next fund from a full-service broker, compared with half who expect to use the direct market channel.

**FIGURE 7**

**Channels Used to Purchase Mutual Funds Over Time**

(percent of respondents)



Base= 720 642 661

\*For respondents who have owned more than one fund

**8** The respondents who are moving toward the **direct market channel** are generally well-educated males with large mutual fund portfolios. These respondents also tend to be self-reliant investors who are sensitive to price. Figure 8 shows that respondents who purchased their most recent fund from the direct market channel are more likely to be male and to have a graduate degree than are respondents who purchased their most recent fund from one of the other channels. Respondents who purchased their most recent fund from the direct market channel own a median of six funds. This compares with a median of four or five funds for those who bought their most recent fund from one of the other channels.

**FIGURE 8**

**Respondents' Key Demographic and Financial Characteristics According to the Channel from Which They Purchased Their Most Recent Fund**

	Channel Used to Purchase Most Recent Fund*					
	Full-service Broker	Discount Broker	Insurance	Bank	Financial Planner	Direct Market
<b>Median</b>						
Age	49	40	45	50	48	47
Household mutual fund assets	\$70,000	\$40,000	\$20,000	\$50,000	\$59,000	\$60,000
Number of funds owned per household	5	5	4	4	5	6
<b>Percent of Respondents</b>						
Male	62	68	61	62	69	75
Married	84	83	79	88	83	90
Retired from lifetime occupation	29	14	9	33	26	20
Graduate degree	34	32	26	30	39	43
Bought first fund:						
1990 or later	11	9	30	33	16	10
Before 1990	89	91	70	67	84	90
Own funds from:						
One channel	56	49	45	43	56	51
Two or more channels	44	51	55	57	44	49

\*For respondents who have owned more than one fund

**9** It is also primarily multichannel users who are gravitating toward the direct market channel. Most single-channel users expect to purchase their next fund from the same channel they currently use. For example, Figure 9 shows that 46 percent of multichannel users who own funds from the discount broker channel expect to purchase their next fund from the direct market channel. This compares with four percent of single-channel users who own funds from a discount broker. These findings indicate that channels should seek to maintain and strengthen their relationships with shareholders who use only their particular channel to purchase funds. Channels that are better able to meet the needs of their shareholders may stem migration toward another purchase channel.

**10** The shift from single-channel user to multichannel user appears to be a gradual one. Only 11 percent of single-channel users will purchase their next fund from a different channel than the one they currently use. This finding indicates that mutual fund distribution channels have a distinct window of opportunity during which they can strengthen their relationship with shareholders who only use their particular channel.



**FIGURE 9**  
**Respondents Planning to Purchase Their Next Fund from the Direct Market Channel**

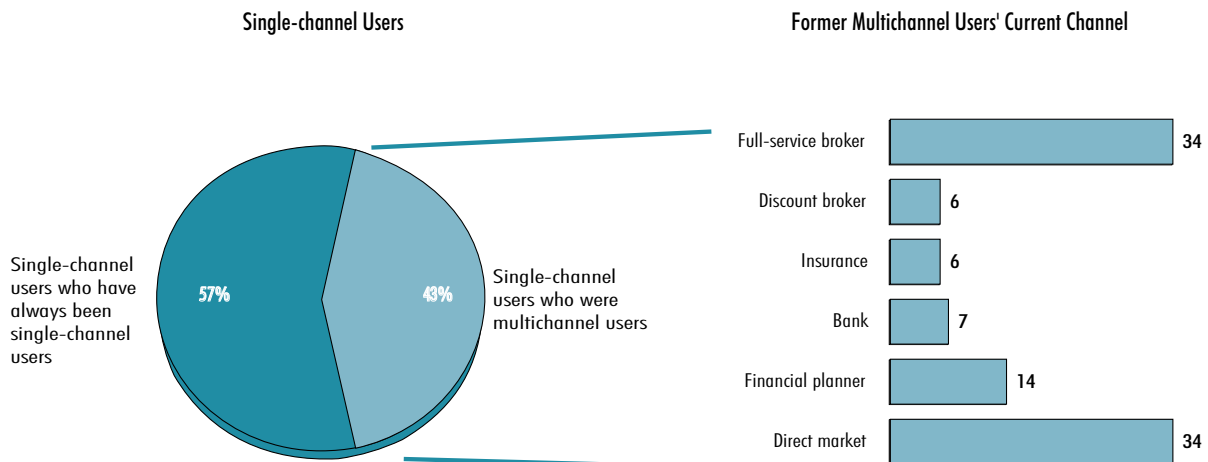
(percent)

Single-channel users who own funds from the following channels...	
Full-service broker	7
Discount broker	4
Insurance	27
Bank	17
Financial planner	6
Direct market	98
Multichannel users who own funds from the following channels...	
Full-service broker	55
Discount broker	46
Insurance	47
Bank	50
Financial planner	34
Direct market	73

**11** A segment of respondents who currently use only one channel are former multichannel users, an indication that some multichannel users reach a point at which they decide to consolidate their mutual fund assets within one channel. Figure 10 shows that nearly 70 percent of former multichannel users consolidated their mutual fund assets into either the full-service broker or the direct market channel. Former multichannel users are demographically more similar to current multichannel users than they are to respondents who have never used more than one channel to purchase mutual funds.

**12** Some respondents who use a full-service broker are quite unlikely to migrate to the direct market channel or to any other channel. An analysis of respondents' financial needs and attitudes toward investing found that 16 percent of respondents rely heavily on their financial adviser for advice and guidance, and in many cases, for decisionmaking. Nearly three quarters of these adviser-dependent shareholders are customers of the full-service broker channel and expect to remain customers of the full-service broker channel.

**FIGURE 10**  
**The Shift from Multichannel Use to Single-channel Use**



Base=363

**FIGURE 11**

**Primary Reason for Using Channels to Purchase Mutual Funds**

(three most frequently cited reasons)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Offers initial and ongoing investment advice or guidance	1		2		1	
Has low or no fees or commissions		1				1
Have an established relationship with adviser or institution	2		1	2	2	
Offers funds with solid performance						2
Is a convenient way to purchase an investment		2	3	1		3
Offers personalized service	3			3	3	
Executes orders efficiently		3				
Base =	308	102	101	74	133	353

Note: Channel users are respondents who currently own at least one fund from that channel.

**13 A variety of factors motivate respondents to use channels to purchase mutual funds, but the need for advice, past experience, fees and commissions, and convenience are the most important drivers of channel use.** Figure 11 shows that respondents who use a full-service broker or financial planner most often cite advice and guidance as their key reason for using these channels. Low fees and commissions are the primary reason why respondents use the discount broker and direct market channels. Bank channel users most often cite convenience, and insurance channel users cite their existing relationship with their agent.

**14 Respondents tend to view their channels positively and to associate important benefits with them. This is most apparent among full-service broker, financial planner, and direct market channel users.** Respondents using the discount broker, bank, and insurance channels give their respective channels mixed assessments. Figure 12 shows that the vast majority of full-service broker and financial planner channel users

perceive their channels as providing investment advice, information, personalized service, and convenience. Most direct market channel users view their channel as one that provides reasonable fees, information, and convenience. A large majority of discount broker channel users perceive their channel as providing convenience, but fewer associate it with reasonable fees and information. A small majority of insurance channel users associate their channel with personalized service and convenience, but most do not strongly associate it with investment information or advice. About half of bank channel users perceive their channel as one that provides convenience, but most do not strongly associate it with investment advice, information, or personalized service.

**15 An opportunity exists to cross-sell non-fund investments to mutual fund customers.** Exhibiting the traditional relationship between particular investments and channels—for example, life insurance from an insurance agent and certificates of deposit from a bank—respondents often purchase nonfund investments from channels other than those they use to purchase mutual funds.

**FIGURE 12**

**Respondents' Perceptions of the Channels They Use to Purchase Mutual Funds\***

(percent of respondents rating attribute 5 or 6\*\*)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Availability of investment advice	85	35	47	42	85	52
Personalized service	82	19	54	38	89	27
Reasonableness of mutual fund fees	25	58	27	35	35	80
Availability of mutual fund information	82	57	46	42	85	81
Convenience for purchasing mutual fund shares	90	80	53	52	85	89

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 13**

**Primary Source of Investment Information**

(three most frequently cited reasons)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Full-service broker	1		2	1	3	3
Discount broker		3				
Insurance agent						
Bank representative						
Financial planner	3		3	3	1	
Direct contact with mutual fund company		2				2
Books, magazines, newspapers, or brochures	2	1	1	2	2	1
Base=	324	118	120	98	143	365

Note: Channel users are respondents who currently own at least one fund from that channel.

To some extent, however, the purchase of nonfund investments is limited by the availability of investments through the channel, as in the case of the direct market channel.

**16** Of all the sources respondents turn to for mutual fund information, the channel they use to purchase mutual funds has the greatest influence on full-service broker and financial planner channel users, and, to a slightly lesser degree, direct market channel users. Figure 13 shows that full-service broker and financial plan-

ner channel users most frequently mention an adviser from their channel as their primary source of mutual fund information. For direct market channel users, direct contact with the fund company is their second most frequently mentioned primary source for mutual fund information after printed material, such as magazines, newspapers, newsletters, and brochures. In contrast, bank and insurance channel users do not consider their respective channels to be their primary source for fund information. Instead, bank and insurance channel users typically cite other channels or various printed materials as their primary source for fund information.

# Chapter 1: Current Use of Channels

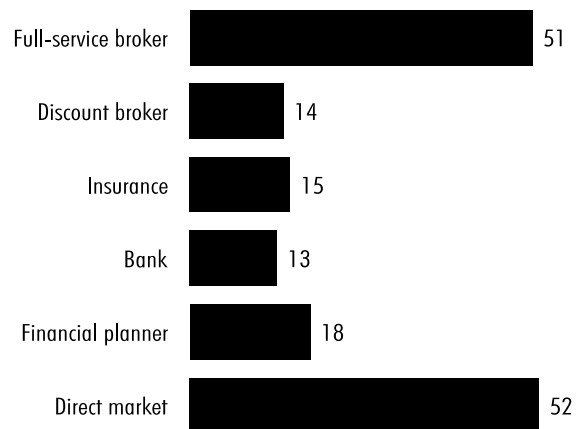
## Chapter Summary

The majority of respondents currently own at least one mutual fund from the full-service broker and direct market channels.<sup>1</sup> Much smaller percentages own funds from the discount broker, insurance agent, financial planner, and bank channels. Most respondents own funds from more than one channel, but multichannel use is heavily concentrated among respondents who own funds from the discount broker, insurance, and bank channels. Therefore, it is not surprising that discount broker, insurance agent, and bank channel users have only a small proportion of their mutual fund assets invested through their respective channels. In contrast, full-service broker, financial planner, and direct market channel users have at least 70 percent of their mutual fund assets invested in their respective channels. Because respondents often purchase nonfund investments from channels other than those used to purchase mutual funds, total investment activity through each channel exceeds mutual fund investment activity. This gap is largest for the bank channel, and smallest for the full-service broker and direct market channels.

**FIGURE 14**

## Channels Used to Purchase Mutual Funds Currently Owned\*

(percent of respondents)



Base=720

\*Multiple responses included

<sup>1</sup> Respondents are shareholders who purchased long-term mutual funds from 1988 through 1993 other than through their employer. A “purchase” was defined as purchasing shares of a fund from which no previous shares had been owned before 1988. This definition, therefore, excludes instances where a respondent invested more money in a fund in which he or she already owned shares prior to 1988.

### Use of Channels to Purchase Mutual Funds

Long-term fund shareholders do not use channels to purchase mutual funds with equal incidence. Rather, some channels are used more often than others.<sup>2</sup> Currently, 52 percent of respondents own direct-marketed mutual funds. Following closely, 51 percent of respondents own mutual funds purchased from a full-service broker. In contrast, only 18 percent of respondents own funds bought from a financial planner, 15 percent from an insurance agent, 14 percent from a discount broker, and 13 percent from a bank representative.

These data include long-term fund shareholders who use only one channel to purchase mutual funds, as well as those who use more than one channel. Figure 15 shows that the majority of respondents in each channel group are multichannel users. Respondents who own funds from the discount broker, insurance, and bank channels are the likeliest to use more than one channel to purchase mutual funds. At least 80 percent of discount broker, insurance, and bank channel users are multichannel users. While a significant number of full-service broker, financial planner, and direct market channel fund owners are multi-

channel users, at least one third in each of these categories uses a single channel. Use of a single channel to purchase mutual funds could be one way to define channel loyalty.

Although multichannel use is common among respondents, they typically use only two channels to purchase mutual funds. However, half of insurance agent users own funds from three or more channels. Following fairly closely, 41 percent of bank channel users own funds from three or more channels. In contrast, only about a third or less of discount broker and financial planner users own funds purchased from three or more channels (see Figure 2 on page 4).

Discount broker, insurance agent, and bank channel users also generally own funds bought from the full-service broker and the direct market channels. Among these three groups of respondents, roughly half also use the direct market channel and about four in ten also use a full-service broker. Figure 16 shows that full-service broker users are most likely to also own funds from the direct market channel. Financial planner users are about as likely to own funds from the full-service broker as from the direct market channels.

**FIGURE 15**

### Use of Single and Multiple Channels

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Single-channel user	40	20	18	16	33	38
Multichannel user	60	80	82	84	67	62
	100%	100%	100%	100%	100%	100%
Base =	337	120	126	107	147	384

Note: Channel users are respondents who currently own at least one fund from that channel.

<sup>2</sup>The term “use” refers to respondents who currently own at least one mutual fund purchased from a particular channel.

**FIGURE 16**

**Incidence of Ownership of Mutual Funds Purchased from Other Channels\***

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Other channels used...						
Full-service broker	NA	38	46	44	34	37
Discount broker	11	NA	13	15	9	13
Insurance	13	14	NA	27	18	14
Bank	12	15	25	NA	12	12
Financial planner	12	12	21	16	NA	12
Direct market	39	50	50	47	35	NA
Base =	337	120	126	107	147	384

\* Multiple responses included

NA = Not applicable

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 17**

**Mutual Fund Investment Activity**

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Median total mutual fund assets	\$60,000	\$60,000	\$50,000	\$52,700	\$60,000	\$60,000
Median mutual fund assets invested through channel	\$46,200	\$24,000	\$15,000	\$13,200	\$42,000	\$48,000
Percent of mutual fund assets invested through channel	77%	40%	30%	25%	70%	80%

Note: Channel users are respondents who currently own at least one fund from that channel.

Respondents have a median of \$50,000 invested in mutual funds, including long-term funds and money market funds, but this figure varies when analyzed by channel. Figure 17 shows that full-service broker, discount broker, financial planner, and direct market channel users each have a median of \$60,000 invested in mutual funds. In contrast, bank and insurance channel users have a median of \$52,700 and \$50,000, respectively, invested in mutual funds.

Figure 17 also shows the wide variation in the percent of mutual fund assets that each group of channel users has invested through that particular channel. For example, direct market channel users have 80 percent of their total mutual fund assets invested through that channel. At the other end of the spectrum, bank channel users typically have only 25 percent of their total mutual fund assets invested through the bank channel.

## Use of Channels to Purchase Nonfund Investments

The channels from which shareholders purchase mutual funds typically offer other investments, such as stocks, bonds, annuities, and unit investment trusts. The question arises, then, do shareholders purchase nonfund investments from the channels they use to buy mutual funds? The survey results indicate that respondents are taking advantage of their ability to diversify their investment portfolios within a single distribution channel. But just as respondents purchase mutual funds from more than one channel, it appears that they purchase nonfund investments from more than one channel as well.

Figure 18 identifies the proportion of respondents in each channel who also own other investments

through that channel. Approximately two thirds of full-service broker and insurance agent users own nonfund investments purchased from their respective channels. Following closely, 61 percent of discount broker users also own nonfund investments purchased from this channel. Likewise, more than half of financial planner channel users and more than half of bank channel users own nonfund investments purchased from their respective channels. Because nonfund investment options available through the direct market channel tend to be limited, just 36 percent of direct market channel users own nonfund investments purchased from this channel.

The types of nonfund investments purchased vary from channel to channel. For example, 56 percent of full-service broker users also purchased individual stocks through this channel, and 45

**FIGURE 18**

### Use of Mutual Fund Channel to Purchase Nonfund Investments

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users***
Percent of respondents purchasing at least one nonfund investment from same channel used to purchase mutual funds	65	61	68	56	51	36
Percent of respondents purchasing...*						
CDs	9	4	1	31	2	—
Individual bonds**	45	13	1	40	6	4
Treasury bills, bonds, or notes	12	2	—	4	3	6
Individual stock other than employer stock	56	52	1	6	12	26
Life insurance	5	—	59	2	16	—
Annuities	11	2	26	—	21	—
Unit investment trusts	10	—	1	1	3	—
Other investments	4	3	3	4	2	8
Base =	312	120	124	102	147	384

\*Multiple responses included

\*\*Includes corporate, municipal, and U.S. Savings Bonds

\*\*\*Purchased investment directly from the issuer, not the direct market fund company

Note: Channel users are respondents who currently own at least one fund from that channel.



percent purchased individual bonds through this channel. Nearly 60 percent of insurance agent users also own life insurance purchased through this channel, and 26 percent own annuities. Slightly more than one half of those using a discount broker for mutual funds are also investing in individual stocks through this channel. Among bank channel users, certificates of deposit and bonds are the nonfund investments most often owned through this channel.

While respondents often purchase other investments from the channels through which they own funds, they also turn to other channels for nonfund investments. In fact, in all but the full-service broker channel, a larger proportion of respondents are going outside their mutual fund channel for nonfund investments than are purchasing nonfund investments from that channel. This is particularly true of the direct market channel, which reflects the limited types of investment products that can be purchased directly in that channel.

The types of nonfund investments that respondents purchase outside their respective mutual fund channels reflect the traditional relationship of particular investments with particular channels. For example, life insurance is traditionally associated with insurance agents, certificates of deposit with banks, and stocks and bonds with full-service and discount brokers.

Figure 19 illustrates the channels other than respondents' mutual fund channel that are used for nonfund investments. Because most financial institutions that offer mutual funds also offer their customers a broad range of other investment options, mutual fund customers who purchase nonfund investments from other channels would appear to be a market ripe for cross-selling and should not be overlooked.

