INVESTMENT COMPANY INSTITUTE

RESEARCH FUNDAMENTALS

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Why Do Mutual Fund Investors Use Professional Financial Advisers?

Key Findings

- **Professional financial advisers provide a wide range of investment and planning services in addition to helping investors select and purchase mutual fund shares.** Nearly two-thirds of shareholders with ongoing advisory relationships receive at least five distinct services from their advisers, including regular portfolio reviews, financial planning assistance, retirement asset management, and investment recommendations.
- **Certain events, such as receiving a lump sum of money or the birth of a child, often initially prompt fund investors to seek professional financial advice.** More than one-quarter of shareholders with ongoing advisory relationships initially sought advice after receiving a lump sum, and about one-fifth sought advice in response to a major life event, such as a change in marital status, birth of a child, or death of a spouse or partner.
- **Investors choose to work with professional financial advisers because advisers have expertise in areas investors do not.** Most shareholders with ongoing advisory relationships use advisers because they want a financial expert to evaluate their total financial picture, assist them with asset allocation, ensure they are saving enough to meet financial goals, and explain investment options to them. Shareholders also seek professional financial advice because they want to improve their chances of growing their assets and have peace of mind about their investments.
- **Although a wide range of investors owns funds through advisers, some investor groups are more likely to work with advisers than others.** Shareholders who are more likely to have ongoing advisory relationships include shareholders who do not go online for investment information, older shareholders, shareholders with greater household financial assets, and female shareholders.

About the Survey

The Investment Company Institute undertook a comprehensive survey in 2006 to examine mutual fund shareholders' use of ongoing, professional investment advice.[1] ICI engaged Northstar Research Partners, an independent research firm, to conduct a telephone survey of 1,003 randomly selected households owning mutual funds outside workplace retirement plans. The survey sample was drawn from telephone exchanges with median household incomes of $75,000 or more. The average household income of households owning funds outside workplace retirement plans is roughly $75,000. The overall sampling error for the survey is ±3.1 percentage points at the 95 percent confidence level, and among households with ongoing advisory relationships, it is ±4.0 percentage points at the 95 percent confidence level.

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Background

Professional financial advisers are the main source of mutual fund purchases outside employer-sponsored retirement plans. Most shareholders who hold funds outside retirement plans at work own fund shares purchased through professional financial advisers (Figure 1), and mutual fund assets held through these advisers represent 60 percent of all individually held mutual fund assets.[2]

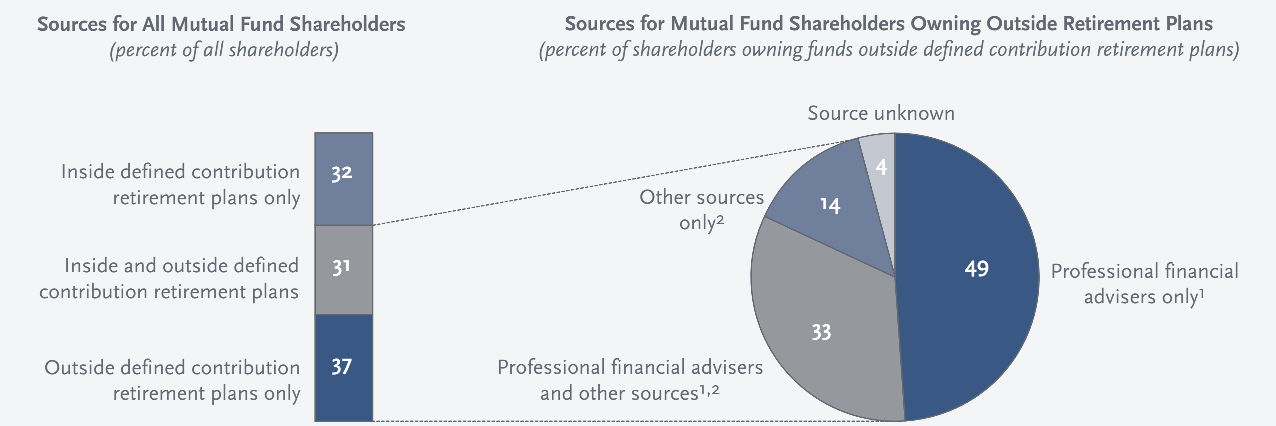
Because financial advisers are important to the investing process, ICI conducted a study to understand why investors seek professional advice. In contrast to academic research that has used fund performance and other publicly available measures to examine the value of professional financial advice,[3] ICI's study is based on a survey that identifies the benefits that investors say they receive from using professional financial advisers. The ICI survey is based on interviews with more than 1,000 households owning mutual funds outside workplace retirement plans, and reflects the experiences of investors who have ongoing advisory relationships and those who do not. This issue of *Fundamentals* presents the results of the survey relating to shareholders' use of advisers. Future issues of *Fundamentals* will include survey results regarding the nature of fund investors' relationships with their advisers and their satisfaction with those relationships.

