

Understanding Shareholder



Redemption Decisions

INVESTMENT
COMPANY
INSTITUTE

Research Report
Winter 1993

Understanding Shareholder



Redemption Decisions

Investment Company Institute
Research Report
Winter 1993

Table of Contents

Introduction	1
Executive Summary	5
Part I: Full Redeemers	11
Chapter 1: The Redemption Decision	13
Shareholder Redemption Patterns	13
The Role of Financial Advisers and Published Financial Information	13
Reasons for Redeeming	14
Reasons for Selecting a Particular Fund	18
Opinions on Reinvesting in the Same Fund and Fund Group	18
Satisfaction with the Redemption Process	19
Chapter 2: Characteristics of the Fund from Which Shares Were Redeemed	21
Type of Fund Redeemed	21
Incidence of Tax-Advantaged Status	21
Incidence of a Redemption Fee	21
Value of the Redemption	22
Tenure in the Fund	22
Distribution Channel Used for Purchase	23
Reasons for Initial Investment in Fund	23
Chapter 3: Reinvestment Activity	25
Reinvestment into Mutual Funds	25
Reinvestment into Other Investments	26
Reinvestment into Depository Savings Products	27
Chapter 4: Characteristics of Full Redeemers	29
Demographic and Financial Characteristics	29
Fund Ownership Characteristics	29
Nonfund Investment Ownership Characteristics	31
Part II: Partial Redeemers	35
Chapter 5: The Redemption Decision	37
Shareholder Redemption Patterns	37
The Role of Financial Advisers and Published Financial Information	37
Reasons for Redeeming	38
Reasons for Selecting a Particular Fund	40

Opinions on Reinvesting in the Same Fund and Fund Group	42
Satisfaction with the Redemption Process	42
Chapter 6: Characteristics of the Fund from Which Shares Were Redeemed	45
Type of Fund Redeemed	45
Incidence of Tax-Advantaged Status	45
Incidence of a Redemption Fee	45
Account Value Before the Redemption and Value of the Redemption	46
Tenure in the Fund	48
Distribution Channel Used for Purchase	48
Reasons for Initial Investment in Fund	48
Chapter 7: Reinvestment Activity	51
Reinvestment into Mutual Funds	51
Reinvestment into Other Investments	51
Reinvestment into Depository Savings Products	52
Chapter 8: Characteristics of Partial Redeemers	53
Demographic and Financial Characteristics	53
Fund Ownership Characteristics	53
Nonfund Investment Ownership Characteristics	55
Part III: Key Segments to Target	57
Chapter 9: Big-Ticket Redeemers	59
Key Characteristics of the Redemption Decision	59
Key Characteristics of the Fund from Which Shares Were Redeemed	59
Key Characteristics of Reinvestment Activity	60
Key Demographic and Financial Characteristics	62
Chapter 10: Frequent Redeemers	63
Key Characteristics of the Redemption Decision	63
Key Characteristics of the Fund from Which Shares Were Redeemed	64
Key Characteristics of Reinvestment Activity	65
Key Demographic and Financial Characteristics	65
Chapter 11: Independent Decisionmakers	69
Key Characteristics of the Redemption Decision	69
Key Characteristics of the Fund from Which Shares Were Redeemed	69
Key Characteristics of Reinvestment Activity	70
Key Demographic and Financial Characteristics	71
Appendices	75
Appendix A: Research Methodology	77
Appendix B: Detailed Tabulations for All Redeemers	79

List of Figures

Introduction

Figure 1	Trends in Redemptions of Long-term Funds, 1981-1991	1
Figure 2	Redemptions of Long-term Funds by Type, 1989-1991	2
Figure 3	Redemption Rates of Long-term Funds, 1981-1991	2

Executive Summary

Figure 4	The Role of Financial Advisers and Published Financial Information in the Redemption Decision	5
Figure 5	Reasons for Selling Fund Shares	6
Figure 6	Reasons for Selecting a Particular Fund for Redemption	6
Figure 7	Satisfaction with the Redemption Process	7
Figure 8	Likelihood of Redeemers Reinvesting in the Same Fund and Fund Group	7
Figure 9	Reinvestment Activity	8
Figure 10	Shareholders' Tenure in Fund from Which Shares Were Redeemed	8
Figure 11	Characteristics of Full and Partial Redeemers	9

