Characteristics of Shareholders Using Ranking Services

Ninety-five percent of shareholders seek performance information before purchasing a stock or bond and income fund, according to a recent Institute study.1 The Institute also found that one-fifth of these shareholders obtained some of that fund performance information from ranking services (Figure 1).2

Shareholders Who Use Ranking-service Information2

The typical shareholder who consulted ranking-service information before a fund purchase was a 46-year-old male with household income of $67,100 (Figure 2). More than half of household financial assets, or approximately $50,000, was typically invested in seven mutual funds.

Figure 1
Mutual Fund Shareholders’ Use of Fund Ranking Services
(percent of respondents who reviewed performance)

<table>
<thead>
<tr>
<th>Consulted a Ranking Service</th>
<th>Did Not Consult a Ranking Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulted a ranking service</td>
<td>80</td>
</tr>
<tr>
<td>Did not consult a ranking service</td>
<td>20</td>
</tr>
</tbody>
</table>

Number of respondents = 941

The majority of shareholders using ranking services saw themselves primarily as investors who purchased funds marketed directly to the public, yet more than half said they had previously consulted a professional financial adviser, although not necessarily for mutual fund purchases. Typically, the adviser was a financial planner with whom the shareholder met four times per

Figure 2
Characteristics of Shareholders Who Reviewed Performance

<table>
<thead>
<tr>
<th>Consulted a Ranking Service</th>
<th>Did Not Consult a Ranking Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>46</td>
</tr>
<tr>
<td>Household income</td>
<td>$67,100</td>
</tr>
<tr>
<td>Household financial assets</td>
<td>$97,500</td>
</tr>
<tr>
<td>Number of funds owned</td>
<td>1</td>
</tr>
<tr>
<td>Year of first fund purchase</td>
<td>1986</td>
</tr>
<tr>
<td>Percent of assets held in funds</td>
<td>51%</td>
</tr>
<tr>
<td>Time spent per month on investment matters</td>
<td>7 hours</td>
</tr>
<tr>
<td>Percent of Respondents</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>71</td>
</tr>
<tr>
<td>Completed graduate school</td>
<td>32</td>
</tr>
<tr>
<td>Enjoy investing</td>
<td>80</td>
</tr>
<tr>
<td>Have ever consulted a professional financial adviser</td>
<td>52</td>
</tr>
<tr>
<td>Primary mutual fund purchase channel:</td>
<td></td>
</tr>
<tr>
<td>Sales force</td>
<td>42</td>
</tr>
<tr>
<td>Direct market</td>
<td>58</td>
</tr>
</tbody>
</table>

Figure footnotes
*Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

1 Excludes primary residence and assets in employer-sponsored plans.

2 Excludes mutual funds held through employer-sponsored retirement plans.

Note: Number of respondents varies.
year. Most shareholders using ranking-service information said they enjoyed investing, estimating they spent seven hours each month managing personal finances.

Shareholders using fund performance rankings prior to fund purchases examined funds closely before making the decision, typically reviewing 14 different items of information. Most frequently, they considered a fund’s total return, its investment goals, the reputation of the fund company offering the fund, and the fund’s performance relative to competitors (Figure 3).

Seven out of 10 shareholders who consulted performance rankings before fund purchases also received fund information from newsletters, newspapers or magazines (Figure 4). Nearly two-thirds obtained information from a professional adviser, and more than half consulted mutual fund prospectuses and annual reports. After purchasing fund shares, most said they monitored fund holdings through account statements, newspaper listings, annual reports and prospectuses (Figure 5).

**Shareholders Who Do Not Use Ranking-service Information**

By comparison, the typical shareholder who did not consult ranking-service information was a 41-year-old male with less income and fewer financial assets invested in a smaller number of mutual funds.

These shareholders viewed themselves primarily as investors who purchase through the sales-force distribution channel. More than 60 percent said they consulted a professional financial adviser before making share purchases, typically meeting with the adviser three times a year. Nearly three quarters also said that they enjoyed investing, but reported spending less than half as much time managing their finances as those using a ranking service (Figure 2).

