Study Finds Cost of Owning Mutual Funds Continues to Decline, September 1999

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Washington, DC, September 15, 1999 - Shareholder costs of investing in equity mutual funds continued to decline, decreasing 5.6 percent in 1998 and cumulatively by 40 percent since 1980. The cost of investing in bond and money market funds also continued to fall ¾ by 3.5 percent and 2.3 percent, respectively in 1998, and by 29 percent and 24 percent, respectively since 1980. These results were released in a new study, Mutual Fund Costs, 1980-1998, published by the Investment Company Institute, the national association of the American investment company industry.

The new study supports the Institute's previous research of trends in equity fund costs, as well as bond and money market mutual fund fees and expenses. It also expands previous research of equity fund cost trends, finding that the decline in the level of the average cost of funds does not depend on the relatively low cost of index funds, institutional funds, and those of the three largest fund companies.

"This study confirms that the decline in the cost to shareholders of investing in mutual funds is broad based and is not significantly affected by the presence of a narrow group of relatively lower cost funds," Institute President Matthew P. Fink said. "The downward trend holds true even after excluding both index and institutional funds, which typically have lower shareholder costs, and after removing equity funds offered by the three largest fund complexes."

"Declining shareholder cost is one result of intense competition in the mutual fund industry," Fink said. "Shareholders continue to benefit from this competition, which is simultaneously producing lower costs and an array of innovative services."

The new study was written by the Institute's chief economist John Rea, senior economist Brian Reid, and research associate Travis Lee. Based on a $10,000 account, the research determined that the total shareholder cost for all equity funds declined 5.6 percent in 1998 to $135 from $143 in 1997. The decrease brought the cumulative decline in the total shareholder cost of equity funds since 1980 to $91 for a $10,000 investment, a drop of 40 percent over 19 years.

Excluding relatively lower-cost index and institutional funds resulted in a 32 percent decrease in total shareholder cost for the remaining actively managed, retail equity funds since 1980, the study found. Similarly, dropping equity funds offered by the three largest fund complexes produced a decrease in total shareholder cost of 34 percent.[1] After removing all of these equity funds ¾ index, institutional, and those of the three largest fund complexes ¾ total shareholder cost decreased 27 percent between 1980 and 1998.

The study also found that the cost to shareholders of bond funds declined 3.5 percent in 1998 to $109 from $113 in 1997, based on a $10,000 account. Since 1980, the total cost to shareholders of investing in bond funds has declined 29 percent. Money market fund costs dropped 2.3 percent last year to $42 per $10,000 invested from $43 in 1997. Since 1980, the cost to shareholders of investing in money market funds has declined 24 percent.

The study 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. It accounts for all major fees, expenses, and sales charges relevant to decisionmaking, 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.

The fees and expenses included in total shareholder cost consist of fund operating expenses, 12b-1 fees, and sales loads. In contrast, most other measures used to analyze mutual fund ownership cost do not account for sales loads and do not accurately reflect total shareholder cost.

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Endnote

[1] Index funds captured 9.9 percent of all equity fund sales in 1998, while institutional funds captured 15 percent. Equity funds offered by the three largest fund complexes accounted for 24 percent of all equity fund sales in 1998.
