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What US Households Consider When They Select Mutual Funds, 2018

KEY FINDINGS

- **Mutual fund investors review a fund's investment objective, as well as the risk level of the fund's investments, when making their fund purchase decision.** In 2018, nine in 10 mutual fund–owning households considered a fund's investment objective, as well as the risk level of a fund's investments, when selecting mutual fund investments. Almost four in 10 mutual fund–owning households indicated that each of these measures was "very important" in their fund selection decision.
- **Mutual fund investors review the historical performance of a fund and a fund's performance compared with an index when purchasing a mutual fund.** In 2018, about nine in 10 mutual fund–owning households considered these performance measures when selecting mutual funds. More than half of mutual fund–owning households indicated that historical performance was very important to their fund purchase decision and 36 percent said a fund's performance compared with an index was very important.
- **Fund fees and expenses also were reviewed by mutual fund investors.** In 2018, about nine in 10 mutual fund–owning households considered fund fees and expenses when selecting their mutual funds. Indeed, about four in 10 indicated fund fees and expenses were very important to their fund selection decision.

What's Inside

2 Mutual Fund–Owning Households Review Several Key Pieces of Information When Selecting Funds

4 Mutual Fund–Owning Households Review Fund Investment Objectives and Risks

8 Mutual Fund Investors Also Review Fund Performance, Fees, and Expenses

10 Notes

11 References

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Mutual Fund–Owning Households Review Several Key Pieces of Information When Selecting Funds

The annual ICI Mutual Fund Shareholder Tracking Survey gathers information on mutual fund–owning households. In 2018, the survey found that 56.0 million US households, or 43.9 percent, owned mutual funds.[1] In the 2018 survey, mutual fund–owning households were asked to rank the importance of a variety of factors when making their mutual fund purchase decisions.[2]

This paper, which presents the results from that question, first describes the variety of financial services firms that US households use to purchase mutual funds, and then analyzes mutual fund–owning households' willingness to take investment risk and the investment profile of the mutual funds they own. Finally, highlights from mutual fund fee research are included, which indicate that mutual fund investors tend to concentrate their mutual fund assets in lower-cost funds.

About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of mutual fund–owning households in the United States. The most recent survey was conducted from May to July 2018 and was based on a telephone sample of 5,001 US households. Of these, 2,251 households were reached on their landlines and 2,750 households were reached on their cell phones.[3] Of the households contacted, 2,196 (43.9 percent) owned mutual funds. In the 2017 and 2018 surveys, a question was added to ask respondents to rate the importance of several key pieces of information typically available to fund investors when selecting mutual funds. All interviews were conducted over the telephone with the member of the household who was either the sole or the co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2018 sample of households owning mutual funds is ± 2.1 percentage points at the 95 percent confidence level.

Mutual Funds Are Offered Through an Array of Financial Services Firms

Mutual funds are available through a wide array of financial services firms, and households own mutual funds both inside and outside employer-sponsored retirement plans. In 2018, 80 percent of mutual fund–owning households held mutual funds through employer-sponsored retirement plans (Figure 1).

