

ICI Releases Major Study of Mutual Fund Shareholder Opinions About Risk Disclosure, April 1996

ICI Releases Major Study of Mutual Fund Shareholder Opinions About Risk Disclosure

Washington, DC, April 15, 1996 - The Investment Company Institute has released the results of a ground-breaking survey of mutual fund investors about disclosure of investment risk. The study, "[Shareholder Assessment of Risk Disclosure Methods](#)," polled more than 650 recent investors in stock and bond funds.

The study shows that investors understand risk to be an important factor in making investment decisions, that they typically view investment risk from a long-term perspective of six to 10 years, and that they would prefer to learn about the risks of a particular fund through a graph showing the variability of the fund's historical performance together with a straightforward narrative description.

"Instead of leaving it to the 'financial experts,' we've gone directly to fund investors to find out their views on fund risk disclosure," said Paul Schott Stevens, ICI General Counsel. "The results offer a detailed picture of what a representative sample of recent investors would like to see in fund documentation to help them gauge investment risk."

The survey measured shareholders' assessment of three distinct disclosure methods: narrative risk disclosure, a bar graph showing 10 years of total return, and several quantitative measures (standard deviation of total return, beta, and duration). While concepts of investment risk differ among recent investors, the study showed most prefer a narrative form of risk disclosure and a graphic presentation consisting of a bar chart showing historical annual return.

The Institute submitted the study's findings to the U.S. Securities and Exchange Commission earlier this month in response to the [SEC's request for comments](#) regarding the issue of risk disclosure from the professional investment community and individual mutual fund investors.

The principal findings of the study are:

- Shareholders are concerned about risk. Sixty-nine percent of respondents examined a fund's investment risk before making their most recent purchases. Only fund performance was cited more frequently (by 75 percent of respondents) as information reviewed before investing.
- Investors find narrative disclosure useful to their evaluation of risk. Fifty-one percent said they are very confident of their ability to use narrative description to assess a single fund's risk.
- Investors also find graphic presentation to be helpful. Fifty-one percent said they were very confident in their ability to use the 10-year bar graph to compare the risks among funds.
- Quantitative risk measurements would complicate an evaluation of mutual fund risk for most investors. Most investors, including those who have used quantitative risk measures, are not very confident of their ability to use these methods. The survey indicates that quantitative risk measures have a strong potential to confuse or mislead investors.

The Investment Company Institute is the national association of the American investment company industry. Its membership includes 5,861 open-end investment companies ("mutual funds"), 451 closed-end investment companies, and 10 sponsors of unit investment trusts. Its mutual fund members have assets of about \$2.964 trillion, accounting for approximately 95% of total industry assets, and have over 38 million individual shareholders.

not constitute, and should not be considered a substitute for, legal advice.