

Fundamentals

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The Investment Company Institute (ICI) is the national association of US 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.

Ownership of Mutual Funds Through Professional Financial Advisers

Most mutual fund shareholders own funds through financial intermediaries. In 2003, individuals held only 15 percent of their mutual fund assets directly with fund companies (Figure 1). Individual investors held their remaining fund assets through financial intermediaries such as defined contribution retirement plans, brokerage firms, banks, insurance companies, or fund supermarkets.

Individuals' reliance on financial intermediaries for fund purchases and other services is not a recent phenomenon. Mutual fund shareholders traditionally have relied heavily on advisers affiliated with broker-dealers and other financial intermediaries offering investment advice. In 1970, for example, 90 percent of household mutual fund assets were invested through professional financial advisers. Defined contribution retirement plans, mutual fund supermarkets, and discount brokerage firms have become important intermediaries in the past 20 years, but mutual fund investors continue to hold a large portion of their fund assets through financial advisers.

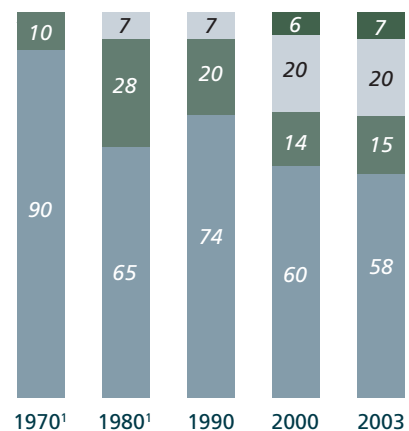
This issue of *Fundamentals* examines mutual fund shareholders' use of financial advisers. The analysis draws upon data that the Investment Company Institute gathered from a 2004 survey

of households owning mutual funds.¹ The findings indicate that investors across the demographic spectrum own funds through financial advisers, who provide investment advice and other services on which mutual fund investors rely.

figure 1

Households' Mutual Fund Assets by Purchase Source, Selected Years (percent of mutual fund assets)

- Discount broker/mutual fund supermarket
- Defined contribution retirement plan
- Directly from mutual fund company
- Professional financial adviser



¹Based on holdings of stock, bond, and hybrid mutual funds.

note: Components may not add to 100 percent because of rounding.

sources: Investment Company Institute and Cerulli Associates, Inc.

¹ The survey included interviews with a total of 3,613 randomly selected households owning mutual funds. The survey respondents are representative of U.S. mutual fund shareholders. All interviews were conducted with the sole decisionmaker or co-decisionmaker most knowledgeable about household savings and investments. See Investment Company Institute, *Profile of Mutual Fund Shareholders*, Fall 2004, www.ici.org/pdf/rpt_profile04.pdf.

Incidence of Mutual Fund Ownership Through Advisers

About two-thirds of all mutual fund shareholders own funds outside defined contribution retirement plans (Figure 2). Among investors owning fund shares outside these plans, more than 80 percent own fund shares through professional financial advisers. Nearly half own funds solely through advisers, while another third own funds purchased from advisers as well as directly from fund companies, fund supermarkets, or discount brokers.

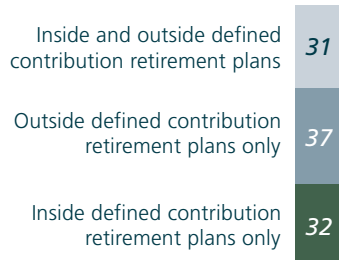
Financial advisers generally help investors identify financial goals and recommend funds to meet those goals. They also provide a range of services to investors after the initial sale of fund shares, including conducting transactions, maintaining financial records, and coordinating the distribution of prospectuses, financial reports, and proxy statements.

Many shareholders who invest in funds through professional financial advisers rely on the services of more than one type of adviser. Forty-four percent of all fund investors owning funds through advisers use at least two types of advisers (Figure 3). Among those owning funds through two types of advisers, most hold funds purchased from full-service brokers and independent financial planners. Shareholders who own funds through three types of advisers commonly use full-service brokers and independent financial planners in addition to bank representatives, insurance agents, or accountants for fund purchases.