Part I: Full Redeemers

Chapter 1: The Redemption Decision

Figure 12	Frequency of Redemption Transactions Among Full Redeemers	13
Figure 13	Factors that Influence the Decision to Redeem Among Full Redeemers	14
Figure 14	Full Redeemers' Reasons for Redeeming	15
Figure 15	Investment Strategies as a Reason for Redeeming Among Full Redeemers	16
Figure 16	Fund-Related Reasons for Redeeming Among Full Redeemers	16
Figure 17	The Need for Money as a Reason for Redeeming Among Full Redeemers	17
Figure 18	Service-Related Reasons for Redeeming Among Full Redeemers	18
Figure 19	Reasons Why Full Redeemers Select a Particular Fund for Redemption	19
Figure 20	Likelihood of Full Redeemers Reinvesting in the Same Fund and Fund Group	19
Figure 21	Full Redeemers' Satisfaction with the Redemption Process	20

Chapter 2: Characteristics of the Fund from Which Shares Were Redeemed

Figure 22	Type of Fund Sold by Full Redeemers	21
Figure 23	Full Redeemers' Redemption of Shares from Fund with Tax-Advantaged Status	22
Figure 24	Full Redeemers Who Paid a Redemption Fee	22
Figure 25	Amount of Redemption Among Full Redeemers	23
Figure 26	Full Redeemers' Tenure in Fund	23
Figure 27	Distribution Channel Used by Full Redeemers to Purchase Fund from Which They Redeemed	24
Figure 28	Full Redeemers' Reasons for Initially Investing in Fund	24

Chapter 3: Reinvestment Activity

Figure 29 Full Redeemers’ Reinvestment of All or Some of Redemption Proceeds 25
 Figure 30 Reinvestment Activity Among Full Redeemers 26

Chapter 4: Characteristics of Full Redeemers

Figure 31 Demographic and Financial Characteristics of Full Redeemers 30
 Figure 32 Fund Ownership Characteristics of Full Redeemers 32
 Figure 33 Nonfund Investment Ownership Characteristics of Full Redeemers 32

Part II. Partial Redeemers

Chapter 5: The Redemption Decision

Figure 34 Frequency of Redemption Transactions Among Partial Redeemers 37
 Figure 35 Factors that Influence the Decision to Redeem Among Partial Redeemers 38
 Figure 36 Partial Redeemers’ Reasons for Redeeming 39
 Figure 37 The Need for Money as a Reason for Redeeming Among Partial Redeemers 39
 Figure 38 Investment Strategies as a Reason for Redeeming Among Partial Redeemers 40
 Figure 39 Fund-Related Reasons for Redeeming Among Partial Redeemers 41
 Figure 40 Service-Related Reasons for Redeeming Among Partial Redeemers 41
 Figure 41 Reasons Why Partial Redeemers Select a Particular Fund for Redemption 42
 Figure 42 Likelihood of Partial Redeemers Reinvesting in the Same Fund and Fund Group 43
 Figure 43 Partial Redeemers’ Satisfaction with the Redemption Process 43

Chapter 6: Characteristics of the Fund from Which Shares Were Redeemed

Figure 44 Type of Fund Sold by Partial Redeemers 45
 Figure 45 Partial Redeemers’ Redemption of Shares from Fund with Tax-Advantaged Status 46
 Figure 46 Partial Redeemers Who Paid a Redemption Fee 46
 Figure 47 Account Value Before Redemption and Amount of Redemption Among Partial Redeemers 47
 Figure 48 Partial Redeemers’ Tenure in Fund 47
 Figure 49 Distribution Channel Used by Partial Redeemers to Purchase Fund from Which They Redeemed 48
 Figure 50 Partial Redeemers’ Reasons for Initially Investing in Fund 49

Chapter 7. Reinvestment Activity

Figure 51 Partial Redeemers’ Reinvestment of All or Some of Redemption Proceeds 51
 Figure 52 Reinvestment Activity Among Partial Redeemers 52

Chapter 8: Characteristics of Partial Redeemers

Figure 53 Demographic and Financial Characteristics of Partial Redeemers 54
 Figure 54 Fund Ownership Characteristics of Partial Redeemers 56
 Figure 55 Nonfund Investment Ownership Characteristics of Partial Redeemers 56

Part III: Key Segments to Target

Chapter 9: Big-Ticket Redeemers

Figure 56 Size of Most Recent Redemption 59
 Figure 57 Key Characteristics of the Redemption Decision by Size of Redemption 60

