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What US Households Consider When They Select Mutual Funds, 2019

KEY FINDINGS

- » **Mutual fund investors review a fund’s investment objective, as well as the risk level of the fund’s investments, when making their fund purchase decision.** In 2019, nine in 10 mutual fund–owning households considered a fund’s investment objective, as well as the risk level of a fund’s investments, when selecting mutual fund investments. Almost four in 10 mutual fund–owning households indicated that each of these measures was “very important” in their fund selection decision.
- » **Mutual fund investors examine the historical performance of a fund and a fund’s performance compared with an index when purchasing a mutual fund.** In 2019, about nine in 10 mutual fund–owning households considered these performance measures when selecting mutual funds. More than half of mutual fund–owning households indicated that historical performance was very important to their fund purchase decision and 37 percent said a fund’s performance compared with an index was very important.
- » **Mutual fund investors also review fund fees and expenses.** In 2019, about nine in 10 mutual fund–owning households considered fund fees and expenses when selecting their mutual funds. Indeed, more than four in 10 indicated fund fees and expenses were very important to their fund selection decision.

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Mutual Fund–Owning Households Review Several Key Pieces of Information When Selecting Funds

The annual ICI Mutual Fund Shareholder Tracking Survey gathers information on mutual fund–owning households. In 2019, the survey found that 58.5 million US households, or 45.5 percent, owned mutual funds.¹ In the 2019 survey, mutual fund–owning households were asked to rank the importance of a variety of factors when making their mutual fund purchase decisions.²

This paper, which presents the results from that question, first describes the variety of financial services firms that US households use to purchase mutual funds, and then analyzes mutual fund–owning households' willingness to take investment risk and the investment profile of the mutual funds they own. Finally, the paper uses research on mutual fund fees to demonstrate that mutual fund investors tend to concentrate their mutual fund assets in lower-cost funds.

About the Annual Mutual Fund Shareholder Tracking Survey

ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of mutual fund–owning households in the United States. The most recent survey was conducted from May to July 2019 and was based on a telephone sample of 4,000 US households. Of these, 1,800 households were reached on their landlines and 2,200 households were reached on their cell phones.³ Of the households contacted, 1,821 (45.5 percent) owned mutual funds. In 2017, 2018, and 2019

the survey also asked respondents to rate the importance of several key pieces of information typically available to fund investors when selecting mutual funds. All interviews were conducted over the telephone with the member of the household who was either the sole or the co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2019 sample of households owning mutual funds is ± 2.3 percentage points at the 95 percent confidence level.

Mutual Funds Are Offered Through an Array of Financial Services Firms

Mutual funds are available through a wide array of financial services firms, and households own mutual funds both inside and outside employer-sponsored retirement plans. In 2019, 82 percent of mutual fund-owning households held mutual funds through employer-sponsored retirement plans (Figure 1).

