

Understanding Investor Preferences for Mutual Fund Information

Summary of Research Findings



Understanding Investor Preferences for Mutual Fund Information

Summary of Research Findings

KEY FINDINGS

- » **Shareholders consider a wide range of information before purchasing mutual fund shares.** They most frequently review or ask questions about a fund's fees and expenses and its historical performance.
- » **Shareholders prefer a concise summary of the mutual fund information they want to know before buying fund shares.** They also prefer graphic rather than narrative presentations of fund information.
- » **Shareholders rely on a variety of sources for mutual fund information.** They most often turn to professional financial advisers for information prior to purchasing fund shares. Some shareholders also visit fund company or other websites for information before buying fund shares, while others confer with friends, family, or business associates.
- » **Although shareholders typically obtain mutual fund information from several different sources, a large majority do not consult mutual fund prospectuses before purchasing fund shares.** Shareholders say prospectuses are difficult to understand and too long.
- » **Most fund investors use the Internet regularly, and those who go online use it for a variety of financial purposes, particularly to gather investment information.** The Internet, with its interactive capabilities, is an effective vehicle for communicating mutual fund information to investors.

BACKGROUND

The Investment Company Institute (ICI)¹ regularly conducts research to promote understanding of mutual funds, fund investing, and fund investors. As part of its investor research program, in February 2006 the Institute undertook a comprehensive study to identify the information needs of mutual fund investors and the sources from which they gather that information. The Institute engaged GfK NOP, an independent research firm, to conduct in-home interviews with 737 randomly selected investors who had purchased shares in stock, bond, or hybrid mutual funds outside retirement plans at work in the preceding five years.²

RESEARCH RESULTS

1

Investors usually review a range of information before purchasing fund shares outside retirement plans at work. Typically, items considered include information on a fund's fees and expenses and historical performance.

» **On average, investors consider nine discrete pieces of information about a fund before purchasing shares.** Nearly three-quarters of recent fund investors wanted to know about the fund's fees and expenses prior to purchasing shares in the fund, and more than two-thirds reviewed or asked questions about the fund's historical performance (Figure 1). More than half of recent fund investors also examined the risks of investing in the fund, the fund's price per share, the types of securities in which the fund invests, minimum investment requirements, and a comparison of the fund's performance against an index.

Other ICI research has found that shareholders review a range of information before purchasing fund shares. In a 1996 Institute study, shareholders considered, on average, six different items of information about a fund before making their most recent purchases.³ Similar to the 2006 study, the three most frequently mentioned items in the 1996 study were information about the fund's past performance, risk, and fees and expenses.

» **While many shareholders want to know about a fund's fees and expenses, historical performance, and level of risk, they rarely review or ask questions about the fund's portfolio manager, board of directors, or proxy voting policies before buying fund shares.** One-quarter of recent fund investors reviewed or asked questions about the fund's portfolio manager. Fifteen percent considered information about the fund's board of directors, and the same percentage reviewed the fund's proxy voting policies prior to purchasing fund shares.

FIGURE 1

Shareholders Review a Wide Range of Information Before Purchasing Mutual Fund Shares

Percent of recent fund investors who reviewed or asked questions about each item before most recent fund purchase,¹ 2006

More than two-thirds of recent fund investors considered:	
The fund's fees and expenses ²	74
The historical performance of the fund ²	69
More than half of recent fund investors considered:	
The risks associated with investing in the fund ²	61
The fund's price per share [or net asset value]	58
The types of securities in which the fund invests ²	57
The minimum investment required to invest in the fund	57
The fund's performance compared to the performance of an index ²	55
About half of recent fund investors considered:	
The fund's sales charge, if any ²	52
The tax consequences of investing in the fund ²	47
Information about the fund's dividends and distributions	47
Less than half of recent fund investors considered:	
Information about the company offering the fund	45
The fund's investment objectives ²	40
How to buy and sell fund shares	39
The services offered by the fund	37
The fund's rating from a service like Morningstar or Lipper	35
The fund's portfolio turnover rate	34
Information about the fund's portfolio manager	25
Information about the fund's board of directors	15
The fund's proxy voting policies	15
¹ Multiple responses are included.	
² These items must be included in the front of the prospectus in the Risk/Return Summary.	

