

# Fundamentals

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## Shareholder Sentiment About the Mutual Fund Industry, 2005

### KEY FINDINGS

This issue of *Fundamentals* summarizes the results of a recent ICI survey of shareholders' attitudes about mutual funds. Significant findings include:

- **Mutual funds' favorability rating rose for the second year in a row in 2005:** After reaching a low of 71 percent in 2003, shareholders' favorability rating of mutual funds rose to 72 percent in 2004 and 75 percent in 2005.
- **Favorability is influenced by a variety of factors, with investment performance having the greatest impact on investor opinion:** Nearly three-quarters of all mutual fund shareholders indicate fund performance is a "very" important factor in shaping their views of the industry, and about half cite fund performance as the most important factor.
- **Mutual fund favorability rises and falls with stock market performance:** Shareholders' opinion was lowest in 2003—the year in which the recent stock market decline bottomed out—but improved as the market recovered in 2004 and 2005.
- **Investors are confident that mutual funds will help them meet their financial goals:** Nearly 90 percent of mutual fund shareholders are "very" or "somewhat" confident that investing in mutual funds will assist them in reaching their financial goals.

### Shareholder Opinion of Mutual Funds Improves in 2005

Shareholders' impressions<sup>1</sup> of mutual funds improved for the second year in a row in 2005, following several years of a declining favorability rating that coincided with a stock market downturn between 2000 and early 2003. Three-quarters of shareholders familiar with mutual fund companies

currently have "very" or "somewhat" favorable impressions of fund companies, up from 71 percent in 2003 and 72 percent in 2004 (Figure 1). The 2005 fund favorability rating is similar to fund shareholders' rating of banks, and higher than their ratings of brokerage firms, insurance companies, and credit card companies (Figure 2).

<sup>1</sup> Since 1997, the Institute has conducted the ICI Mutual Fund Shareholder Tracking Survey each spring to identify shareholder views of the mutual fund industry and measure changes in shareholders' opinions of the industry over time, including whether they have favorable or unfavorable impressions of the industry, which factors influence their impressions, and why they have chosen to invest in mutual funds. The annual survey includes a randomly selected sample of 3,000 U.S. households. In the 2005 survey, 1,425 households, or 47.5 percent, owned mutual funds. The standard error for the 2005 sample of households owning mutual funds is +/- 2.6 percentage points at the 95 percent confidence level. Survey data are weighted to match the age distribution of the U.S. population.

Although the overall favorability rating of mutual fund companies is higher than previously, the share of fund investors with “very” favorable impressions of fund companies has continued to decline. The percentage of investors with a “very” favorable view of fund companies dropped to 15 percent in 2005 from a high of 29 percent in 1999 (Figure 1). During this same period, the share of fund investors with “somewhat” favorable impressions of fund companies increased, reaching 60 percent in 2005. In contrast, shareholders with “very” unfavorable ratings have remained steady at 1 to 2 percent.

## Many Former Fund Owners Have Positive Views of the Mutual Fund Industry

Although current fund investors mostly have favorable impressions of mutual fund companies, sizeable percentages of individuals who no longer own funds or who never owned them also have positive views of fund companies. For instance, more than half of former fund investors who say they are familiar with fund companies have favorable impressions of them (Figure 3). Among people who are familiar with fund companies but have never owned funds, nearly half have favorable impressions and about two-fifths have “no opinion.”

figure 1

### Most Fund Shareholders Have Favorable Impressions of Fund Companies

Percent of mutual fund shareholders familiar with fund companies, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Very favorable	26	29	29	28	23	19	17	16	15
Somewhat favorable	57	53	54	57	56	57	54	56	60
Somewhat unfavorable	3	3	4	3	4	6	9	11	8
Very unfavorable	1	1	1	1	1	1	2	2	2
No opinion	13	14	12	12	15	16	18	15	15

*note:* Numbers may not add to 100 percent due to rounding.

