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What US Households Consider When They Select Mutual Funds

KEY FINDINGS

- » **Mutual fund investors review a fund's investment objective, as well as the risk level of the fund's investments, when making their fund purchase decision.** In mid-2017, nine in 10 mutual fund–owning households considered a fund's investment objective, as well as the risk level of a fund's investments, when selecting mutual fund investments. Almost four in 10 mutual fund–owning households indicated that each of these measures was "very important" in their fund selection decision.
- » **Mutual fund investors review the historical performance of a fund and a fund's performance compared with an index when purchasing a mutual fund.** In mid-2017, about nine in 10 mutual fund–owning households considered these performance measures when selecting mutual funds. Half of mutual fund–owning households indicated that historical performance was very important to their fund purchase decision and 35 percent indicated a fund's performance compared with an index was very important.
- » **Fund fees and expenses also were reviewed by mutual fund investors.** In mid-2017, nine in 10 mutual fund–owning households considered fund fees and expenses when selecting their mutual funds. Indeed, 40 percent indicated fund fees and expenses were very important to their fund selection decision.

Mutual Fund–Owning Households Review Several Key Pieces of Information When Selecting Funds

The annual ICI Mutual Fund Shareholder Tracking Survey gathers information on mutual fund–owning households. In mid-2017, the survey found that 56.2 million US households, or 44.5 percent, owned mutual funds.¹ In the 2017 survey, mutual fund–owning households were asked to rank the importance of a variety of factors when making their mutual fund purchase decisions.² This research paper presents the results from that question. To place the results in context, this paper first provides as background the variety of financial services firms that US households use to purchase mutual funds and highlights mutual fund–owning households’ willingness to take investment risk and the investment profile of the mutual funds they own. Finally, highlights from mutual fund fee research are included, which indicate that mutual fund investors tend to concentrate their mutual fund assets in lower-cost funds.

Mutual Funds Are Offered Through an Array of Financial Services Firms

Mutual funds are available through a wide array of financial services firms, and households own mutual funds both inside and outside employer-sponsored retirement plans. In mid-2017, 81 percent of mutual fund–owning households held mutual funds through employer-sponsored retirement plans (Figure 1).

US households also own mutual funds outside of employer-sponsored retirement plans, with many seeking the help of investment professionals when making mutual fund investments and some going directly to mutual fund companies or discount brokers. In mid-2017, 64 percent of mutual fund–owning households held mutual funds outside employer-sponsored retirement plans (Figure 1). These households purchased funds through two sources: the investment professional channel and the direct market channel. The investment professional channel includes registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, insurance agents, and accountants. The direct market channel includes fund companies and discount brokers. In mid-2017, half of households owning mutual funds held funds purchased through an investment professional and 36 percent owned funds purchased through the direct market channel.

