

## Focus on Funds: What Investors Consider When Choosing Mutual Funds

### Focus on Funds

## What Investors Consider When Choosing Mutual Funds

American investors young and old use mutual funds in pursuit of their savings goals, but how do they choose the funds in which they invest? In the June 5, 2020, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden recaps ICI's latest data on mutual fund-owning households.

**Stephanie Ortvals-Tibbs, ICI director of media relations:** Nearly 60 million US households own mutual funds. Sarah Holden, your group studies each year how they come to own these mutual funds, [and] what they learn about them as they make their decisions. And leading your work, what do you see this year as some of the key trend lines?

**Sarah Holden, ICI senior director of retirement and investor research:** So we know that mutual fund-owning households come to own their funds through a variety of channels. The vast majority—82 percent of them—own their mutual funds through a retirement plan at work, so through a 401(k) or a 403(b). But half of mutual fund-owning households went out into the market and, through a broker or a financial adviser, or an insurance company rep, selected mutual funds. And nearly a third just went directly to the mutual fund company or through a discount broker.

**Ortvals-Tibbs:** Working through these various channels, then, how do they make a decision about which fund to own?

**Holden:** The first decision, really, that needs to be made, is well what kind of investment do I want to make? And nine out of 10 mutual fund-owning households say that they considered the investment objective of the funds before they purchased the fund.

And part and parcel of that decision is: how much risk do I want to take? We know from another question in the survey that mutual fund-owning households are willing to take on financial risk. And indeed, the most popular type of fund owned is equity mutual funds. Eighty-eight percent of mutual fund-owning households own equity mutual funds.

**Ortvals-Tibbs:** In addition to investment objective, what else do they consider?

**Holden:** Nine out of 10 mutual fund-owning households look at the performance of the funds. So funds report on their past performance, and this is a key measure that households consider. Eight in 10 also compare that performance to a benchmark, so they want to understand how did an individual fund do compared to the market that it's investing in.

**Ortvals-Tibbs:** We know, of course, people consider fees as well. What does the data show there?

**Holden:** Households do consider the fees associated with their fund investments, and nine out of 10 of them say that it's important to look at that. And indeed, we see this in our aggregate data as well. Each year, we do a study where we analyze the fees and expenses paid by fund investors as a group.

And when we look at, for example, equity mutual funds, if you consider all equity mutual funds in the market, the average expense ratio is 1.24 percent. But that doesn't take into account where people have actually put their money. And if we now look at where did we actually invest, as a group, equity mutual fund investors paid 0.52 percent. So we see in our data that households do concentrate their assets in lower-cost funds.

## Additional Resources

- [ICI Explains: Who Invests in Mutual Funds and Why?](#)
- [What US Households Consider When Selecting Mutual Funds, 2019](#)
- [Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2019](#)
- [ICI Viewpoints: Mutual Funds: Rated E for Everyone](#)