**FIGURE 19**

**Channels Other than Mutual Fund Channel Used to Purchase Nonfund Investments**

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Percent of respondents purchasing at least one nonfund investment from a channel other than that used to purchase mutual funds	57	74	76	73	70	77
Percent of respondents using channel for a nonfund investment...						
Full-service broker	NA	31	34	36	25	37
Discount broker	11	NA	13	13	11	23
Insurance	28	24	NA	36	30	28
Bank	33	40	49	NA	39	45
Financial planner	7	7	13	11	NA	7
Direct market	16	26	25	22	17	NA
Base =	337	120	126	107	147	384

NA = Not applicable

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 20**

**Household Financial Assets per Channel\***

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Median household financial assets	\$178,700	\$141,200	\$117,100	\$133,100	\$140,800	\$153,500
Household financial assets invested through the channel...						
Median	\$107,200	\$43,800	\$23,400	\$26,600	\$70,400	\$61,400
Percent	60%	31%	20%	20%	50%	40%

\* Excludes real estate and assets in employer-sponsored retirement plans  
Note: Channel users are respondents who currently own at least one fund from that channel.

*Use of Channels for Total Investment Activity*

The channels used most often for total investment activity are not necessarily the channels used most often for mutual fund purchases. For example, 62 percent of respondents have some share of their assets invested with a bank or savings and loan, but only 13 percent own mutual funds purchased from this channel. Fully 36 percent of respondents have some of their financial assets invested with an insurance agent, while only 15 percent own mutual funds through this channel. A total of 28 percent of respondents have assets invested with a discount broker, and just 14 percent use the channel for mutual funds (see Figure 1 on page 3).

For respondents who use banks and discount brokers, the gap between total investment and mutual fund investment activity may begin to narrow. Each year, more banks are providing mutual funds to their customers. The advent of no-transaction-fee programs among discount brokerage firms has eliminated a key drawback to purchasing funds from this channel. Nevertheless, the bank, insurance, and discount broker channels could possibly benefit from increased consumer awareness that they offer mutual funds.

For respondents who use the full-service broker and direct market channels, the difference between total investment activity and mutual fund purchases is quite small, an indication that mutual fund marketing efforts of these two channels have been successful. Roughly 60 percent of respondents use the full-service broker and direct market channels for some type of investment, and more than half own mutual funds from these two channels.

Although respondents do not invest through the financial planner channel as extensively as through the full-service broker and direct market channels, the difference between the use of the channel for total investment activity and for mutual fund purchases is also quite small. Fully 21 percent of respondents have assets with a financial planner, and 18 percent own funds through this channel.

Figure 20 shows respondents' median household financial assets and the median amount invested per channel. Respondents who purchase funds through the full-service broker are the most affluent, with median household financial assets totaling \$178,700. Of this, a median of \$107,200, or 60 percent, is invested through the full-service broker channel.

The median household financial assets of financial planner channel users is \$140,800, and these buyers have a median of \$70,400, or 50 percent, invested through the financial planner channel. Respondents who own funds from the direct market channel have median household financial assets of \$153,500, of which \$61,400, or 40 percent, is invested through the direct market channel.

The median household financial assets for respondents in the discount broker, insurance agent, and bank channels range from \$117,100 to \$141,200. However, a smaller percentage of these respondents' household financial assets is invested through these three channels, respectively. Discount broker channel users have 31 percent, bank channel users have 20 percent, and insurance channel users have 20 percent of their median household financial assets invested through their respective channels.

## Chapter 2: Channel Use Over Time

### Chapter Summary

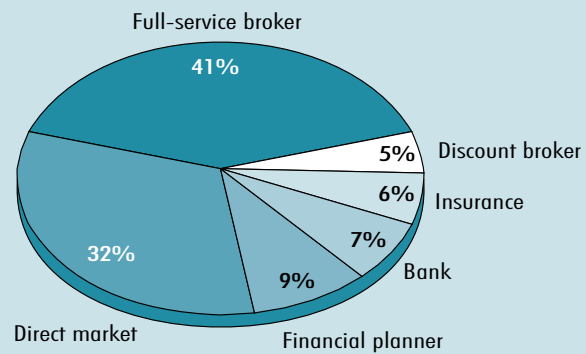
The largest proportion of respondents, 41 percent, bought their first mutual fund from a full-service broker and 32 percent bought their first mutual fund directly from a fund company. Among respondents who have owned more than one fund, however, more than half who purchased their first mutual fund from the full-service broker, discount broker, financial planner, and direct market channels purchased their most recent fund from the same channel. Similarly, the majority of respondents who purchased their most recent fund from one of these four channels expect to purchase their next fund from the same channel. Nevertheless, the study shows that respondents are gravitating toward the direct market channel. Among respondents who have owned more than one mutual fund, the largest proportion, 43 percent, purchased their most recent mutual fund from the direct market channel. Furthermore, half of all respondents

expect to purchase their next mutual fund from the direct market channel.

**FIGURE 21**

### Channel Used to Purchase First Mutual Fund

(percent of respondents)



Base=720

### Patterns in Channel Use

Examining the pattern of channels used over time is important to understanding shareholder behavior. Comparing the channels shareholders use now with those they have ever used, as well as with those they are likely to use in the future, reveals changes in purchase behavior from which mutual fund managers can build marketing strategies.

A comparison of respondents who have *ever used* a particular channel with those who *currently use* that channel suggests that shareholders' use of distribution channels is dynamic, not static. Figure 22 shows that, for each channel, a larger proportion of respondents have ever used that channel than are currently using it. This finding also suggests that shareholders who use several distribution channels eventually pare down the

channels they use to a preferred few, and in some instances, to just one.

The pattern of channels ever used is similar to the pattern of channels currently used. Roughly three times as many investors have ever purchased mutual funds from the full-service broker or direct market channels than have ever bought funds from the discount broker, insurance, bank, or financial planner channels. Based on the difference between the percent of respondents who have ever used and who currently use each channel, respondents who have experience with the full-service broker or direct market channels are more likely to still use these channels than are past users of the other four channels. For example, 63 percent of respondents have used and 51 percent currently use the full-service broker channel, a difference of 12 percentage points. Meanwhile, 23 percent of respondents have used and 13 percent currently use the bank channel, a difference of 10 percentage points. Hence, about one fifth of respondents who have ever used the full-service broker channel no longer use it to pur-

chase mutual funds. This compares with about half of those who have ever used the bank channel for a fund purchase.

Another interesting pattern that emerged from the study is that about one fifth of respondents who have used multiple channels to purchase mutual funds have shifted back to using a single channel. These shareholders tend to be seasoned investors with large, diverse mutual fund portfolios. This finding reinforces the theory that shareholders experiment with a variety of channels and that some shareholders will, over time, consolidate their fund assets within one particular channel. Hence, distribution channels should not take shareholder assets for granted. Figure 23 illustrates this phenomenon for the six channel groups. When compared with other channel users, a greater share of financial planner users have shifted from multiple channels to a single channel.

### Channel Used to Purchase First Mutual Fund

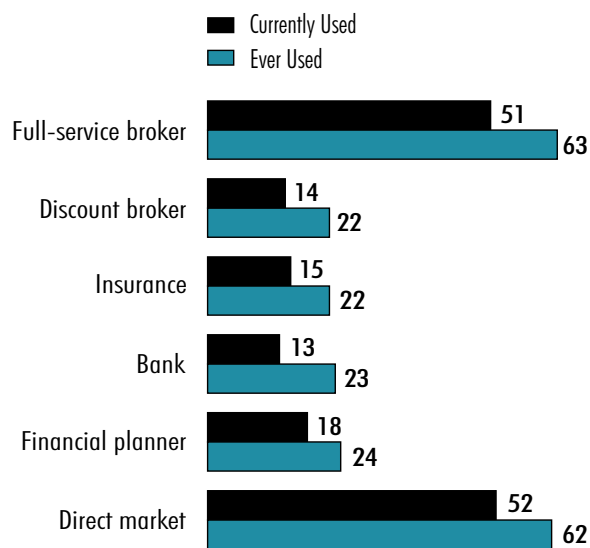
Respondents' first exposure to mutual funds was typically through either the full-service broker or the direct market channel. The largest proportion of respondents, 41 percent, used a full-service broker to purchase their first mutual fund. Nearly one third of respondents bought their first fund directly from the fund company. In contrast, no more than 5 to 9 percent of respondents began investing in mutual funds through the discount broker, insurance, bank, or financial planner channels (see Figure 21).

These data undoubtedly reflect the primary methods of mutual fund distribution prior to the mid-80s, the time when respondents typically bought their first fund (see Figure 28). A decade ago, for example, the distribution of mutual funds through banks and discount brokers was just emerging. As more banks and discount brokers begin to offer mutual funds, the number of shareholders who buy their first fund from these two channels will probably grow.

Most respondents went on to buy funds from other channels regardless of the channel from which they purchased their first fund (see Figure

**FIGURE 22**  
**Comparison of Channels Currently Used and Ever Used to Purchase Mutual Funds\***

(percent of respondents)



Base=720

\*Multiple responses included

**FIGURE 23**

**Patterns in Number of Channels Used to Purchase Mutual Funds**

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Current single-channel users who have never used more than one channel	26	11	10	6	17	24
Current single-channel users who were multichannel users	14	9	8	10	16	14
Current multichannel users	60	80	82	84	67	62
	100%	100%	100%	100%	100%	100%
Base =	337	120	126	107	147	384

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 24**

**Channel Used to Purchase First Mutual Fund Among Channel Users**

(percent of respondents)

Channel used to purchase first fund...	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Full-service broker	70	32	27	28	23	30
Discount broker	1	27	6	5	5	4
Insurance	3	2	26	8	10	3
Bank	5	9	11	25	4	5
Financial planner	5	3	5	7	38	5
Direct market	16	27	25	27	20	53
	100%	100%	100%	100%	100%	100%
Base =	337	120	126	107	147	384

Note: Channel users are respondents who currently own at least one fund from that channel.

23). This finding demonstrates that it is critical that distribution channels meet the needs of their customers. Because dissatisfied shareholders can transfer their assets between channels relatively easily, one channel's customers can easily become another channel's customers.

Figure 24 shows the channel that respondents used to purchase their first mutual fund. The analysis of discount broker, insurance, bank, and financial planner channel users' first mutual fund purchase is especially interesting. The majority of the respondents who currently use these four channels to purchase mutual funds bought their first fund from some other channel. For example,

32 percent of discount broker users bought their first fund from a full-service broker, and 27 percent bought their first fund directly from the fund company.

For the majority of respondents, the initial fund purchase included at least one long-term fund (see Figure 27). Most respondents, 55 percent, bought only a stock fund. Another 12 percent of respondents bought only a bond fund, and 9 percent bought either a combination of stock, bond, and money market funds, or all three types of funds. Only 24 percent bought just a money market fund. These findings are consistent across all channel groups.

Respondents purchased their first fund a median of eight years before the survey was conducted, or in 1985 (see Figure 28). Tenure in funds varies slightly among the six channel groups. Discount broker channel users bought their first fund a median of ten years before the survey was conducted, or in 1983. Financial planner, insurance, and direct market channel users each bought their first fund a median of nine years before the survey was conducted, or in 1984. Both full-service broker channel users and bank channel users bought their first fund a median of eight years before the survey was conducted, or in 1985 (see Figure 89 in Appendix B). Only 10 percent of respondents purchased their first mutual fund after 1990, a further indication that the vast majority of survey respondents are seasoned, active investors.

### Channel Used to Purchase Most Recent Mutual Fund

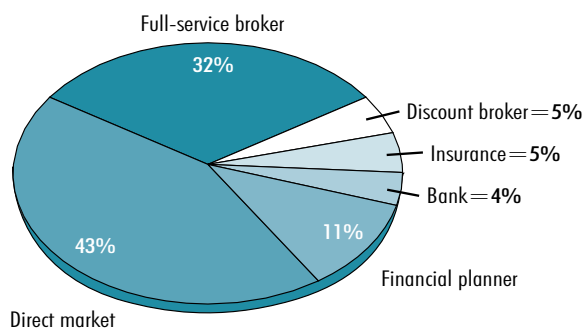
Nearly all of the respondents who participated in the study, 96 percent, have owned more than one mutual fund since they first started investing in funds. The remaining four percent have only owned the first mutual fund purchased. The respondents who have owned more than one fund were asked a series of questions about the distribution channel they used for their most recent fund purchase.

Just as respondents were likeliest to use either the full-service broker or the direct market

FIGURE 25

### Channel Used to Purchase Most Recent Mutual Fund

(percent of respondents who have owned more than one fund)



Base=642

those who have owned more than one fund were likeliest to purchase their most recent fund from either of these two channels. However, among the respondents who have owned more than one fund, slightly more used the direct market channel than used the full-service broker channel to purchase their most recent fund. As Figure 25 illustrates, 43 percent of these respondents purchased their most recent mutual fund directly from the fund company. Thirty-two percent of respondents who have owned more than one fund bought their most recent fund from a full-service broker. In contrast, 11 percent or less bought their most recent fund from one of the other four channels.

Among respondents who have owned more than one fund, some purchased their most recent fund from the same channel as their first fund. More than two thirds of shareholders who purchased their first fund from the direct market channel purchased their most recent fund from this channel. More than half of respondents who purchased their first fund from the full-service broker, financial planner, or discount broker channels bought their most recent fund from their respective channels. These findings indicate that these four channels have fairly solid repeat business from the customers to whom they introduced mutual funds. However, the findings for the insurance and bank channels are not as positive.

**FIGURE 26**

**Channel Used to Purchase Most Recent Mutual Fund Among Channel Users**

(percent of respondents who have owned more than one fund)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Channel used to purchase most recent fund...						
Full-service broker	64	12	20	26	16	12
Discount broker	2	39	2	6	3	2
Insurance	3	4	34	5	2	3
Bank	3	2	4	32	1	3
Financial planner	4	5	8	5	58	4
Direct market	24	38	32	26	20	76
	100%	100%	100%	100%	100%	100%
Base =	297	108	116	95	135	367

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 27**

**First and Most Recent Type of Mutual Fund(s) Purchased**

(percent of respondents)

	First Fund	Most Recent Fund*
Stock fund only	55	68
Bond fund only	12	21
Money market fund only	24	9
Stock and bond fund	2	2
Stock and money market fund	4	-
Bond and money market fund	1	-
All three types of funds	2	-
Base =	690	690

\*For those who have owned more than one fund

Only 34 percent of the respondents who purchased their first fund from the insurance channel purchased their most recent fund from this channel, and the figure for the bank channel is an even lower 20 percent (see Figure 5 on page 5).

Figure 26 presents information on the channel used to purchase the most recent mutual fund according to the channels respondents currently

use. Underscoring respondents' heavy use of the direct market channel, 76 percent of direct market channel users who have owned more than one fund bought their most recent fund through this channel. Also noteworthy, 64 percent of full-service broker channel users who have owned more than one fund bought their most recent fund from a full-service broker, and 58 percent of financial planner channel users who have owned



**Figure 28**

**Year in Which First and Most Recent Fund(s) Were Purchased**

	First Fund		Most Recent Fund*
1991 or later	10	1993	60
1988 through 1990	15	1992	20
1985 through 1987	35	1990 through 1991	15
1984 or earlier	40	1988 through 1989	5
	100%		100%
Mean number of years ago	10		1
Median number of years ago	8		<1
Base =	689		694

\*For those who have owned more than one fund

more than one fund bought their most recent fund from a financial planner.

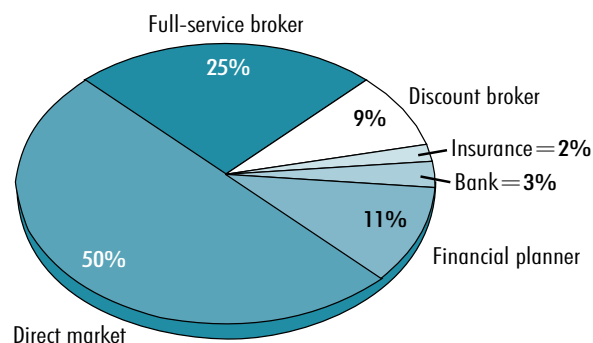
A different picture emerges among the discount broker, insurance, and bank channel users. Less than 40 percent of these channel users who have owned more than one fund bought their most recent fund from one of these three channels. In fact, a considerable number of discount broker, insurance, and bank channel users who have owned more than one fund bought their most recent fund from the direct market channel.

While nearly three quarters of respondents bought a long-term fund as their first mutual fund, Figure 27 shows that, among respondents who have owned more than one fund, more than 90 percent of respondents bought at least one long-term fund as the most recent fund they purchased. More than two thirds of these respondents bought a stock fund as the most recent mutual fund they purchased. Another 21 percent bought a bond fund, and 2 percent bought both a stock and a bond fund. Just 9 percent purchased a money market fund as the most recent fund purchase. The type of fund or funds purchased did not vary much among the six channel groups (see Figures 88 and 90 in Appendix B).

**FIGURE 29**

**Channel to Be Used to Purchase Next Mutual Fund**

(percent of respondents)



Base=661

A sign that they are active shareholders, the majority of respondents who have owned more than one fund, 60 percent, bought their most recent fund in 1993, the year in which the survey was undertaken. Figure 28 shows the mean and median number of years since the most recent fund was purchased for all respondents who have owned more than one fund. The year in which the most recent fund was purchased did not vary much among the six channel groups (see Figure 91 in Appendix B).

**FIGURE 30**

**Channel to Be Used to Purchase Next Mutual Fund Among Channel Users**

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Full-service broker	49	6	20	18	16	6
Discount broker	6	44	9	11	5	6
Insurance	1	2	14	2	1	1
Bank	1	1	5	17	2	2
Financial planner	7	8	9	7	45	3
Direct market	36	39	43	45	31	82
	100%	100%	100%	100%	100%	100%
Base =	305	110	118	99	139	368

Note: Channel users are respondents who currently own at least one fund from that channel.

*Channel to Be Used to Purchase  
Next Mutual Fund*

Respondents were asked to indicate the channel from which they would purchase their next mutual fund, assuming they had money to invest. Figure 29 shows that exactly half of all respondents indicate they would purchase their next fund directly from a fund company. Another quarter of respondents say they would use a full-service broker. The remaining quarter report that they would use one of the other four channels—11 percent would use a financial planner, 9 percent would use a discount broker, 3 percent would use a bank representative, and 2 percent would use an insurance agent.