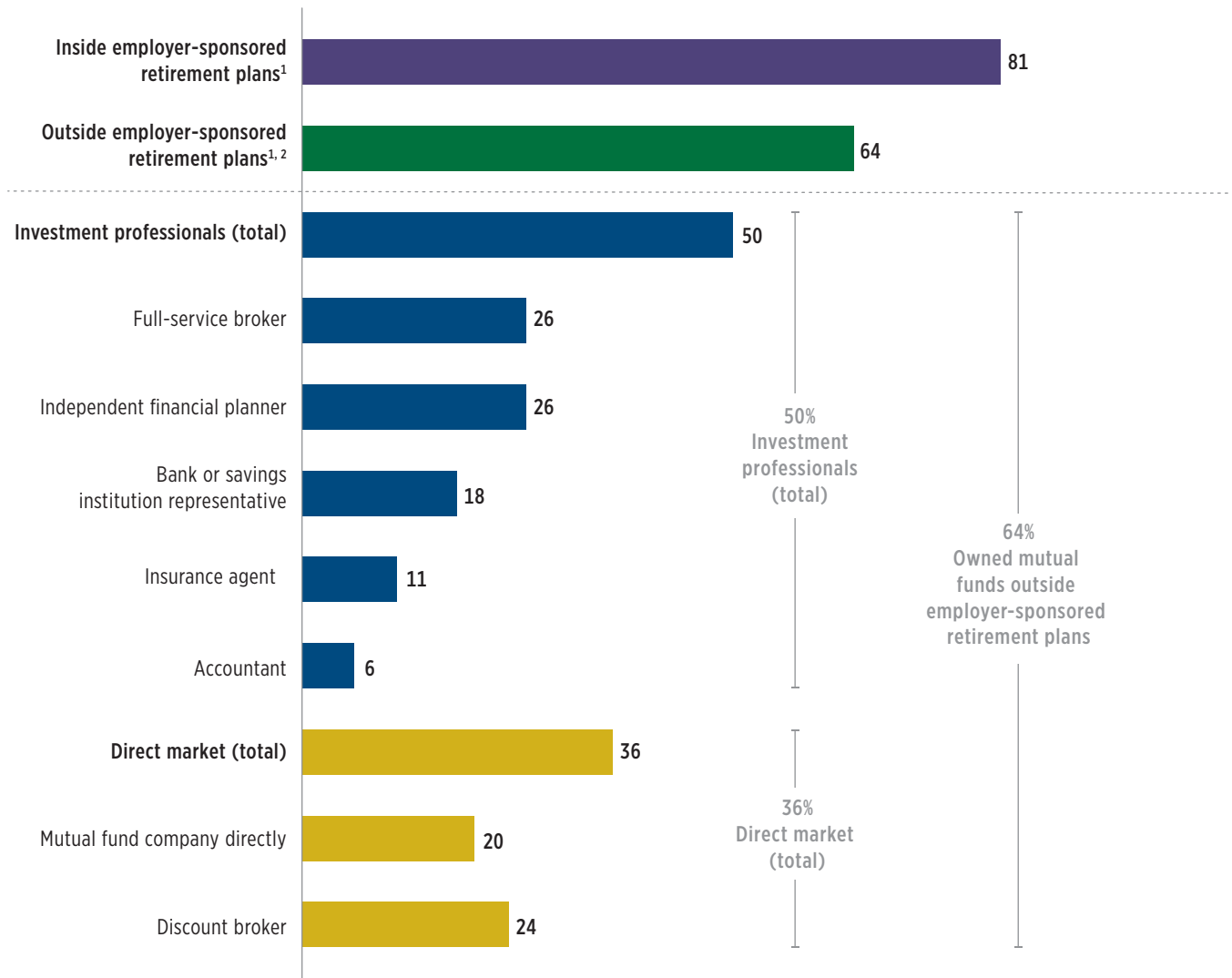
About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of mutual fund–owning households in the United States. The most recent survey was conducted from May to July 2017 and was based on a telephone sample of 5,000 US households. Of these, 2,500 households were reached on their landlines and 2,500 households were reached on their cell phones.³ Of the households contacted, 2,223 (44.5 percent) owned mutual funds. In the 2017 survey, a question was added to ask respondents to rate the importance of several key pieces of information typically available to fund investors when selecting mutual funds. All interviews were conducted over the telephone with the member of the household who was either the sole or the co-decisionmaker most knowledgeable about the household’s savings and investments. The standard error for the 2017 sample of households owning mutual funds is ± 2.1 percentage points at the 95 percent confidence level.

FIGURE 1

Mutual Fund Investors Purchase Mutual Funds Through a Variety of Channels

Percentage of mutual fund-owning households, mid-2017



¹ Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

² Four percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. This 4 percent includes 3 percent owning funds both inside and outside employer-sponsored retirement plans and 1 percent owning funds only outside of employer-sponsored retirement plans.

Note: Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2017"

Mutual Fund–Owning Households Review Fund Investment Objectives and Risks

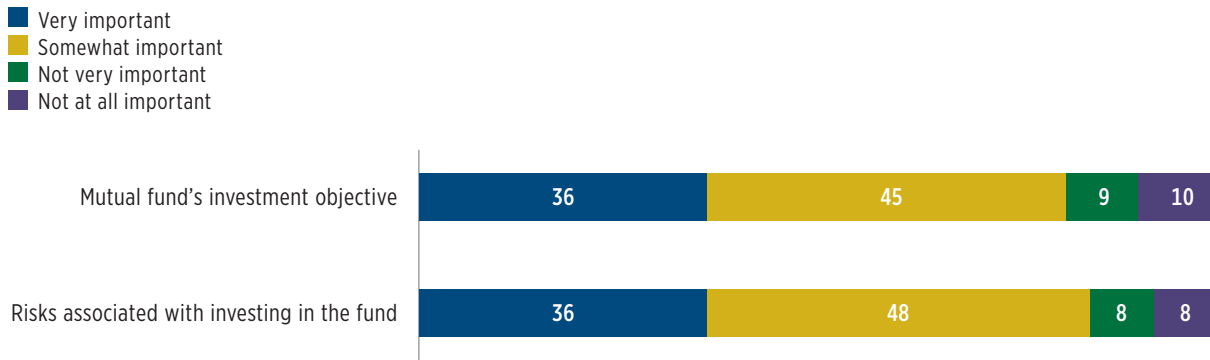
When asked about the information they consider when choosing a mutual fund, mutual fund–owning households said they typically review a fund’s investment objective, as well as the risk level of a fund’s investments. In mid-2017, 90 percent of mutual fund–owning households considered