Figure 58	Key Characteristics of the Fund From Which Shares Were Redeemed by Size of Redemption	61
Figure 59	Key Characteristics of Reinvestment Activity by Size of Redemption	61
Figure 60	Key Demographic and Financial Characteristics of Redeemers by Size of Redemption	62

Chapter 10: Frequent Redeemers

Figure 61	Frequency of Redemption Transactions	63
Figure 62	Key Characteristics of the Redemption Decision by Frequency of Redemption Transactions	64
Figure 63	Key Characteristics of the Fund From Which Shares Were Redeemed by Frequency of Redemption Transactions	65
Figure 64	Key Characteristics of Reinvestment Activity by Frequency of Redemption Transactions	66
Figure 65	Key Demographic and Financial Characteristics of Redeemers by Frequency of Redemption Transactions	67

Chapter 11: Independent Decisionmakers

Figure 66	Incidence of Independent Versus Guided Decisionmakers Among Redeeming Shareholders	69
Figure 67	Key Characteristics of the Redemption Decision Among Independent and Guided Decisionmakers	70
Figure 68	Key Characteristics of the Fund From Which Shares Were Redeemed Among Independent and Guided Decisionmakers	71
Figure 69	Key Characteristics of Reinvestment Activity Among Independent and Guided Decisionmakers	72
Figure 70	Key Demographic and Financial Characteristics of Independent and Guided Decisionmakers	73

Appendices

Appendix A: Research Methodology

Figure 71	Number of Mailback Responses for Key Survey Categories	78
Figure 72	Number of Telephone Interviews by Key Survey Categories	78

Appendix B: Detailed Tabulations for All Redeemers

Figure 73	Type and Frequency of Redemption Transactions	80
Figure 74	Factors that Influence the Decision to Redeem	80
Figure 75	Reasons for Redeeming	81
Figure 76	Investment Strategies as a Reason for Redeeming	81
Figure 77	Fund-Related Reasons for Redeeming	82
Figure 78	The Need for Money as a Reason for Redeeming	82
Figure 79	Service-Related Reasons for Redeeming	83
Figure 80	Reasons for Selecting a Particular Fund for Redemption	83
Figure 81	Likelihood of Redeemers Reinvesting in the Same Fund and Fund Group	84
Figure 82	Satisfaction with the Redemption Process	84
Figure 83	Type of Fund Sold	84
Figure 84	Redemption of Shares from Fund with Tax-Advantaged Status	85
Figure 85	Redeemers Who Paid a Redemption Fee	85

Figure 86 Account Balance Before Redemption and Amount of Redemption 86

Figure 87 Redeemers' Tenure in Fund 87

Figure 88 Distribution Channel Used by Redeemers to Purchase Fund from Which They Redeemed 87

Figure 89 Redeemers' Reasons for Initially Investing in Fund 88

Figure 90 Redeemers' Reinvestment of All or Some of Redemption Proceeds 88

Figure 91 Reinvestment Activity 89

Figure 92 Demographic and Financial Characteristics of Redeemers 90

Figure 93 Fund Ownership Characteristics of Redeemers 92

Figure 94 Nonfund Investment Ownership Characteristics of Redeemers 92

Introduction

In the last ten years, assets in long-term mutual funds have grown to record levels—from \$55.3 billion in 1981 to more than \$807.0 billion in 1991, an increase of 1,359 percent. However, the industry’s tremendous growth in long-term assets has been accompanied by an equally tremendous increase in redemptions. Redemptions of long-term funds climbed 1,445 percent, from \$7.5 billion in 1981 to \$115.9 billion in 1991. Of that total, equity fund redemptions accounted for \$53.8 billion, while fixed-income fund redemptions accounted for \$62.1 billion. Moreover, the absolute value of redemptions in 1991 was higher than in any other year since 1981, except 1987 when, owing to the October stock market crash, outflows reached \$116.2 billion.

In part, the upward trend in redemptions has been caused by industry dynamics. A greater incidence of fund ownership among U.S. households, the increased sophistication of fund shareholders about moving their

investments, and the greater number of fund companies from which investors may choose have all contributed to the increase in redemption activity.