Examining the channel respondents expect to use for their next fund purchase according to the channel they used for their most recent fund purchase provides some very interesting insights. Most respondents expect to purchase their next mutual fund from the same channel from which they purchased their most recent mutual fund (see Figure 6 on page 6). However, the insurance and bank channels are the exception. The majority of respondents who purchased their most recent fund from the bank or the insurance channel do not expect to purchase their next fund from either of these two channels. This finding underscores

the importance of meeting shareholder needs and expectations. As mentioned earlier, some shareholders withdraw their mutual fund assets from a channel and no longer use it.

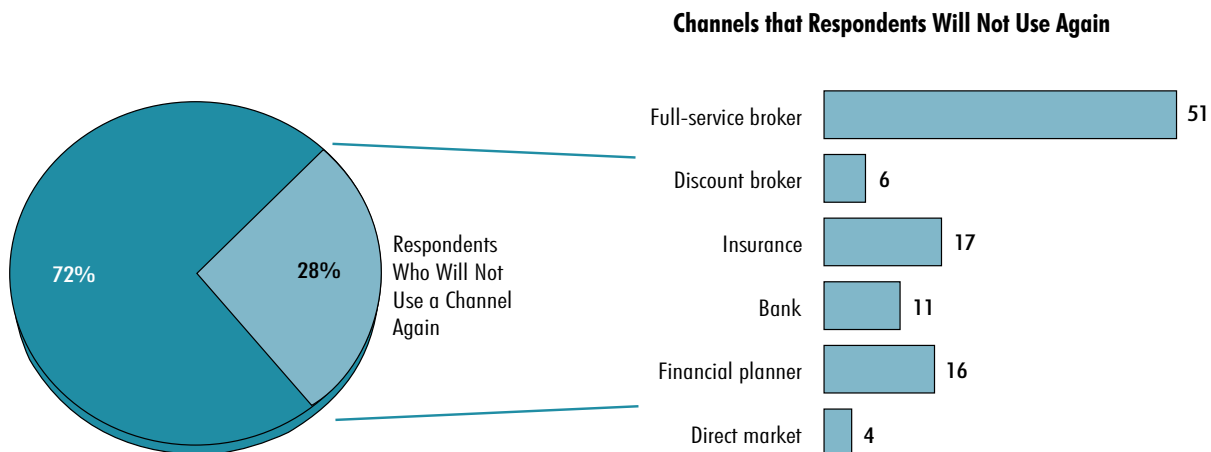
Figure 30 shows the channel respondents expect to use to purchase their next fund according to the channels they currently use to purchase funds. The greatest potential for cross-over to the direct market channel is from the insurance and bank channel users. Almost half of insurance and bank channel users say they will buy their next fund from the direct market channel. Only 14 percent of insurance channel users and 17 percent of bank channel users say they will use the insurance agent and bank channels, respectively, for their next fund purchase.

Respondents were also asked to indicate which, if any, of the six channels their households have used in the past to purchase mutual funds they would not use again. Altogether, 28 percent mentioned at least one channel they say they will not use again. The largest proportion of these respondents, 51 percent, say they are unlikely to purchase another mutual fund from a full-service broker. While this reaction is likely to be aimed more at a particular broker than at the channel as a whole, it clearly illustrates the importance of the broker-investor relationship and the impact a

**FIGURE 31**

**Channels Never to Be Used Again to Purchase Mutual Funds\***

(percent of respondents)



Base = 720  
\*Multiple responses included

**FIGURE 32**

**Reasons for No Longer Using Channels**

(percent of respondents who will not use a particular channel again)

Dissatisfied with service received	31
Dissatisfied with fund performance	31
Dissatisfied with advice received	30
High fees and expenses	24
No longer needed guidance from a financial adviser	26
Wanted funds not offered through that purchase method	20
Not convenient	10
Wanted guidance from a financial adviser	9
Needed someone to manage my money, no longer had time to do it	4
Base =	213

negative purchase experience can have on future investment behavior. In comparison, no more than 20 percent of respondents who will not use a channel again mentioned any of the other five channels.

Among the respondents who would not use a particular distribution channel again, roughly a quarter to one third cite the following reasons: dissatisfaction with the service received, dissatisfaction with the advice received, dissatisfaction with fund performance, advice from a financial adviser no longer needed, and high fees and expenses (see Figures 31 and 32).

# Chapter 3: Motivations for Channel Use

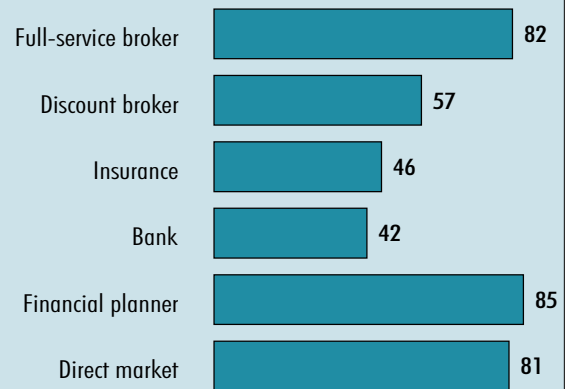
## Chapter Summary

The vast majority of full-service broker and financial planner channel users view their channels as offering a range of attributes—investment advice, personalized service, information, and convenience. Full-service broker and financial planner channel users generally turn to their channels for advice. Most direct market channel users also perceive their channel as one with several qualities, including reasonable fees, convenience, and information. Reasonable fees and commissions are what primarily draw direct market channel users to their channel. Discount broker channel users associate their channel with convenience, and to a lesser extent, with reasonable fees and information. Nevertheless, low or no fees and commissions are what primarily drive respondents to use the discount broker channel. A slight majority of insurance channel users associate their channel with personalized service and convenience. The largest share of insurance channel users say they buy funds from their agent because they have an existing relationship with that person. A slim majority of bank channel users associate their channel with convenience, which is the most frequently mentioned reason for using this channel.

**FIGURE 33**

## Respondents' Perception of the Availability of Mutual Fund Information from the Channels They Use

(percent of respondents rating attribute 5 or 6\*)



\*With 6 as the highest, 1 as the lowest

## *Principles of Motivation Research*

Customer perceptions as well as marketplace realities drive shareholder purchase decisions. Determining which product and service attributes investors deem most important, and how investors perceive each channel in delivering these attributes, is essential to understanding why investors use certain channels and not others. This chapter identifies the particular attributes or services that link respondents to each channel and examines respondents' perceptions of each channel, regardless of whether they have used that channel. Specifically, channel users were asked to identify the number one reason why they purchase funds from their particular channels and to evaluate all channels on the following attributes:

- Availability of investment advice,
- Personalized service,
- Reasonableness of mutual fund fees,
- Availability of mutual fund information, and
- Convenience for purchasing mutual fund shares.

A six-point scale was used to rate the channels, with a score of 6 indicating high association with an attribute, and a score of 1 indicating low association.

An examination of respondents' primary reason for using any one particular channel for mutual funds, and a review of how these buyers perceive each channel, is valuable for market positioning. Funds that are distributed through a particular channel can identify the attributes that channel users rate highly and emphasize these strengths to prospective fund buyers. A channel rated positively on attributes that are regarded as less important to these channel users could promote these attributes so as to differentiate itself from other channels. A benefit that is broadly attributed to one channel in contrast to others could offer a promotable advantage over other channels.

It is important to consider the relative importance to shareholders of an attribute that receives a low rating. Low ratings of a channel for certain

attributes imply that these fund owners perceive the attribute to be generally not available from that channel. If the attribute is important enough, fund buyers may switch to other channels where they perceive the attribute to be more available. Therefore, for the fund company and for the channel, it is essential to understand the perceived strengths and weaknesses of the channel and the segment of customers most likely to be motivated by those strengths. This is especially important where multiple channel use is high, as shown in this study.

While channel users generally believe that they are receiving important benefits from their channels, they often indicate that other channels provide these benefits as well. Fund companies have an opportunity to eliminate weaknesses and retain shareholders by understanding which channels customers perceive as having attributes they value. Likewise, understanding the perceptions of other channels' customers can help fund companies emphasize their own strengths and correct mistaken views. The following elements are helpful in analyzing why shareholders use various channels: the key reasons for using a channel to buy funds, respondents' perceptions of the channels they currently use, and a description of respondents who currently use these channels. The reasons for using each channel and respondents' perceptions of each are presented in this chapter. Chapter 4 presents the characteristics of respondents who use each of the six channels.

## *Full-service Broker Channel*

The primary factor that drives respondents to purchase mutual funds through a full-service broker is the availability of initial and ongoing advice. The largest proportion of full-service broker channel users, 38 percent, cite initial and ongoing advice as the main reason for using this channel. Another 18 percent of full-service broker channel users cite an existing relationship with their adviser or institution, and 11 percent seek personalized service from a full-service broker. A positive experience with an adviser or an institution not only fosters repeat business from investors, but can also promote referrals. Nine percent of full-service broker channel users cite a personal

**FIGURE 34**

**Primary Reason for Using the Full-service Broker Channel to Purchase Mutual Funds**

(percent of respondents using channel)

Offers initial and ongoing investment advice or guidance	38
Has low or no fees or commissions	1
Have an established relationship with adviser or institution	18
Offers funds with solid performance	5
Is a convenient way to purchase an investment	4
Someone recommended it to me	9
Offers personalized service	11
Has an excellent reputation	5
Is a convenient source for financial information	2
Is the only source for some of the investments wanted	2
Executes orders efficiently	1
Other	4
	100%
Base =	308

recommendation as the reason for using this channel.

Full-service broker channel users view the full-service broker channel as providing a variety of benefits, including investment advice, the primary reason why they use this channel. In fact, full-service broker users rate their channel very highly on this attribute. Full-service broker users also rate their channel highly on most of the other attributes, such as personalized service and convenience, which indicates that the full-service broker channel is meeting the needs that these shareholders consider important. However, only 25 percent of full-service broker channel users rate this channel a 5 or 6 for reasonableness of fees. Because fees are not a key reason for using this channel, this group's overall perception of the full-service channel is positive.

Users of other channels view the full-service broker channel similarly. These respondents perceive the channel as offering advice, personalized service, information on mutual funds, and convenience. However, this group of respondents also gives full-service brokers the lowest ratings on reasonableness of fees. As mentioned above, users of the full-service broker channel do not cite low or reasonable fees as a reason for using the full-service broker channel, but rather are drawn to this channel for other reasons.

**FIGURE 35**

**Perceptions of the Full-service Broker Channel for the Purchase of Mutual Funds\***

(percent of respondents rating attribute 5 or 6\*\*)

		Evaluation of the Full-service Broker Channel				
Full-service Broker Channel Users' Perception		Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
85	Availability of investment advice	72	77	72	73	74
82	Personalized service	69	69	63	61	69
25	Reasonableness of mutual fund fees	3	14	18	9	7
82	Availability of mutual fund information	68	71	71	67	64
90	Convenience for purchasing mutual fund shares	75	73	66	69	68

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.

### Discount Broker Channel

Low fees and convenience are the key reasons why respondents use the discount broker channel to purchase mutual funds. The largest share of dis-

**FIGURE 36**

#### Primary Reason for Using the Discount Broker Channel to Purchase Mutual Funds

(percent of respondents using channel)

Offers initial and ongoing investment advice or guidance	5
Has low or no fees or commissions	43
Have an established relationship with adviser or institution	7
Offers funds with solid performance	3
Is a convenient way to purchase an investment	12
Someone recommended it to me	5
Offers personalized service	4
Has an excellent reputation	6
Is a convenient source for financial information	1
Is the only source for some of the investments wanted	2
Executes orders efficiently	8
Other	4
Base=	100%

**FIGURE 37**

#### Perceptions of the Discount Broker Channel for the Purchase of Mutual Funds\*

(percent of respondents rating attribute 5 or 6\*\*)

Discount Broker Channel Users' Perception	Evaluation of the Discount Broker Channel				
	Full-service Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
35	20	31	30	25	25
19	11	17	20	10	12
58	57	41	43	50	34
57	31	34	41	34	32
80	62	55	46	50	59

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.

count broker channel users, 43 percent, say they purchase funds through this channel because it has the lowest fees, or no fees or commissions. Another 12 percent of discount broker channel users list convenience as the most compelling reason for using this channel. Fewer than 10 percent cite any of the other reasons.

Discount broker channel users perceive that channel as offering convenience. The discount broker channel, according to its users, does not provide investment advice or personalized service. Although the largest proportion of discount broker channel users buys funds from this channel because it offers low or no fees, only 58 percent rated this channel a 5 or 6 for reasonableness of fees. As more discount brokers offer no-transaction-fee mutual fund programs, the share of discount broker channel users who view the channel's fees as reasonable should rise.

Similar to discount broker channel users, respondents who use the other channels do not perceive the discount broker channel as one that offers personalized service or investment advice. With the exception of full-service broker channel users, respondents who use other channels tend not to associate convenience or reasonableness of fees with the discount broker channel. Because respondents who own funds from the full-service broker

place a great deal of emphasis on advice and on a relationship with their broker, their perceptions that the discount broker channel provides convenience and reasonable fees may not necessarily lead them to use the discount broker channel.

**FIGURE 38**

**Primary Reason for Using the Insurance Channel to Purchase Mutual Funds**

(percent of respondents using channel)

Offers initial and ongoing investment advice or guidance	16
Has low or no fees or commissions	3
Have an established relationship with adviser or institution	29
Offers funds with solid performance	8
Is a convenient way to purchase an investment	10
Someone recommended it to me	8
Offers personalized service	8
Has an excellent reputation	5
Is a convenient source for financial information	3
Is the only source for some of the investments wanted	4
Executes orders efficiently	2
Other	4
	100%
Base=	101

**Insurance Channel**

Having an established relationship with an insurance agent is a key reason why investors use this channel to purchase mutual funds. The largest proportion of insurance channel users, 29 percent, mentions this as their number one reason for purchasing mutual funds from this channel. Another 16 percent cite the initial and ongoing advice they receive from their insurance agent as the key reason for using this channel, and 8 percent mention a personal recommendation.

Insurance channel users associate convenience and personalized service with this channel. More than half of all insurance channel users rate the insurance channel either a 5 or 6 on these two attributes. Slightly less than half of insurance channel users rate their channel either a 5 or a 6 for availability of investment advice and mutual fund information.

Of the five attributes on which they assessed the channels, respondents who use the other channels to purchase mutual funds most closely associate personalized service with the insurance channel. However, when compared

**FIGURE 39**

**Perceptions of the Insurance Channel for the Purchase of Mutual Funds\***

(percent of respondents rating attribute 5 or 6\*\*)

Insurance Channel Users' Perception	Evaluation of the Insurance Channel					
	Full-service Broker Channel Users	Discount Broker Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users	
47	Availability of investment advice	27	30	21	22	28
54	Personalized service	37	42	26	29	41
27	Reasonableness of mutual fund fees	13	3	13	7	7
46	Availability of mutual fund information	26	23	31	25	24
53	Convenience for purchasing mutual fund shares	36	22	35	32	30

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.



**FIGURE 40**

**Primary Reason for Using the Bank Channel to Purchase Mutual Funds**

(percent of respondents using channel)

Offers initial and ongoing investment advice or guidance	6
Has low or no fees or commissions	13
Have an established relationship with adviser or institution	18
Offers funds with solid performance	10
Is a convenient way to purchase an investment	26
Someone recommended it to me	-
Offers personalized service	15
Has an excellent reputation	4
Is a convenient source for financial information	4
Is the only source for some of the investments wanted	1
Executes orders efficiently	2
Other	1
	100%
Base=	74

with insurance agent users' ratings of this channel for personalized service, the ratings of users of other channels are not as high. Users of the other channels generally do not strongly associate the insurance channel with personalized service, convenience, reasonable fees, or information on mutual funds.

*Bank Channel*

Bank channel users' reasons for using this channel are quite diverse when compared with the reasons why respondents use some of the other channels. The fact that one reason does not stand out indicates that the bank channel has not differentiated itself as a source of mutual funds in the minds of its users.

Overall, about a quarter of bank channel users indicate that their main reason for using this channel is its convenience. Another important factor in the decision to use the bank channel for mutual fund purchases is the existing relationship respondents have with their deposit institution. In fact, 18 percent of bank channel users cite this as their number one reason for purchasing funds through this channel. Personalized service plays a role in purchasing funds through a bank, with 15 percent of bank channel users citing this as their key reason.

**FIGURE 41**

**Perceptions of the Bank Channel for the Purchase of Mutual Funds\***

(percent of respondents rating attribute 5 or 6\*\*)

		Evaluation of the Bank Channel				
		Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Financial Planner Channel Users	Direct Market Channel Users
42	Availability of investment advice	23	20	30	23	23
38	Personalized service	20	26	24	18	21
35	Reasonableness of mutual fund fees	18	13	22	20	12
42	Availability of mutual fund information	22	23	34	24	18
52	Convenience for purchasing mutual fund shares	33	34	44	38	30

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.

Among bank channel users, convenience stands out as the attribute most closely associated with purchasing mutual funds from a bank. Most of these channel users do not perceive that they receive personalized service from banks. Only 38 percent of bank channel users rate this channel a 5 or 6 for personalized service, and personalized service is the third most frequently mentioned reason for buying funds through a bank. Because most bank channel users also own funds from more than one channel, these respondents have a basis for comparison.

Respondents who use the other channels to purchase mutual funds, particularly insurance agent users, also tend to associate convenience with the bank channel. Nevertheless, respondents who use other channels tend to give the bank channel fairly low ratings on convenience and on the other attributes as well. These low ratings may reflect the relatively nascent stage of the bank channel as a distributor of mutual funds when compared with the more traditional channels, such as the full-service broker or the direct market channels. Hence, respondents who do not own funds from a bank may not be familiar with mutual funds and the related services available through this channel, and, therefore, do not closely associate this channel with any of the five attributes.

### *Financial Planner Channel*

Similar to full-service broker channel users, the largest proportion of financial planner channel users, 34 percent, cite the initial and ongoing guidance that their adviser provides as a reason for using this channel. The relationship established with the financial planner or institution is very important to these respondents—21 percent mention it as the key reason for using this channel. Personalized service and personal recommendations are also motivators for some financial planner channel users. Sixteen percent say personalized service is their number one reason for buying from a financial planner, and 13 percent cite a personal recommendation.

Respondents who own funds from a financial planner view this channel as providing investment advice and personalized service. Respondents who use other channels perceive financial planners

**FIGURE 42**

### **Primary Reason for Using the Financial Planner Channel to Purchase Mutual Funds**

*(percent of respondents using channel)*

Offers initial and ongoing investment advice or guidance	34
Has low or no fees or commissions	1
Have an established relationship with adviser or institution	21
Offers funds with solid performance	4
Is a convenient way to purchase an investment	-
Someone recommended it to me	13
Offers personalized service	16
Has an excellent reputation	4
Is a convenient source for financial information	2
Is the only source for some of the investments wanted	1
Executes orders efficiently	1
Other	3
	100%
Base=	133

as having these same two attributes. To a slightly lesser degree, users of other channels perceive the financial planner channel as convenient and as offering information on mutual funds. Other channel users do not perceive financial planners as having reasonable fees.