*source:* Investment Company Institute

figure 2

### Fund Shareholders’ Opinions of Most Financial Institutions Have Improved Since Recent Bear Market

Percent of mutual fund shareholders familiar with each type of financial institution who have a “very” or “somewhat” favorable impression of that financial institution, 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Mutual fund companies	83	82	83	84	79	76	71	72	75
Banks	72	71	72	72	71	74	73	74	76
Brokerage companies	67	68	72	70	68	65	55	60	59
Mortgage companies	62	61	67	63	64	69	70	70	69
Insurance companies	55	56	58	55	56	56	51	53	56
Credit card companies	47	45	44	44	42	40	41	42	37

*source:* Investment Company Institute

## Performance Influences Investor Opinion of Fund Industry

Fund performance primarily shapes investor sentiment toward fund companies (Figure 4). In fact, nearly half of all fund shareholders list fund performance as the most important factor influencing their opinions of the mutual fund

industry (Figure 5). Personal investment experience, current financial events, and the opinions of professional financial advisers also play roles in forming shareholders' impressions of the mutual fund industry. Media coverage and the opinions of friends and family play a role in investor sentiment, but are less influential.

figure 3

### Majority of Former Fund Owners Have Favorable Impressions of Fund Companies

Percent of respondents familiar with fund companies, by mutual fund favorability rating and fund ownership status, 2005

	Currently Own Mutual Funds	Previously Owned Mutual Funds	Never Owned Mutual Funds
Very favorable	15	12	9
Somewhat favorable	60	41	38
Somewhat unfavorable	8	16	10
Very unfavorable	2	10	2
No opinion	15	21	41
Percent in each group familiar with fund companies	78	50	19

source: Investment Company Institute

figure 4

### Many Factors Shape Shareholders' Opinions of the Fund Industry

Percent of mutual fund shareholders familiar with the mutual fund industry who indicate each factor is "very important," 1997–2005

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Performance of fund investments	85	86	86	72	67	71	68	70	73
Personal experience with a mutual fund company	NA	60	60	64	57	61	60	57	53
Current events in financial markets	50	53	53	50	48	51	47	49	51
Opinion of professional financial advisers	47	47	46	46	42	43	46	47	40
Stock market fluctuations	38	47	47	42	42	38	41	39	42
Friends and family	34	38	41	45	44	44	43	44	28
Media coverage about fund companies	20	25	24	21	19	21	18	20	20

NA=not asked that year

source: Investment Company Institute

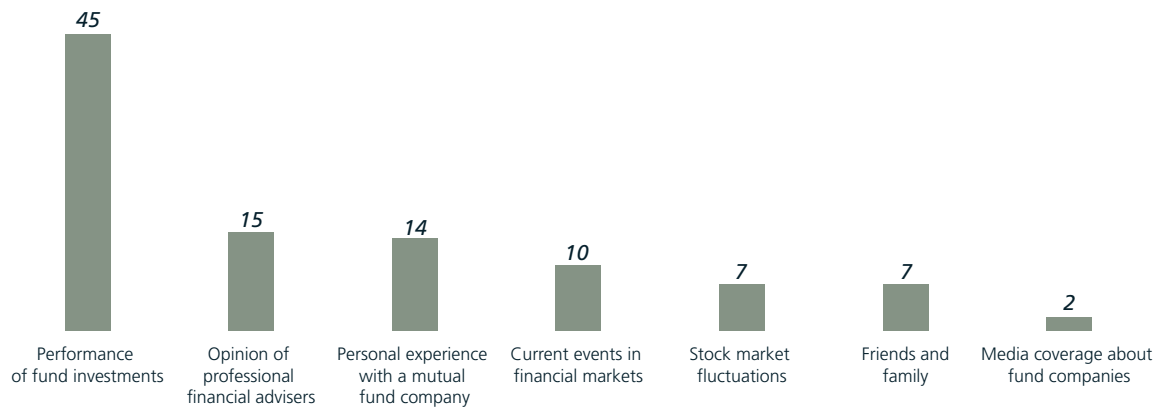
Underscoring the relationship between performance and investor sentiment, ICI's mutual fund company favorability rating historically has correlated with market performance. The performance of the S&P 500 Index and mutual fund companies' favorability rating both peaked in 2000, declined between 2001 and 2003, and then increased in 2004 and 2005 (Figure 6).

Investor confidence in funds has improved since early September 2003, when reports of trading abuses involving funds and fund intermediaries emerged. The share of fund investors "very" confident that mutual funds can help them achieve their financial goals increased to 29 percent in 2005 from 23 percent in late

figure 5

### Fund Performance Is Most Important Factor Shaping Opinions of the Fund Industry

Percent of shareholders familiar with the mutual fund industry who indicate each factor is "most important," 2005



source: Investment Company Institute

figure 6

### Mutual Fund Favorability Correlates With Market Performance

Mutual fund company favorability rating and S&P 500 index, 1997–2005



note: The mutual fund company favorability rating is the percent of shareholders familiar with fund companies who have a "very" or "somewhat" favorable impression of fund companies.

sources: Investment Company Institute and Bloomberg

September 2003 (Figure 7).<sup>2</sup> Today, nearly 90 percent of all fund shareholders are confident that mutual funds will assist them in achieving their financial goals.