**Similarities Among All Shareholders**

All shareholders—those who had and had not consulted ranking-service information—usually reviewed the same type of information before making fund purchases (Figure 3). Pre-purchase information typically came from two sources—a professional financial adviser and a newsletter, newspaper or magazine (Figure 4). Although advisers were a main source of pre-purchase information, they were not as frequently mentioned as sources of post-purchase information (Figure 5).

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### Figure 3: Most Frequently Considered Information Prior to Most Recent Fund Purchase

(Percent of respondents who reviewed performance)

<table>
<thead>
<tr>
<th>Information Type</th>
<th>Consulted a Ranking Service</th>
<th>Did Not Consult a Ranking Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total return</td>
<td>100</td>
<td>91*</td>
</tr>
<tr>
<td>Investment goals</td>
<td>93</td>
<td>82*</td>
</tr>
<tr>
<td>Reputation of fund company</td>
<td>89</td>
<td>90</td>
</tr>
<tr>
<td>Fund performance relative to similar funds</td>
<td>85</td>
<td>77*</td>
</tr>
<tr>
<td>Risk level</td>
<td>84</td>
<td>93*</td>
</tr>
<tr>
<td>Annual fees</td>
<td>83</td>
<td>75*</td>
</tr>
<tr>
<td>Types of companies in which the fund invests</td>
<td>76</td>
<td>84*</td>
</tr>
<tr>
<td>Fund company’s tenure in business</td>
<td>76</td>
<td>72</td>
</tr>
</tbody>
</table>

**Note:** Shaded items are fund information required to be communicated to investors before a purchase. Number of respondents varies.

### Figure 4: Most Frequently Mentioned Sources of Pre-purchase Information

(Percent of respondents who reviewed performance)

<table>
<thead>
<tr>
<th>Information Type</th>
<th>All Respondents Who Reviewed Performance</th>
<th>Consulted a Ranking Service</th>
<th>Did Not Consult a Ranking Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual fund ranking or information services</td>
<td>20</td>
<td>100</td>
<td>0*</td>
</tr>
<tr>
<td>Articles in investment newsletters, newspapers or magazines</td>
<td>55</td>
<td>70</td>
<td>52*</td>
</tr>
<tr>
<td>Professional financial advisers</td>
<td>58</td>
<td>63</td>
<td>57</td>
</tr>
<tr>
<td>Mutual fund prospectuses or annual reports</td>
<td>47</td>
<td>57</td>
<td>45*</td>
</tr>
<tr>
<td>Friends, family or business associates</td>
<td>31</td>
<td>29</td>
<td>31</td>
</tr>
</tbody>
</table>

**Note:** Shaded items are sources used to monitor funds after purchases. Number of respondents 941 185 756

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### Figure 5: Sources Used to Monitor Mutual Funds After Purchases

(Percent of respondents who reviewed performance)

<table>
<thead>
<tr>
<th>Information Type</th>
<th>Consulted a Ranking Service</th>
<th>Did Not Consult a Ranking Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund listings in newspapers</td>
<td>76</td>
<td>49*</td>
</tr>
<tr>
<td>Account statements</td>
<td>73</td>
<td>75</td>
</tr>
<tr>
<td>Annual reports</td>
<td>68</td>
<td>46*</td>
</tr>
<tr>
<td>Prospectuses</td>
<td>52</td>
<td>47</td>
</tr>
<tr>
<td>Rankings in a business magazine</td>
<td>50</td>
<td>31*</td>
</tr>
<tr>
<td>Financial adviser</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>Rating services such as Morningstar or Lipper</td>
<td>43</td>
<td>6*</td>
</tr>
<tr>
<td>Online services</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Investment management software</td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>

**Note:** Shaded items are sources used to monitor funds after purchases. Number of respondents 184 717

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*Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

* Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

* From a list of 20 items; multiple responses included. Median number of items reviewed was 14 for shareholders who had consulted a ranking service and 13 for those who had not.