Professional Advisers Provide a Wide Range of Investment and Planning Services

Professional financial advisers offer investors a wide array of services in addition to helping them select and purchase mutual fund shares. About two-thirds of shareholders with ongoing advisory relationships receive at least five distinct services from their primary advisers (Figure 2).

Figure 1

Where Shareholders Purchase Mutual Funds



[1] *Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.*

[2] *Other sources include fund companies directly, fund supermarkets, and discount brokers.*

source: Investment Company Institute, "Ownership of Mutual Funds Through Professional Financial Advisers," Fundamentals, *Vol. 14, No. 3, April 2005 (www.ici.org/pdf/fm-v14n3.pdf)*

The services that advisers provide may be grouped into two broad categories—investment services and planning services. The investment services range from portfolio analysis and asset allocation assistance to specific investment recommendations. Advisers' planning services include financial planning assistance, access to tax planners and other types of specialists, and discussions about how to disburse optimally assets in retirement.

Investment Services. Shareholders who use advisers typically receive regular portfolio reviews and investment suggestions from their advisers. Among fund investors with ongoing advisory relationships, more than eight in 10 say their advisers regularly assess their portfolios and give them investment advice (Figure 2). About six in 10 indicate their advisers help them allocate assets held in workplace retirement plans.

While fund investors generally receive investment recommendations from their advisers, many also conduct independent research to confirm these recommendations. One-quarter of shareholders with ongoing advisory relationships "always" undertake their own research and more than four in 10 "sometimes" conduct their own research. Shareholders who take the lead in making investment decisions with their advisers are the group most likely to undertake their own research before accepting advisers' recommendations.

Planning Services. Helping investors plan to achieve their financial goals is another valuable service that advisers provide. More than 80 percent of fund investors with ongoing relationships say they have periodic discussions of their financial goals with their advisers (Figure 2). Three-quarters say they receive financial planning assistance from their primary advisers, and six in 10 receive advice on how to manage their money in retirement. About half also indicate that they have access to tax planners and other types of specialists through their advisers. Shareholders with access to investment specialists tend to have high levels of assets—an investor group that frequently needs specialized services in areas such as charitable giving or wealth management.

Figure 2

Shareholders Receive Numerous Investment Services from Professional Financial Advisers

Percent of respondents with ongoing advisory relationships, 2006

Types of Services Currently Received from Primary Adviser[1]	
Investment Services	
Regular portfolio review and investment recommendations	85
Review of allocation of investor's employer-sponsored retirement plan assets	61
Planning Services	
Periodic discussion of financial goals	83
Planning to achieve specific goals, such as saving for retirement or paying for college	75
Comprehensive financial planning	75
Managing assets in retirement	60
Access to specialists in areas such as tax planning	51
Number of Services Received	
One or two services	14
Three or four services	23
Five or more services	63

[1] *Multiple responses are included.*

source: Investment Company Institute

When Do Investors Seek Professional Investment Advice?

The vast majority of fund investors with ongoing advisory relationships initially sought advice between their mid-twenties and mid-fifties, traditionally the peak earning and saving years (Figure 3). Oftentimes, a particular event prompted these investors to seek professional investment advice.

