ICI Investor Awareness Series

Facts About Funds

A Guide to Investment Company Institute Research About Mutual Funds & Mutual Fund Shareholders

INVESTMENT COMPANY INSTITUTE®

The Investment Company Institute is the national association of the American investment company industry. Institute members account for 95 percent of the industry's assets.

Since the early 1940s, the Institute has collected statistics on a variety of industry topics. Today, the Institute is an authoritative source for statistical data on the mutual fund industry.

Institute research examines shareholder demographics, economic and business developments, trends in shareholder ownership costs, the retirement plans market, and other important topics affecting mutual funds and mutual fund shareholders.

For more information, visit our website at *www.ici.org.*

Fact: Mutual Fund Shareholders Do Not "Drive" the Stock Market

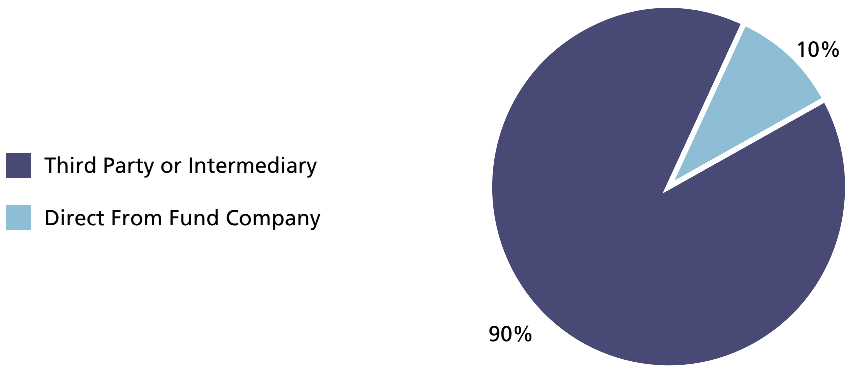
Mutual funds own 22 percent of publicly held U.S. equity, which has sparked debate over whether fund flows drive stock market price levels. Research by the Federal Reserve suggests that this is not the case. Indeed, a Federal Reserve report found "little evidence that mutual fund investors have been a destabilizing force in the U.S. equity market in recent years." Significantly, Federal Reserve researchers also found no evidence that equity fund flows cause market price change, either temporarily or permanently.

Fact: Most Mutual Fund Shareholders Buy Funds Through Intermediaries

According to Institute research, 90 percent of households employ a third party or intermediary as their primary method of purchasing mutual fund shares. Third parties include banks, insurance companies, stockbrokers, financial planners, and retirement plans. The remaining 10 percent of households purchase mutual fund shares directly from fund companies. Fund companies and other distributors have developed new outlets for selling mutual funds, and have expanded traditional sales channels amid the rising demand for mutual funds.

In addition to the rising share of third-party sales, distribution patterns are changing. Many funds that are primarily marketed directly to investors are turning increasingly to third parties and intermediaries for distribution. For example, in 1990, an estimated 62 percent of new sales of direct-marketed funds came through traditional direct sales. By the end of the decade, this share had fallen to 43 percent. The nontraditional, third-party distribution channels used by direct-marketed funds include employer-sponsored pension plans, mutual fund supermarkets, fee-based advisors, mutual fund wrap account programs, and bank trust departments.

Most New Fund Sales are Made Through Intermediaries



Source: Investment Company Institute

For More Information:

Mutual Fund Distribution Channels and Distribution Costs
www.ici.org/pdf/per09-03.pdf

Fact: Most Mutual Fund Shareholders Trade Infrequently

Although redemptions are a normal part of the mutual fund business, a number of ICI surveys of fund owners and other empirical research have consistently found that the vast majority of owners are long-term investors and do not redeem shares during a one-or two-year period. In the Institute's most recent survey of equity fund owners, 84 percent said they had not redeemed shares from any of their equity funds in a year's time and another seven percent had redeemed shares only once. Only one percent of equity fund owners reported that they redeemed more than six times.

The redemption rate for mutual funds is not an appropriate indicator of redemption activity by the typical fund shareholder. Even a few high-turnover shareholders can push up a fund's redemption rate. For example, a fund whose investors all have a holding period of seven years would have an annual redemption rate of 14 percent. A fund with 98 percent of its owners holding shares for seven years and with the other 2 percent redeeming every month would have an annual redemption rate of 38 percent. The 38 percent redemption rate gives the misleading impression that the typical account in this fund turns over in less than three years, even though the vast majority of its shareholders are long-term investors.