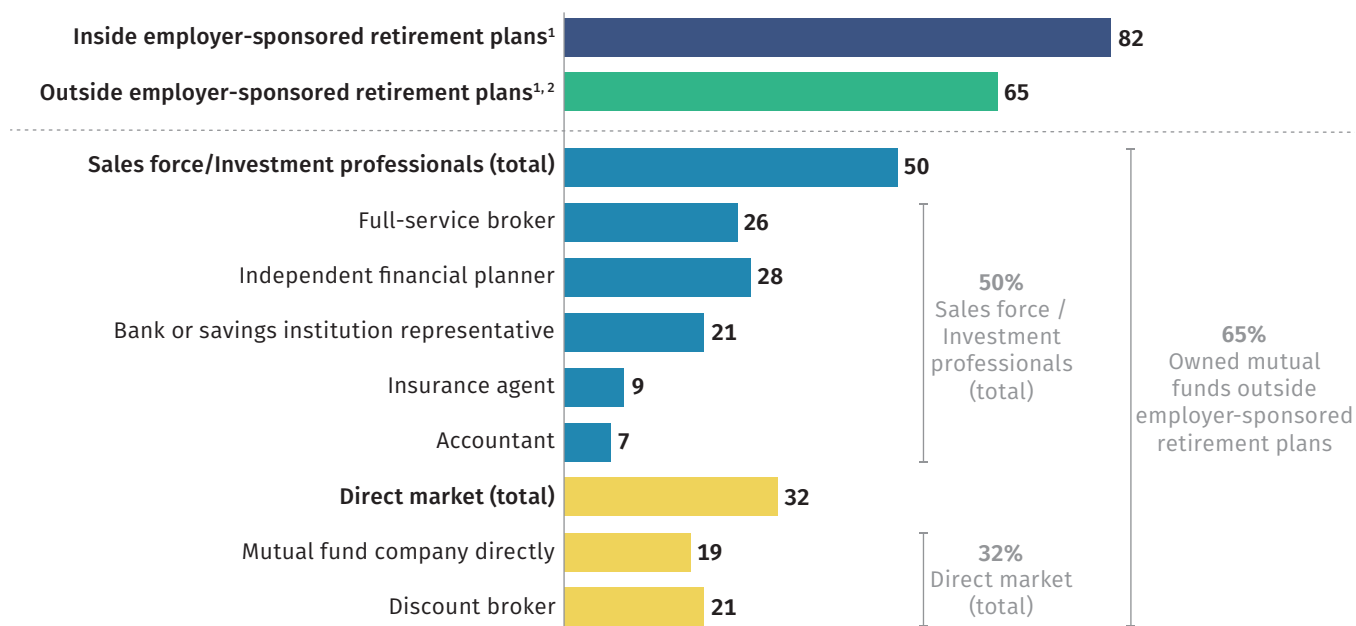
US households also own mutual funds outside of employer-sponsored retirement plans, with many seeking the help of investment professionals when making mutual fund investments and some going directly to mutual fund companies or discount brokers.

In 2019, 65 percent of mutual fund-owning households held mutual funds outside employer-sponsored retirement plans (Figure 1). These households purchased funds through two sources: the investment professional channel and the direct market channel. The investment professional channel includes registered investment advisers, full-service brokers, independent financial planners, bank or savings institution representatives, insurance agents, and accountants. The direct market channel includes fund companies and discount brokers. In 2019, half of households owning mutual funds held funds purchased through an investment professional and nearly one-third owned funds purchased through the direct market channel.

FIGURE 1

Mutual Fund Investors Purchase Mutual Funds Through a Variety of Channels

Percentage of US households owning mutual funds by purchase channel, 2019



¹ Employer-sponsored retirement plans include DC plans (such as 401(k), 403(b), or 457 plans) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

² Seven percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. Of this 7 percent, 5 percent owned funds both inside and outside employer-sponsored retirement plans and 2 percent owned funds only outside of employer-sponsored retirement plans.

Note: Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see ICI Research Perspective, "Characteristics of Mutual Fund Investors, 2019"