NOTE: The confidence interval for these estimates is ± 3.6 percentage points at the 95 percent confidence level.

SOURCE: Investment Company Institute

2

Shareholders prefer concise summaries and graphic presentations of the mutual fund information they want to know before buying a fund.

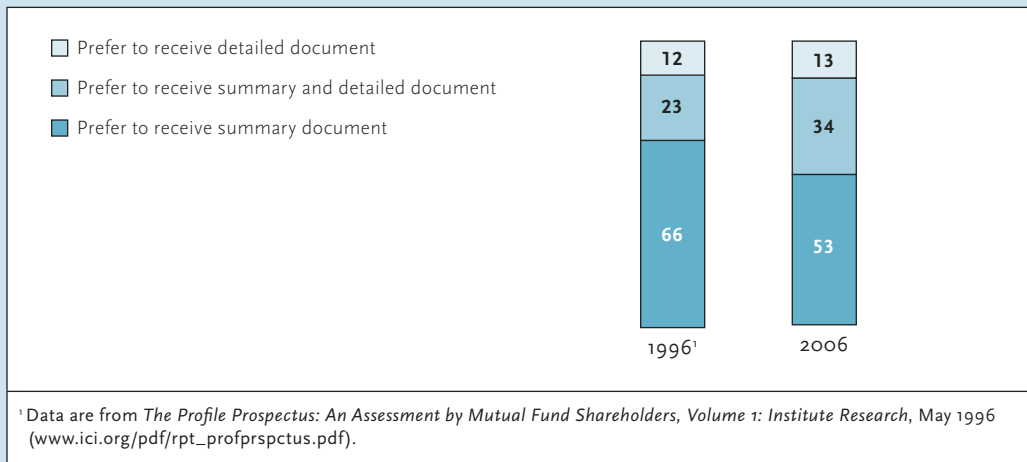
» **Shareholders want mutual fund information in a summary format.** Nearly nine in 10 recent fund investors prefer a summary of the information they want to know before buying shares in a fund, either by itself or along with a detailed document (Figure 2). Just 13 percent prefer to get only a detailed document.

ICI's 1996 study had similar findings.⁴ In this earlier research, after viewing a prototype of a concise fund document, called the “profile” prospectus, nearly 90 percent of recent fund investors preferred to receive the profile prospectus, either by itself or along with a full prospectus. Most of the recent fund investors in the 1996 study indicated that the concise fund document provided them with the right amount of information, and that it would be more helpful for making investment decisions than the full prospectus.