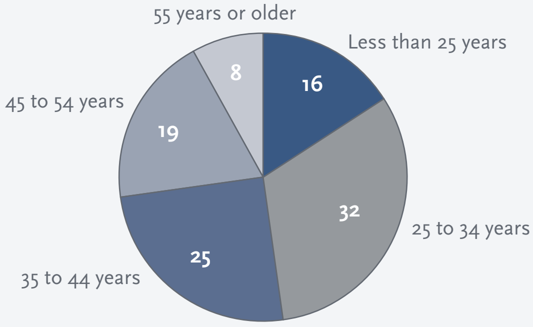
For some shareholders, the trigger event was an inheritance or a lump-sum distribution from a workplace retirement plan. More than one-quarter of fund investors with ongoing advisory relationships first sought advice after getting a lump sum of money (Figure 4). Fund investors who initially sought advice at a young age or later in life were the most likely to say it was because they had received a lump sum. For example, nearly half of shareholders who first sought advice when they were in their mid-fifties or older indicated they had received a lump sum, compared with about one-fifth of those who were in their late-twenties through their early-forties when they initially sought advice.

In addition to inheritances and lump-sum distributions, another trigger event that often causes individuals to seek advice is a change in the composition of their households—such as getting married, having a child, or losing a spouse or partner. About one-fifth of fund investors with ongoing advisory relationships say a change in the makeup of their households triggered the need for professional financial advice.

Figure 3

Most Shareholders Initially Seek Professional Investment Advice During Their Peak Earning and Saving Years

Percent of respondents with ongoing advisory relationships, by age at which they first sought professional investment advice, 2006



Mean age = 37 years
Median age = 35 years

source: Investment Company Institute

Figure 4

Shareholders Often Seek Professional Investment Advice in Response to Life Events or to Achieve Financial Goals

Percent of respondents with ongoing advisory relationships indicating each reason, 2006

	All Respondents with Ongoing Advisory Relationships	Age at Which Respondent Initially Sought Professional Investment Advice: Less Than 25 Years	25 to 34 Years	35 to 44 Years	45 to 54 Years	55 Years or Older
Experienced a trigger event	48	53	46	40	56	57
Received a lump sum through an inheritance, retirement, or job change	27	38	18	21	37	46
Had a change in household composition, such as a change in marital status, birth of a child, or death of a spouse or partner	21	15	28	19	19	11
Wanted to address a specific financial goal, such as saving to pay for retirement or education	40	33	42	50	34	26
Some other reason[1]	12	14	12	10	10	17

[1] *Other reasons include "seemed like a good idea," "family or friends suggested it," and "wanted to purchase stocks."*
source: Investment Company Institute

Some fund investors, however, decide to seek professional investment advice to address a specific financial goal rather than in response to a trigger event. Fund investors who first sought financial advice between their mid-thirties to mid-forties were the most likely to do so. Among this age group, one-half indicated they initially obtained professional financial advice because they wanted to begin saving for retirement, their children's education, or some other specific goal.

Investors Turn to Professional Advisers for Their Financial Expertise

The reasons that shareholders value the services of professional financial advisers provide another dimension to understanding the relationship between investors and their advisers. Fund owners indicate investing through advisers improves their chances of growing their money and say it gives them peace of mind about their investments.

The advisory relationship, however, also provides the investor with many tangible benefits. A common theme among the investors surveyed is that using professional financial advisers provides them with a level of expertise that enhances their investment decisionmaking. Most shareholders with ongoing advisory relationships use advisers because they want help understanding their total financial picture and allocating their assets across different types of investments (Figure 5). Many also want a financial professional to explain various investment options to them and assess whether they are saving enough for retirement. For others, making sure their estate is in order is a main reason for the advisory relationship.

The extent to which investors delegate investment decisionmaking to their advisers appears to shape their perception of the value of the advisory relationship. The survey findings indicate that the more shareholders rely on their advisers for investment decisionmaking,

Figure 5

Shareholders Look to Advisers for the Financial Expertise They Provide

Percent of respondents with ongoing advisory relationships indicating each is a "major" reason for using advisers,[1] 2006