Mutual Fund–Owning Households Review Fund Investment Objectives and Risks

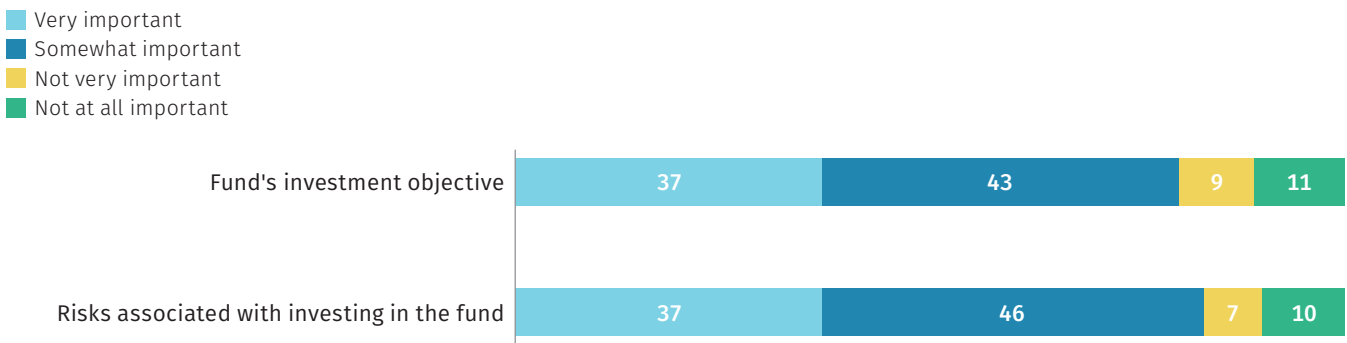
When asked about the information they consider when choosing a mutual fund, mutual fund–owning households said they typically review a fund’s investment objective, as well as the risk level of a fund’s investments. In 2019, 89 percent of mutual fund–owning households considered a fund’s investment objective

when making their purchase decision, with 37 percent agreeing it was very important (Figure 2). Similarly, 90 percent of mutual fund–owning households reviewed the risk level of a fund’s investments, with 37 percent of mutual fund–owning households considering the risk level of a fund’s investments “very important” when making their purchase decision.

FIGURE 2

Most Shareholders Review Investment Risks and Objectives When Selecting Mutual Funds

Percentage of mutual fund–owning households, 2019



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

The survey also asks households about their willingness to take investment risk.⁴ Households owning mutual funds are far more willing to take investment risk than US households in general. In 2019, 35 percent of households owning mutual funds were willing to take above-average or substantial investment risk, compared with 24 percent of all US households

(Figure 3). Forty-six percent of mutual fund-owning households were willing to take average risk with financial investments compared with 32 percent of all US households. Finally, only 19 percent of mutual fund-owning households were willing to take below-average or no risk, compared with 44 percent of all US households.

FIGURE 3

Mutual Fund–Owning Households Express Willingness to Take Investment Risk

Percentage of US households by mutual fund ownership status, 2019

Level of risk willing to take with financial investments

- Substantial risk for substantial gain
- Above-average risk for above-average gain
- Average risk for average gain
- Below-average risk for below-average gain
- Unwilling to take any risk



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, “Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2019”

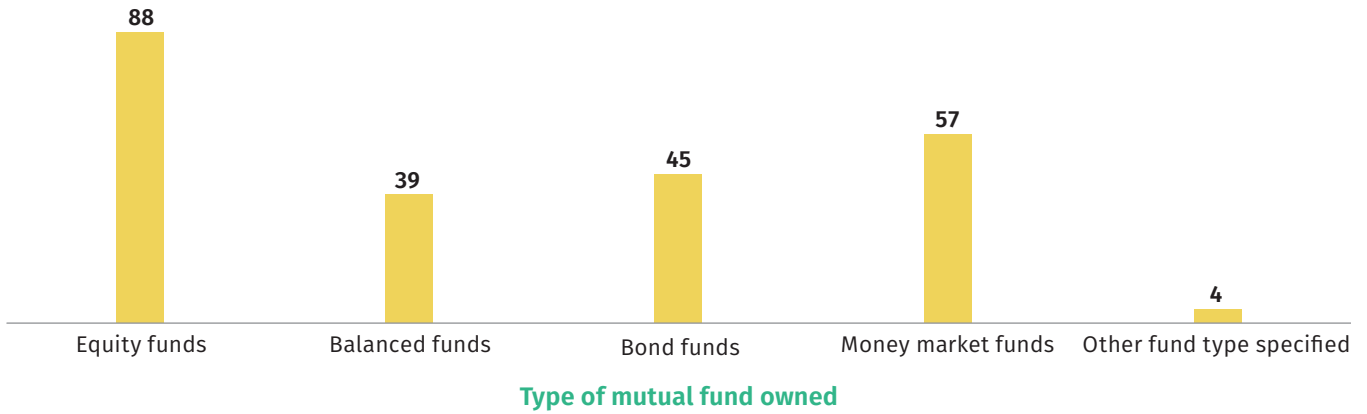
Reflecting their consideration of risk when selecting funds and their willingness to take investment risk, it is not surprising that the majority of mutual fund-owning households engage in equity investing through their mutual funds. In 2019, 88 percent of mutual fund-owning