**FIGURE 43**

**Perceptions of the Financial Planner Channel for the Purchase of Mutual Funds\***

(percent of respondents rating attribute 5 or 6\*\*)

Financial Planner Channel Users' Perception	Evaluation of the Financial Planner Channel				
	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Direct Market Channel Users
85 Availability of investment advice	70	72	61	60	69
89 Personalized service	76	80	75	70	74
35 Reasonableness of mutual fund fees	17	15	16	15	11
85 Availability of mutual fund information	67	65	67	56	63
85 Convenience for purchasing mutual fund shares	59	55	57	50	48

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 44**

**Primary Reason for Using the Direct Market Channel to Purchase Mutual Funds**

(percent of respondents using channel)

Offers initial and ongoing investment advice or guidance	5
Has low or no fees or commissions	31
Have an established relationship with adviser or institution	4
Offers funds with solid performance	23
Is a convenient way to purchase an investment	16
Someone recommended it to me	6
Offers personalized service	-
Has an excellent reputation	7
Is a convenient source for financial information	2
Is the only source for some of the investments wanted	3
Executes orders efficiently	2
Other	1
100%	
Base =	353

*Direct Market Channel*

Similar to discount broker channel users, the largest share of direct market channel users, 31 percent, list low or no fees or commissions as the primary motivator for using this channel. Nearly a quarter mention solid fund performance as their number one reason. In contrast, only ten percent or less of the other channel users cite fund performance as a reason for using any of those particular channels. Also noteworthy, 16 percent of direct market channel users list convenience as their key reason for using this channel.

Users of the direct market channel regard it as a convenient way to purchase mutual funds. They view the direct market channel as one with reasonable fees and one that provides information on mutual funds. They also perceive this channel as providing investment advice, albeit to a lesser degree than the other attributes. Users of this channel do not associate it with personalized service, a feature not important to them in their selection of this channel.

**FIGURE 45**

**Perceptions of the Direct Market Channel for the Purchase of Mutual Funds\***

(percent of respondents rating attribute 5 or 6\*\*)

Direct Market Channel Users' Perception	Evaluation of the Direct Market Channel				
	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users
52 Availability of investment advice	49	56	45	62	42
27 Personalized service	23	25	28	27	22
80 Reasonableness of mutual fund fees	65	61	56	57	57
81 Availability of mutual fund information	70	85	63	67	68
89 Convenience for purchasing mutual fund shares	70	81	66	74	65

\* Multiple responses included

\*\* With 6 as the highest, 1 as the lowest

Note: Channel users are respondents who currently own at least one fund from that channel.

Respondents who use the other channels perceive the direct market channel as one that provides information on mutual funds and as a convenient way to purchase mutual funds. In all cases, users of the other channels give this channel the highest rating on the reasonableness of fees—higher than they give their own channels—indicating that most respondents are fairly well informed about the direct market channel, even if they don't use it.

# Chapter 4: Profile of Channel Users

## Chapter Summary

The survey respondents, who had to have bought a long-term fund since 1988 from one of the six channels in order to qualify for the study, are active investors with large, diversified portfolios. In the 12 months preceding the survey, nearly two thirds bought more shares of a fund they already owned, and slightly more than a third conducted an exchange within a family of funds. Full-service broker users have household financial assets of \$178,700, the largest amount of all channel groups. When compared with the other four channel groups, financial planner and insurance channel users keep the greatest proportion of their financial assets, 43 percent, in mutual funds. Discount broker users own a median of seven

funds, the most of all channel groups. Discount broker users are younger than other channel users and are more likely to live in single-income households; nevertheless, their median household income of \$104,100 is the highest among all channel groups. With their large mutual fund portfolios and high levels of education, it is not surprising that respondents across all channel groups say they have either a basic or comprehensive understanding of mutual funds. Full-service broker and financial planner users primarily rely on an adviser from their respective channels when they require mutual fund investment information. In contrast, the primary source of mutual fund information for respondents who use the other four channels is much more diverse.

**FIGURE 46**

## Channel Users' Investment Portfolios

(median amount per household)

	Total Financial Assets*	Financial Assets Invested in Mutual Funds	Financial Assets Invested in Other Investments**
Respondents using the following channels...			
Full-service broker	\$178,700	\$60,000	\$118,700
Discount broker	141,200	60,000	81,200
Insurance	117,100	50,000	67,100
Bank	133,100	52,700	80,400
Financial planner	140,800	60,000	80,800
Direct market	153,500	60,000	93,500

\*Excludes real estate and assets in employer-sponsored pension plans

\*\*Individual stock and annuities are examples of nonfund investments

Note: Channel users are respondents who currently own at least one fund from that channel.

## *Demographic and Financial Characteristics*

Regardless of the channels they use to purchase mutual funds, respondents are demographically similar to the typical mutual fund shareholder. Most respondents are middle-aged, male, married, and employed either full- or part-time. The vast majority are college-educated, and many have graduate degrees (see Figures 92 through 97 in Appendix B for data on all respondents).

However, as Figure 47 illustrates, several distinctions among the six channel groups are noteworthy. With a median age of 50, full-service broker users tend to be somewhat older than other channel users. The median age of respondents in the other channel groups ranges from 48 for financial planner users to 44 for discount broker users.

Although they are typically the youngest and the most likely to reside in a single-income household, discount broker users' median income of \$104,100 is the highest of all channel groups. Bank and insurance channel users have the lowest median incomes; both of these groups report a median household income of less than \$86,000.

Full-service broker users have a median of \$178,700 in household financial assets, more than all other channel groups. Direct market channel users follow with \$153,500. With a median of \$117,100, insurance agent users have the least financial assets.

Although the majority of respondents cite long-term growth as their primary reason for investing, discount broker users are the likeliest to mention this purpose. The largest proportion of all channel groups cite saving for retirement as their primary financial goal, but this too varies from channel to channel. For example, 53 percent of insurance channel users are saving for retirement, compared with 39 percent of full-service broker users. Full-service broker users are the channel group likeliest to indicate that they are trying to preserve their accumulated assets. To help meet their financial goals and objectives, most respondents have a formal financial plan. Not surprisingly, financial planner users are the

channel group with the highest incidence of a formal financial plan.

Given respondents' level of assets invested in mutual funds and their level of education, it is not surprising that respondents across all channel groups describe their understanding of mutual funds as either basic or comprehensive. When compared with other respondents, those who currently own funds through the direct market and discount broker channels are likeliest to say they have a comprehensive knowledge of mutual funds.

## *Current Investment Portfolio*

As illustrated in Figure 48, more than one third of respondents' median financial assets are held in mutual funds. This proportion varies among the channel groups, from financial planner and insurance agent users who have 43 percent of their assets in mutual funds, to full-service broker users who have 34 percent of their assets in mutual funds.

Respondents own a median of five mutual funds. Discount broker users own a median of seven funds, the greatest number among the six channel groups. Three of the channel groups—full-service broker, insurance, and direct market channel users—each own a median of six funds. Bank and financial planner channel users each own a median of five funds.

To qualify for the study, respondents had to own a long-term mutual fund purchased since 1988. Of the six channel groups, direct market channel users are the likeliest to own stock funds—97 percent own them. This percentage includes stock funds that direct market channel users purchased from the direct market channel and any other channel as well. Thirty-eight percent of respondents own tax-exempt bond funds. Discount broker channel users are the most likely to own tax-exempt bond funds when compared with the other channel groups, and direct market channel users are the least likely. A total of 29 percent of respondents own taxable bond funds and 58 percent own money market funds. Ownership of these two types of funds did not vary much among the different channel groups.

**FIGURE 47**

**Channel Users' Demographic and Financial Characteristics**

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
<b>Median</b>						
Age	50	44	46	46	48	47
Household income	\$91,800	\$104,100	\$85,900	\$85,200	\$95,400	\$93,600
Household financial assets*	\$178,700	\$141,200	\$117,100	\$133,100	\$140,800	\$153,500
Investment real estate assets**	\$22,900	\$12,700	\$23,300	\$42,600	\$29,800	\$6,000
<b>Percent of Respondents</b>						
Male	67	69	66	65	71	71
Married	86	85	86	87	87	91
Employed full- or part-time	68	72	83	73	78	77
Retired from lifetime occupation	28	17	18	27	21	21
Spouse employed	62	61	69	64	74	64
Four-year college degree or more	49	46	41	51	40	45
Graduate degree	37	37	35	30	43	42
Primary financial goal:						
Saving for retirement	39	42	53	41	45	47
Preserving accumulated assets	26	18	13	22	18	19
Providing college education to children or grandchildren	16	22	19	18	17	18
Have formal financial plan	52	56	56	50	76	48
Self-assessed understanding of mutual funds:						
Comprehensive	28	39	27	24	31	42
Basic	61	55	57	63	58	53
Very limited	11	6	16	12	11	5

\*Excludes real estate and assets in employer-sponsored pension plans

\*\*Excludes primary residence

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 48**

**Channel Users' Mutual Fund Ownership Characteristics**

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
<b>Median per Household</b>						
Mutual fund assets	\$60,000	\$60,000	\$50,000	\$52,700	\$60,000	\$60,000
Percent of financial assets invested in all mutual funds	34	42	43	40	43	39
Number of funds owned	6	7	6	5	5	6
<b>Percent of Respondents</b>						
Types of Funds Owned:*						
Stock funds	90	89	92	86	91	97
Tax-exempt bond funds	45	52	38	43	45	36
Taxable bond funds	28	29	27	27	28	32
Money market funds	62	62	60	63	60	56
Combinations of Funds Owned:						
Stock funds only	16	18	25	19	18	25
Bond funds only	4	4	4	6	3	1
Stock and bond funds	18	16	11	12	19	18
Stock and money market funds	25	18	22	24	24	21
Bond and money market funds	6	7	4	9	6	2
All three types of funds	31	37	34	30	30	33
	100%	100%	100%	100%	100%	100%

\* Multiple responses included

Note: Channel users are respondents who currently own at least one fund from that channel.

Respondents' mutual fund portfolios are diverse. Their portfolios generally include stock funds in combination with other types of mutual funds. In fact, 28 percent of respondents own all three types of funds, that is, stock, bond, and money market funds. Of the six channel groups, discount broker users are the likeliest to own all three types of funds, and financial planner and bank channel users are the least likely.

In addition to mutual funds, respondents own an average of 3.5 nonfund investments. This does not vary much among the six channel groups. Aside from bank savings and deposit accounts, which nearly all respondents have, almost two

thirds own individual stock. Perhaps because full-service and discount brokers are the two traditional sources from which to buy stocks, respondents who own funds from these two channels are also the likeliest to own individual stock. In fact, 77 percent of discount broker users and 72 percent of full-service broker channel users own individual stock. In contrast, just 54 percent of financial planner users own individual stock. Not surprisingly, of the six channel groups, insurance agent users are the likeliest to own both life insurance and annuities, two financial products traditionally associated with this



**FIGURE 49**

**Channel Users' Ownership of Nonfund Savings and Investments\***

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Median household nonfund financial assets	\$118,700	\$81,200	\$67,100	\$80,400	\$80,800	\$93,500
Median percent of household financial assets in nonfund investments	66	58	57	60	57	61
Average number of nonfund savings and investment types owned	3.9	3.7	4.0	3.7	3.5	3.5
<b>Percent of Respondents</b>						
Bank accounts	84	81	81	90	83	82
Certificates of deposit	33	30	32	37	21	29
Individual bonds**	56	54	54	52	47	50
Treasury bills, bonds, and notes	18	15	17	19	13	14
Individual stock other than employer stock	72	77	63	57	54	66
Life insurance	52	45	69	55	59	42
Annuities	27	20	43	25	32	19
Unit investment trusts	13	11	8	9	9	9
Other investments	25	21	20	21	16	22

\* Multiple responses included

\*\* Includes corporate, municipal, and U.S. Savings Bonds

Note: Channel users are respondents who currently own at least one fund from that channel.

channel. Figure 49 shows the nonfund investments owned by each of the six channel groups.

**Recent Mutual Fund Investment Activity**

The respondents who participated in the study are quite active mutual fund investors. In the 12 months preceding the survey, the majority of respondents in all six channel groups invested more money in a fund they currently owned, other than through exchanging shares of one fund for shares of another fund, or through reinvesting dividends.

More than a third of respondents conducted an exchange in the 12 months preceding the survey. Of the six channel groups, discount broker and financial planner users were the likeliest to conduct an exchange. In contrast, full-service broker users were the least likely to conduct an exchange.

In the 12 months preceding the survey, 31 percent of respondents sold shares from one fund company in order to invest the money with another fund company, and 28 percent sold shares and used the proceeds to purchase something other than mutual funds. Of the six channel groups, financial planner users were likeliest to move fund assets from one company to another. Along with discount broker

**FIGURE 50**

**Channel Users' Recent Mutual Fund Investment Activity\***

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Invested more money in a fund currently owned (other than through exchanging shares or reinvesting dividends)	60	66	69	65	68	69
Exchanged shares of one fund for shares in another fund offered by same company	31	45	33	33	44	39
Sold shares of one fund and used proceeds to buy shares of a fund with a different company	32	34	27	34	41	32
Sold shares and used proceeds to buy something other than mutual funds	31	36	18	22	33	29

\* For 12-month period preceding survey (August 1992 through July 1993); multiple responses included  
Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 51**

**Channel Users' Primary Source of Mutual Fund Investment Information**

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Full-service broker	50	9	17	26	12	7
Books and magazines	14	19	14	14	11	28
Financial planner	8	9	14	10	56	6
Direct contact with mutual fund company	7	11	9	9	2	21
Brokerage or investment newsletters	5	10	10	5	4	11
Friends, relatives, or colleagues	2	7	4	9	2	5
Newspapers	4	8	1	5	2	5
Insurance agent	1	1	13	3	1	1
Discount broker	1	10	3	0	1	1
Bank representative	1	2	5	13	2	1
Other	7	14	10	6	7	14
	100%	100%	100%	100%	100%	100%
Base =	324	118	120	98	143	365

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 52**

**Channel Users' Readership of Business-Related Publications\***

(percent of respondents indicating they frequently read publication)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Local newspaper's business section	68	62	68	61	62	68
<i>Wall Street Journal</i>	42	62	43	42	40	43
Mutual fund newsletters	33	36	41	38	33	49
Business section of <i>Time</i> , <i>Newsweek</i> , or <i>U.S. News and World Report</i>	30	25	27	38	33	28
<i>Money</i>	27	33	25	29	27	35
<i>Consumer Reports</i>	22	25	29	21	27	21
<i>Business Week</i>	20	31	23	25	19	24
<i>New York Times</i> business section	23	20	18	24	16	20
<i>Forbes</i>	18	22	13	16	17	16
<i>USA Today</i> business section	11	13	18	17	10	8
<i>Fortune</i>	13	13	11	10	10	11
<i>Barron's</i>	11	19	7	8	6	11
<i>Changing Times</i>	7	7	12	9	7	11
<i>Investors' Business Daily</i>	6	15	5	5	4	6
<i>Financial World</i>	4	8	3	5	3	5
Base =	337	120	126	107	147	384

\* Multiple responses included

Note: Channel users are respondents who currently own at least one fund from that channel.

users, financial planner users were also the most likely to sell shares and use the proceeds for some other purpose.

**Investment Information Sources**

Respondents were asked to name the sources they typically consult for information or advice regarding mutual fund investments, and to indicate the source they consider most important in their fund purchase decision. Among the sources having the greatest influence on these buyers' purchase decisions are the channels through which they purchase mutual funds. This is most prevalent among full-service broker and financial planner users. At least half of the respondents who use full-service brokers and

financial planners consider them to be their primary source for mutual fund information. In contrast, direct market, discount broker, insurance, and bank channel users' primary sources for mutual fund information are quite diverse. Some mention their channel as the most important source of investment information while others mention printed information, such as books, magazines, newspapers, or newsletters.

Figure 51 shows that, of all channel groups, discount broker and direct market channel users are the likeliest to indicate books, magazines, and newspapers as their primary source of mutual fund information. Therefore, it is not surprising that, when compared with other channel groups, discount broker users have the highest readership

of the *Wall Street Journal*, *Barron's*, and *Investors' Business Daily*. Similarly, direct market channel users have the highest readership of mutual fund newsletters, as seen in Figure 52.

# Chapter 5: Single-channel and Multichannel Users

## Chapter Summary

Multichannel users tend to be independent, research-oriented investors who are sensitive to price. Their investment behavior reflects their interest in exploring investment alternatives as well as their search for low fees and commissions. For example, multichannel users own a median of six mutual funds and 70 percent own direct-marketed funds. Multichannel users' median financial assets of \$168,100 exceeds that of single-channel users by \$49,000. With their smaller investment portfolios, it is not surprising that single-channel users own fewer financial products, including fewer mutual funds, when compared with multichannel users. Single-channel users tend

to depend on financial advice and are not especially concerned about fees or commissions when buying mutual funds. The majority of single-channel users are customers of a financial adviser, such as a full-service broker, insurance agent, financial planner, or bank representative. Although most single-channel users say they have either a basic or comprehensive knowledge of mutual funds, when compared with multichannel users, single-channel users are more likely to say their knowledge of funds is very limited. Single-channel users bought their first fund a median of eight years before the survey was conducted, two years after multichannel users bought their first fund.

**FIGURE 53**

### Single-channel and Multichannel Users' Investment Portfolios

(median amount per household)

	Total Financial Assets*	Financial Assets Invested in Mutual Funds	Financial Assets Invested in Nonfund Investments**
Single-channel users	\$119,100	\$45,000	\$74,100
Multichannel users	\$168,100	\$61,000	\$107,100

\*Excludes real estate and assets in employer-sponsored pension plans

\*\*Individual stock and annuities are examples of nonfund investments

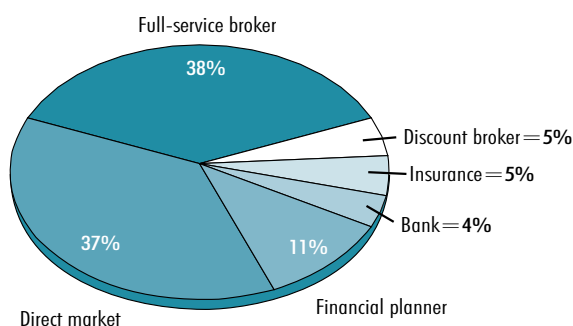
### Channels Through Which Single-channel and Multichannel Users Own Funds

In this chapter, the respondents who participated in the study are segmented according to the number of channels through which they currently own funds. Single-channel users are respondents who have 100 percent of their current mutual fund assets invested through one channel. Multichannel users are respondents who have their mutual fund assets invested through more than one channel.