Redemption Rates and Holding Periods for Two Hypothetical Funds

	Fund A (all shareholders have a 7-year holding period)	Fund B (98 percent of shareholders have a 7-year holding period; 2 percent have a 1-month holding period)
Redemption Rate	14 percent	38 percent
Average Holding Period	7 years	6.9 years
Median Holding Period	7 years	7 years

Source: Investment Company Institute, 2001

For More Information:

Redemption Activity of Mutual Fund Owners
www.ici.org/pdf/fm-v10n1.pdf

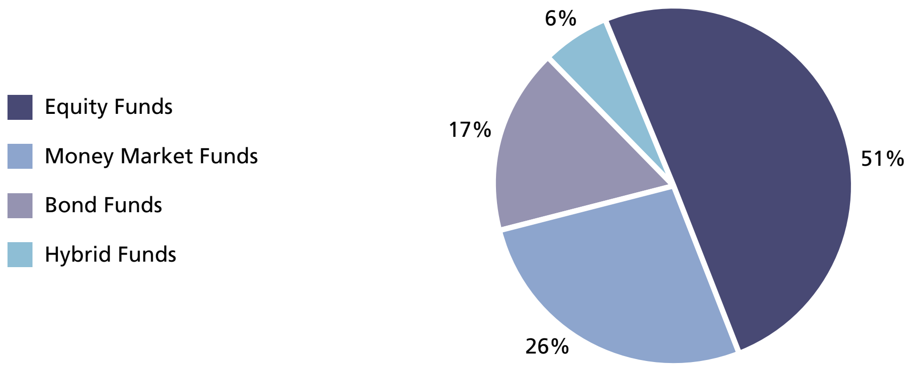
Fact: Mutual Fund Shareholders Remain Calm in Volatile Markets

"Panic" is not a word one would associate with mutual fund investors. Mutual fund investors have an adequate understanding of investment risk and tend to take a long-term approach to their investments. The Institute has conducted a number of studies, including an analysis of equity fund flows since World War II, which show that fund investors have never responded to sharp market breaks by redeeming shares *en masse*. There is no evidence that this long-established pattern of behavior will change. While fund shareholders are not insensitive to long-term declines in stock prices, their response has been measured and gradual.

According to Institute research, since 1944 equity fund shareholders have remained calm during periods of stock market volatility. Through all types of economic conditions, stock market volatility, currency crises, and interest rate changes, U.S. household ownership of mutual funds grew strongly between 1980 and 2002. On the heels of a bear market that lasted from 2000 to 2002, however, mutual fund ownership declined slightly in the 12-month period that ended in July 2003.

While shareholders are not insensitive to stock price movements, their response to market movements tends to be spread over time. For example, over the course of a typical cycle in stock prices, the net flow of new cash to stock funds generally increased when stock prices rose and decreased when stock prices declined. In other words, investors tend to buy more when stock prices are increasing and buy less when they are decreasing. Stock, bond, hybrid, and money market mutual funds allow investors to choose among a variety of investment goals and styles to meet their objectives and circumstances.

How Mutual Fund Assets Are Invested



Source: Investment Company Institute

For More Information:

Mutual Fund and Economic Developments in 2003
www.ici.org/pdf/per10-01.pdf

Mutual Fund Industry Developments in 2002
www.ici.org/pdf/per09-01.pdf

Mutual Fund Industry Developments in 2001
www.ici.org/pdf/per08-01.pdf

Mutual Fund Shareholder Activity During U.S. Stock Market Cycles, 1944-1995
www.ici.org/pdf/per02-02.pdf

Fact: Total Shareholder Costs are Decreasing

The cost of investing in mutual funds has decreased significantly over the past two decades. Institute research shows that since 1980, the average cost of investing in equity mutual funds has decreased 45 percent; in bond funds, 42 percent; and in money market funds, 38 percent. The Institute evaluated fee trends using a comprehensive measure called total shareholder cost. This measure represents the cost that an investor would expect to incur in purchasing and holding mutual fund shares. Total shareholder cost accounts for all major fees, expenses, and sales charges, and is based upon the same considerations underlying the fee information required by the U.S. Securities and Exchange Commission in every mutual fund prospectus.

Mutual fund shareholders also have benefited from economies of scale. Recent studies by the General Accounting Office and the Securities and Exchange Commission have found that, generally, mutual fund operating expense ratios decline with asset growth and that larger funds have lower expense ratios than smaller funds.