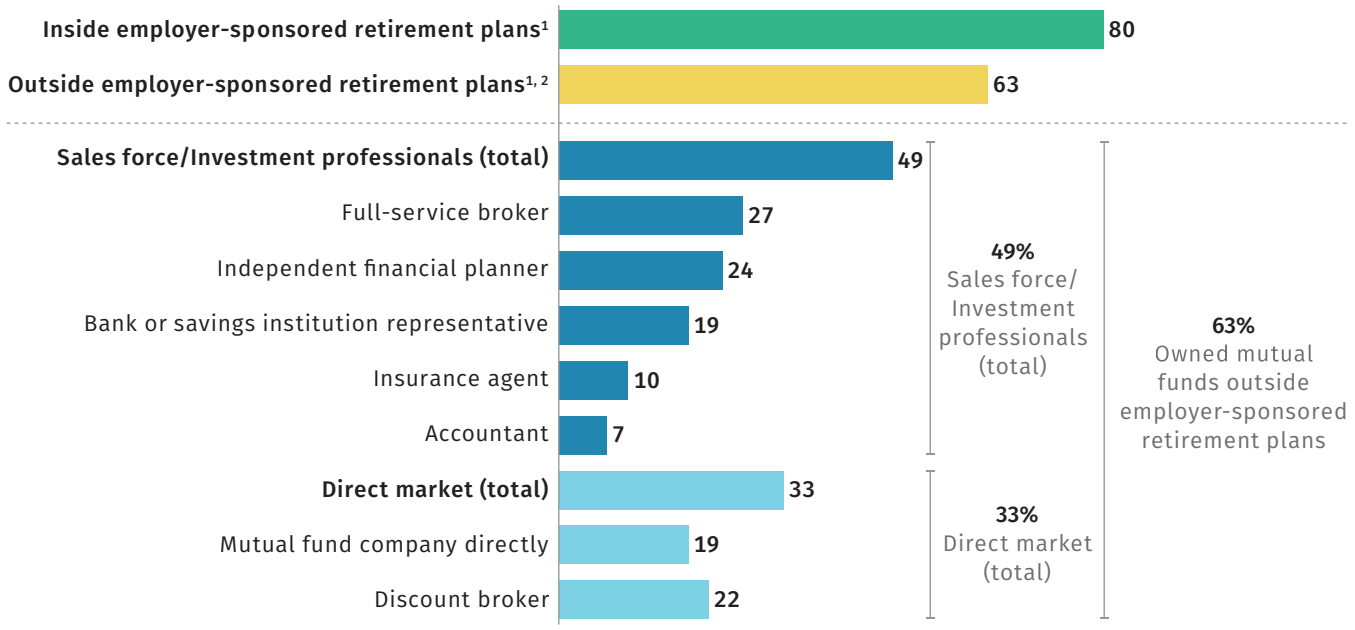
US households also own mutual funds outside of employer-sponsored retirement plans, with many seeking the help of investment professionals when making mutual fund investments and some going directly to mutual fund companies or discount brokers.

In 2018, 63 percent of mutual fund–owning households held mutual funds outside employer-sponsored retirement plans (Figure 1). These households purchased funds through two sources: the investment professional channel and the direct market channel. The investment professional channel includes registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, insurance agents, and accountants. The direct market channel includes fund companies and discount brokers. In 2018, nearly half of households owning mutual funds held funds purchased through an investment professional and one-third owned funds purchased through the direct market channel.

FIGURE 1

Mutual Fund Investors Purchase Mutual Funds Through a Variety of Channels

Percentage of US households owning mutual funds by purchase channel, 2018



[1] Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

[2] Six percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. Of this 6 percent, 4 percent owned funds both inside and outside employer-sponsored retirement plans and 2 percent owned funds only outside of employer-sponsored retirement plans.

Note: Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2018"

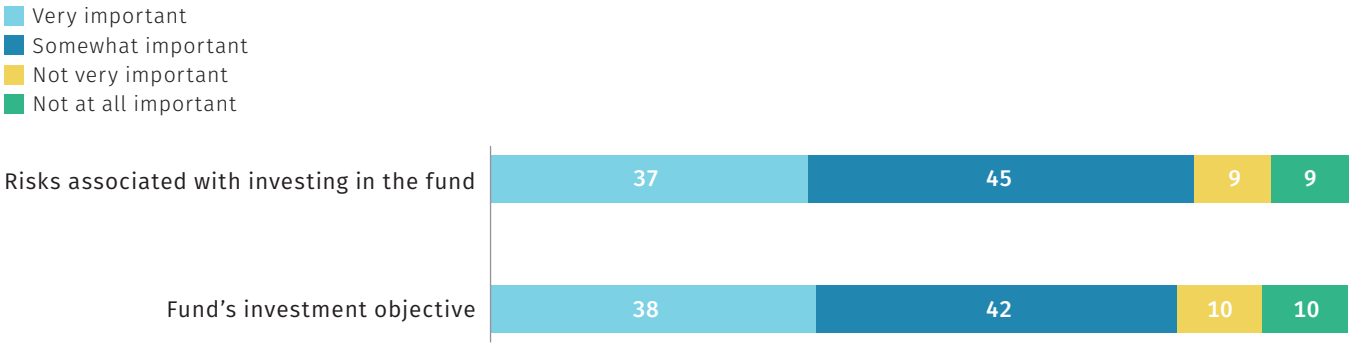
Mutual Fund–Owning Households Review Fund Investment Objectives and Risks