households owned equity mutual funds, by far the most popular type of mutual fund owned (Figure 4).⁵ Thirty-nine percent owned balanced mutual funds, which invest in a mix of equities and bonds.

FIGURE 4

Equity Funds Are the Most Commonly Owned Type of Mutual Fund

Percentage of US households owning mutual funds, 2019



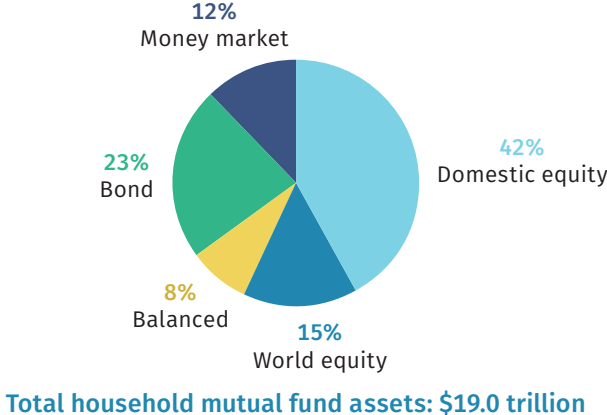
Note: Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey; see *ICI Research Perspective*, “Characteristics of Mutual Fund Investors, 2019”

Analyzing the composition of household mutual fund assets also demonstrates that households are focused on equity investing. At year-end 2019, households owned 89 percent of industrywide mutual fund assets, or \$19.0 trillion in mutual fund assets (Figure 5).⁶ The majority of households' mutual fund assets were

invested in equity funds at year-end 2019. Specifically, 42 percent of households' mutual fund assets were in domestic equity funds and 15 percent were in world equity funds. Another 8 percent of households' mutual fund assets were in balanced funds, which provide further exposure to equity markets.⁷

FIGURE 5
Equity Funds Represent the Majority of Households' Mutual Fund Assets
Percentage of total household mutual fund assets, year-end 2019



Source: Investment Company Institute

Mutual Fund Investors Also Review Fund Performance, Fees, and Expenses

When asked about the information they consider when choosing a mutual fund, 93 percent of mutual fund-owning households said that they reviewed the historical performance of a fund, with 51 percent indicating a fund’s historical performance was very important when making their fund purchase decision (Figure 6). Eighty-nine percent of mutual fund-owning households indicated that they considered a fund’s performance compared with an index, with 37 percent saying this benchmarking was very important when making their purchase decision. Seventy-six percent of mutual fund-owning households considered a fund’s rating from a rating service, with 19 percent considering such a rating to be very important when making their purchase decision. It is possible that fewer households report reviewing these ratings in

