

Fundamentals

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Characteristics of Shareholders Using Ranking Services

Ninety-five percent of shareholders seek performance information before purchasing a stock or bond and income fund, according to a recent Institute study.¹ The Institute also found that one-fifth of these shareholders obtained some of that fund performance information from ranking services (Figure 1).²

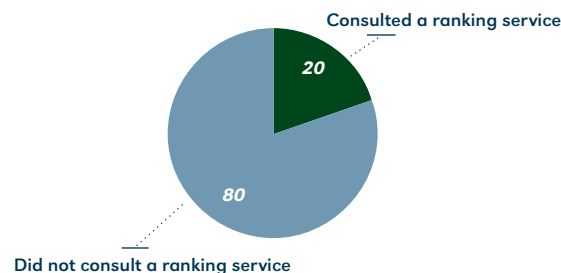
Shareholders Who Use Ranking-service Information³

The typical shareholder who consulted ranking-service information before a fund purchase was a 46-year-old male with household income of \$67,100 (Figure 2). More than half of household financial assets, or approximately \$50,000, was typically invested in seven mutual funds.

figure 1

Mutual Fund Shareholders' Use of Fund Ranking Services

(percent of respondents who reviewed performance)



Number of respondents = 941

The majority of shareholders using ranking services saw themselves primarily as investors who purchased funds marketed directly to the public, yet more than half said they had previously consulted a professional financial adviser, although not necessarily for mutual fund purchases. Typically, the adviser was a financial planner with whom the shareholder met four times per

figure 2

Characteristics of Shareholders Who Reviewed Performance

	Consulted a Ranking Service	Did Not Consult a Ranking Service
Median		
Age	46	41
Household income	\$67,100	\$63,000
Household financial assets ¹	\$97,500	\$70,300
Number of funds owned ²	7	5
Year of first fund purchase	1986	1988
Percent of assets held in funds	51%	42%
Time spent per month on investment matters	7 hours	3 hours
Percent of Respondents		
Male	71	56*
Completed graduate school	32	31
Enjoy investing	80	73*
Have ever consulted a professional financial adviser	52	61
Primary mutual fund purchase channel:		
Sales force	42	57*
Direct market	58	43*

figure footnotes

* Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

¹ Excludes primary residence and assets in employer-sponsored plans.

² Excludes mutual funds held through employer-sponsored retirement plans.

Note: Number of respondents varies.

¹ See *Understanding Shareholders' Use of Information and Advisers* (Investment Company Institute, 1997). Survey participants were shareholders who bought stock or bond fund shares in the five years preceding the survey, conducted in mid-1995. A "purchase" was limited to funds in which no shares were owned before the five-year period. Fund purchases made through employer-sponsored retirement plans were not included in the survey. Each respondent was either a primary or co-decisionmaker for household savings and investments.

² Mutual fund ranking services are private companies that conduct mutual fund research regarding the relative performance of individual mutual funds. Morningstar, Inc. and Lipper Analytical Services, Inc. are examples of mutual fund ranking services. These services are not the same as those who provide proposed risk ratings.

³ Respondents could have received information from the ranking service itself or through an intermediary. The question was worded as follows: *People can obtain investment information from many different sources. When you made your most recent stock or bond fund purchase, which sources did you use?* Mutual fund rating services such as Morningstar, Inc. or Lipper Analytical Services, Inc. was one of several sources listed.

year. Most shareholders using ranking-service information said they enjoyed investing, estimating they spent seven hours each month managing personal finances.

Shareholders using fund performance rankings prior to fund purchases examined funds closely before making the decision, typically reviewing 14 different items of information. Most frequently, they considered a fund's total return, its investment goals, the reputation of the fund company offering the fund, and the fund's performance relative to competitors (Figure 3).

Seven out of 10 shareholders who consulted performance rankings before fund purchases also received fund information from newsletters, newspapers or magazines (Figure 4). Nearly two-thirds obtained information from a professional adviser, and more than half consulted mutual fund prospectuses and annual reports. After purchasing

fund shares, most said they monitored fund holdings through account statements, newspaper listings, annual reports and prospectuses (Figure 5).

Shareholders Who Do Not Use Ranking-service Information

By comparison, the typical shareholder who did not consult ranking-service information was a 41-year-old male with less income and fewer financial assets invested in a smaller number of mutual funds.

These shareholders viewed themselves primarily as investors who purchase through the sales-force distribution channel. More than 60 percent said they consulted a professional financial adviser before making share purchases, typically meeting with the adviser three times a year. Nearly three quarters also said that they enjoyed investing, but reported spending less than half as much time managing their finances as those using a ranking service (Figure 2).

Similarities Among All Shareholders

All shareholders—those who had and had not consulted ranking-service information—usually reviewed the same type of information before making fund purchases (Figure 3). Pre-purchase information typically came from two sources—a professional financial adviser and a newsletter, newspaper or magazine (Figure 4). Although advisers were a main source of pre-purchase information, they were not as frequently mentioned as sources of post-purchase information (Figure 5).

figure 3

Most Frequently Considered Information Prior to Most Recent Fund Purchase¹

(percent of respondents who reviewed performance)

	Consulted a Ranking Service	Did Not Consult a Ranking Service
Total return	100	91*
Investment goals	93	82*
Reputation of fund company	89	90
Fund performance relative to similar funds	85	77*
Risk level	84	93*
Annual fees	83	75*
Types of companies in which the fund invests	76	84*
Fund company's tenure in business	76	72

figure footnotes

*Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

¹ From a list of 20 items; multiple responses included. Median number of items reviewed was 14 for shareholders who had consulted a ranking service and 13 for those who had not.

Note: Shaded items are fund information required to be communicated to investors before a purchase. Number of respondents varies.

figure 4

Most Frequently Mentioned Sources of Pre-purchase Information¹

(percent of respondents who reviewed performance)

	All Respondents Who Reviewed Performance	Consulted a Ranking Service	Did Not Consult a Ranking Service
Mutual fund ranking or information services	20	100	0*
Articles in investment newsletters, newspapers or magazines	55	70	52*
Professional financial advisers	58	63	57
Mutual fund prospectuses or annual reports	47	57	45*
Friends, family or business associates	31	29	31
Number of respondents	941	185	756

figure footnotes

*Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

¹ From a list of 10 items; multiple responses included. Median number of sources used was four for shareholders who had consulted a ranking service and two for those who had not.

figure 5

Sources Used to Monitor Mutual Funds After Purchases¹

(percent of respondents who reviewed performance)

	Consulted a Ranking Service	Did Not Consult a Ranking Service
Fund listings in newspapers	76	49*
Account statements	73	75
Annual reports	68	46*
Prospectuses	52	47
Rankings in a business magazine	50	31*
Financial adviser	33	40
Ranking services such as Morningstar or Lipper	43	6*
Online services	7	4
Investment management software	8	2
Number of respondents	184	717

figure footnotes

*Responses of those who had not consulted a ranking service before purchasing their most recent funds are statistically different at the 95 percent confidence level from the responses of those who had.

¹ Multiple responses included. Median number of sources used to monitor funds was five for respondents who had consulted a ranking service and three for those who had not.