

Shareholder Sentiment About the Mutual Fund Industry, 2006

KEY FINDINGS

- **Mutual funds' favorability rating increased in 2006 for the third year in a row.** After declining to a low of 71 percent in 2003, the mutual fund favorability rating has risen steadily over the past three years to 77 percent in 2006.
- **Investment performance has the greatest impact on investors' opinions of funds.** Nearly three-quarters of all mutual fund shareholders indicate fund performance is a "very" important factor in forming their views of the industry, and about half cite fund performance as the most important factor.
- **Mutual funds' favorability rating rises and falls with stock market performance.** Shareholders' opinions of the fund industry were lowest in 2003—the year in which the recent stock market decline bottomed out—but have improved each year since then, moving in tandem with the market.
- **Investors are confident that mutual funds will help them meet their financial goals.** Nearly 90 percent of mutual fund shareholders in 2006 are "very" or "somewhat" confident that investing in mutual funds will assist them in reaching their financial goals.

SHAREHOLDER OPINION OF MUTUAL FUNDS CONTINUES TO CLIMB

Shareholders' impressions of mutual funds improved for the third year in a row in 2006,¹ following several years of a declining favorability rating that coincided with a stock market downturn between 2000 and early 2003. More than three-quarters of shareholders

familiar with mutual fund companies currently have "very" or "somewhat" favorable impressions of fund companies, up from 71 percent in 2003 (Figure 1).

In addition, the share of fund investors with "very" favorable impressions of fund companies increased for the first time in five years. The percentage of investors

ABOUT THE SURVEY

Since 1987, the Institute has conducted the ICI Annual Tracking Survey to identify U.S. household ownership of mutual funds. Beginning in 1997, questions were added to the survey to assess shareholders' views of mutual funds and measure changes in shareholders' opinions of funds over time, including whether they have favorable or unfavorable impressions of funds and which factors influence their impressions.

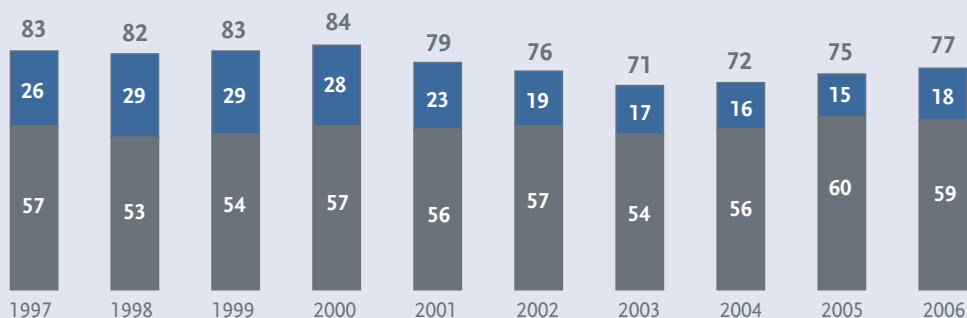
The 2006 ICI Annual Tracking Survey included a randomly selected sample of 3,000 U.S. households, of which 1,440 households, or 48.0 percent, owned mutual funds.

FIGURE 1

MOST SHAREHOLDERS VIEW FUND COMPANIES FAVORABLY

Percent of mutual fund shareholders familiar with mutual fund companies, 2000–2006

Very favorable
Somewhat favorable



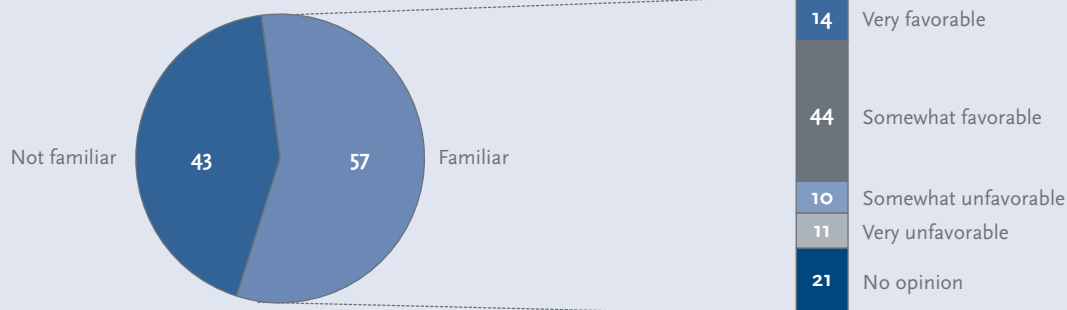
note: Components may not add to the total because of rounding.
source: Investment Company Institute

FIGURE 2

FORMER FUND OWNERS GENERALLY HAVE POSITIVE IMPRESSIONS OF MUTUAL FUND COMPANIES

Familiarity With Mutual Fund Companies
(percent of respondents who previously owned funds, 2006)

Impression of Mutual Fund Companies
(percent of respondents who previously owned funds and are familiar with mutual fund companies, 2006)



source: Investment Company Institute

FIGURE 3

A VARIETY OF FACTORS SHAPE SHAREHOLDERS' OPINIONS OF THE FUND INDUSTRY

Percent of mutual fund shareholders familiar with mutual fund companies who indicate each factor is "very" important, 1997–2006

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Performance of fund investments	85	86	86	72	67	71	68	70	73	74
Personal experience with a mutual fund company	NA	60	60	64	57	61	60	57	53	53
Current events in financial markets	50	53	53	50	48	51	47	49	51	51
Opinion of professional financial advisers	47	47	46	46	42	43	46	47	40	40
Stock market fluctuations	38	47	47	42	42	38	41	39	42	42
Friends and family	34	38	41	45	44	44	43	44	28	31
Media coverage about fund companies	20	25	24	21	19	21	18	20	20	18

NA=not asked that year
source: Investment Company Institute

with a “very” favorable view of fund companies increased to 18 percent in 2006 from 15 percent in 2005.