Figure 54 shows that all channels have some single-channel users among their client base. The majority of single-channel users are either customers of the full-service broker channel or the direct market channel. Three quarters of single-channel users own all of their mutual funds from one of these two channels. However, the data can also be viewed in another meaningful way. More than 60 percent of single-channel users are customers of a financial adviser—that is, they are customers of a full-service broker, insurance agent, bank, or financial planner.

**FIGURE 54**  
**Channel Through Which Single-channel Users Own Funds**

(percent of single-channel users)



Base=363

Figure 55 presents a distribution of the combinations of channels used by multichannel users. A quarter own direct-marketed funds and funds sold through a full-service broker.

Another 23 percent own direct-marketed funds as well as funds from either an insurance agent, bank, discount broker, or financial planner. A total of 19 percent own funds from a full-service broker as well as funds from either an insurance agent, bank, discount broker, or financial planner. Just over one quarter, or 27 percent, of multichannel users own funds from three or more channels.

**FIGURE 55**  
**Channels Through Which Multichannel Users Own Funds**

(percent of multichannel users)

Full-service broker and direct market	25
Full-service broker and financial planner	6
Full-service broker and discount broker	5
Full-service broker and insurance	3
Full-service broker and bank	5
Direct market and financial planner	6
Direct market and discount broker	7
Direct market and insurance	5
Direct market and bank	5
A combination of two other channels	6
Three or more channels	27
	100%
Base =	357

### Future Use of Channels to Purchase Mutual Funds

Most single-channel users expect to purchase their next fund from the same channel, an indication that these shareholders tend to be loyal customers. However, their purchase intentions vary from channel to channel. Figure 56 shows that 98 percent of single-channel users who use the direct market channel intend to buy their next fund from this channel. More than 80 percent of single-channel users who use the full-service broker, discount broker, and financial planner channels expect to buy their next fund from the same channel. However, only 48 percent of single-channel users who use the insurance channel and 57 percent who use the bank channel expect to buy their next fund from their respective channels.

**FIGURE 56**  
**Channel from Which Single-channel Users Expect to Purchase Their Next Fund**  
(percent of single-channel users)

	Planning to Buy Next Fund from Same Channel
Single-channel users who own funds from the following channels....	
Full-service broker	81
Discount broker	83
Insurance	48
Bank	57
Financial planner	81
Direct market	98

Not surprisingly, the channels from which multichannel users expect to purchase their next fund are quite diverse. Figure 57 shows that the vast majority of multichannel users who own funds from the insurance and bank channels do not plan to purchase their next fund from these channels. At the other end of the spectrum, 72 percent of multichannel users who use the direct market channel expect to purchase their next fund from the direct market channel.

**FIGURE 57**  
**Channel from Which Multichannel Users Expect to Purchase Their Next Fund**  
(percent of multichannel users)

	Planning to Buy Next Fund from Same Channel
Multichannel users who own funds from the following channels....	
Full-service broker	28
Discount broker	35
Insurance	7
Bank	11
Financial planner	28
Direct market	72

### Demographic and Financial Characteristics

For most characteristics, the profile of single-channel and multichannel users is quite similar. Single-channel and multichannel users are typically in their late forties and the majority are male. Both groups can be described as employed, highly educated, and each has a median household income of approximately \$90,000. However, Figure 58 shows that these two groups diverge on some key financial characteristics. When compared with single-channel users, multichannel users have a higher median value in financial assets. Multichannel users are more likely to have a formal financial plan than are single-channel users.

Single-channel and multichannel users' self-assessed understanding of mutual funds varies somewhat. While the majority of single-channel and multichannel users say they have either a basic or comprehensive knowledge of mutual funds, single-channel users are more likely to say they have a very limited understanding of mutual funds.

**FIGURE 58**

**Single-channel and Multichannel Users' Demographic and Financial Characteristics**

	Single-channel Users	Multichannel Users
<b>Median</b>		
Age	47	49
Household income	\$90,200	\$92,400
Household financial assets*	\$119,100	\$168,100
Investment real estate assets**	—	\$20,700
<b>Percent of Respondents</b>		
Male	68	69
Married	83	89
Employed full- or part-time	75	74
Retired from lifetime occupation	21	25
Four-year college degree or more	48	45
Graduate degree	34	40
Have formal financial plan	48	56
Self-assessed understanding of mutual funds:		
Comprehensive	31	35
Basic	56	59
Very limited	13	7

\*Excludes real estate and assets in employer-sponsored pension plans

\*\*Excludes primary residence

**Current Investment Portfolio**

Single-channel and multichannel users are further distinguished by the content of their investment portfolios. Compared with single-channel users, multichannel users tend to have greater financial assets invested in funds and own a greater number of mutual funds. Nevertheless, multichannel users' mutual fund assets account for a slightly smaller median percentage of their financial assets than is found for single-channel users. In part, these findings reflect differences in the two segments' age and household financial assets. Another factor may be

multichannel users' two-year head start in mutual fund investing—multichannel users bought their first fund a median of 10 years before the survey was conducted, compared with eight years for single-channel users. In fact, 15 percent of single-channel users purchased their first mutual fund after 1990. In contrast, just 6 percent of multichannel users purchased their first fund after 1990.

Overall, multichannel users are more likely than single-channel users to own stock funds, tax-exempt bond funds, and money market funds. Single-channel and multichannel users are equally likely to own taxable bond funds.



**FIGURE 59**

**Single-channel and Multichannel Users' Mutual Fund Ownership Characteristics**

	Single-channel Users	Multichannel Users
<b>Median per Household</b>		
Financial assets invested in mutual funds	\$45,000	\$61,000
Percent of financial assets invested in mutual funds	38	36
Number of years since first fund was purchased*	8	10
Number of funds owned	4	6
<b>Percent of Respondents</b>		
Types of Funds Owned:**		
Stock mutual funds	88	94
Tax-exempt bond funds	34	43
Taxable bond funds	28	29
Money market funds	54	62
Combinations of Funds Owned:		
Stock funds only	26	17
Bond funds only	4	3
Stock and bond funds	16	18
Stock and money market funds	23	24
Bond and money market funds	8	3
All three types of funds	23	35

\* From year (1993) in which survey was conducted

\*\*Multiple responses included

Multichannel users tend to have more diverse fund portfolios than single-channel users. More than a third of multichannel users own all three types of mutual funds, that is, stock, bond, and money market funds. In contrast, less than a quarter of single-channel users own all three types.

In addition to mutual funds, those owning mutual funds through one channel own slightly fewer nonfund investments than do multichannel users. Each group is about equally likely to have investments in certificates of deposit and corporate bonds. Single-channel users are significantly less

likely than multichannel users to own the following types of nonfund investments:

- Treasury bills, bonds, and notes,
- Municipal bonds,
- Individual stocks,
- Life insurance,
- Annuities,
- Unit investments trusts, and
- U.S. Savings Bonds.

**FIGURE 60**

**Single-channel and Multichannel Users' Ownership of  
Nonfund Savings and Investments\***

	Single-channel Users	Multichannel Users
Average number of nonfund savings and investment types owned	3.2	3.8
<b>Percent of Respondents</b>		
Bank accounts	76	86
Certificates of deposit	25	31
Corporate bonds	9	10
Treasury bills, bonds, and notes	11	18
Municipal bonds	21	30
Individual stocks other than employer stock	58	70
Life insurance	42	53
Annuities	19	27
Unit investment trusts	4	13
U.S. Savings Bonds	24	32

\*Multiple responses included

*Views on Saving and Investing*

As part of the survey interview, respondents were read a series of 20 investment-related statements. They were asked to indicate their level of agreement with each statement using a scale in which 5 was equal to strongly agree, and 1 was equal to strongly disagree. A comparison of single-channel and multichannel users' responses to these statements reveals significant differences between the two groups for nine of the 20 statements. It is important to note that these nine statements are not necessarily the ones with which the groups strongly agree; rather, they are the statements on which single-channel and multichannel users differ significantly.

Based on their responses to these statements, which are detailed in Figure 61, multichannel users appear to be more independent and research-oriented investors than their single-channel counterparts. In their search for the lowest fee or commission, it is not surprising that these investors have used more than one channel to purchase mutual funds. The single-channel users, in contrast, appear to be more skeptical and less investment-oriented than multichannel users. When compared with multichannel users, single-channel users are more likely to seek guidance from a financial adviser. Single-channel users seem less concerned with fees and more concerned with the reputation of the company offering the investment.

**FIGURE 61**

**Single-channel and Multichannel Users' Attitudes About Investing**

(mean score\*)

	Single-channel Users	Multichannel Users
I spend a lot of time seeking information before I make my mutual fund investment decisions	3.9	4.2
I feel no-load mutual funds give me better value for my money	3.9	4.0
Today I am more likely to purchase mutual funds by myself than I was in the past	3.7	4.1
I will invest only in mutual funds offered by large, nationally known financial institutions	3.5	3.2
Handling financial matters has become so complicated that you must have experts advise you	3.2	2.9
When purchasing mutual funds, I go with the person or institution that charges the lowest commission or fee	2.8	3.0
I would invest only in a mutual fund that has been recommended to me by a professional financial adviser	2.6	2.4
When you invest in mutual funds by mail, you just can't be sure that the transaction will go through properly	2.6	2.4
I am uncomfortable buying mutual funds because they are not federally insured	2.1	1.9

\* 5 equals strongly agree, and 1 equals strongly disagree

*Investment Information Sources*

The one source that more single-channel users than multichannel users rely on for mutual fund investment advice and information is the full-service broker channel. Three out of ten single-channel users depend on the full-service broker when making purchase decisions, compared with 21 percent of multichannel users. In contrast, multichannel users are more likely than their single-channel counterparts to consider books and magazines their “most important” reference for mutual fund information. Additionally, among each segment, slightly more than 10 percent of respondents consult financial planners or obtain investment information directly from the mutual fund company. Aside from *The Wall Street Journal*, which more multichannel than single-channel users read on a regular basis, both groups generally read the same business-related publications.

*Single-channel Users Who Were Multichannel Users*

The discussion in Chapter Two of respondents' patterns in channel use mentioned that some single-channel users are former multichannel users. Figure 64 shows that this group of respondents has used a variety of distribution channels in the past and has primarily consolidated their mutual fund assets into either the direct market or the sales force channel.

Single-channel users who are former multichannel users differ in many significant ways from single-channel users who have never used another channel. In fact, some of the former multichannel users' characteristics are quite similar to those of current multichannel users. As seen in Figure 65, former and current multichannel users are about the same age, have fairly similar household incomes, and are about equally likely to be retired. Former multichannel users bought their first mutual fund a median of 11 years ago. This

**FIGURE 62**

**Single-channel and Multichannel Users' Primary Source of Mutual Fund Investment Information**

(percent of respondents)

	Single-channel Users	Multichannel Users
Full-service broker	30	21
Books and magazines	14	22
Financial planner	13	12
Direct contact with mutual fund company	11	12
Brokerage or investment newsletters	8	7
Friends, relatives, or colleagues	5	4
Newspapers	3	4
Bank or savings institution	2	3
Insurance agent	2	2
Discount broker	2	2
Other	10	11
	100%	100%
Base =	351	389

**FIGURE 63**

**Single-channel and Multichannel Users' Readership of Business-Related Publications\***

(percent of respondents indicating they frequently read publication)

	Single-channel Users	Multichannel Users
Local newspaper's business section	64	66
<i>Wall Street Journal</i>	39	46
Mutual fund newsletters	34	41
Business section of <i>Time</i> , <i>Newsweek</i> , or <i>U.S. News &amp; World Report</i>	29	30
<i>Money</i>	26	32
<i>Consumer Reports</i>	20	25
<i>Business Week</i>	19	24
<i>New York Times</i> business section	22	19
<i>Forbes</i>	16	18
<i>USA Today</i> business section	11	11
<i>Fortune</i>	9	13
<i>Barron's</i>	9	11
<i>Changing Times</i>	6	10
<i>Investors' Business Daily</i>	5	7
<i>Financial World</i>	5	4
Base =	363	357

\*Multiple responses included

**FIGURE 64**  
**Patterns in Channel Use for Former Multichannel Users**

(percent of respondents who are former multichannel users)

	Currently Used	Ever Used*
Full-service broker	34	69
Discount broker	6	29
Insurance	6	26
Bank	7	31
Financial planner	14	28
Direct Market	34	63

Base=156

\*Multiple responses included

compares with a median of 10 years for current multichannel users and 5 years for single-channel users who have never used more than one channel. Former multichannel users' fund portfolios are larger and more diverse than those of single-channel users who have never used more than one channel, but are not quite as large and diverse as those of current multichannel users.

**FIGURE 65**  
**Characteristics of Single-channel Users Who Were Multichannel Users**

	Single-channel Users Who Were Multichannel Users	Single-channel Users Who Have Never Used More Than One Channel	Multichannel Users
<b>Median</b>			
Age	48	46	49
Household income	\$99,900	\$83,300	\$92,400
Household financial assets*	\$130,800	\$111,900	\$168,100
Household financial assets invested in mutual funds	\$50,000	\$40,000	\$61,000
Percent of household financial assets invested in mutual funds	38	36	36
Investment real estate assets**	\$38,000	0	\$20,700
Number of years since first fund was purchased	11	5	10
Number of funds owned	5	4	6
<b>Percent of Respondents</b>			
Male	72	65	69
Married	85	82	89
Employed full- or part-time	77	73	74
Retired from lifetime occupation	23	19	25
Completed graduate school	37	33	40

\*Excludes real estate and assets in employer-sponsored pension plans

\*\*Excludes primary residence

# Chapter 6: Segmentation of Shareholder Investment Channel Needs

## Chapter Summary

The analysis in the first five chapters grouped the survey respondents according to the channels through which they currently own mutual funds. Chapter 6 uses segmentation analysis to classify respondents with similar needs and requirements concerning the purchase of mutual funds. The segmentation analysis provides mutual fund companies with a better understanding of respondents' mutual fund purchase needs, as well as with information helpful in building marketing and distribution strategies targeted toward specific groups of shareholders. Based on respondents' answers to 20 statements, the analysis produced five clusters, or segments:<sup>3</sup>

- **Confident Guidance-Oriented Shareholders.** The respondents in this group are self-reliant investors who prefer to make investment decisions themselves. Nevertheless, Confident Guidance-Oriented Shareholders value personal investment guidance and are willing to pay for that service.
- **Adviser-Dependent Shareholders.** Like Confident Guidance-Oriented Shareholders, Adviser-Dependent Shareholders have a need for personal guidance. Unlike Confident Guidance-Oriented Shareholders, Adviser-Dependent Shareholders are not self-reliant. Adviser-Dependent Shareholders rely on their financial advisers to evaluate and select investments on their behalf.
- **Fee-Sensitive Independent Shareholders.** As their name suggests, this group likes to avoid high fees and commissions. Fee-Sensitive Independent Shareholders also prefer to make their own investment decisions. They have little need for personal financial guidance.
- **Cautious Shareholders.** Extremely hesitant about investing, Cautious Shareholders need personal financial guidance but are also quite self-reliant. They are somewhat sensitive to levels of fees and commissions.

*Continued on next page*

<sup>3</sup>See Figure 98 in Appendix B for a complete list of the attitude statements and the mean score for each of the five segments described in this chapter.

Chapter Summary continued

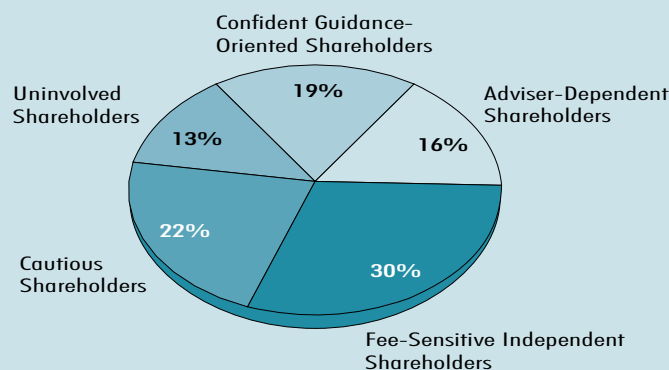
- **Uninvolved Shareholders.** Although slightly hesitant about investing, this group expresses little need for personal financial guidance. At the same time, Uninvolved Shareholders are neither

self-reliant nor particularly sensitive to mutual fund fees and commissions. This group seems to want others to take over their investment decisions.

**FIGURE 66**

### Market Share of Respondent Segments

(percent of respondents)



Base=720

### Principles of Segmentation

Segmentation can be used to divide markets into groups according to similar customer characteristics, such as demographics, purchasing habits, motivations, needs, or attitudes. In this study, segmentation analysis was used to group survey respondents with similar needs and attitudes toward purchasing mutual funds. To determine shareholder needs and attitudes, as well as to classify their responses, respondents were asked to indicate their level of agreement with 20 statements about investing. These statements were

developed from the input gained from the focus groups and were pretested. Using factor analysis<sup>4</sup> to analyze the data, four particular elements emerged. The four elements represent the underlying dimensions of the attitude data (see Figure 67).

Using the four underlying need and investment dimensions, respondents were divided into five groups or segments. Each segment has been given a name that generally describes the overall disposition of the individuals in that group. The descriptions relate to respondents' investment

<sup>4</sup>See Appendix A, Research Methodology, for an explanation of factor analysis.

needs and attitudes, and represent their views on purchasing mutual funds. The five segments are:

- Confident Guidance-Oriented Shareholders,
- Adviser-Dependent Shareholders,
- Fee-Sensitive Independent Shareholders,
- Cautious Shareholders, and
- Uninvolved Shareholders.

The characteristics of each of the five segments are described in the following pages. Figures 83, 84, and 85 at the end of the chapter summarize the key characteristics of each segment. The mean factor scores for the four underlying investment need dimensions are depicted for each segment of respondents. A mean factor score is the value of each underlying dimension for all respondents that comprise a segment. The mean factor scores identify the degree to which each attribute describes each segment relative to the other segments. Each attribute, or factor, is an independent variable. Hence, the factors do not indicate that one particular dimension is any more or less important than another in describing each segment.