When asked about the information they consider when choosing a mutual fund, mutual fund–owning households said they typically review a fund's investment objective, as well as the risk level of a fund's investments. In 2018, 90 percent of mutual fund–owning households considered a fund's investment objective when making their purchase decision, with 38 percent agreeing it was very important (Figure 2). Similarly, 91 percent of mutual fund–owning households reviewed the risk level of a fund's investments, with 37 percent of mutual fund–owning households considering the risk level of a fund's investments "very important" when making their purchase decision.

FIGURE 2

Most Shareholders Review Investment Risks and Objectives When Selecting Mutual Funds

Percentage of mutual fund–owning households, 2018



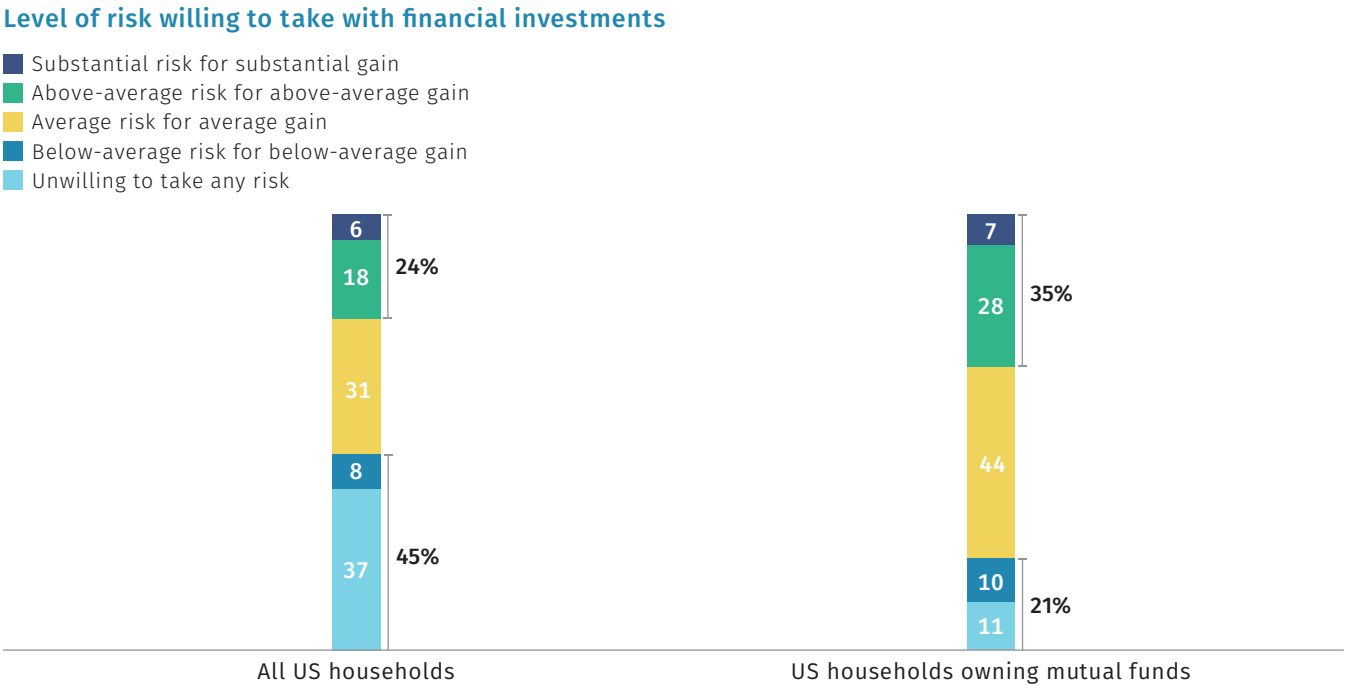
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