a fund’s investment objective when making their purchase decision, with 36 percent agreeing it was very important (Figure 2). Similarly, 92 percent of mutual fund–owning households reviewed the risk level of a fund’s investments, with 36 percent of mutual fund–owning households considering the risk level of a fund’s investments “very important” when making their purchase decision.

FIGURE 2

Most Shareholders Review Investment Risks and Objectives When Selecting Mutual Funds

Percentage of mutual fund–owning households, mid-2017



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

The survey also asks households about their willingness to take investment risk.⁴ Households owning mutual funds are far more willing to take investment risk than US households in general. In mid-2017, 34 percent of households owning mutual funds were willing to take above-average or substantial investment risk, compared with 22 percent of

all US households (Figure 3). Forty-six percent of mutual fund-owning households are willing to take average risk with financial investments compared with 32 percent of all US households. Finally, only 20 percent of mutual fund-owning households are willing to take below-average or no risk, compared with 46 percent of all US households.

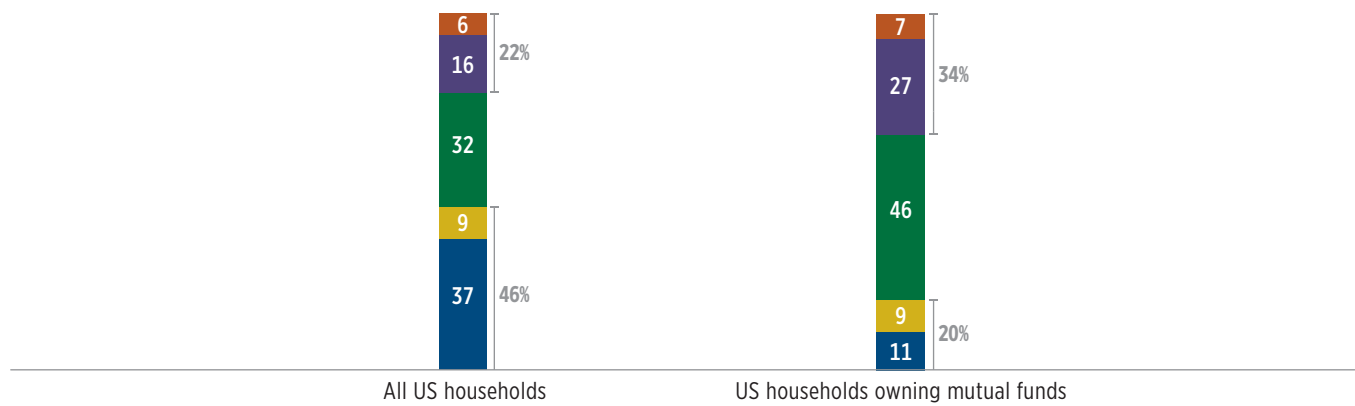
FIGURE 3

Mutual Fund-Owning Households Express Willingness to Take Investment Risk

Percentage of US households by mutual fund ownership status, mid-2017

Level of risk willing to take with financial investments

- Substantial risk for substantial gain
- Above-average risk for above-average gain
- Average risk for average gain
- Below-average risk for below-average gain
- Unwilling to take any risk



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, “Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2017”