In Figure 68, for example, Confident Guidance-Oriented Shareholders have a positive mean factor score for “the need for personal guidance,” meaning that, when compared with other segments, Confident Guidance-Oriented Shareholders can be described as needing personal financial guidance. In contrast, Confident Guidance-Oriented Shareholders have a high negative mean factor score for “hesitancy about investing,” meaning that, when compared with other segments, Confident Guidance-Oriented Shareholders are not hesitant about investing. Because all four factors are independent of one another, the analysis does not indicate which is the better description of a particular segment.

**FIGURE 67**

## Underlying Need and Investment Dimensions Based on Respondent Attitudes

### 1. The Need for Personal Guidance

“It is important that I be able to sit down face-to-face and talk about mutual fund choices with someone.”

“I am willing to pay more in commissions and fees in order to get sound mutual fund guidance.”

“I would only invest in a mutual fund that has been recommended to me by a personal financial adviser.”

“Handling financial matters has become so complicated that you must have experts advise you.”

### 2. Self-Reliance

“I spend a lot of time seeking information before I make my mutual fund investments.”

“I have become more knowledgeable about mutual funds over the last few years.”

“Today I am more likely to purchase mutual funds by myself than I was in the past.”

### 3. Hesitancy About Investing

“I am uncomfortable buying mutual funds because they are not federally insured.”

“It is very difficult to find a financial adviser you can trust.”

“I am more of a ‘saver’ than an ‘investor.’”

“I am overwhelmed by all of the investment choices available to me.”

### 4. Fee-Sensitivity

“I feel no-load mutual funds give me better value for my money.”

“When purchasing mutual funds, I go with the person or institution that charges the lowest commission or fee.”



## Confident Guidance-Oriented Shareholders

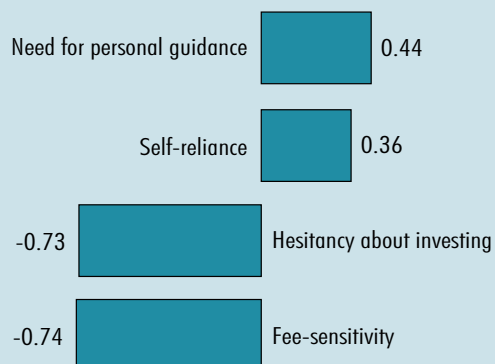
### Overview of Confident Guidance-Oriented Shareholders

Confident Guidance-Oriented Shareholders want financial advice from professionals but prefer to make any investment decisions themselves. A longstanding relationship with their financial adviser is very important to this group of respondents, and they are willing to pay more in fees and commissions for sound mutual fund guidance. Nevertheless, Confident Guidance-Oriented Shareholders are comfortable with the investment choices available to them, including mutual funds. Demonstrating their desire for advice and their self-reliance, 60 percent of Confident Guidance-Oriented Shareholders own funds from a full-service broker and 44 percent own direct-marketed funds. Nearly four in ten expect to purchase their next fund from the direct market channel. Of all segments, Confident Guidance-Oriented Shareholders have the greatest median household income and financial assets.

**FIGURE 68**

### Underlying Need and Investment Dimensions of Confident Guidance-Oriented Shareholders

(mean factor scores)



Base=137

Confident Guidance-Oriented Shareholders account for 19 percent of all respondents. They are self-reliant investors who value professional financial guidance. Confident Guidance-Oriented Shareholders place considerable importance on their relationship with their financial adviser. They believe financial matters are complex enough that expert advice is necessary. In fact, this segment says they are willing to pay more in commissions and fees in order to get sound mutual fund guidance. At the same time, however, Confident Guidance-Oriented Shareholders do not base their decision to invest in a fund solely on the recommendation of a financial adviser. Undaunted by the myriad investments available, Confident Guidance-Oriented Shareholders spend a great deal of time gathering information on mutual funds before selecting a fund in which to invest. Consequently, members of this group prefer to make any investment decision themselves.

Given the time they have spent researching mutual funds, it is not surprising that Confident Guidance-Oriented Shareholders say they are comfortable with mutual funds even though mutual funds are not federally insured. As a sign of their ease with mutual funds, Confident Guidance-Oriented Shareholders are the least likely to say they will only invest in mutual funds offered by large, nationally known financial institutions. This segment believes that no-load mutual funds provide better value for their money and they say they are more likely to purchase mutual funds on their own now than in the past. They say they have become more knowledgeable about mutual funds in the last few years; nearly half say they have a comprehensive understanding of mutual funds.

More than half of Confident Guidance-Oriented Shareholders are multichannel users. Illustrating the emphasis they place on advice and their self-confidence about investing, 60 percent of Confident Guidance-Oriented Shareholders own funds from a full-service broker and 44 percent own funds from a direct marketer. This segment's

trend in channel use indicates a movement toward the direct market channel. A smaller proportion of Confident Guidance-Oriented Shareholders used the full-service broker channel to purchase their most recent fund than used it to purchase their first fund, and even fewer expect to use this channel to buy their next fund. In contrast, the opposite pattern emerges concerning use of the direct market channel for the first, most recent, and next fund purchase.

Confident Guidance-Oriented Shareholders have a median of \$68,500 in mutual funds, the highest of all segments. Including other members of their households, Confident Guidance-Oriented Shareholders own a median of six mutual funds. Nearly all members of this segment, 92 percent, own at least one stock mutual fund. Confident Guidance-Oriented Shareholders are the group least likely to own taxable bond funds. Because Confident Guidance-Oriented Shareholders perceive themselves more as “investors” than as “savers,” it is not surprising that this segment is the most likely to own stock and one of the least likely to own certificates of deposits.

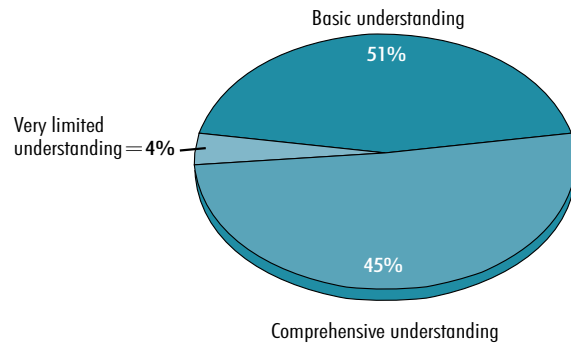
Nearly half of all Confident Guidance-Oriented Shareholders are saving for retirement and more than three quarters list long-term growth as their primary financial objective. Typically in their mid-forties, Confident Guidance-Oriented Shareholders are the wealthiest of all segments. Confident Guidance-Oriented Shareholders’ median household income of \$112,800 and median household financial assets of \$188,700 are the highest of all segments. When compared with other segments, Confident Guidance-Oriented Shareholders are the likeliest to be married.

Confident Guidance-Oriented Shareholders are the group most likely to regularly read the *Wall Street Journal*—more than half read this publication. While they are self-reliant, Confident Guidance-Oriented Shareholders also seek out personal financial advice. Therefore, it is not surprising that full-service brokers, financial planners, and various reading material tend to be their primary sources of investment information.

**FIGURE 69**

**Confident Guidance-Oriented Shareholders’ Self-Assessed Understanding of Mutual Funds**

(percent of respondents)

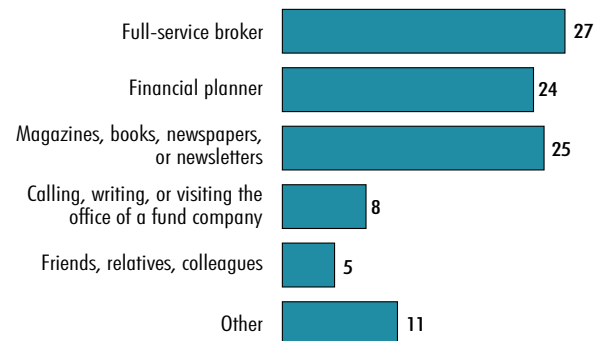


Base=137

**FIGURE 70**

**Confident Guidance-Oriented Shareholders’ Primary Source for Mutual Fund Information**

(percent of respondents)



Base=133

## Adviser-Dependent Shareholders

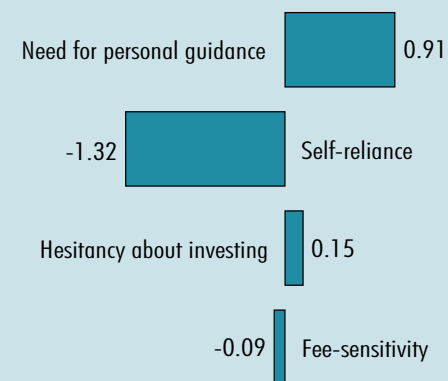
### Overview of Adviser-Dependent Shareholders

The myriad investment opportunities available to investors tend to overwhelm Adviser-Dependent Shareholders and, therefore, they tend to rely on financial professionals for recommendations. In fact, Adviser-Dependent Shareholders will only invest in mutual funds that have their advisers' approval. More than any other segment, Adviser-Dependent Shareholders are willing to pay more in fees and commissions in order to receive sound mutual fund guidance. Nearly three quarters of Adviser-Dependent Shareholders own funds from a full-service broker, the greatest proportion of all segments. Unlike other segments who own funds from this channel, the majority of Adviser-Dependent Shareholders expect to purchase their next fund from a full-service broker. Along with other members of their households, Adviser-Dependent Shareholders own a median of four mutual funds, the least of all segments. Women account for the majority of Adviser-Dependent Shareholders.

**FIGURE 71**

### Underlying Need and Investment Dimensions of Adviser-Dependent Shareholders

(mean factor scores)



Base=227

Adviser-Dependent Shareholders represent 16 percent of all respondents. As their name suggests, this segment relies heavily on financial professionals. Adviser-Dependent Shareholders believe that handling financial matters has become so complex, and the number of investment alternatives available to investors so overwhelming, that expert advice is needed. Adviser-Dependent Shareholders do not want to make their investment decisions by themselves. Given their hesitancy about investing, it is not surprising that Adviser-Dependent Shareholders are the segment likeliest to say that they will only invest in mutual funds recommended to them by a financial adviser. Sitting down and personally reviewing investment choices with an adviser is especially important to this segment, and they are willing to pay more in commissions and fees in order to receive sound guidance.

Adviser-Dependent Shareholders are unlikely to become customers of the direct market channel. They describe themselves as unlikely to invest in mutual funds on their own and they say they are leery of investing through the mail because the transaction may not be conducted properly. Perhaps because they rely so heavily on their financial advisers, Adviser-Dependent Shareholders are the segment least likely to conduct their own investment research. They are also the segment least likely to say they have become more knowledgeable about mutual funds over the years. In fact, more than a quarter of Adviser-Dependent Shareholders say they have a very limited understanding of mutual funds, the greatest proportion of all segments.

Adviser-Dependent Shareholders typically use only one channel to purchase mutual funds, and most have never used more than one channel. The vast majority of Adviser-Dependent Shareholders, 74 percent, are customers of a full-service broker. Almost a quarter use a financial planner, and even smaller proportions own funds from the other channels.

Adviser-Dependent Shareholders are exceptionally loyal to the full-service broker channel. In

fact, 53 percent of Adviser-Dependent Shareholders have 100 percent of their mutual fund assets invested with a full-service broker. Nearly two thirds bought their first fund, and nearly two thirds bought their most recent fund, from a full-service broker. Moreover, a similar proportion expects to purchase their next fund from a full-service broker.

Adviser-Dependent Shareholders' median mutual fund assets of \$44,000 ranks second lowest among the segments. Including other members of their households, Adviser-Dependent Shareholders own a median of four mutual funds, the least of all segments. Eight in ten own stock mutual funds, making this segment the least likely to own this type of fund. Adviser-Dependent Shareholders are also the segment least likely to own only stock funds. Along with Fee-Sensitive Independent Shareholders, Adviser-Dependent Shareholders are more likely to own money market mutual funds than are any other segment.

Adviser-Dependent Shareholders typically own investments other than mutual funds. Nearly six in ten own individual stocks. Nevertheless, along with Cautious Shareholders, Adviser-Dependent Shareholders are less likely to own individual stocks than are the other segments. More than half of Adviser-Dependent Shareholders own individual bonds, and about a third own certificates of deposit.

About a third of Adviser-Dependent Shareholders are saving for retirement and 53 percent list long-term growth as their primary investment strategy, both of which are lower than for any other segment. Women make up 52 percent of Adviser-Dependent Shareholders, the greatest proportion of all segments. Although the majority of Adviser-Dependent Shareholders are married, this segment has proportionally more widowed members than any other segment. Adviser-Dependent Shareholders' median household income of \$79,600 is the second lowest of all segments.

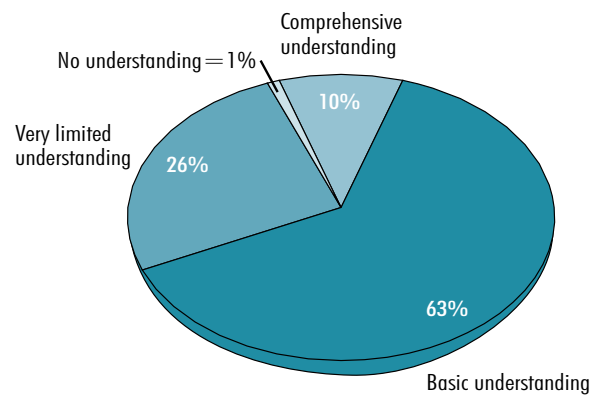
Similar to other segments, most Adviser-Dependent Shareholders read the business section of their local newspapers. Adviser-Dependent

Shareholders tend not to read any other business-related publications. Because Adviser-Dependent Shareholders generally have little interest in conducting independent investment research, their low readership of business-related publications is not surprising. Predictably, this segment rarely mentions printed material as its primary source for mutual fund information, and most frequently mentions a full-service broker.

**FIGURE 72**

**Adviser-Dependent Shareholders' Self-Assessed Understanding of Mutual Funds**

(percent of respondents)

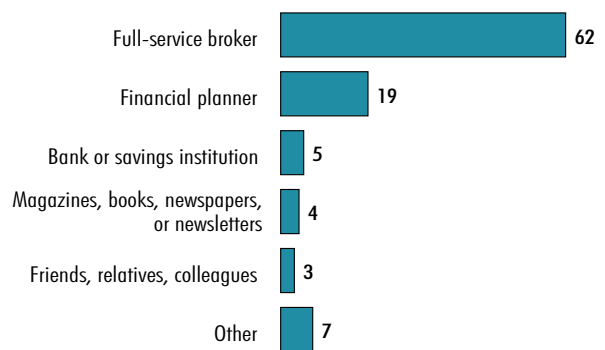


Base=103

**FIGURE 73**

**Adviser-Dependent Shareholders' Primary Source for Mutual Fund Information**

(percent of respondents)



Base=102

## Fee-Sensitive Independent Shareholders

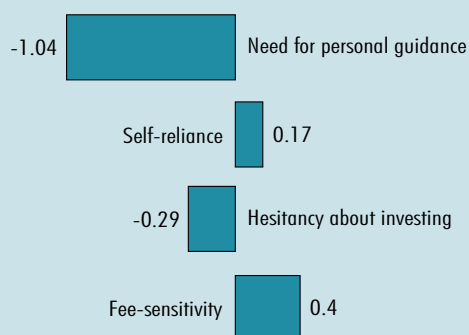
### Overview of Fee-Sensitive Independent Shareholders

Fee-Sensitive Independent Shareholders do not utilize professional investment advice. Face-to-face financial service is not important to them. When compared with other segments, Fee-Sensitive Independent Shareholders are the most sensitive to fees and commissions. They are the segment least willing to pay fees and commissions for investment guidance, and the most likely to purchase no-load funds. The vast majority purchased their most recent fund from the direct market channel, and an equally large number expect to purchase their next fund there. Fee-Sensitive Independent Shareholders, of whom nearly half have a graduate degree, are the most educated segment.

**FIGURE 74**

### Underlying Need and Investment Dimensions of Fee-Sensitive Independent Shareholders

(mean factor scores)



Base=103

Fee-Sensitive Independent Shareholders comprise 30 percent of the survey respondents. More than any other segment, Fee-Sensitive Independent Shareholders prefer to make all of their financial decisions without guidance from a professional. They are comfortable with the many investment choices available to them and

deem any professional investment assistance unnecessary. For example, Fee-Sensitive Independent Shareholders exhibit little need or interest in face-to-face discussions about investment choices and are generally unwilling to pay fees and commissions for financial counseling. Not surprisingly, of all segments, Fee-Sensitive Independent Shareholders are the most sensitive about fees. They perceive no-load funds as a better value than load funds and say they purchase their mutual funds from the financial institutions with the lowest commissions and fees.

Fee-Sensitive Independent Shareholders say they are more knowledgeable about mutual funds than they were in the past. Along with Confident Guidance-Oriented Shareholders, Fee-Sensitive Independent Shareholders are the most likely to say that they have a comprehensive understanding of mutual funds.

Most Fee-Sensitive Independent Shareholders are customers of the direct market channel. A total of 85 percent of Fee-Sensitive Independent Shareholders own direct-marketed funds. Some members of this segment own funds from the other five channels. For example, 28 percent own funds from a full-service broker channel and 21 percent own funds from a discount broker. Fifty-one percent of Fee-Sensitive Independent Shareholders are single-channel users, the vast majority of whom use the direct market channel. The remaining 49 percent of Fee-Sensitive Independent Shareholders are multi-channel users.

Although Fee-Sensitive Independent Shareholders overwhelmingly own direct-marketed funds, half of this segment began their mutual fund investing in a channel other than the direct market channel, typically the full-service broker channel. Twenty-eight percent of Fee-Sensitive Independent Shareholders purchased their first mutual fund from a full-service broker. Nevertheless, three quarters of Fee-Sensitive Independent Shareholders purchased their most recent fund from the direct market channel. And this segment expects to continue purchasing its

mutual funds directly. More than eight in ten say they will buy their next fund from the direct market channel. Fee-Sensitive Independent Shareholders express minimal concern about conducting mutual fund transactions through the mail.