The survey also asks households about their willingness to take investment risk.[4] Households owning mutual funds are far more willing to take investment risk than US households in general. In 2018, 35 percent of households owning mutual funds were willing to take above-average or substantial investment risk, compared with 24 percent of all US households (Figure 3). Forty-four percent of mutual fund–owning households are willing to take average risk with financial investments compared with 31 percent of all US households. Finally, only 21 percent of mutual fund-owning households are willing to take below-average or no risk, compared with 45 percent of all US households.

FIGURE 3

Mutual Fund–Owning Households Express Willingness to Take Investment Risk

Percentage of US households by mutual fund ownership status, 2018



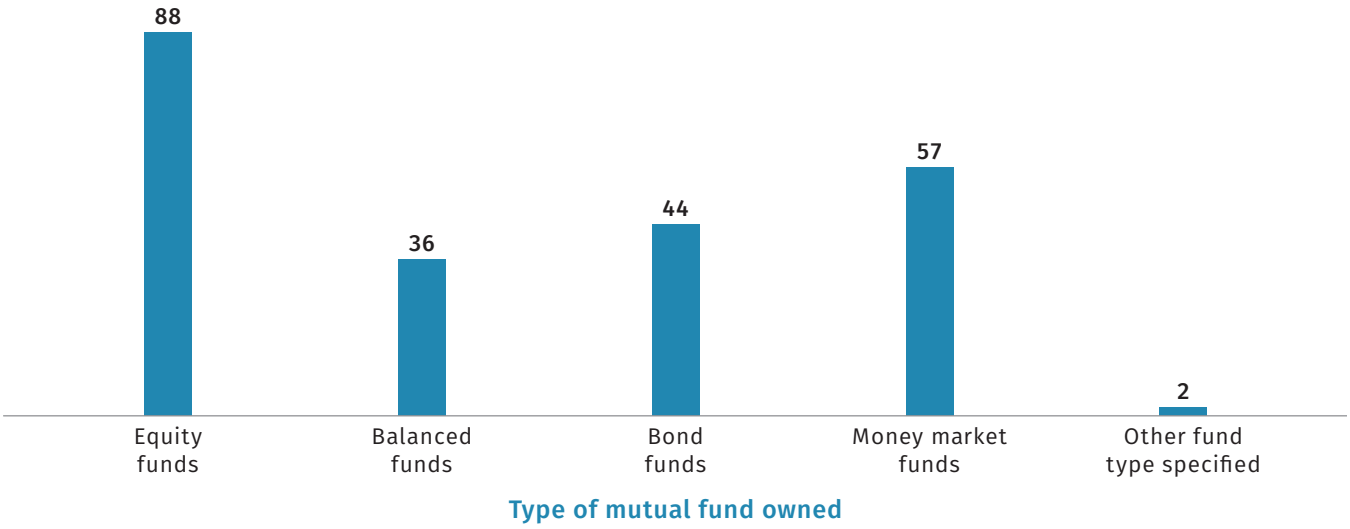
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2018"

Reflecting their consideration of risk when selecting funds and their willingness to take investment risk, it is not surprising that the majority of mutual fund–owning households engage in equity investing through their mutual funds. In 2018, 88 percent of mutual fund-owning households owned equity mutual funds, by far the most popular type of mutual fund owned (Figure 4).[5] Thirty-six percent owned balanced mutual funds, which invest in a mix of equities and bonds.

FIGURE 4

Equity Funds Are the Most Commonly Owned Type of Mutual Fund

Percentage of US households owning mutual funds, 2018



Note: Multiple responses are included.