FIGURE 2

Shareholders Prefer Mutual Fund Information in Summaries

Percent of recent fund investors, 1996 and 2006



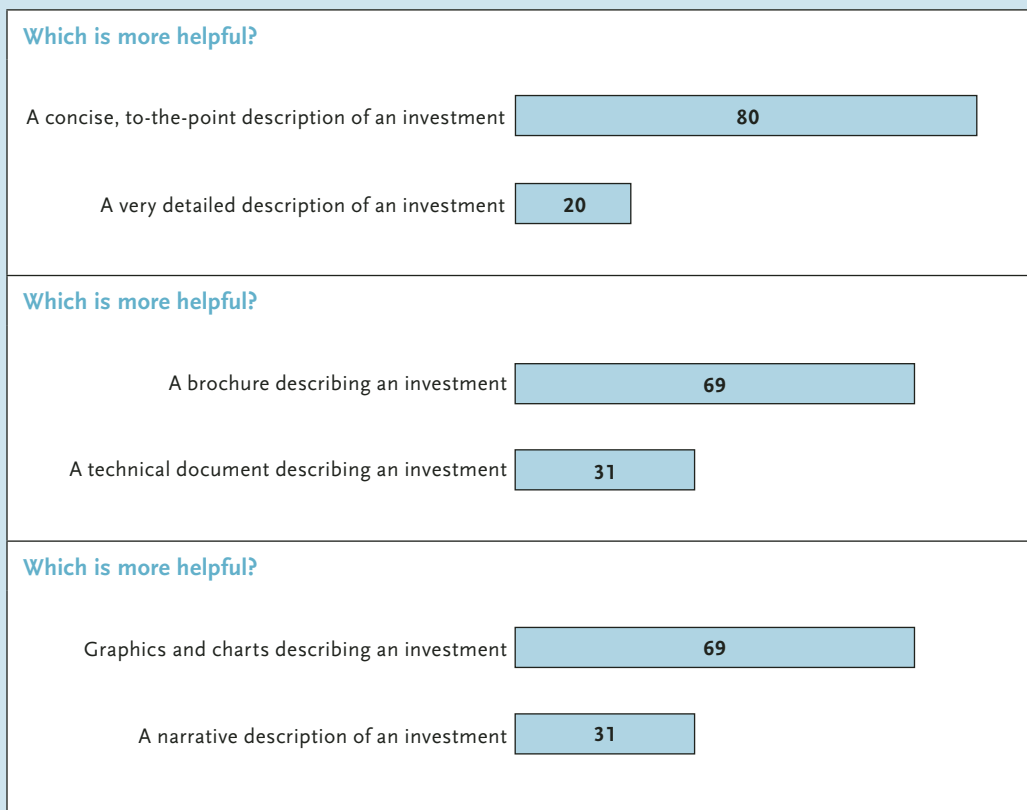
SOURCE: Investment Company Institute

- » **Shareholders prefer concise investment descriptions.** Eight out of 10 recent fund investors find concise descriptions of investments more helpful than very detailed descriptions (Figure 3). Similarly, a large majority indicate that brochures describing investments are more helpful than technical documents describing investments.
- » **Shareholders prefer graphics and charts.** Over two-thirds of recent fund investors say financial documents that use graphics and charts to describe investments are more helpful than financial documents that have narrative descriptions of investments.

FIGURE 3

Shareholders Prefer Concise Summaries With Graphics

Percent of recent fund investors, 2006



SOURCE: Investment Company Institute

3

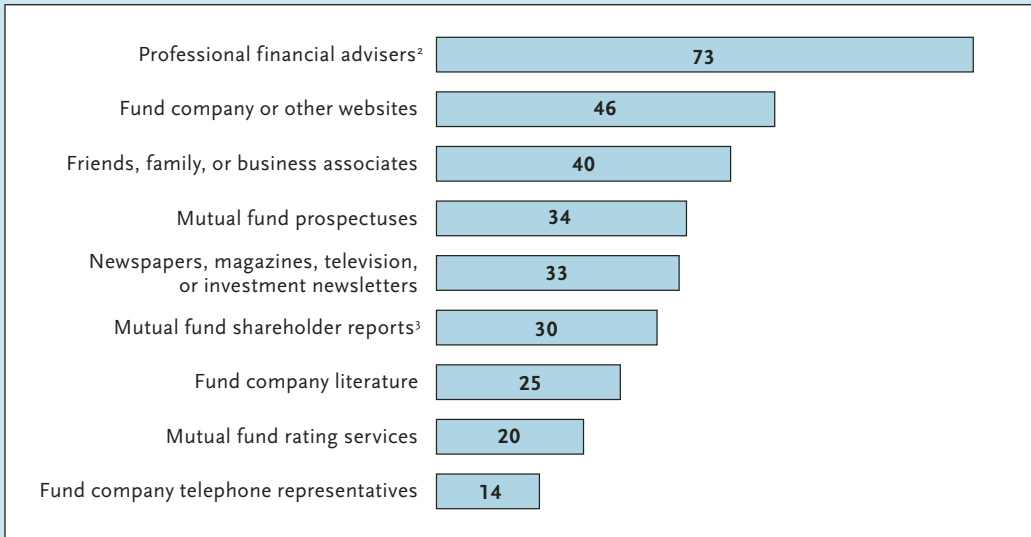
Shareholders typically consult three sources for mutual fund information before purchasing fund shares, and one of those sources is usually a professional financial adviser.