Fee-Sensitive Independent Shareholders have a median of \$55,000 invested in mutual funds, of which 82 percent is invested through the direct market channel. Similar to Confident Guidance-Oriented Shareholders, Fee-Sensitive Independent Shareholders own a median of six mutual funds, the most of all segments. Although the vast majority of all segments own stock mutual funds, Fee-Sensitive Independent Shareholders are the most likely to own this type of fund. Because Fee-Sensitive Independent Shareholders perceive themselves to be “investors” rather than “savers,” stock mutual funds best meet their investment requirements. However, approximately one third of Fee-Sensitive Independent Shareholders own taxable bonds, roughly a third own tax-exempt bonds, and almost two thirds own money market funds. Along with Uninvolved Shareholders, Fee-Sensitive Independent Shareholders are the segment most likely to own all three types of funds, that is, stock, bond, and money market funds.

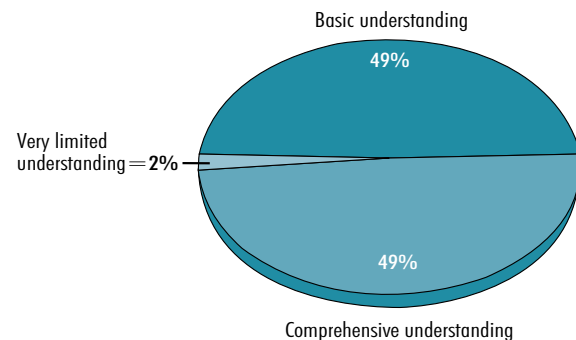
The largest proportion of Fee-Sensitive Independent Shareholders, 48 percent, are saving for retirement. When compared with other segments, more Fee-Sensitive Independent Shareholders list long-term growth as their primary investment objective. Fee-Sensitive Independent Shareholders are the most educated segment—nearly half of them have a graduate degree. Only 15 percent of Fee-Sensitive Independent Shareholders are retired, the least among all segments. Fee-Sensitive Independent Shareholders’ median household income of \$97,200 ranks second among all segments of respondents, and their median household financial assets of \$138,500 ranks third.

Fee-Sensitive Independent Shareholders read a variety of investment-related publications in addition to the business section of their local newspaper. Nearly half read mutual fund newsletters and the *Wall Street Journal*. Befitting

their independent nature, Fee-Sensitive Independent Shareholders’ primary source for mutual fund information tends to be printed material, such as magazines, books, newspapers, or newsletters.

**FIGURE 75**  
**Fee-Sensitive Independent Shareholders’ Self-Assessed Understanding of Mutual Funds**

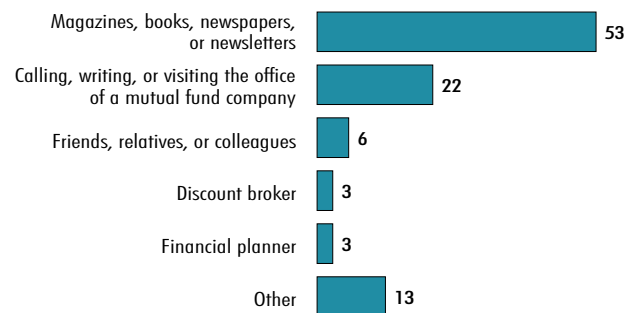
(percent of respondents)



Base=225

**FIGURE 76**  
**Fee-Sensitive Independent Shareholders’ Primary Source for Mutual Fund Information**

(percent of respondents)



Base=214

## Cautious Shareholders

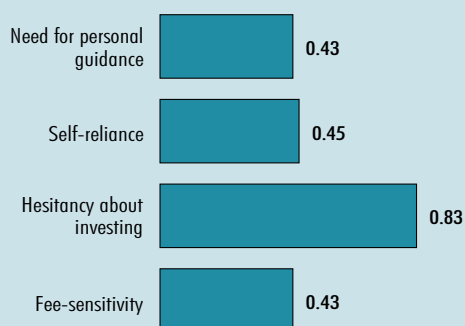
### Overview of Cautious Shareholders

Cautious Shareholders have conflicting needs and attitudes. They are uneasy about investing, including investing in mutual funds. Nevertheless, Cautious Shareholders are very self-reliant, preferring to make any financial decisions themselves. More than any other segment, Cautious Shareholders say they distrust financial advisers. Despite their misgivings about investment professionals, Cautious Shareholders think it is important to meet with someone face-to-face about investing in mutual funds and are willing to pay more in commissions and fees for this service. More than half of Cautious Shareholders own funds from a full-service broker and 19 percent own funds through a financial planner, among other channels. Cautious Shareholders are typically in their early fifties, making them the oldest of all segments. Cautious Shareholders' median household income and household financial assets rank lowest among all segments.

**FIGURE 77**

### Underlying Need and Investment Dimensions of Cautious Shareholders

(mean factor scores)



Base=161

Cautious Shareholders, who account for 22 percent of respondents, have several conflicting needs and attitudes. For example, Cautious Shareholders say they are overwhelmed by the investment alternatives available to them and are uncomfortable purchasing mutual funds because they are not federally insured. They want to talk face-to-face with someone about mutual funds, and they say they are willing to pay more in fees and commissions in order to get this service. At the same time, Cautious Shareholders also indicate that they purchase mutual funds from the institution with the lowest fees and they prefer to make all their fund investment decisions themselves.

Moreover, Cautious Shareholders tend to be distrustful of financial advisers. More than any other segment, they believe that it is very difficult to find a financial adviser who can be trusted. Cautious Shareholders are also more likely than other segments to think that financial advisers who sell only one company's funds are providing investors with biased advice. Perhaps another sign of their conservatism, Cautious Shareholders are the segment most likely to say they will only invest in mutual funds offered by large financial institutions.

Cautious Shareholders use a variety of channels to purchase mutual funds. More than half use a full-service broker and half use the direct market channel. Twenty-two percent use the insurance channel, 20 percent use the bank channel, and 19 percent use the financial planner channel. Only 13 percent use the discount broker channel. Slightly more than half of Cautious Shareholders, 52 percent, are multichannel users. The balance of Cautious Shareholders, 48 percent, are single-channel users. Most of the Cautious Shareholders who are single-channel users use either the direct market or the full-service broker channels.

Similar to Confident Guidance-Oriented Shareholders, Cautious Shareholders' use of channels over time shows a movement toward the direct market channel. The percent of shareholders who used a full-service broker drops from 41 percent for the first fund purchased to 32 percent for the most recent fund, and to 26 percent for the next fund to be purchased. Concomitantly, the percent using the direct market channel for these same points in time increases.

Cautious Shareholders have a median of \$41,000 invested in mutual funds, the lowest of all segments. Cautious Shareholders currently own a median of five mutual funds. Despite their hesitancy about investing, most Cautious Shareholders have fairly diverse mutual fund portfolios. A quarter of Cautious Shareholders own stock, bond, and money market funds; 21 percent own stock and bond funds; 16 percent own stock and money market funds; and 8 percent own bond and money market funds. Roughly one quarter of Cautious Shareholders own only stock funds and just 6 percent own only bond funds. Perhaps most surprising is the fact that Cautious Shareholders are the least likely of all segments to own money market funds.

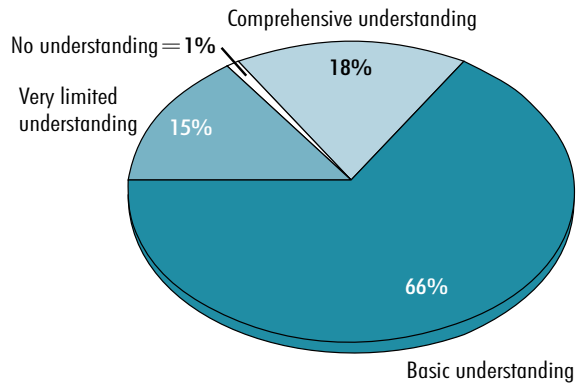
With a median age of 53, Cautious Shareholders tend to be older than the respondents in other segments. In fact, 31 percent of Cautious Shareholders are retired from their lifetime occupation, the greatest percent among all segments. Reflecting their greater likelihood of being retired, Cautious Shareholders are more likely than other segments to list preserving their accumulated assets as their primary financial goal. The median household income of Cautious Shareholders is \$79,300, the lowest of all segments. Likewise, Cautious Shareholders' median household financial assets of \$114,600 ranks last among all segments. However, Cautious Shareholders have a median of \$14,600 invested in real estate (excluding their primary residence), an amount that ranks second among all segments.

Cautious Shareholders read some investment-related publications other than the business section of their local paper. About a third read the *Wall Street Journal* and mutual fund newsletters, and

**FIGURE 78**

**Cautious Shareholders' Self-Assessed Understanding of Mutual Funds**

(percent of respondents)

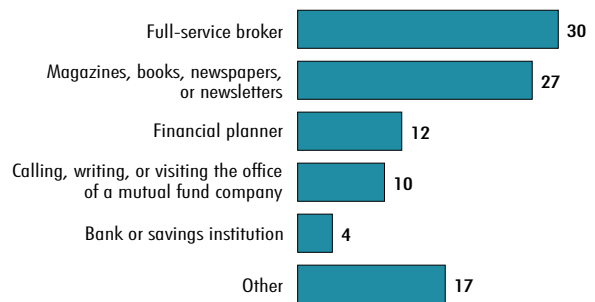


Base=158

**FIGURE 79**

**Cautious Shareholders' Primary Source for Mutual Fund Information**

(percent of respondents)



Base=152

slightly more than a quarter read *Money* magazine. Cautious Shareholders most frequently mention a full-service broker as their primary source of investment advice, followed by printed material, such as newspapers, magazines, newsletters, and books.



## Uninvolved Shareholders

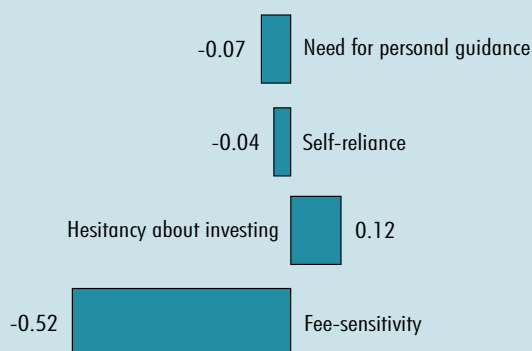
### Overview of Uninvolved Shareholders

Uninvolved Shareholders do not have strong needs or attitudes about investing. For example, they express some need for personal financial services, but have no opinion on whether they are willing to pay more in fees and commissions to receive this type of service. While Uninvolved Shareholders typically express some comfort with investing, their interest in making their own investment decisions borders on neutral. Uninvolved Shareholders are moving toward the direct market channel. The largest proportion of Uninvolved Shareholders, 41 percent, bought their first mutual fund from a full-service broker, but 51 percent expect to purchase their next fund from the direct market channel.

**FIGURE 80**

### Underlying Need and Investment Dimensions of Uninvolved Shareholders

(mean factor scores)



Base=92

Uninvolved Shareholders represent 13 percent of survey respondents. This segment's overwhelming characteristic is that, when compared with other segments, it does not have any clearly defined investment needs and attitudes. For example, Uninvolved Shareholders do not have a firm opinion on whether they are willing to pay more in commissions or fees in order to get sound mutual fund guidance. They neither agree nor disagree that they are more of a "saver" than an "investor," that they will only invest in mutual funds offered by large, nationally known financial institutions, or that it is very difficult to find a financial adviser that can be trusted. In contrast, all other segments clearly expressed their views on these statements.

Uninvolved Shareholders' views on their self-reliance and the importance of a financial adviser border on neutral. Uninvolved Shareholders only slightly agree that they are comfortable with the investment choices available to them and that they will make investment decisions themselves. Similarly, Uninvolved Shareholders only slightly agree that a long-standing relationship with their financial adviser and the ability to discuss mutual funds with someone face-to-face are important to them.

Although Uninvolved Shareholders generally agree that no-load funds provide the best value for the money, they do not necessarily say they prefer to buy mutual funds from those institutions charging the lowest fees or commissions.

Similar to most other segments, Uninvolved Shareholders say they have become more knowledgeable about mutual funds in the past few years. Almost three in ten Uninvolved Shareholders say they have a comprehensive understanding of mutual funds. Uninvolved Shareholders also say they are more likely to purchase mutual funds on their own than they were in the past. Similar to most other segments, Uninvolved Shareholders say they spend a lot of time seeking information before deciding in which mutual fund to invest.

Fifty-seven percent of Uninvolved Shareholders use the full-service broker channel and 47 percent use the direct market channel. Twenty percent use the financial planner channel, 15 percent use the insurance channel, 12 percent use the discount broker channel, and 12 percent use the bank channel. Altogether, 54 percent of Uninvolved Shareholders are single-channel users and 46 percent are multichannel users. Most of the Uninvolved Shareholders who are single-channel users use either the direct market or the full-service broker channel.

Similar to Confident Guidance-Oriented and Cautious Shareholders, Uninvolved Shareholders are gradually moving toward the direct market channel. The largest proportion of Uninvolved Shareholders, 41 percent, bought their first mutual fund from a full-service broker. In contrast, the largest proportion of Uninvolved Shareholders, 38 percent, bought their most recent fund from the direct market channel. Slightly more than half of Uninvolved Shareholders expect to purchase their next fund from the direct market channel, whereas only 23 percent expect to purchase it from a full-service broker.

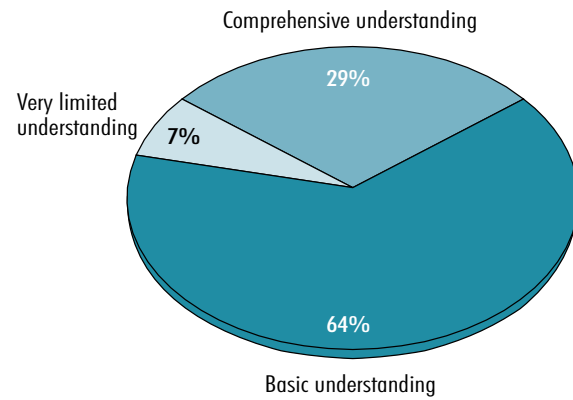
Uninvolved Shareholders have a median of \$50,000 invested in mutual funds, a figure that ranks third behind Confident Guidance-Oriented and Fee-Sensitive Independent Shareholders. Similar to Cautious Shareholders, Uninvolved Shareholders own a median of five mutual funds. Uninvolved Shareholders are one of the segments least likely to own money market funds and one of the most likely to own stock funds. In fact, 31 percent of Uninvolved Shareholders own only stock funds, the greatest proportion of all segments. The majority of Uninvolved Shareholders also own individual stocks, and nearly half own individual bonds.

Uninvolved Shareholders have a median age of 49. The median household income of this segment is \$90,200, which ranks third behind Confident Guidance-Oriented and Fee-Sensitive Independent Shareholders. Uninvolved Shareholders' median household financial assets of \$121,200 is the second lowest among all segments. Typically married and male, more than a third of Uninvolved Shareholders have com-

**FIGURE 81**

**Uninvolved Shareholders' Self-Assessed Understanding of Mutual Funds**

(percent of respondents)

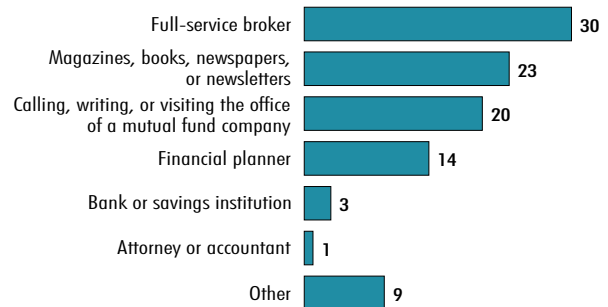


Base=92

**FIGURE 82**

**Uninvolved Shareholders' Primary Source for Mutual Fund Information**

(percent of respondents)



Base=89

pleted graduate school. The largest proportion of Uninvolved Shareholders, 30 percent, say a full-service broker is their primary source for mutual fund information. Nearly a quarter cite printed material, such as magazines, books, newspapers, or newsletters.

**FIGURE 83**

**Segments' Use of Channels to Purchase Mutual Funds**

	Confident Guidance-Oriented Shareholders	Adviser-Dependent Shareholders	Fee-Sensitive Independent Shareholders	Cautious Shareholders	Uninvolved Shareholders
<b>Channels Currently Used*</b>					
Full-service broker	60	74	28	54	57
Discount broker	15	2	21	13	12
Insurance	17	10	11	22	15
Bank	13	12	11	20	12
Financial planner	26	22	8	19	20
Direct market	44	8	85	50	47
<b>Single-channel Versus Multichannel Users</b>					
Single-channel users who are former multichannel users	15	21	24	20	24
Single-channel users who have never used another channel	30	56	27	28	28
Multichannel users	55	23	49	52	46
	100%	100%	100%	100%	100%
<b>Channel Used to Purchase First Mutual Fund</b>					
Full-service broker	46	63	28	41	41
Discount broker	3	2	7	7	5
Insurance	6	4	4	10	6
Bank	5	8	7	7	9
Financial planner	15	15	4	7	5
Direct market	25	8	50	28	34
	100%	100%	100%	100%	100%
<b>Channel Used to Purchase Most Recent Mutual Fund**</b>					
Full-service broker	44	66	7	32	32
Discount broker	2	2	9	5	6
Insurance	5	5	2	9	7
Bank	5	4	2	7	4
Financial planner	17	18	2	10	13
Direct market	27	5	78	37	38
	100%	100%	100%	100%	100%
<b>Channel to Be Used to Purchase Next Mutual Fund</b>					
Full-service broker	31	64	1	26	23
Discount broker	8	3	14	8	6
Insurance	4	2	1	3	2
Bank	3	5	1	4	3
Financial planner	17	17	1	13	15
Direct market	37	9	82	46	51
	100%	100%	100%	100%	100%

\*Multiple responses included.

