

Mutual Fund Investors Are Steadfast

ICI Explains

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Investors in long-term mutual funds have never been quick to redeem their holdings, even in periods of market stress, according to an ICI analysis of the past 80 years. This continued to be true in March 2020 during the COVID-19 market turmoil. Long-term mutual fund investors are steadfast for many reasons. Ultimately, they know that taking this course will help them reach their financial goals better.

Transcript

For decades, critics have claimed that investors in long-term mutual funds are quick to redeem amid market turmoil. This behavior, they say, forces funds to sell their portfolio securities—and amplifies market shocks.

The evidence shows that's not true. An ICI study has found that over the last 80 years, investors in these funds redeemed only modestly—even amid severe market shocks.

That was the case in March 2020 during the COVID-19 pandemic, too, where investors redeemed only 2.1 percent of their long-term mutual fund assets.

Why are fund investors so steadfast?

First, most are individuals investing for the long term and are willing to weather market swings to reach their goals. More than half of all assets in long-term mutual funds are in retirement accounts. And during the crisis in the first half of 2020, the vast majority of defined contribution plan participants did not take withdrawals, stop their contributions, or change their asset allocations.

Second, financial experts counsel Main Street investors about the benefits of staying the course. Investors realize that panic selling

during a market downturn frequently results in losses rather than gains. And if investors are slow to return to the market after redeeming, they risk missing significant gains from a rebound. After all, successful investing depends on continuous time in the market, not timing the market.

Finally, US fund investors often refrain from redeeming because that may trigger capital gains taxes, depending on the account type. Also, some funds charge investors a redemption fee if they sell shortly after buying.

Long-term mutual fund investors have many reasons to remain invested, and for decades, they have indeed proven themselves steadfast.

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