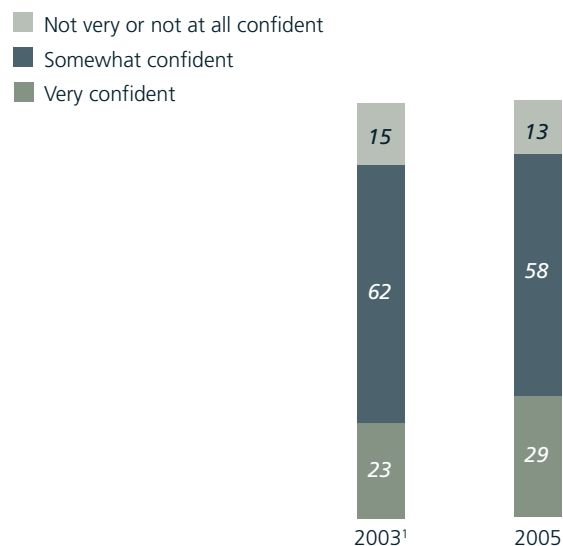
### Shareholders Own Funds for Many Reasons

People invest in mutual funds for a variety of reasons. At least six out of every 10 mutual fund shareholders cite the following as “very” important reasons for owning funds: the reputations of the fund companies with which they own funds, the investment performance of mutual funds, and the investment diversification funds provide (Figure 8). Other reasons frequently mentioned as “very” important are the level of mutual fund fees and expenses, the range of mutual fund choices, and the professional money management that funds provide.

figure 7

### Mutual Fund Shareholders Are Confident That Funds Can Help Them Meet Investment Goals

Percent of all mutual fund shareholders, by level of confidence that mutual funds can help them meet their investment goals, 2003 and 2005



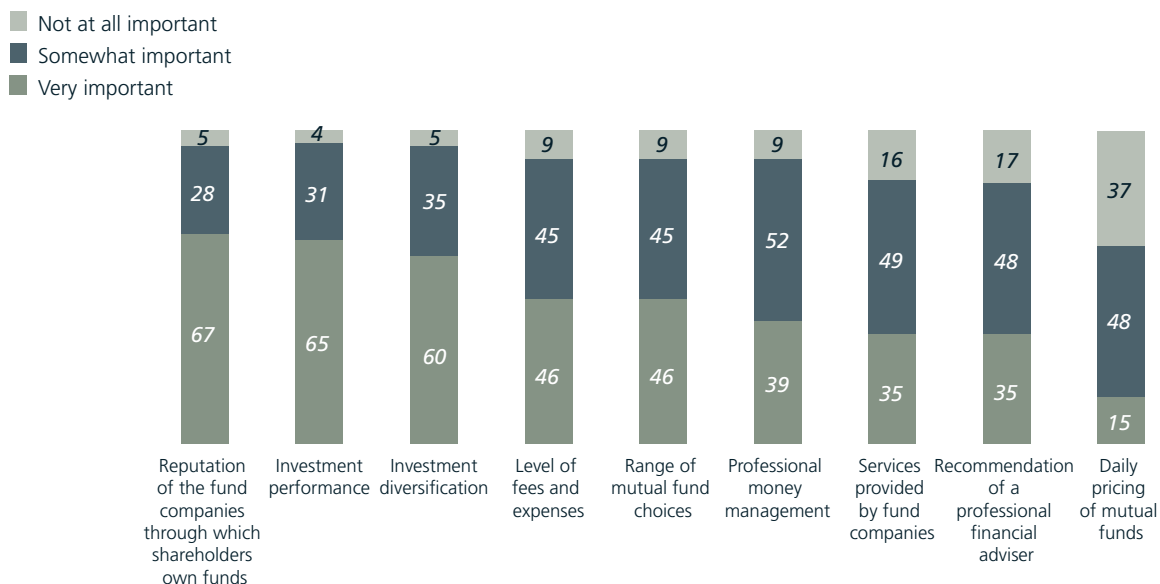
<sup>1</sup> Survey was conducted in late September 2003 after reports of trading abuses involving funds and fund intermediaries emerged.

source: Investment Company Institute

figure 8

### Shareholders Own Funds for Many Reasons

Percent of all mutual fund shareholders rating each reason “very,” “somewhat,” or “not at all important,” 2005



source: Investment Company Institute

<sup>2</sup> The 2005 data are from the ICI Mutual Fund Shareholder Tracking Survey; the September 2003 data are from an ad hoc ICI survey of 1,001 randomly selected U.S. households, of which 426 owned mutual funds.

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