» **Shareholders rely heavily on professional financial advisers when making mutual fund investment decisions.** ICI research indicates that most shareholders who own funds outside retirement plans at work hold fund shares purchased through professional financial advisers — such as full-service brokers, independent financial planners, bank representatives, and insurance agents — who provide investment advice and are compensated by the investor for their services.⁵ Consistent with shareholders’ fund ownership patterns, nearly three-quarters of recent fund investors turned to professional financial advisers for information before purchasing their most recent fund shares (Figure 4).

FIGURE 4

Shareholders Often Turn to Professional Financial Advisers for Mutual Fund Information

Percent of recent fund investors who consulted each source before most recent purchase,¹ 2006



¹ Multiple responses are included.

² Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

³ Mutual fund shareholder reports are also referred to as mutual fund annual and semiannual reports.

NOTE: The confidence interval for these estimates is ± 3.6 percentage points at the 95 percent confidence level.

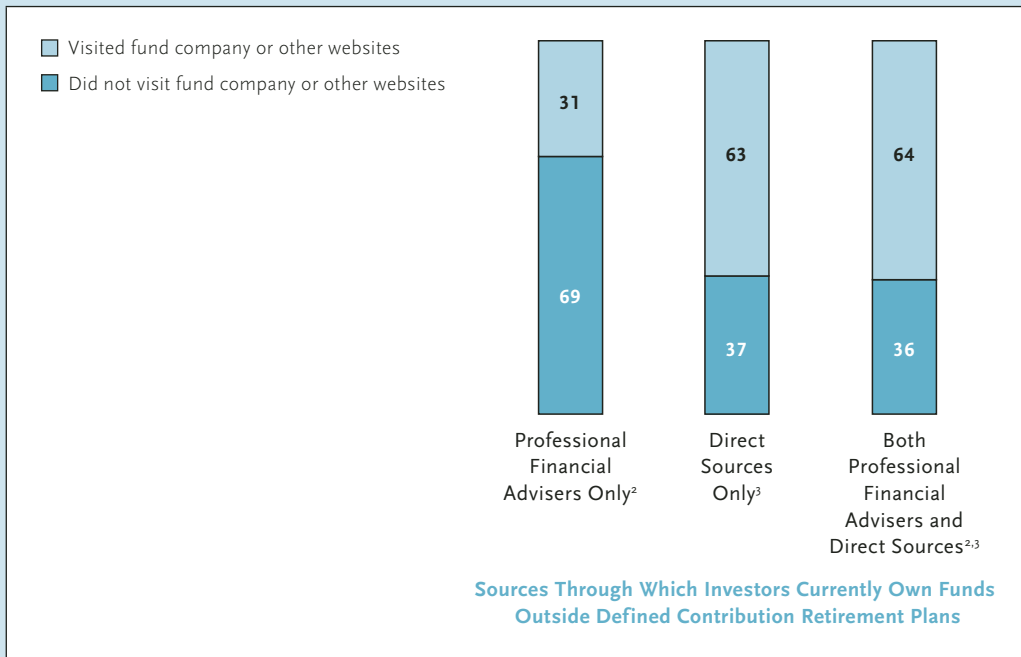
SOURCE: Investment Company Institute

» **A substantial portion of shareholders—particularly those owning direct-marketed funds—visit mutual fund and other websites for information before buying fund shares.** Nearly half of all recent fund investors visited mutual fund or other websites for information before purchasing fund shares. Among recent fund investors owning direct-marketed funds—that is, investors who own funds purchased directly from fund companies or discount brokers—more than 60 percent visited websites for information before buying fund shares (Figure 5).