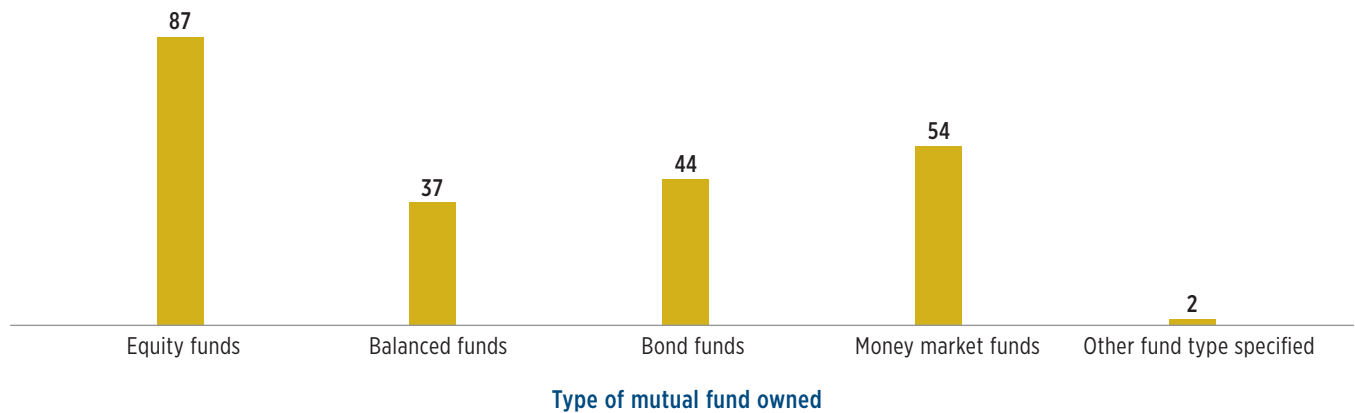
Reflecting their consideration of risk when selecting funds and their willingness to take investment risk, it is not surprising that the majority of mutual fund-owning households engage in equity investing through their mutual funds. In mid-2017, 87 percent of mutual fund-

owning households owned equity mutual funds, by far the most popular type of mutual fund owned (Figure 4).⁵ Thirty-seven percent owned balanced mutual funds, which invest in a mix of equities and bonds.

FIGURE 4

Equity Funds Are the Most Commonly Owned Type of Mutual Fund

Percentage of mutual fund-owning households, mid-2017



Note: Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, “Characteristics of Mutual Fund Investors, 2017”

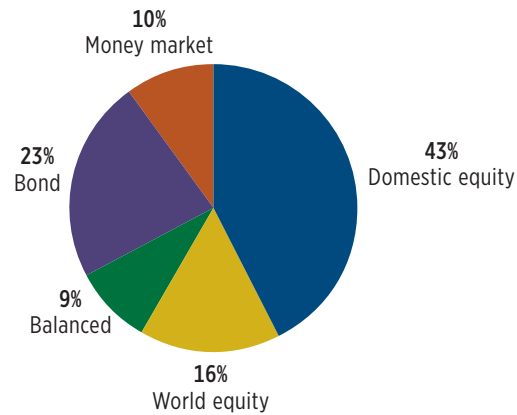
Analyzing the composition of household mutual fund assets also demonstrates that households are focused on equity investing. At year-end 2017, households owned 90 percent of industrywide mutual fund assets, or \$16.8 trillion in mutual fund assets (Figure 5).⁶ The majority of households' mutual fund assets were invested in equity funds at

year-end 2017. Specifically, 43 percent of households' mutual fund assets were in domestic equity funds and 16 percent were in world equity funds. Another 9 percent of households' mutual fund assets were in balanced funds, which provide further exposure to equity markets.⁷

FIGURE 5

Equity Funds Represent the Majority of Households' Mutual Fund Assets

Percentage of total household mutual fund assets, year-end 2017



Total household mutual fund assets: \$16.8 trillion

Note: Components do not add to 100 percent because of rounding.

Source: Investment Company Institute

Mutual Fund Investors Also Review Fund Performance, Fees, and Expenses

When asked about the information they consider when choosing a mutual fund, 92 percent of mutual fund-owning households said that they reviewed the historical performance of a fund, with 50 percent indicating a fund’s historical performance was very important when making their fund purchase decision (Figure 6). Eighty-seven percent of mutual fund-owning households indicated that they considered a fund’s performance compared with an index, with 35 percent saying this benchmarking was very important when making their purchase decision. Seventy-five percent of mutual fund-owning households considered a fund’s rating from a rating service, with 19 percent considering such a rating to be very important when making their purchase decision.