Many people who no longer own funds also have positive views of fund companies. More than half of former fund investors who say they are familiar with fund companies have favorable impressions of them (Figure 2).

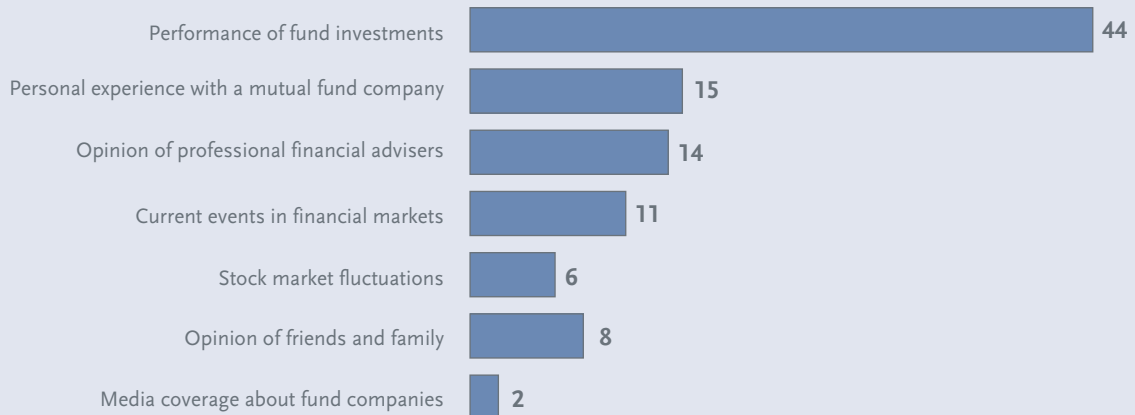
PERFORMANCE INFLUENCES INVESTOR OPINION OF FUND INDUSTRY

Fund performance primarily shapes investor sentiment toward fund companies (Figure 3). In fact, nearly half of all fund shareholders in 2006 list fund performance as the most important factor influencing their opinions of the mutual fund industry (Figure 4). Personal investment experience, current financial events, and

FIGURE 4

FUND PERFORMANCE IS THE MOST IMPORTANT FACTOR SHAPING OPINIONS OF THE FUND INDUSTRY

Percent of shareholders familiar with mutual fund companies who indicate each factor is “most” important, 2006



source: Investment Company Institute

FIGURE 5

MUTUAL FUND FAVORABILITY RISES AND FALLS WITH MARKET PERFORMANCE

Mutual fund company favorability rating and S&P 500 Index, 1997–2006



note: The mutual fund company favorability rating is the percent of shareholders familiar with fund companies who have a “very” or “somewhat” favorable impression of fund companies.

sources: Investment Company Institute and Bloomberg

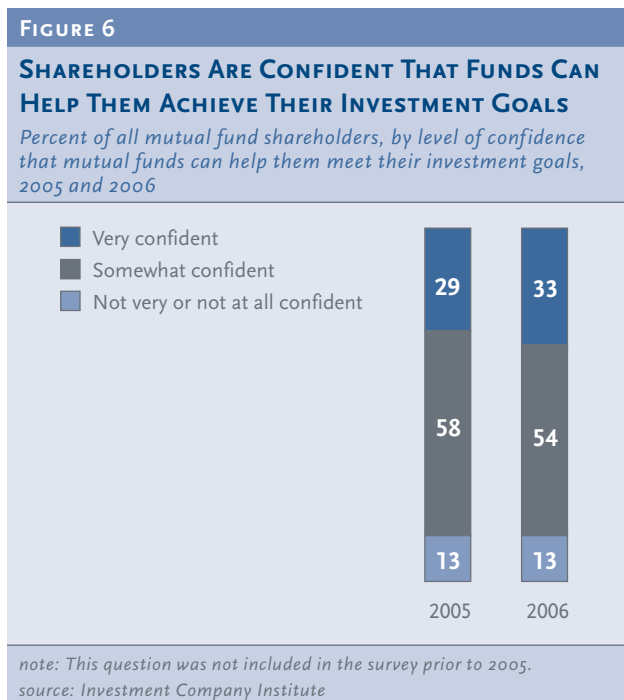
the opinions of professional financial advisers also play roles in forming shareholders' impressions of the mutual fund industry. Media coverage and the opinions of friends are less influential.

Underscoring the relationship between performance and investor sentiment, ICI's mutual fund company favorability rating has historically correlated with market performance. The performance of the S&P 500 Index and mutual fund companies' favorability rating both peaked in 2000, declined between 2001 and 2003, and have increased each year since 2004 (Figure 5).

Investors are confident that mutual funds can help them reach their financial goals. Today, nearly 90 percent of all fund shareholders are confident that mutual funds will assist them in achieving their financial goals (Figure 6). The share of fund investors who are "very" confident that mutual funds can help them meet their financial goals increased to 33 percent in 2006 from 29 percent in 2005, the first year this question was included on the survey.

NOTE

¹ The standard error for the 2006 sample of households owning mutual funds is ± 2.6 percentage points at the 95 percent confidence level. Survey data are weighted to match the age distribution of the U.S. population.



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