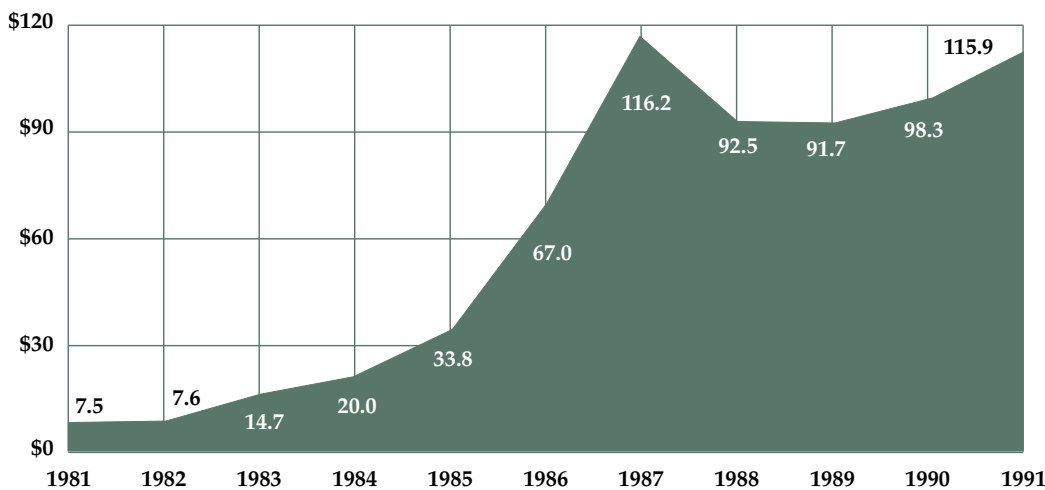
The increase in redemptions is also partially the result of the way redemption data are collected. The mutual fund industry counts switches among fund complexes as sales and redemptions rather than as exchanges. Therefore, when investors shift their investments more often—not only among funds in one complex, but also among various complexes—trends in redemption and sales data move upward.

During the 1980s, the rate of redemptions, or redemptions as a percent of average net assets, increased every year from 1982, when it hit the decade low of 11.5 percent, to 1987, when it peaked at 26.5 percent. The ratio then fell steadily to reach 16.9 percent in 1991.¹

Whether redemption activity is increasing or decreasing, it is critical to understand why mutual fund owners sell shares. This information can provide industry-wide benchmarks, insight into statistical trends, and guidance for funds so that they may better serve their shareholders and retain assets. To assist mutual fund companies in gathering this data, the Investment Company Institute conducted a mail survey of redeeming shareholders in 1992.

Figure 1
Trends in Redemptions of Long-term Funds, 1981-1991

(billions of dollars)