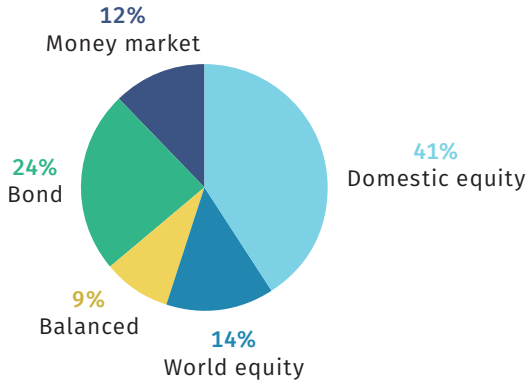
Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, "Characteristics of Mutual Fund Investors, 2018"

Analyzing the composition of household mutual fund assets also demonstrates that households are focused on equity investing. At year-end 2018, households owned 89 percent of industrywide mutual fund assets, or $15.8 trillion in mutual fund assets (Figure 5).[6] The majority of households' mutual fund assets were invested in equity funds at year-end 2018. Specifically, 41 percent of households' mutual fund assets were in domestic equity funds and 14 percent were in world equity funds. Another 9 percent of households' mutual fund assets were in balanced funds, which provide further exposure to equity markets.[7]

FIGURE 5

Equity Funds Represent the Majority of Households' Mutual Fund Assets

Percentage of total household mutual fund assets, year-end 2018



Total household mutual fund assets: $15.8 trillion

Source: Investment Company Institute

Mutual Fund Investors Also Review Fund Performance, Fees, and Expenses

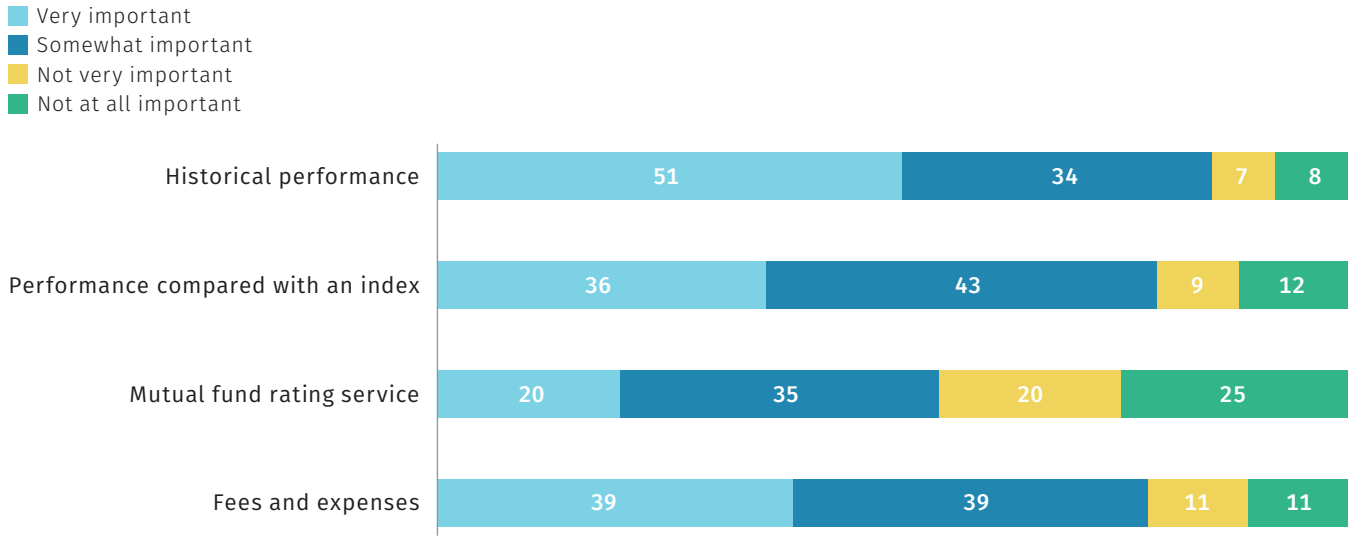
When asked about the information they consider when choosing a mutual fund, 92 percent of mutual fund–owning households said that they reviewed the historical performance of a fund, with 51 percent indicating a fund's historical performance was very important when making their fund purchase decision (Figure 6). Eighty-eight percent of mutual fund–owning households indicated that they considered a fund's performance compared with an index, with 36 percent saying this benchmarking was very important when making their purchase decision. Seventy-five percent of mutual fund–owning households considered a fund's rating from a rating service, with 20 percent considering such a rating to be very important when making their purchase decision. It is possible that fewer households report reviewing these ratings in part because they are considering funds that have been prescreened by financial advisers along this dimension. Therefore, it may not be a distinguishing criterion when ultimately selecting a fund.