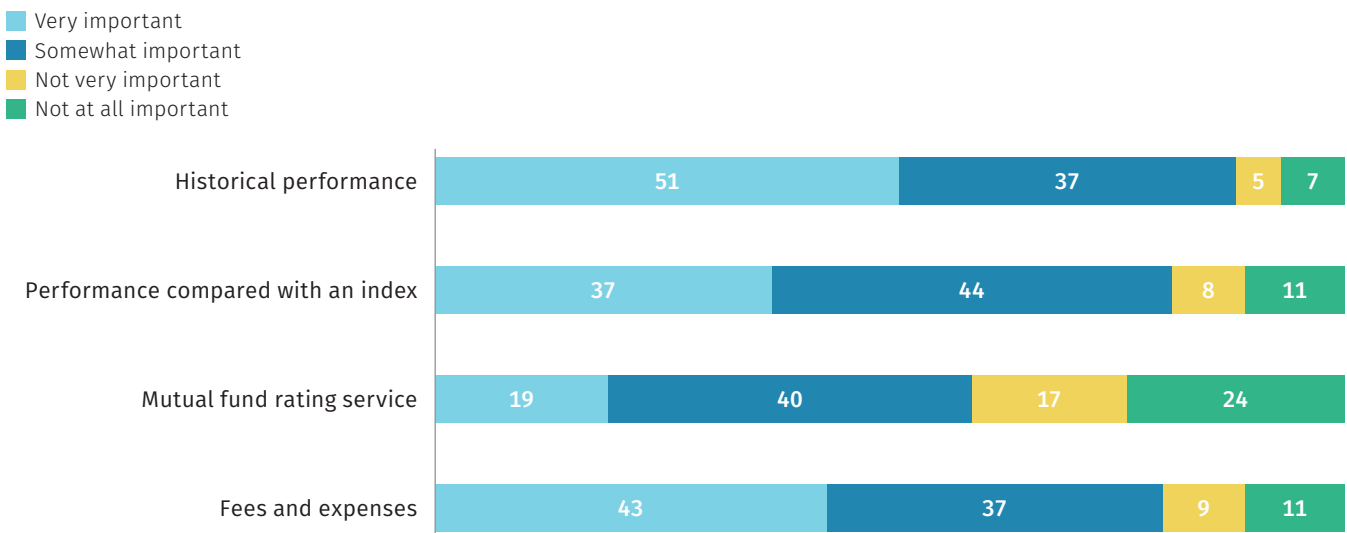
part because they are considering funds that have been prescreened by financial advisers. Therefore, it may not be a distinguishing criterion when ultimately selecting a fund.

Fund fees and expenses also were a very important consideration in fund selection. In 2019, about nine in 10 mutual fund-owning households indicated they reviewed the fund’s fees and expenses (Figure 6). Indeed, more than four in 10 said the fund’s fees and expenses were very important when making their purchase decision. Households that place less emphasis on fees and expenses may be choosing among a set of funds already prescreened for them by financial advisers or defined contribution retirement plan sponsors,⁸ which considered fees and expenses when building the fund lineup.⁹

FIGURE 6

Nine in 10 Mutual Fund-Owning Households Review Fund Performance, Fees, and Expenses