FIGURE 5

Shareholders of Direct-Marketed Funds¹ Are Most Likely to Visit Websites for Information

Percent of recent fund investors, by whether they visited fund company or other websites for information before most recent purchase, 2006



¹ Direct-marketed funds are mutual funds whose shares may be purchased directly from a fund company or through a discount broker instead of through financial advisers.

² Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

³ Direct sources include fund companies and discount brokers.

SOURCE: Investment Company Institute

4

Shareholders typically do not consult mutual fund prospectuses or shareholder reports for mutual fund information.

» **When purchasing mutual fund shares, a relatively small percentage of investors refer to mutual fund prospectuses or shareholder reports for information.** One-third of recent fund investors say they obtained information from mutual fund prospectuses before purchasing their most recent fund shares, and 30 percent consulted shareholder reports (Figure 6).

Shareholders' nominal use of mutual fund prospectuses and shareholder reports is evident in other ICI research. A 1997 ICI study found that less than half of shareholders consulted mutual fund prospectuses or shareholder reports before purchasing their most recent fund shares.⁶

» **Many shareholders find mutual fund prospectuses and shareholder reports difficult to understand, and indicate that these documents provide too much information.** For example, 60 percent of recent fund investors describe mutual fund prospectuses as very or somewhat difficult to understand, and two-thirds say prospectuses contain too much information.

» **Shareholders' overall readership of mutual fund prospectuses and shareholder reports is very low.** Consistent with previous ICI research,⁷ about half of recent fund investors say that they generally either do not read or read very little of the mutual fund prospectuses they receive. The majority of recent fund investors who do not read prospectuses say they find mutual fund investing complicated and feel they know less about mutual funds than most people.

FIGURE 6

Use of Mutual Fund Prospectuses, Shareholder Reports Is Low

Percent of recent fund investors, 2006

	Mutual Fund Prospectus	Mutual Fund Shareholder Reports ¹
Use of Document Before Purchasing Most Recent Fund Shares		
Consulted document	34	30
Did not consult document	66	70
Ease of Understanding²		
Very or somewhat easy to understand	40	54
Very or somewhat difficult to understand	60	46
Amount of Information²		
Right amount of information	31	43
Too little information	3	4
Too much information	66	54
Overall Level of Readership²		
Read all	8	10
Read most	17	17
Read some	23	24
Read very little or do not read	52	49
Read very little	22	26
Do not read but save it	12	11
Do not read and throw it away	18	12
¹ Mutual fund shareholder reports are also referred to as mutual fund annual and semiannual reports. ² Data exclude recent fund investors who do not recall seeing each document.		

NOTE: Totals may not add to 100 percent because of rounding.

SOURCE: Investment Company Institute

5

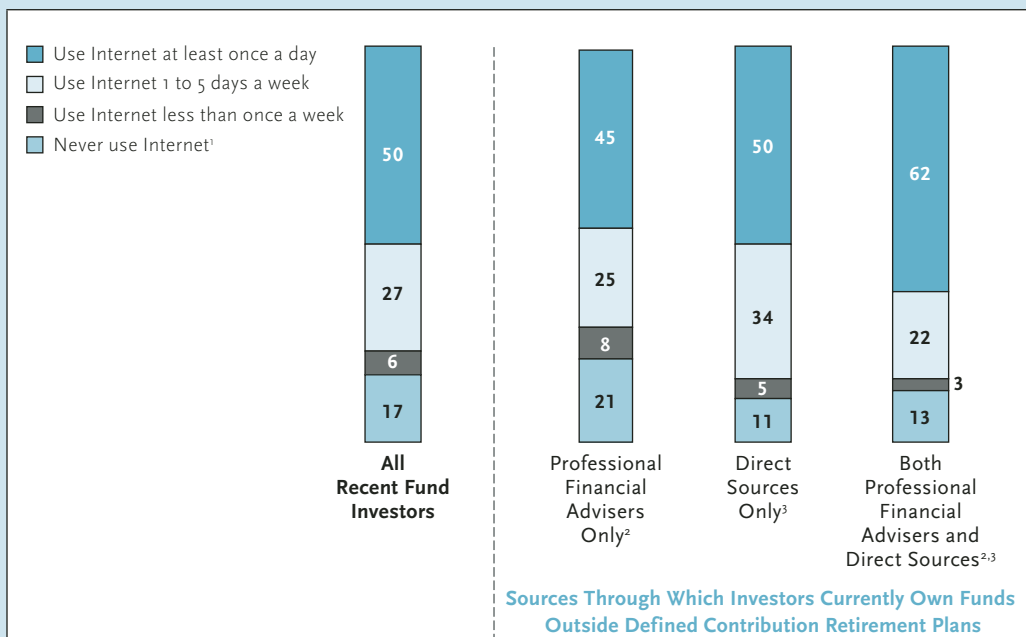
The Internet holds great potential for more effectively communicating with mutual fund investors.