\*\*For respondents who have owned more than one fund

**FIGURE 84**

**Segments' Mutual Fund Ownership Characteristics**

	Confident Guidance-Oriented Shareholders	Adviser-Dependent Shareholders	Fee-Sensitive Independent Shareholders	Cautious Shareholders	Uninvolved Shareholders
<b>Median per Household</b>					
Financial assets invested in mutual funds	\$68,500	\$44,000	\$55,000	\$41,000	\$50,000
Number of funds owned	6.0	4.0	6.0	5.0	5.0
<b>Percent of Respondents</b>					
Types of Funds Owned:*					
Money market funds	60	63	62	48	54
Stock funds	92	80	97	87	95
Tax-exempt bond funds	42	41	34	43	31
Taxable bond funds	23	26	34	29	28
Combinations of Funds Owned:					
Stock funds only	22	15	20	24	31
Bond funds only	1	9	1	6	1
Stock and bond funds	17	13	17	21	13
Stock and money market funds	27	30	26	16	17
Bond and money market funds	7	11	2	8	4
All three types of funds	26	22	34	25	34

\*Multiple responses included

**FIGURE 85**

**Segments' Demographic and Financial Characteristics**

	Confident Guidance-Oriented Shareholders	Adviser-Dependent Shareholders	Fee-Sensitive Independent Shareholders	Cautious Shareholders	Uninvolved Shareholders
<b>Median</b>					
Age	47	47	45	53	49
Household income	\$112,800	\$79,600	\$97,200	\$79,300	\$90,200
Household financial assets*	\$188,700	\$150,400	\$138,500	\$114,600	\$121,200
Investment real estate assets**	\$20,500	\$8,900	—	\$14,600	\$12,700
<b>Percent of Respondents</b>					
Male	74	48	78	64	72
Married	91	79	89	85	84
Widowed, divorced, or separated	6	13	5	8	6
Employed full or part-time	78	68	78	70	73
Retired from lifetime occupation	21	23	15	31	29
Completed graduate school	39	28	47	29	35
Primary financial goal:					
Saving for retirement	49	34	48	42	40
Preserving accumulated assets	18	23	13	29	20
Primary investment objective:					
Long-term growth	78	53	83	61	69
Current income	10	20	6	12	13
Own:***					
Individual stocks	71	58	65	59	65
Individual bonds	51	51	45	49	49
Certificates of deposit	25	34	24	33	28
Read:***					
Business section of local paper	68	61	68	63	63
<i>Wall Street Journal</i>	52	30	48	35	40
Mutual fund newsletters	34	21	49	32	45
<i>Money</i> magazine	34	11	39	27	23

\* Excludes real estate and assets in employer-sponsored pension plans

\*\* Excludes primary residence

\*\*\* Multiple responses included

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# *Appendix A: Research Methodology*

## *Research Design*

The data presented in this report are the result of an extensive survey conducted by the Response Analysis Corporation (RAC) under the direction of the Investment Company Institute's Research Department. The research program consisted of two stages.

In Stage One, RAC conducted focus group interviews with mutual fund shareholders who purchased their funds through at least one of the following six distribution channels: full-service broker, discount broker, insurance, bank, financial planner, or direct market. The demographic characteristics of the focus group participants varied. All participants were 18 years of age or older and were either the household's primary or co-decisionmaker for saving and investment. The objective of the focus groups was to explore and understand shareholders' use of different distribution channels, why they used those channels, and to identify if, and how, channel use changes over time. The information gathered from these discussions was used to develop the survey instrument for Stage Two, the quantitative phase of the project.

Stage Two used a telephone-mail-telephone survey design. Because this study required respondents to provide detailed data on their households' financial assets, the telephone-mail-telephone methodology gave survey participants the opportunity to review their financial records and assemble the necessary information before completing the survey.

To qualify for the survey, respondents' households had to be recent buyers of long-term mutual funds; that is, they had to have purchased a long-term mutual fund from one of the six channels in the five years preceding the survey. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988. This definition, therefore, excludes instances in which a respondent invested more money in a fund purchased prior to 1988, as well as instances in which respondents acquired mutual funds through an employer.

The Investment Company Institute was identified at the outset as the sponsor of the survey. Shareholders who qualified for the study were asked to complete a self-administered questionnaire and to participate in an in-depth, follow-up telephone interview. A total of 1,471 shareholders who qualified for the study agreed to participate. About half of these shareholders completed the study. All telephone interviews were held with, and written materials were sent to, the household's primary or co-decisionmaker for saving and investment.

Roughly two weeks after study recruits were sent the self-administered questionnaire, RAC interviewers called the respondents and obtained their answers to the written questions, and also asked them several other attitudinal questions not included in the self-administered survey. A total of 720 recruits completed the follow-up telephone survey and are included in the analysis. The age distribution of the 720 households who completed the survey is similar to the age distribu-

tion of those who did not. All interviews were conducted using Response Analysis Corporation's Computer-Assisted Telephone Interviewing (CATI) system, at its Hamilton, New Jersey location. Interviewing and recruiting were conducted from mid-August through mid-December 1993.

### *Factor Analysis*

Factor analysis is a data reduction technique which was used in this study. Because practical problems arise when a large number of variables are analyzed, data reduction techniques are often applied to remove the redundancy from a set of correlated variables and to represent the larger set with a smaller set of "derived" variables or factors. Hence, factor analysis can be thought of as removing duplicative information from a set of variables through the grouping of similar variables.

Factor analysis can be applied in a variety of data analysis situations. In this study, factor analysis was used to identify the factors underlying a large set of variables—the 20 attitude statements on investment needs and preferences—and then to reduce the 20 attitude statements to four underlying factors or dimensions that were common to all respondents.

The factor analysis procedure comprises three key stages. The first stage is the creation of the original data matrix—the ratings of each respondent to the 20 attitude statements. The second key stage is the creation of the correlation matrix, which is the systematic arrangement of the correlation coefficients that exist between each combination of two variables. The third stage is the creation of a factor matrix.

The cell entries of the factor matrix are called factor loadings and may vary in value from -1.00 to +1.00. Factor loadings represent the degree to which each of the variables correlates with each of the factors. Variables with high loadings on a factor (either + or -) provide the meaning and interpretation for that factor. Variables with a low or zero loading on a particular factor do not contribute to the meaning of that

factor. Factors are typically given descriptive names that reflect their high loading variables.

Each respondent has a value for each of the factors. These values are called factor scores. A factor score is a summation of a respondent's score on each of the attitude statements that comprise a factor, multiplied by its factor loading. In this study, mean factor scores were derived for the five shareholder segments discussed in Chapter 6. The mean factor scores identify the degree to which each factor describes each segment relative to the other segments. Because factors are independent variables, mean factor scores do not indicate that one particular dimension is any more or less important than another in describing a segment.

### *Sampling Methodology and Weighting Scheme*

Although income was not a criterion for inclusion in this study, the sampling methodology restricted sample selection to upper income areas for each of the six distribution channels. This approach substantially increased the likelihood of finding mutual fund-owning households that qualified as recent buyers of long-term funds. The effect on respondent demographics of restricting the sample selection to upper income geographic areas is that the survey respondents on average have higher household incomes than do all fund-owning households. ICI data indicate that 54 percent of fund-owning households have total household incomes of \$50,000 or more. This compares with 84 percent of survey respondents (i.e., recent buyers) who had incomes of \$50,000 or more.

A minimum number of interviews per channel were established as a sampling requirement. Because of the multiple use of channels by fund-owning households, the number of respondents per channel varies.

The data were weighted to correct for household differences in the probabilities of selection into the sample. These differences are caused by the channel or combination of channels respondents used to pur

**FIGURE 86**

**Statistical Reliability for Determining Accuracy of Observed Percentages—One Sample**

Size of Sample	Observed Percentages				
	Sampling Errors at the 95% Confidence Level				
	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
700	2	3	4	4	4
600	3	3	4	4	4
500	3	4	4	5	5
400	3	4	5	5	5
350	3	4	5	5	5
250	4	5	6	6	6
150	5	7	8	8	8
100	6	8	9	10	10
50	9	11	13	14	14

chase mutual funds at the time of the survey or other selection probabilities, including random effects.

*Sampling Tolerances*

The use of sample surveys is standard practice for deriving estimates about a total population. Estimates derived through survey sampling are subject to sampling error. As sample size increases, the level of potential sampling error generally becomes smaller. The findings in this report represent the total population of recent buyers of long-term funds as found in high-income areas with an overall sampling error of plus or minus 4 percent at the 95 percent confidence level. This confidence level can be used to construct confidence intervals. Confidence intervals are ranges that would include the average estimate taken across all possible samples with known probability. Approximately 95 percent of the intervals figured in all possible samples would contain the average estimate taken

across all possible samples. Figure 86 shows the approximate sampling error for estimates of proportions computed for the sample as a whole and for subsamples of various sizes.

Sampling error also occurs when the results from one independent part of a sample are compared with another independent part of the sample. The difference between the two parts of the sample must be at least a certain number of percentage points to be considered statistically significant. Figure 87 is a guide to the sampling error applicable to such comparisons based on a 95 percent confidence level.

**FIGURE 87**

**Statistical Reliability for Determining Accuracy of Observed Percentages—Two Samples**

Size of Samples Compared	Observed Percentages				
	Sampling Errors at the 95% Confidence Level				
	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
700 and 700	3	4	5	5	5
600 and 100	7	9	10	11	11
550 and 150	6	8	9	9	9
400 and 200	5	7	8	9	9
350 and 350	5	6	7	8	8
150 and 150	7	9	11	11	12
100 and 100	9	11	13	14	14
100 and 50	11	14	16	17	17
50 and 50	12	16	18	20	20

## Appendix B: Detailed Tabulations

**FIGURE 88**

### Channel Users' First Mutual Fund(s) Purchased

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Stock funds only	49	48	61	54	55	62
Bond funds only	16	12	6	12	12	9
Money market funds only	24	27	24	27	21	22
Stock and bond funds	2	3	2	3	5	2
Stock and money market funds	5	4	4	4	3	3
Bond and money market funds	2	1	—	—	1	1
All three types of funds	2	5	3	—	3	1
	100%	100%	100%	100%	100%	100%
Base =	337	120	126	107	147	384

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 89**

**Year in Which Channel Users Purchased First Mutual Fund(s)**

(percent of respondents)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
1991 or later	7	8	9	12	11	8
1988 through 1990	12	20	10	17	13	13
1985 through 1987	36	16	25	24	25	31
1984 or earlier	45	56	56	47	51	48
	100%	100%	100%	100%	100%	100%
Mean (in years)	11	11	12	11	11	11
Median (in years)	8	10	9	8	9	9
Base =	321	117	120	104	143	365

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 90**

**Channel Users' Most Recent Mutual Fund(s) Purchased**

(percent of respondents who have owned more than one fund)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
Stock funds only	62	67	68	63	66	75
Bond funds only	26	24	16	22	21	19
Money market funds only	9	8	13	14	9	6
Stock and bond funds	2	—	3	1	4	—
Stock and money market funds	—	1	—	—	—	—
Bond and money market funds	—	—	—	—	—	—
All three types of funds	1	—	—	—	—	—
	100%	100%	100%	100%	100%	100%
Base =	327	116	121	103	141	377

Note: Channel users are respondents who currently own at least one fund from that channel.

**FIGURE 91**

**Year in Which Channel Users Purchased Most Recent Mutual Fund(s)**

(percent of respondents who have owned more than one fund)

	Full-service Broker Channel Users	Discount Broker Channel Users	Insurance Channel Users	Bank Channel Users	Financial Planner Channel Users	Direct Market Channel Users
1993	63	65	62	60	56	63
1992	20	19	19	22	22	22
1990 through 1991	13	12	14	14	16	11
1988 through 1989	4	4	5	4	6	4
	100%	100%	100%	100%	100%	100%
Mean (in years)	1	1	1	1	1	1
Median (in years)	<1	<1	<1	<1	<1	<1
Base =	327	116	122	102	143	378

*Note: Channel users are respondents who currently own at least one fund from that channel.*

**FIGURE 92**

**Demographic and Financial Characteristics of All Respondents**

<b>Median</b>	
Age	47
Household income	\$91,300
Household financial assets*	\$144,400
Investment real estate assets**	\$10,400

**Percent of Respondents**

Male	69
Married	86
Employed full- or part-time	74
Retired from lifetime occupation	23
Spouse employed	65
Four-year college degree or more	47
Graduate degree	37
Primary investment objective:	
Long-term growth	71
Current income	11
Primary financial goal:	
Saving for retirement	43
Preserving accumulated assets	20
Providing college education to children or grandchildren	18
Have formal financial plan	52
Self-assessed knowledge of mutual funds:	
Comprehensive	33
Basic	57
Very limited	10

\*Excludes real estate and assets in employer-sponsored pension plans

\*\*Excludes primary residence

Note: Respondents are shareholders who purchased long-term funds from 1988 through 1993 other than through their employer. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988.

**FIGURE 93**

**Mutual Fund Ownership Characteristics of All Respondents**

<b>Median per Household</b>	
Mutual fund assets	\$50,000
Percent of financial assets invested in all mutual funds	35
Number of funds owned	5

**Percent of Respondents**

Types of Funds Owned:*	
Stock funds	91
Tax-exempt bond funds	38
Taxable bond funds	29
Money market funds	58
Combinations of Funds Owned:	
Stock funds only	22
Bond funds only	3
Stock and bond funds	17
Stock and money market funds	24
Bond and money market funds	6
All three types of funds	28
	100%

\* Multiple responses included

Note: Respondents are shareholders who purchased long-term funds from 1988 through 1993 other than through their employer. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988.



**FIGURE 94**

**Ownership of Nonfund Savings and Investments by All Respondents\***

Average number of nonfund savings and investment types owned	3.5
<b>Percent of Respondents</b>	
Bank accounts	81
Certificates of deposit	28
Individual bonds**	48
Treasury bills, bonds, and notes	14
Individual stock other than employer stock	64
Life insurance	47
Annuities	23
Unit investment trusts	8
Other investments	21

\* Multiple responses included

\*\* Includes corporate, municipal, and U.S. Savings Bonds

Note: Respondents are shareholders who purchased long-term funds from 1988 through 1993 other than through their employer. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988.

**FIGURE 96**

**Primary Source of Mutual Fund Investment Information for All Respondents**

(percent of respondents)

Full-service broker	26
Books and magazines	18
Financial planner	13
Direct contact with mutual fund company	12
Brokerage or investment newsletters	8
Friends, relatives, or colleagues	4
Newspapers	4
Insurance agent	2
Discount broker	2
Bank or savings institution	2
Other	9
	100%
Base =	690

Note: Respondents are shareholders who purchased long-term funds from 1988 through 1993 other than through their employer. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988.

**FIGURE 95**

**Recent Mutual Fund Investment Activity of All Respondents\***

(percent of respondents)

Invested more money in a fund currently own (other than through exchanging shares or reinvesting dividends)	63
Exchanged shares of one fund for shares in another fund offered by same company	34
Sold shares of one fund and used proceeds to buy shares of a fund of a different company	31
Sold shares and used proceeds to buy something other than mutual funds	28

\* For 12-month period preceding survey (July 1992 through August 1993). Multiple responses included.

Note: Respondents are shareholders who purchased long-term funds from 1988 through 1993 other than through their employer. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988.

**FIGURE 97**

**Readership of Business-Related Publications  
for All Respondents\***

(percent of respondents indicating they frequently read publication)

Local newspaper's business section	65
<i>Wall Street Journal</i>	42
Mutual fund newsletters	37
Business section of <i>Time</i> , <i>Newsweek</i> , or <i>U.S. News and World Report</i>	29
<i>Money</i>	29
<i>Consumer Reports</i>	22
<i>Business Week</i>	21
<i>New York Times</i> business section	21
<i>Forbes</i>	17
<i>USA Today</i> business section	11
<i>Fortune</i>	11
<i>Barron's</i>	10
<i>Changing Times</i>	8
<i>Investors' Business Daily</i>	6
<i>Financial World</i>	5
Base =	720

\* Multiple responses included

Note: Respondents are shareholders who purchased long-term funds from 1988 through 1993 other than through their employer. A "purchase" was defined as purchasing shares of a fund from which no previous shares had been owned before 1988.

**FIGURE 98**  
**Segments' Level of Agreement with Statements About Investing**

(mean score\*)

	Respondent Segments					
	All Respon- dents	Confident Guidance- Oriented Share- holders	Adviser- Dependent Share- holders	Fee- Sensitive Independent Share- holders	Cautious Share- holders	Uninvolved Share- holders
I have become more knowledgeable about mutual funds over the last few years	4.4	4.7	3.8	4.5	4.5	4.5
People who sell only one company's mutual funds are likely to give you biased investment advice	4.3	4.4	4.2	4.4	4.6	3.1
I always seek a low-pressure sales environment	4.2	4.4	4.3	4.3	4.6	2.9
I spend a lot of time seeking information before I make my mutual fund investment decisions	4.0	4.2	3.0	4.2	4.4	4.0
I feel no-load mutual funds give me better value for my money	3.9	3.4	3.4	4.6	4.2	3.6
Today I am more likely to purchase mutual funds by myself than I was in the past	3.9	4.3	2.2	4.4	4.2	3.6
When I consider investing in mutual funds, it is important to me that the people I turn to for investment advice also be able to complete my investment transactions	3.7	4.0	4.5	2.8	4.2	3.6
When I make mutual fund investments, I want to make all the decisions myself	3.6	3.6	2.8	4.1	3.7	3.3
It is important to me to have a longstanding relationship with my financial adviser	3.5	4.0	4.5	2.5	3.9	3.6
I will only invest in mutual funds offered by large, nationally known financial institutions	3.4	2.6	3.6	3.5	4.0	3.0
It is very difficult to find a financial adviser that you can trust	3.2	2.7	2.9	3.4	3.8	3.0
Handling financial matters has become so complicated that you must have experts advise you	3.0	3.2	4.0	2.1	3.6	2.8
It is important that I be able to sit down face-to-face and talk about mutual fund choices with someone	3.0	3.2	4.0	1.8	3.6	3.3
I am more of a "saver" than an "investor"	3.0	2.5	3.2	2.6	3.7	3.0
I am overwhelmed by all of the investment choices available to me	3.0	2.6	3.7	2.3	3.8	2.8
I am willing to pay more in commissions or fees in order to get sound mutual fund guidance	2.9	3.5	3.9	1.9	3.2	3.0
When purchasing mutual funds, I go with the person or institution that charges the lowest commission or fee	2.9	2.0	2.2	3.6	3.3	2.3
I would only invest in a mutual fund that has been recommended to me by a professional financial adviser	2.7	2.6	4.0	1.6	3.2	2.6

Continued on next page

**FIGURE 98, continued**

**Segments' Level of Agreement with Statements About Investing**

(mean score\*)

	Respondent Segments					
	All Respon- dents	Confident Guidance- Oriented Share- holders	Adviser- Dependent Share- holders	Fee- Sensitive Independent Share- holders	Cautious Share- holders	Uninvolved Share- holders
When you invest in mutual funds by mail, you just can't be sure that the transaction will go through properly	2.5	2.6	3.6	1.6	3.0	2.4
I am uncomfortable buying mutual funds because they are not federally insured	2.0	1.6	2.5	1.4	2.7	2.2

\*5 equals strongly agree, and 1 equals strongly disagree



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