Percentage of mutual fund-owning households, 2019



Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

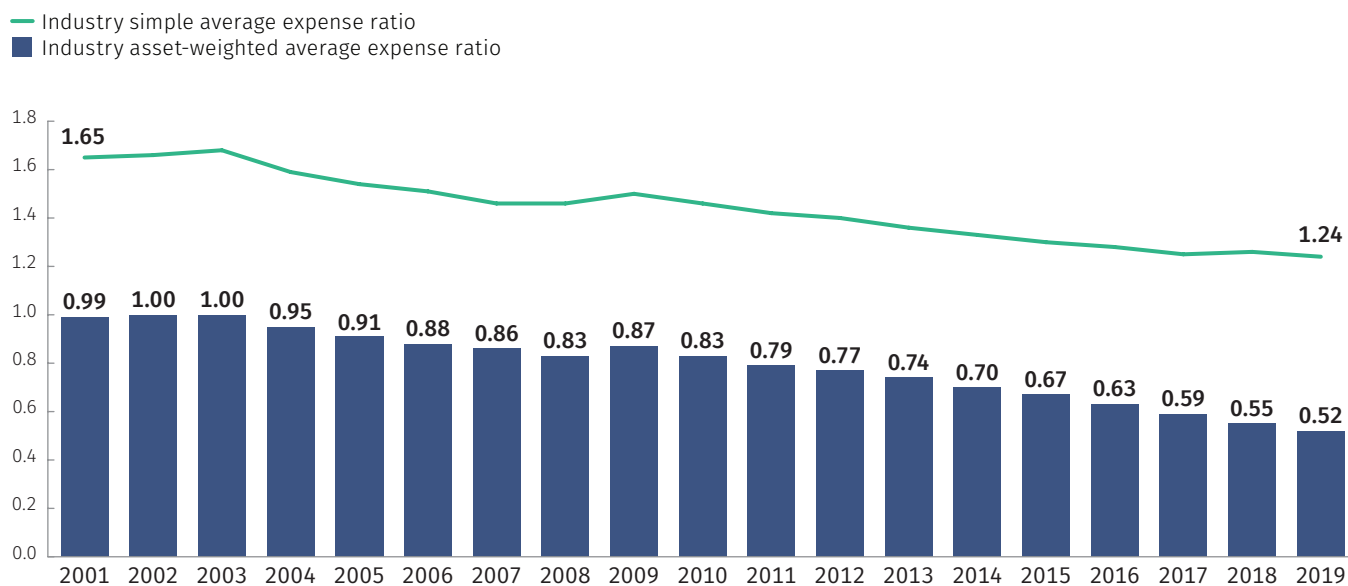
Likely reflecting their self-reported emphasis on reviewing mutual fund fees, mutual fund investors tend to concentrate their assets in lower-cost funds.¹⁰ For example, fund investors incurred an asset-weighted

average expense ratio of 0.52 percent for equity mutual funds, which was less than half the industrywide simple average of 1.24 percent for all equity mutual funds offered in the United States in 2019 (Figure 7). Mutual fund investors also have concentrated their assets in lower-cost balanced, bond, and money market funds.¹¹

FIGURE 7

Mutual Fund Investors Tend to Pay Lower-Than-Average Expense Ratios

Equity mutual fund expense ratios, percent



Note: *Equity mutual funds* includes both active and index investment styles; a range of equity fund types (e.g., growth, sector, alternative strategies, value, blend, international, and global); and a variety of arrangements for shareholder services, recordkeeping, or distribution charges (known as 12b-1 fees). ICI uses asset-weighted average expense ratios to measure the expense ratios that mutual fund investors actually incur for investing in mutual funds. The simple average expense ratio, which measures the average expense ratio of all funds offered for sale, can overstate what investors actually paid because it fails to reflect the fact that investors tend to concentrate their holdings in lower-cost funds. The total expense ratio includes fund operating expenses and any 12b-1 fees. Data exclude mutual funds available as investment choices in variable annuities. This material is intended to provide general information on fees incurred by investors through funds and insight into average fees across the marketplace. It is not intended for benchmarking fees and expenses incurred by a particular investor or charged by a particular fund or other investment product.

Sources: Investment Company Institute, Lipper, and Morningstar; see *ICI Research Perspective*, “Trends in the Expenses and Fees of Funds, 2019”

