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Jump In for Mutual Fun

BY SARAH HOLDEN

One of my local swim clubs sent a postcard urging me to “sign up for mutual fun,” with a picture of people wading in a swimming pool. Perhaps it’s an occupational hazard that I read that as a reference to mutual funds—or maybe they were acknowledging that our funds are, after all, pooled investments?

Managing your finances is serious business, so I suspect few people associate “fund” with “fun.” But that’s all right, because investors associate funds with something more important—achieving their financial goals.

Jump In for Mutual Fun!

Mutual funds pool investors’ money to offer professional money management and diversified investment opportunities



Mutual Funds Pool Investors’ Money to Offer Access to Markets

Mutual funds offer diversified, cost-effective investment management, which enables investors to save **for important financial goals**. Saving for a home, education, or retirement certainly sets you up for fun!

Additionally, survey data find that **nearly nine in 10 mutual fund–owning households** have confidence in mutual funds’ ability to help them reach their investment goals. When **selecting their mutual funds**, vast majorities of investors consider the investment objective or goal of the fund, as well as the risks associated with those investments. Most investors also review the fund’s historical performance and its fees and expenses.

So, should you dive in?

Taking the Plunge?

What type of investor are you?

Prefer help or advice with investments

Somewhere in between

Comfortable choosing investments on own

Are You Wearing a Life Jacket, Floaties, or Are You a Lifeguard?

When taking the plunge into investing, it’s important to determine how comfortable you are with selecting investments. There are **many avenues to investing in mutual funds**, whether you need some help or advice (life jacket or floaties) or feel confident choosing investments on your own (lifeguard). In 2020, 83 percent of mutual fund–owning households held mutual funds through their retirement plans at work (**Figure 1**), where the plan sponsor provided educational materials, narrowed the **list of choices**, and included a diversified, often age-appropriate, investment for those who let the plan sponsor choose for them. Sixty-three percent of mutual fund–owning households held funds outside such plans, with 47 percent holding funds through investment professionals, such as full-service brokers or financial planners, and 31 percent holding funds directly at mutual fund companies or through discount or online brokers.

Are You Hanging onto the Edge of the Pool, Wading, or Swimming Laps?

What is your risk tolerance?



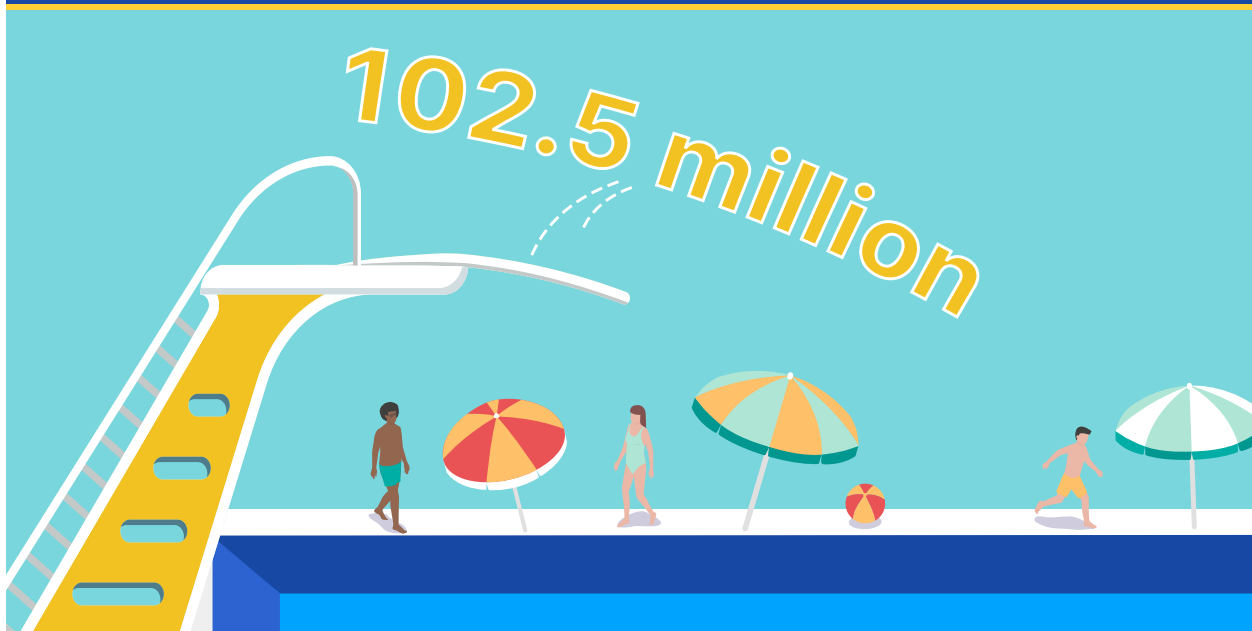
Are You Hanging onto the Edge of the Pool, Wading, or Swimming Laps?

You also need to decide how comfortable you are with **investment risk**—to gain potentially higher returns, it is necessary to take on investment risk. This is known as the risk-return trade-off. While money market funds offer liquidity and low risk, they have lower returns than bond funds or stock funds. Mutual fund-owning households indicate they are willing to take on investment risk, and in 2020, 90 percent of them owned stock mutual funds. **Mutual funds** offer cost-effective, professionally managed, diversified investing, no matter the market you choose to access. Mutual funds also offer different investment styles—active or index investing—and may invest according to other criteria important to investors—such as environment, social, and governance (ESG) investing.

At year-end 2020, mutual fund assets in the United States were \$23.9 trillion, and investors had more than 7,600 funds as investment options. For those seeking cash management, there are money market funds, with \$4.3 trillion in assets (**Figure 2**). For those focused on fixed-income investing, bond funds held \$5.2 trillion in assets. Hybrid funds, which invest in a mix of stocks and bonds, had \$1.6 trillion in assets. For investors seeking to hold stocks, there were more than 4,400 equity mutual funds on the market at year-end 2020, holding \$12.7 trillion in assets. The most common type of stock mutual fund was actively managed domestic stock mutual funds, and there also are index stock mutual funds. World stock funds also are popular. Understanding the diverse array of companies that you hold a piece of is easy with mutual funds, as funds regularly update their disclosures to investors.

More Than 100 Million US Investors Have Jumped in the Mutual “Fun” Pool

Jump in!



More Than 100 Million US Investors Have Jumped in the Pool. Should You?

In 2020, 45.7 percent of US households owned mutual funds, representing an estimated **58.7 million households** and 102.5 million investors. Nearly half (47 percent) of Gen Z and Millennial households owned mutual funds, often through their retirement plans at work. More than half (54 percent) of Gen X households owned mutual funds, while more than four in 10 (44 percent) of Baby Boomer households did. These mutual fund–owning households use funds to help save for their important **financial goals**—such as retirement (a financial goal for 94 percent of mutual fund–owning households), an emergency (47 percent), or education (26 percent).

Mutual fund investors appreciate the features of mutual funds. Responding to a survey in the fall of 2020, nearly all (95 percent) mutual fund investors indicated the diversification of mutual fund investments was important to them (**Figure 3**). Ninety-five percent of mutual fund investors indicated that the cost effectiveness of mutual funds was important, and 88 percent looked for professional management. Mutual funds also offer investors the ability to sell their shares on any given day, a feature that 75 percent of mutual fund investors found important. Some might even conclude that all of these features do add mutual fun to fund investing.

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