Furthermore, over the past 20 years, vibrant competition and an array of innovative investment products and services have made using mutual funds for saving and investing simpler, more accessible, and more affordable. And Institute research shows that 79 percent of all equity fund investor accounts in 2001 were invested in funds charging below average expenses.

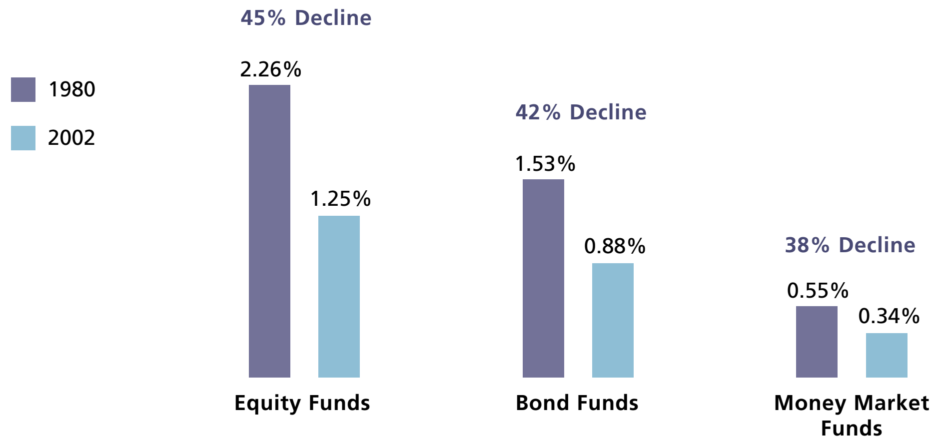
For More Information:

The Cost of Buying and Owning Mutual Funds
www.ici.org/pdf/fm-v13n1.pdf

Mutual Fund Costs, 1980-1998
www.ici.org/pdf/per05-04.pdf

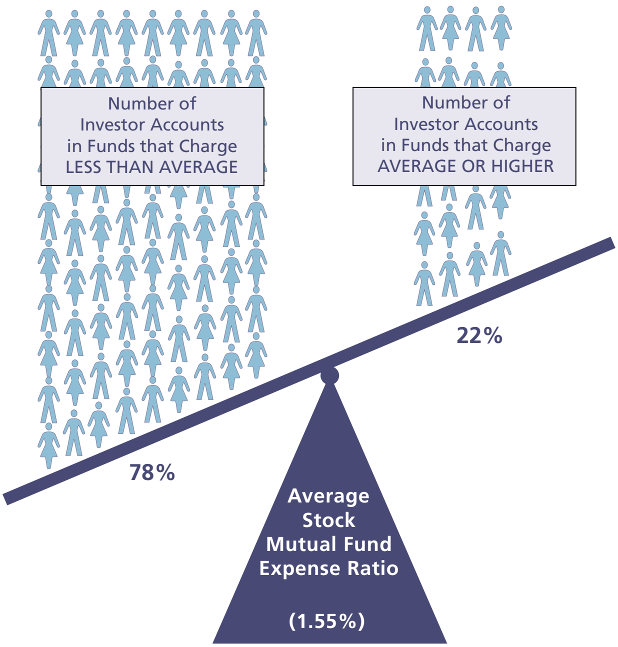
Economies of Scale in Equity Mutual Funds
www.ici.org/pdf/per05-05.pdf

Mutual Fund Fees Decrease Since 1980



Source: Investment Company Institute

Most Investor Accounts Own Lower-Cost Stock Funds



Fact: Mutual Funds Clearly Disclose all Fees

Mutual funds are subject to more exacting regulatory standards and disclosure requirements than other financial products. Every mutual fund is required to disclose all of its fees in a standardized fee table at the front of its prospectus. The fee table is a particularly important resource for investors because the information it provides is comprehensive, clearly presented, and strictly regulated by federal law. The fee table also allows investors to easily compare the costs of owning different mutual funds. All fund prospectuses must be filed with the U.S. Securities and Exchange Commission before they can be distributed to investors. All fees must be included, an "expense ratio" must be calculated, and all of the information included must be clearly and simply presented. Written descriptions accompanying the fee table must be concise and in plain English. Investors can also turn to many other useful resources about mutual fund fees, including daily mutual fund tables published by newspapers, magazines, mutual fund company websites, toll-free investor information centers, educational brochures, and financial professionals.

For More Information:

Frequently Asked Questions About Mutual Fund Fee Disclosure
www.ici.org/funds/abt/faqs_fee_disclosure.html

Frequently Asked Questions About Mutual Fund Fees
www.ici.org/pdf/bro_mf_fees_faq_p.pdf

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