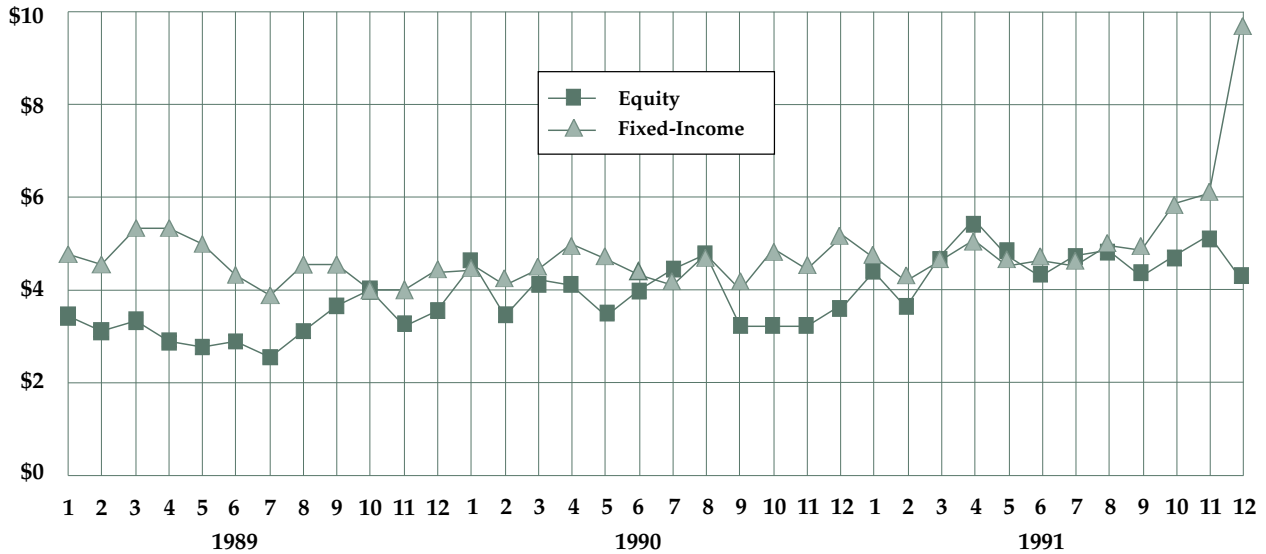


¹The redemption rate, or ratio, is the dollar redemption volume as a percent of average total net assets. Average total net assets are an average of values at the beginning of the year and at the end of the year.

Figure 2

Redemptions of Long-term Funds by Type, 1989-1991

(billions of dollars)



Research Objectives

Are shareholders redeeming because they have reached their investment goal? Who or what influences their redemption decision? How do shareholders with several fund investments determine from which fund to redeem? Are shareholders satisfied with the service they receive during the redemption transaction? How do shareholders who redeem in full differ from shareholders who redeem in part? The Investment Company Institute undertook this study in order to answer these questions and to create a portrait of redeeming shareholders for use by member firms in marketing, product management, and product development. The study was developed by ICI's research staff and the members of ICI's Research Committee. Marketing Matrix was engaged to work with ICI on this project.

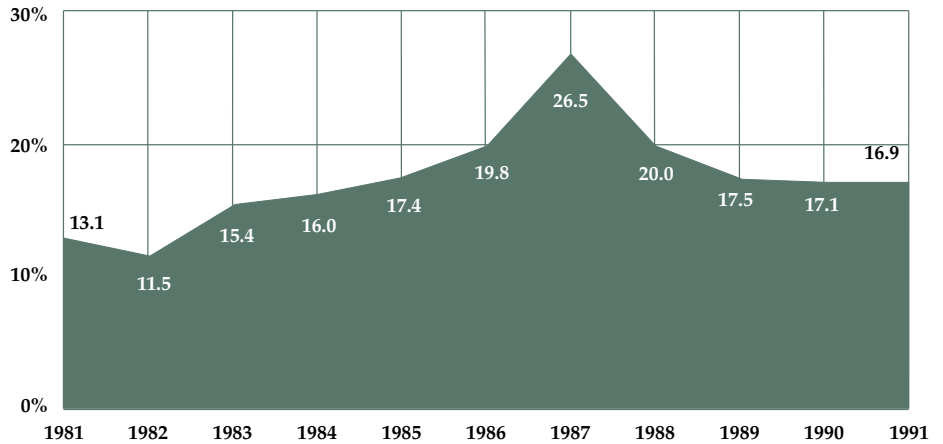
Specifically, the research objectives of this study were to identify:

- ◆ demographic, financial, and investment characteristics of redeeming shareholders,

Figure 3

Redemption Rates of Long-term Funds, 1981-1991

(percent)



- ◆ the reasons for redeeming, and what financial advisers or factors influenced the shareholder's decision,
- ◆ how redemption proceeds were used, and
- ◆ how satisfied redeeming shareholders were with the redemption process.

Summary of Research Methodology

The study was designed as a self-administered mail-back survey of redeeming shareholders using a proportional stratified sampling methodology. ICI member firms were stratified by the two major distribution channels—direct market and sales force—and then by the two broad investment categories of long-term funds—equity and fixed-income. Funds in the equity category were then classified as aggressive and nonaggressive, and those in the fixed-income category as taxable and tax-exempt.

Next, the funds in each category were ranked by their redemption ratio and divided into groups representing high, medium, and low redemption activity. In all, 24 subcategories were created from which a proportional sample was drawn of 30,000 shareholders who had conducted either a full or partial redemption between May 1991 and October 1991. The sample comprised 87 funds from 44 participating fund complexes. The funds were randomly selected for inclusion in the sample and were representative of the spectrum of ICI member funds.

An eight-page questionnaire was mailed in March 1992. A total of 2,932 responses were received, representing an overall response rate of 9.8 percent. A telephone survey of redeeming shareholders who had not returned their questionnaires was conducted to ensure that the demographic, financial, investment and redemption characteristics of respondents and nonrespondents were not dramatically different. A comparison of the respondents to the mail survey with the respondents who subsequently participated in the telephone survey found the two groups comparable.