Additional Reading

» Mutual Fund Shareholders’ Use of Information

www.ici.org/research/investors/information

» Mutual Fund Ownership

www.ici.org/research/investors/ownership

» 2020 Investment Company Fact Book, forthcoming

www.icifactbook.org

Notes

- ¹ See Holden, Schrass, and Bogdan 2019a.
- ² The question was also included in the 2017 and 2018 surveys. For those results, see Holden, Bogdan, and Schrass 2018 and Holden, Bogdan, and Schrass 2019. For other more in-depth results on mutual fund shareholders' use of information, see West and Leonard-Chambers 2006a and 2006b; Sabelhaus 2008; and Holden, Seligman, and Schrass 2018.
- ³ Specifically, the survey uses a dual-frame design, with 45 percent from a landline random digit dial (RDD) frame and 55 percent from a cell phone RDD frame. For additional detail, see Holden, Schrass, and Bogdan 2019a.
- ⁴ These results were first published in Holden, Schrass, and Bogdan 2019a.
- ⁵ For additional discussion, see Holden, Schrass, and Bogdan 2019b, which first published these results.
- ⁶ US households held 95 percent of long-term mutual fund assets at year-end 2019. See Figure 3.3 in Investment Company Institute, forthcoming.
- ⁷ Balanced mutual funds invest in a mix of equities and bonds. Those structured as funds of funds are not counted as balanced funds here, but rather as the assets in the underlying equity and bond funds.
- ⁸ For an analysis of mutual fund fees paid by 401(k) plan participants on the mutual funds held in their 401(k) plans, see Holden, Duvall, and Chism 2019. For an analysis of typical large 401(k) plan investment lineups and variation in mutual fund fees paid by 401(k) plan size, see BrightScope and Investment Company Institute 2019.
- ⁹ There was little variation in mutual fund-owning households' responses by ownership status inside or outside employer-sponsored retirement plans. Based on the 2019 survey data, 44 percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was inside employer-sponsored retirement plans said fees and expenses were "very important," compared with 40 percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was outside employer-sponsored retirement plans and 43 percent across all mutual fund-owning households. Thirty-seven percent of mutual fund-owning households that indicated their primary channel for mutual fund ownership was inside employer-sponsored retirement plans considered fees and expenses as "somewhat important," compared with 36 percent of mutual fund-owning households that said their primary channel for mutual fund ownership was outside employer-sponsored retirement plans and 37 percent of all mutual fund-owning households. About one-tenth of each group indicated fees and expenses were "not very important," and about one-tenth said they were "not at all important."
- ¹⁰ For the complete analysis of mutual fund and exchange-traded fund (ETF) fees and expenses, see Duvall 2020.
- ¹¹ See Duvall 2020 and Holden, Duvall, and Chism 2019.

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Sarah Holden

Sarah Holden, ICI senior director of retirement and investor research, leads the Institute's research efforts on investor demographics and behavior and retirement and tax policy. Holden, who joined ICI in 1999, heads efforts to track trends in household retirement saving activity and ownership of funds as well as other investments inside and outside retirement accounts. She is responsible for analysis of 401(k) plan participant activity using data collected in a collaborative effort with the Employee Benefit Research Institute (EBRI), known as the EBRI/ICI Participant-Directed Retirement Plan Data Collection Project. In addition, she oversees The IRA Investor Database™, which contains data on more than 17 million IRA investors and allows analysis of IRA investors' contribution, rollover, conversion, and withdrawal activity, and asset allocation. Before joining ICI, Holden served as an economist at the Federal Reserve Board of Governors. She has a PhD in economics from the University of Michigan and a BA in mathematics and economics, *cum laude*, from Smith College.



Michael Bogdan

Michael Bogdan is an associate economist in the retirement and investor research division at ICI. Bogdan conducts research concerning the Institute's household surveys. His areas of expertise include households' ownership of mutual funds and other investments, retirement plans, and individual retirement accounts. Bogdan also conducts research with government surveys such as the Survey of Consumer Finances and the Current Population Survey. Before joining ICI in 1997, Bogdan worked for the chemical engineering department at Michigan State University as a technology transfer specialist for the Composite Materials and Structures Center. He has an MA and a BS in economics from Miami University in Oxford, Ohio.



Daniel Schrass

Daniel Schrass is an economist in the retirement and investor research division at ICI. At the Institute, he focuses on investor demographics and behavior as well as trends in household retirement saving activity. His detailed research includes analysis of IRA-owning households and individual IRA investors in The IRA Investor Database™, which includes data on more than 17 million IRA investors. He also conducts research with government surveys such as the Survey of Consumer Finances, the Current Population Survey, and the Survey of Household Economics and Decisionmaking. Before joining ICI in October 2007, he served as an economist at the US Bureau of Labor Statistics. He has an MA in applied economics from the Johns Hopkins University and a BS in economics from the Pennsylvania State University.



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