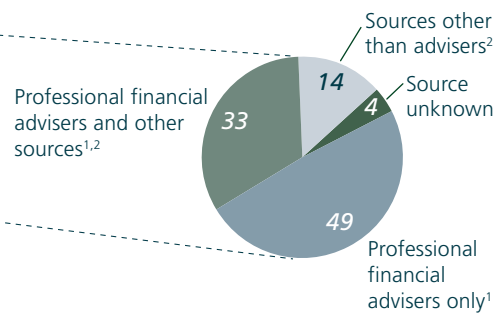
figure 2

Where Shareholders Own Mutual Funds, 2004

Sources for All Mutual Fund Shareholders
(percent of all shareholders)



Sources for Mutual Fund Shareholders Owning Outside Retirement Plans
(percent of shareholders owning funds outside defined contribution retirement plans)



¹ Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

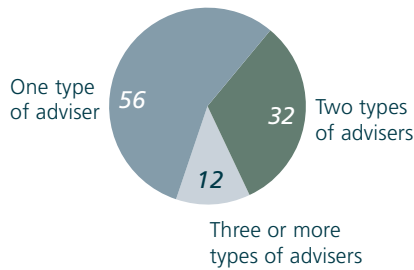
² Other sources include fund companies directly, fund supermarkets, and discount brokers.

source: 2004 Profile of Mutual Fund Shareholders Survey

figure 3

Number of Different Types of Professional Financial Advisers Used to Purchase Mutual Funds, 2004¹

(percent of shareholders owning funds through advisers outside defined contribution retirement plans)



¹ Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

source: 2004 Profile of Mutual Fund Shareholders Survey

Characteristics of Shareholders Owning Funds Through Advisers

Mutual fund ownership through advisers is predominant across all shareholder classifications, including investor age, education, year of initial fund purchase, and household mutual fund assets. In each of these classifications, three-quarters or more of mutual fund investors have used advisers to purchase funds outside retirement plans (Figure 4). The most significant variation occurs in the education demographic, where 90 percent of fund shareholders with high school educations or less purchased fund shares from advisers, compared with 77 percent of fund owners with graduate degrees.

Despite the widespread use of advisers by fund investors outside retirement plans at work, some shareholder groups are far more likely than others to own funds exclusively through advisers. For example, shareholders in the 55-to-64 age group are the most likely to own funds solely through advisers—perhaps because this group feels a need for professional financial advice as they enter their final years of retirement planning. Adviser-only ownership is also significantly higher among shareholders who do not have four-year college degrees, those who have modest amounts invested in mutual funds, or who are more recent fund investors.

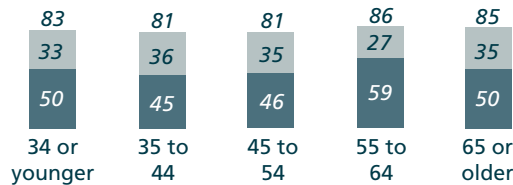
figure 4

Use of Professional Financial Advisers to Purchase Mutual Funds by Shareholder Characteristics, 2004

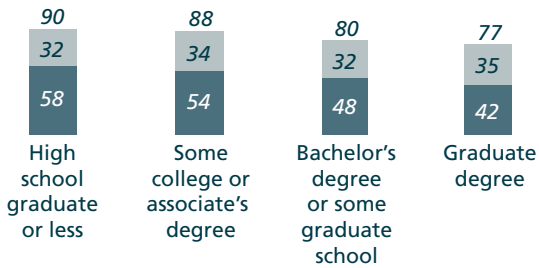
(percent of shareholders owning funds outside defined contribution retirement plans)

■ Own funds through professional financial advisers only¹
 ■ Own funds through professional financial advisers and other sources^{1,2}

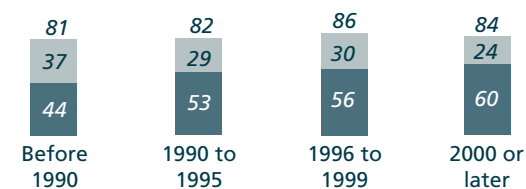
Age of Shareholder



Education of Shareholder



Year of Initial Mutual Fund Purchase



Household Mutual Fund Assets



¹ Professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

² Other sources include fund companies directly, fund supermarkets, and discount brokers.

note: Components may not add to totals because of rounding.

source: 2004 Profile of Mutual Fund Shareholders Survey

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