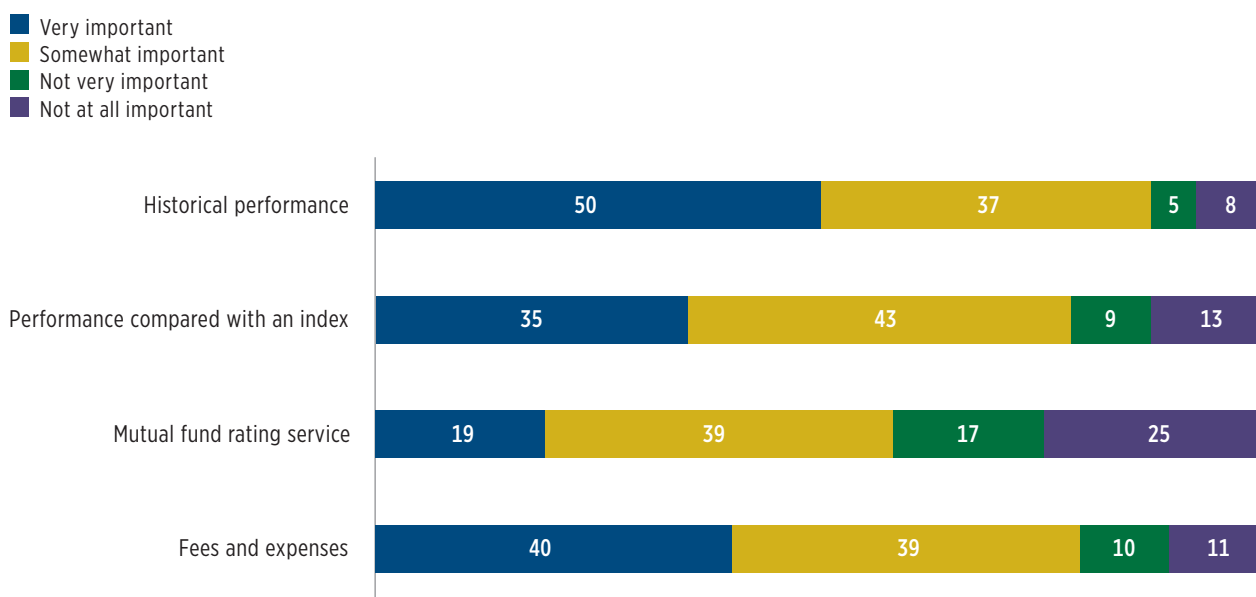
It is possible that fewer households report reviewing these ratings in part because they are considering funds that have been pre-screened by financial advisers along this dimension. Therefore, it may not be a distinguishing criterion when ultimately selecting a fund.

Fund fees and expenses also were a very important consideration in fund selection. In mid-2017, about nine in 10 mutual fund-owning households indicated they reviewed the fund’s fees and expenses (Figure 6). Indeed, 40 percent indicated the fund’s fees and expenses were very important when making their purchase decision. Households that place less emphasis on fees and expenses may be choosing among a set of funds already pre-screened for them by financial advisers or defined contribution retirement plan sponsors,⁸ who already considered fees and expenses when building the fund lineup.⁹

FIGURE 6

Nine in 10 Mutual Fund-Owning Households Review Fund Performance, Fees, and Expenses

Percentage of mutual fund-owning households, mid-2017



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

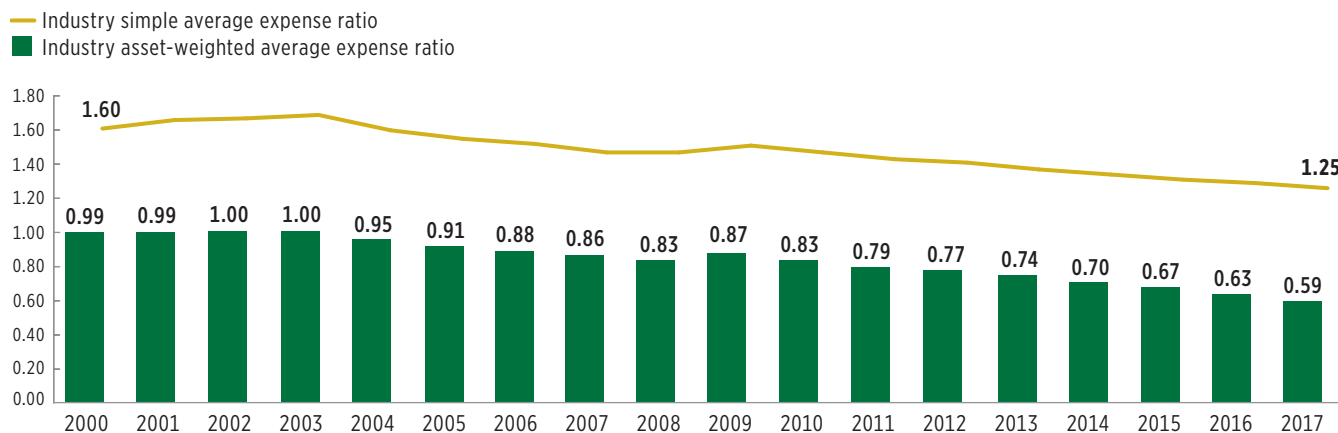
Likely reflecting their self-reported emphasis on reviewing mutual fund fees, mutual fund investors tend to concentrate their assets in lower-cost funds.¹⁰ For example, fund investors incurred an asset-weighted average expense ratio