Fund fees and expenses also were a very important consideration in fund selection. In 2018, about nine in 10 mutual fund–owning households indicated they reviewed the fund's fees and expenses (Figure 6). Indeed, about four in 10 said the fund's fees and expenses were very important when making their purchase decision. Households that place less emphasis on fees and expenses may be choosing among a set of funds already prescreened for them by financial advisers or defined contribution retirement plan sponsors,[8] which considered fees and expenses when building the fund lineup.[9]

FIGURE 6

Nine in 10 Mutual Fund–Owning Households Review Fund Performance, Fees, and Expenses

Percentage of mutual fund–owning households, 2018



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

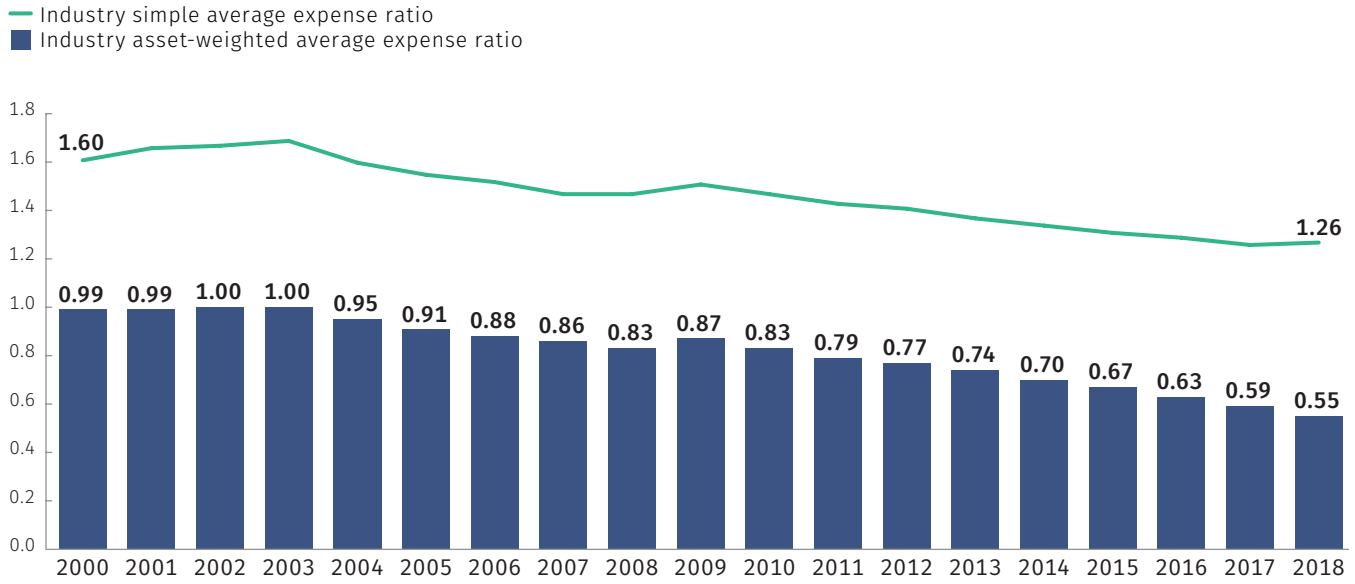
Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

