

ICI Report Examines Redemption Activity of Mutual Fund Shareholders, March 2001

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Washington, DC, March 7, 2001 - In a report released today, researchers from the Investment Company Institute, the national association of the mutual fund industry, explained why the rate of redemption for mutual funds is not an appropriate indicator of redemption activity for the typical fund shareholder.

The [report](#), "Redemption Activity of Mutual Fund Owners," determined that the redemption rate is not a useful measure of the holding period for the typical fund shareholder because "a small number of shareholders can and likely do generate a disproportionate percentage of the total redemptions." As a result, the activity of the typical investor is masked, the report states.

The redemption rate expresses the dollar value of share redemptions as a percentage of average assets. In Investment Company Institute [statistical releases](#), mutual fund redemption rates are reported for 12-month periods.

"Redemptions are a normal part of the mutual fund business and the redemption rate is useful for comparing industry-level redemption activity at different points in time. But using the redemption rate to conclude that the typical fund owner is a short-term investor and an active trader of fund shares paints an inaccurate picture of actual shareholder activity," Institute Senior Economist Brian Reid said.

A number of ICI surveys of fund owners and other empirical research have consistently found that the vast majority of owners do not redeem shares during a one- or two-year period, Reid said. In a recent survey of equity fund owners, 82 percent said they had not redeemed shares from any of their equity funds in a year's time and another nine percent had redeemed shares only once. A small number of fund owners, however, report that they trade frequently.

Even a few high-turnover shareholders can push up a fund's redemption rate, Reid explained. 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 two percent redeeming every month would have an annual redemption rate of 38 percent. Reid said 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.

"This demonstrates that the holding period cannot be computed, nor even approximated, from the redemption rate—except in the highly unlikely case that all shareholders of a fund hold their shares for approximately the same length of time," Reid said.

The Institute website includes other research concerning mutual fund shareholder redemptions and other aspects of shareholder decisionmaking.