		Investment Decisionmaking Relationship		
	All Respondents with Ongoing Advisory Relationships	Investor Delegates All Decisions to Adviser or Adviser Takes the Lead in Decisionmaking	Adviser and Investor Make Decisions Together	Investor Takes the Lead in Decisionmaking
Want help with asset allocation	74	80	76	66
Want a financial professional to explain various investment options	73	77	78	65
Want help making sense of total financial picture	71	79	72	61
Want to make sure I am saving enough to meet my financial goals	71	74	75	65
Want my estate in order in case something happens to me	65	67	70	58
Don't want to make my own investment decisions	38	51	40	20
Don't have time to make my own investment decisions	44	58	45	27
Want advice on how to invest assets in retirement plan at work	43	41	48	39

[1] Multiple responses are included.

source: Investment Company Institute

the greater the value they place on the advisory relationship. For example, roughly three-quarters of shareholders who delegate or make investment decisions together with their advisers indicate they use advisers for reasons relating to advisers' financial expertise. Fewer shareholders who personally take the lead in investment decisionmaking cite any of these as reasons for working with professional financial advisers.

Self-Sufficient Investors Choose Not to Use Professional Financial Advisers

While most fund investors holding funds outside workplace retirement plans own funds through professional financial advisers, a small proportion choose to invest on their own. Fourteen percent of shareholders owning funds outside workplace retirement plans do not own funds through professional financial advisers.[4]

Shareholders who choose to invest in funds on their own generally are self-sufficient investors. Among the fund investors surveyed who do not work with professional financial advisers, most say they want to manage their investment portfolios themselves and feel the information they need to invest on their own is readily available (Figure 6). A sizable proportion of these shareholders also say they know enough to make their own investment decisions.

In addition to preferring to invest on their own, some shareholders who do not have ongoing advisory relationships have had a bad experience with a professional financial adviser. Among the shareholders surveyed who currently do not receive ongoing, professional investment advice, three in 10 used to work with advisers on an ongoing basis, but no longer do (Figure 7). More than half of these shareholders cite a poor experience with an adviser as a reason why they currently do not receive ongoing, professional investment advice.

Figure 6

Investment Control, Access to Resources Drive Decisions to Forego Ongoing Advisory Relationships

Percent of respondents without ongoing advisory relationships indicating each is a "major" reason for not using advisers,[1] 2006

	All Respondents Without Ongoing Advisory Relationships	Age of Respondent at Time of the Survey		
		Less Than 45 Years	45 to 59 Years	60 Years or Older
Want to be in control of own investments	66	57	61	82
Have access to all the resources needed to invest on own	64	63	55	75
Know enough to make own investment decisions	56	52	49	69
Enjoy investing on own	44	43	36	53
Believe advisers are too expensive	36	37	41	31
Believe advisers put their own interests before those of their clients	34	27	41	31
Unsure how to find a trustworthy adviser	21	13	30	18
Don't have enough money saved yet to have an ongoing relationship with an adviser	19	17	21	19
Receive free investment advice from a friend or family member	14	20	15	9

[1] *Multiple responses are included.*
source: Investment Company Institute

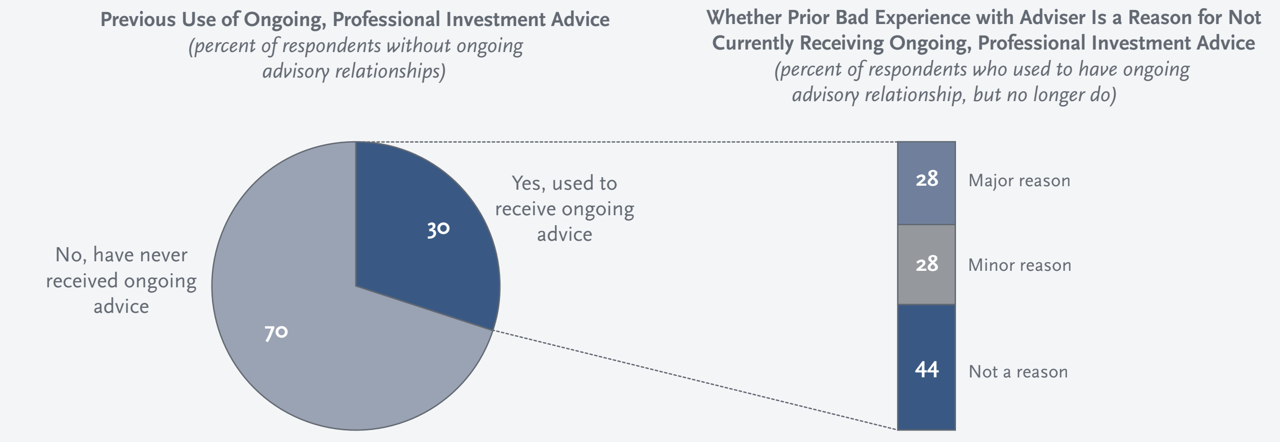
Characteristics of Investors Who Use Advisers