Likely reflecting their self-reported emphasis on reviewing mutual fund fees, mutual fund investors tend to concentrate their assets in lower-cost funds.[10] For example, fund investors incurred an asset-weighted average expense ratio of 0.55 percent for equity mutual funds, which was less than half the industrywide simple average of 1.26 percent for all equity mutual funds offered in the United States in 2018 (Figure 7). Mutual fund investors also have concentrated their assets in lower-cost balanced, bond, and money market funds.[11]

FIGURE 7

Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

Equity mutual fund expense ratios, percent



Note: Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute, Lipper, and Morningstar; see *ICI Research Perspective*, "Trends in the Expenses and Fees of Funds, 2018"

Additional Reading

» **Mutual Fund Shareholders' Use of Information**
www.ici.org/research/investors/information

» **Mutual Fund Ownership**
www.ici.org/research/investors/ownership

» **2019 *Investment Company Fact Book***
www.icifactbook.org

Notes

[1] See Holden, Schrass, and Bogdan 2018a.

[2] The question was also included in the 2017 survey. For those results, see Holden, Bogdan, and Schrass 2018. For other more in-depth results on mutual fund shareholders' use of information, see West and Leonard-Chambers 2006a and 2006b; Sabelhaus 2008; and Holden, Seligman, and Schrass 2018.

[3] Specifically, the survey uses a dual-frame design, with 45 percent from a landline random digit dial (RDD) frame and 55 percent from a cell phone RDD frame. For additional detail, see Holden, Schrass, and Bogdan 2018a.

[4] These results were first published in Holden, Schrass, and Bogdan 2018a.

[5] For additional discussion, see Holden, Schrass, and Bogdan 2018b, which first published these results.

[6] US households held 95 percent of long-term mutual fund assets at year-end 2018. See Figure 3.3 in Investment Company Institute 2019.

[7] Balanced mutual funds invest in a mix of equities and bonds. Those structured as funds of funds are not counted as balanced funds here, but rather as the assets in the underlying equity and bond funds.

[8] For an analysis of mutual fund fees paid by 401(k) plan participants on the mutual funds held in their 401(k) plans, see Holden, Duvall, and Chism 2018.

[9] There was little variation in mutual fund–owning households' responses by ownership status inside or outside employer-sponsored retirement plans. Based on the 2018 survey data, 36 percent of mutual fund–owning households that indicated their primary channel for mutual fund ownership was inside employer-sponsored retirement plans said fees and expenses were "very important," compared with 42 percent of mutual fund–owning households that indicated their primary channel for mutual fund ownership was outside employer-sponsored retirement plans and 39 percent across all mutual fund–owning households. Forty-one percent of mutual fund–owning households that indicated their primary channel for mutual fund ownership was inside employer-sponsored retirement plans considered fees and expenses as "somewhat important," compared with 36 percent of mutual fund–owning households that said their primary channel for mutual fund ownership was outside employer-sponsored retirement plans and 39 percent of all mutual fund–owning households. About one-tenth of each group indicated fees and expenses were "not very important," and about one-tenth said they were "not at all important."

[10] For the complete analysis of mutual fund and exchange-traded fund (ETF) fees and expenses, see Duvall 2019.

[11] See Duvall 2019.

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Michael Bogdan is an associate economist in the retirement and investor research division at ICI. Bogdan conducts research concerning the Institute's household surveys. His areas of expertise include households' ownership of mutual funds and other investments, retirement plans, and individual retirement accounts. Bogdan also conducts research with government surveys such as the Survey of Consumer Finances and the Current Population Survey. Before joining ICI in 1997, Bogdan worked for the chemical engineering department at Michigan State University as a technology transfer specialist for the Composite Materials and Structures Center. He has an MA and a BS in economics from Miami University in Oxford, Ohio.

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