» **The vast majority of recent fund investors use the Internet, regardless of the sources through which they own funds.** Consistent with other ICI research findings,⁸ most recent fund investors use the Internet: one-half go online at least once a day and more than three-quarters go online at least once a week (Figure 7). Nearly half indicate their use of the Internet for financial purposes has increased over the past 12 months.

FIGURE 7

Regardless of How They Purchase Funds, Shareholders Typically Make Wide Use of the Internet

Percent of recent fund investors, 2006



¹ Data include recent fund investors who do not have Internet access or have Internet access but do not go online.

² Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

³ Direct sources include fund companies and discount brokers.

NOTE: Totals may not add to 100 percent because of rounding.

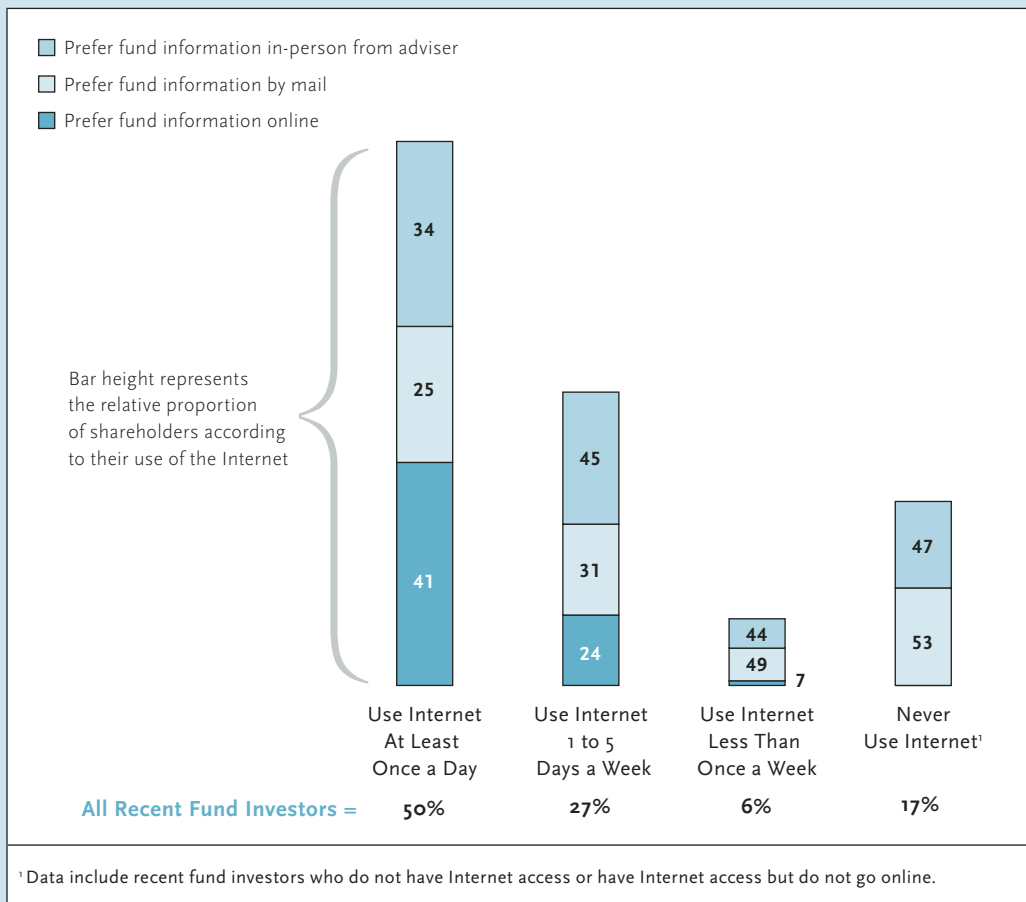
SOURCE: Investment Company Institute

» **Recent fund investors' frequency of Internet use influences their preferences for obtaining mutual fund information.** Recent fund investors who use the Internet every day are more likely to prefer online access to the information they want to know before purchasing fund shares (Figure 8). Recent fund investors who never use the Internet prefer to obtain mutual fund information either by mail or in-person from their advisers.

FIGURE 8

Shareholders' Frequency of Internet Use Influences Their Preferences for Obtaining Mutual Fund Information

Percent of recent fund investors, 2006



SOURCE: Investment Company Institute

» **Nearly all recent fund investors who use the Internet go online to gather financial information.**

More than eight out of 10 recent fund investors who use the Internet go online to gather financial information, including six in 10 who go online to monitor their fund investments (Figure 9). Most recent fund investors who go online also indicate that the Internet plays a major role in how they manage their finances.⁹

» **Recent fund investors recognize that the Internet is an important communications tool for investment information.** Regardless of their age or current use of the Internet, the majority of all recent fund investors believe obtaining investment information online is the wave of the future. In fact, nearly 60 percent of recent fund investors who never use the Internet agree with this statement.

FIGURE 9

Shareholders Use the Internet to Gather Financial Information