of 0.59 percent for equity mutual funds, which was less than half the industrywide simple average of 1.25 percent for all equity mutual funds offered in the United States in 2017 (Figure 7). Mutual fund investors also have concentrated their assets in lower-cost balanced, bond, and money market funds.¹¹

FIGURE 7

Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

Equity mutual fund expense ratios; percent, 2000–2017



Note: Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Lipper, and Morningstar; see *ICI Research Perspective*, “Trends in the Expenses and Fees of Funds, 2017”

Additional Reading

- » **Mutual Fund Shareholders’ Use of Information**
www.ici.org/research/investors/information
- » **Mutual Fund Ownership**
www.ici.org/research/investors/ownership
- » **2018 Investment Company Fact Book**
www.icifactbook.org

Notes

- ¹ See Holden, Schrass, and Bogdan 2017a.
- ² For other more in-depth results on mutual fund shareholders' use of information, see West and Leonard-Chambers 2006a and 2006b and Sabelhaus 2008.
- ³ Specifically, the survey uses a dual frame design, with half from a landline random digit dial (RDD) frame and half from a cell phone RDD frame. For additional detail, see Holden, Schrass, and Bogdan 2017a.
- ⁴ These results were first published in Holden, Schrass, and Bogdan 2017a.
- ⁵ For additional discussion, see Holden, Schrass, and Bogdan 2017b, which first published these results.
- ⁶ US households held 95 percent of long-term mutual fund assets at year-end 2017. See Figure 3.3 in Investment Company Institute 2018.
- ⁷ Balanced mutual funds invest in a mix of equities and bonds. Those structured as funds of funds are not counted as balanced funds here, but rather as the assets in the underlying equity and bond funds.
- ⁸ For an analysis of mutual fund fees paid by 401(k) plan participants on the mutual funds held in their 401(k) plans, see Holden, Duvall, and Chism 2018.
- ⁹ There was little variation in mutual fund-owning households' responses by ownership status inside or outside employer-sponsored retirement plans. Based on the mid-2017 survey data, 38 percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was inside employer-sponsored retirement plans indicated fees and expenses were "very important," compared with 42 percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was outside employer-sponsored retirement plans and 40 percent across all mutual fund-owning households. Forty percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was inside employer-sponsored retirement plans indicated fees and expenses were "somewhat important," compared with 39 percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was outside employer-sponsored retirement plans and 39 percent of all mutual fund-owning households. About one-tenth of each group indicated fees and expenses were "not very important," and about one-tenth indicated they were "not at all important."
- ¹⁰ For the complete analysis of mutual fund and exchange-traded fund (ETF) fees and expenses, see Duvall and Mitler 2018.
- ¹¹ See Duvall and Mitler 2018.

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Sarah Holden



Sarah Holden, ICI senior director of retirement and investor research, leads the Institute's research efforts on investor demographics and behavior and retirement and tax policy. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds as well as other investments inside and outside retirement accounts. She is responsible for analysis of 401(k) plan participant activity using data collected in a collaborative effort with the Employee Benefit Research Institute (EBRI), known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. In addition, she oversees The IRA Investor Database™, which contains data on nearly 17 million IRA investors and allows analysis of IRA investors' contribution, rollover, conversion, and withdrawal activity, and asset allocation. Before joining ICI, Holden served as an economist at the Federal Reserve Board of Governors. She has a PhD in economics from the University of Michigan and a BA in mathematics and economics, *cum laude*, from Smith College.

Michael Bogdan



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