

ICI Study: In 2012, Financial Risk Tolerance of Younger Households Rebounded From Crisis

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Washington, DC, November 20, 2012 – U.S. mutual fund–owning households headed by younger investors have returned to a level of financial risk tolerance comparable to the level seen before the financial crisis of 2008, according to a newly updated Investment Company Institute annual survey of households. In May 2012, the fraction of mutual fund–owning households younger than 35 willing to take above-average or substantial financial risk to get higher investment returns was 39 percent—up from a low of 31 percent in May 2010 and May 2011 and slightly higher than its 37 percent level in May 2008. At the same time, risk tolerance among households in the oldest age group—aged 65 or older—stood at 13 percent in May 2012, compared with 14 percent in May 2008.

“Willingness to take financial risk is strongly affected by age, but has also varied over time within age groups,” said Sarah Holden, ICI Senior Director of Retirement and Investor Research. “Between 2011 and 2012, the willingness to take investment risk among all but the youngest shareholder group fell or remained about the same, while the youngest age group’s risk tolerance increased.”

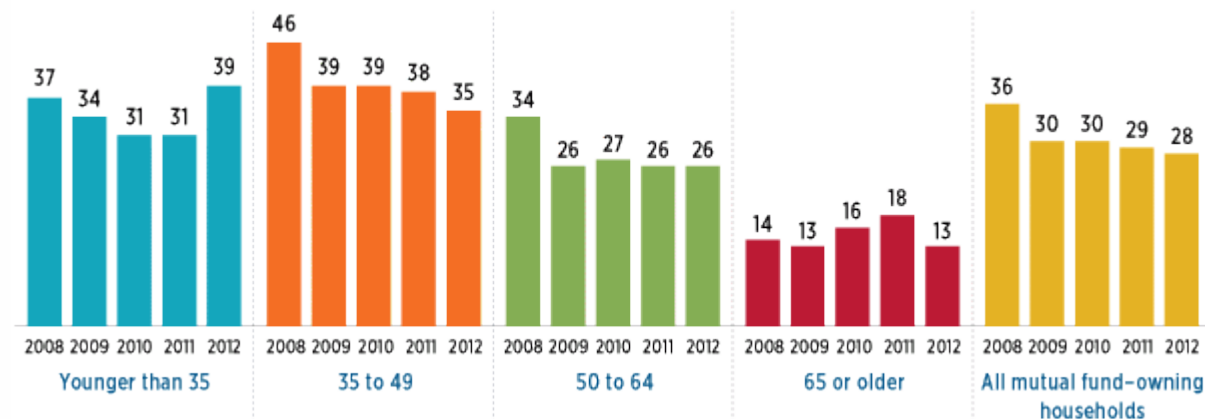
Annual Survey Shows Impact of the Financial Crisis on Households’ Risk Tolerance

The survey results were presented in two studies released today, [Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2012](#) and [Characteristics of Mutual Fund Investors, 2012](#). The annual survey has tracked the impact of the financial crisis on investor sentiment generally: In May 2008, 36 percent of all U.S. households owning mutual funds were willing to take above-average or substantial risk with their investments. By May 2009, this fraction had fallen to 30 percent of mutual fund–owning households and remained near that level through 2012, when it measured 28

percent. The willingness to take financial risk across most investor age groups has continued to be subdued in the wake of the financial market crisis, with the exception of households younger than 35 whose willingness to take financial risk essentially has returned to the pre-2008 crisis level.

Mutual Fund–Owning Households’ Willingness to Take Investment Risk

Percentage of mutual fund-owning households willing to take above-average or substantial investment risk



Source: ICI Annual Mutual Fund Shareholder Tracking Survey

ICI’s annual survey also reported that in 2012, an estimated 53.8 million, or 44.4 percent of U.S. households, representing more than 90 million individual investors owned mutual funds. While mutual funds are the most commonly held type of fund, 3.4 million households reported owning exchange-traded funds (ETFs) and 1.9 million households reported owning closed-end funds in 2012.

Other survey findings for 2012 include:

- More U.S. households owned mutual funds through tax-deferred accounts than owned mutual funds outside such accounts. In fact, more than twice as many U.S. households (49.3 million) owned mutual funds through employer-sponsored retirement plans, IRAs, and variable annuities, as owned mutual funds outside tax-deferred accounts (17.9 million).
- Most U.S. mutual fund owners had moderate household incomes and were in their peak earning and saving years. More than half of all households owning mutual funds had incomes between \$25,000 and \$99,999, and about two-thirds were headed by individuals between the ages of 35 and 64.
- A fund’s investment performance continues to be the most influential of the many factors that shaped shareholders’ opinions of the fund industry. About two-thirds of mutual fund shareholders indicated that fund performance was a “very” important factor influencing their views of the industry, and 40 percent cited fund performance as the most important factor.
- Mutual fund companies’ favorability rating tends to move with stock market performance. Mutual funds’ favorability among shareholders edged down from 69 percent in 2011 to 65 percent in 2012 as the stock market moved down over April and May 2012 to be relatively flat compared with a year

earlier. In 2012, older mutual fund investors' favorability ratings were higher than those reported by younger investors and more recent investors.

- Mutual fund–owning households often used the Internet for financial purposes. More than nine in 10 households owning mutual funds had Internet access. Among that group, more than eight in 10 used the Internet for financial purposes.

About the survey:

ICI's 2012 Annual Mutual Fund Shareholder Tracking Survey results are based on a sample of 4,019 U.S. households selected by random digit dialing, of which, 1,786 households, or 44.4 percent, owned mutual funds. In addition, the survey collected information on households' ownership of closed-end funds and ETFs. Overall, 45.1 percent of U.S. households owned shares of mutual funds or other U.S.-registered investment companies in 2012, representing an estimated 54.6 million U.S. households and 93.7 million investors. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments.

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