Mutual fund ownership through advisers is predominant across all types of shareholders. More than three-quarters of fund investors among all age, education, and asset groups use advisers to purchase funds outside workplace retirement plans.[5]

Although a wide range of investors owns funds through advisers, some shareholder groups are more likely to work with advisers than others.[6] For example, shareholders who do not go online for investment information are nearly twice as likely to have ongoing advisory relationships compared with shareholders who do go online for investment information (Figure 8). Other shareholder groups that are significantly more likely to have ongoing advisory relationships include older shareholders, shareholders with household financial assets of $250,000 or more, and female shareholders who are in charge of household investment decisionmaking.

Figure 7

Previous Experience Causes Some Shareholders to Forego Use of Professional Investment Advisers

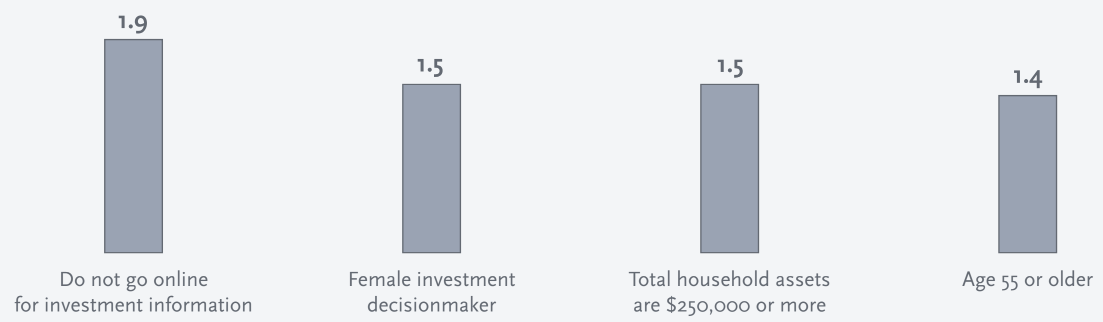


source: Investment Company Institute

Figure 8

Some Shareholder Groups Are More Likely Than Others to Have Ongoing Advisory Relationships

Times more likely each shareholder group is to have ongoing advisory relationships, 2006



source: Investment Company Institute

Notes

[1] To identify mutual fund shareholders with ongoing advisory relationships, each survey respondent was asked whether he or she had an ongoing relationship with a professional financial adviser, who was defined as "someone who makes a living by providing investment advice and services."

[2] See "Ownership of Mutual Funds Through Professional Financial Advisers," *Fundamentals,* Vol. 14, No. 3, Washington, DC: Investment Company Institute, April 2005 (www.ici.org/pdf/fm-v14n13.pdf).

[3] For example, see Daniel B. Bergstresser, John M.R. Chalmers, and Peter Tufano, "Assessing the Costs and Benefits of Brokers in the Mutual Fund Industry" (January 16, 2006), AFA 2006 Boston Meetings (http://ssrn.com/abstract=616981).

[4] See "Ownership of Mutual Funds Through Professional Financial Advisers," *Fundamentals,* Vol. 14, No. 3, Washington, DC: Investment Company Institute, April 2005 (www.ici.org/pdf/fm-v14n13.pdf).

[5] Ibid.

[6] Based on logistic regression analysis of shareholders with ongoing advisory relationships and those who do not have these relationships.

The ICI Research Department maintains a comprehensive program of research and statistical data collections on investment companies and their shareholders. Research staff collects and disseminates industry statistics, and conducts research studies relating to issues of public policy, economic and market developments, and shareholder demographics.

For a current list of ICI research and statistics, visit the Institute's public website at www.ici.org/stats/index.html. For more information on this issue of Fundamentals, *contact ICI's Research Department at 202/326-5913.*

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