Percent of recent fund investors who use the Internet, 2006

Uses of the Internet During Past 12 Months¹	
Access email	84
Gather financial information (total)	85
Check bank or investment account balance	72
Monitor fund investments	60
Obtain investment information	58
Visit fund company websites	37
Contact a professional financial adviser	19
Buy or sell investments	26
Strongly or Somewhat Agree With Statements About the Internet¹	
Getting investment information online is the wave of the future	88
Online investment information is up-to-date	84
Information on fund company websites is reliable	83
The Internet saves me time finding investment information	71
The Internet plays a major role in how I manage my finances	67
¹ Multiple responses are included.	

SOURCE: Investment Company Institute

CONCLUSION

The Institute has conducted considerable research over time to improve understanding of mutual fund investors, particularly their fund information preferences, use of professional financial advisers, and their access to the Internet.

Several consistent themes emerge from this body of research:

- » **First, investors seek out a wide range of information before making investments in mutual funds.** Repeatedly, ICI studies have indicated that investors want to know the key features of a fund before purchasing shares, particularly the fund's fees and expenses, its past performance, and the risks associated with investing in the fund.
- » **Second, professional financial advisers serve as an important conduit for mutual fund information at the time of purchase.** ICI research consistently identifies professional financial advisers as the source investors most frequently consult for mutual fund information. Most shareholders own fund shares purchased from advisers, and they turn to their advisers when making fund investment decisions.
- » **Third, mutual fund prospectuses and shareholder reports are not meeting the needs of many investors.** Several ICI research studies point to fund investors' nominal use of mutual fund prospectuses and shareholder reports, and that investors find these documents difficult to understand.
- » **Fourth, fund investors embrace technology.** ICI research indicates that the portion of mutual fund shareholders with access to the Internet has been increasing. Today, nearly all shareholders regularly go online, and many already use the Internet to gather investment information, manage their finances, or monitor their mutual fund portfolios.

NOTES

¹ The Investment Company Institute (ICI) is the national association of U.S. investment companies. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI members include 8,656 open-end investment companies (mutual funds), 657 closed-end investment companies, 167 exchange-traded funds, and five sponsors of unit investment trusts. Mutual fund members of ICI have total assets of approximately \$9.251 trillion (representing 98 percent of all assets of U.S. mutual funds); these funds serve approximately 89.5 million shareholders in more than 52.6 million households.

² To qualify for the survey, investors had to have purchased outside retirement plans at work shares in stock, bond, or hybrid funds that they did not own prior to 2001. This definition excludes from the study investors who only added money to long-term funds purchased outside retirement plans at work prior to 2001, as well as investors who solely own funds in retirement plans at work. The survey's margin of error for the total sample is ± 3.6 percentage points at the 95 percent confidence level.

³ See *The Profile Prospectus: An Assessment by Mutual Fund Shareholders, Volume 1: Institute Research*, May 1996, p. 22 (www.ici.org/pdf/rpt_profprspctus.pdf); referenced as ICI May 1996 in the remainder of this publication. See also *Understanding Shareholders' Use of Information and Advisers*, Spring 1997, p. 21 (www.ici.org/pdf/rpt_undstnd_share.pdf); referenced as ICI Spring 1997 in the remainder of this publication.

⁴ See ICI May 1996, p.5.

⁵ See "Ownership of Mutual Funds Through Professional Financial Advisers," *Fundamentals*, Vol. 14, No.3, April 2005 (www.ici.org/pdf/fm-v14n3.pdf).

⁶ See ICI Spring 1997, p. 22. and ICI May 1996, p. 23.

⁷ See ICI May 1996, p. 26.

⁸ A June 2005 ICI survey measured Internet access and use among all mutual fund shareholders, including those who own funds only in retirement plans at work. The 2005 survey found that 88 percent of all mutual fund shareholders have access to the Internet, including 84 percent who went online in the 12 months preceding the survey and 4 percent who did not go online during this period. The 2005 survey also found that two-thirds of all shareholders with Internet access go online at least once a day. See "Mutual Fund Shareholders' Use of the Internet, 2005," *Fundamentals*, Vol. 15, No. 2, February 2006 (www.ici.org/pdf/fm-v15n2.pdf); referenced as ICI February 2006 in the remainder of this publication.

⁹ In ICI's June 2005 survey, 59 percent of all mutual fund shareholders who went online in the 12 months preceding the survey used the Internet to obtain investment information. See ICI February 2006.

ADDITIONAL ICI RESEARCH ON MUTUAL FUND INVESTOR INFORMATION PREFERENCES AND USE OF THE INTERNET

“Mutual Fund Shareholders’ Use of the Internet, 2005,” *Fundamentals*, Vol. 15, No. 2, February 2006 (www.ici.org/pdf/fm-v15n2.pdf)

“Ownership of Mutual Funds Through Professional Financial Advisers,” *Fundamentals*, Vol. 14, No.3, April 2005 (www.ici.org/pdf/fm-v14n3.pdf)

Understanding Shareholders’ Use of Information and Advisers, Spring 1997 (www.ici.org/pdf/rpt_undstnd_share.pdf)

The Profile Prospectus: An Assessment by Mutual Fund Shareholders, Volume 1: Institute Research, May 1996 (www.ici.org/pdf/rpt_profprspctus.pdf)

The Profile Prospectus: An Assessment by Mutual Fund Shareholders, Summary of Research Findings, May 1996 (www.ici.org/pdf/rpt_profprspctus3.pdf)

Shareholder Assessment of Risk Disclosure Methods, Spring 1996 (www.ici.org/pdf/rpt_riskdiscl.pdf)



1401 H Street, NW, Suite 1200
Washington, DC 20005-2148
202/326-5800

www.ici.org