Due to rounding to the nearest whole integer, some totals in figures throughout the report may not exactly equal 100 percent.

Organization of the Report

The main body of this report is divided into three parts. Part I presents the findings on full redeemers, that is, shareholders who closed their accounts. Part II covers findings related to partial redeemers, that is, shareholders who withdrew some, but not all, of the money in their accounts. Parts I and II each provide detailed information on the redemption decision, the attributes of the fund from which shares were redeemed, redeemers' reinvestment activity, and the demographic and financial characteristics of respondents. Part III presents summary information for three segments of redeeming shareholders that may be of particular interest to mutual fund companies—big-ticket redeemers, frequent redeemers, and independent redeemers. Parts I, II, and III are designed to be read independently of one another. Appendices at the end of the report include an in-depth description of the research methodology and detailed tabulations for all redeemers, as well as for direct market redeemers, sales force redeemers, equity fund redeemers, and fixed-income fund redeemers.

Executive Summary

1. Type of Redemption Transacted

When redeeming mutual fund shares, fund owners can either sell some of their shares, referred to by the industry as a partial redemption, or they can sell all of their shares, referred to as a full redemption. When asked about the fund from which they most recently redeemed, 54 percent of survey respondents said they transacted a full redemption, and 46 percent said they transacted a partial redemption. For the purposes of this report, the term “full redeemers” refers to shareholders whose most recent redemption transaction was a sale of all shares of a particular account. “Partial redeemers” refers to shareholders whose most recent redemption transaction was a sale of some, but not all, shares of a particular account.

2. Shareholder Redemption Patterns

While most shareholders only occasionally sell fund shares, some are frequent redeemers. When asked how many times they sold fund shares in the ten months preceding the survey, roughly two thirds of full and partial redeemers indicated that they conducted only one or two redemptions. However, about a quarter of each

group stated that they completed between three and five redemptions, and roughly one in ten reported that they conducted six or more redemptions.

3. The Role of Financial Advisers and Published Financial Information in the Redemption Decision

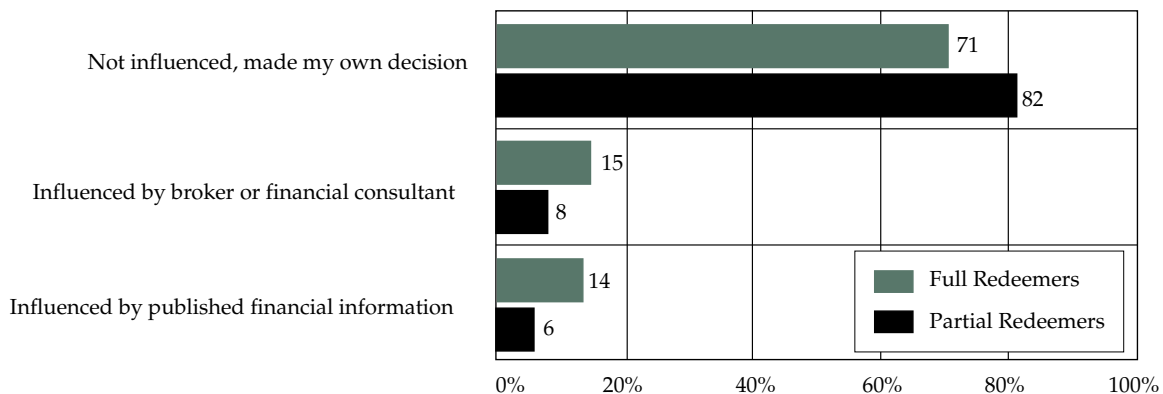
Most redeeming shareholders make the decision to sell fund shares themselves. However, some are influenced by financial advisers and by information they have read in newspaper advertisements, magazine articles, newsletters, and fund group brochures, among other publications. The results indicate that full redeemers are more likely to be influenced to sell than partial redeemers.

Fifteen percent of full redeemers said they were influenced to sell by a broker or financial consultant, and 14 percent said they were influenced by something they read. In contrast, just 8 percent of partial redeemers stated that they were influenced to sell by a broker or financial consultant, and just 6 percent indicated they were influenced by something they read.

Figure 4

The Role of Financial Advisers and Published Financial Information in the Redemption Decision*

(percent of respondents)



Base: Full Redeemers=1292, Partial Redeemers=1104

*Multiple responses included

4. Reasons for Selling Fund Shares

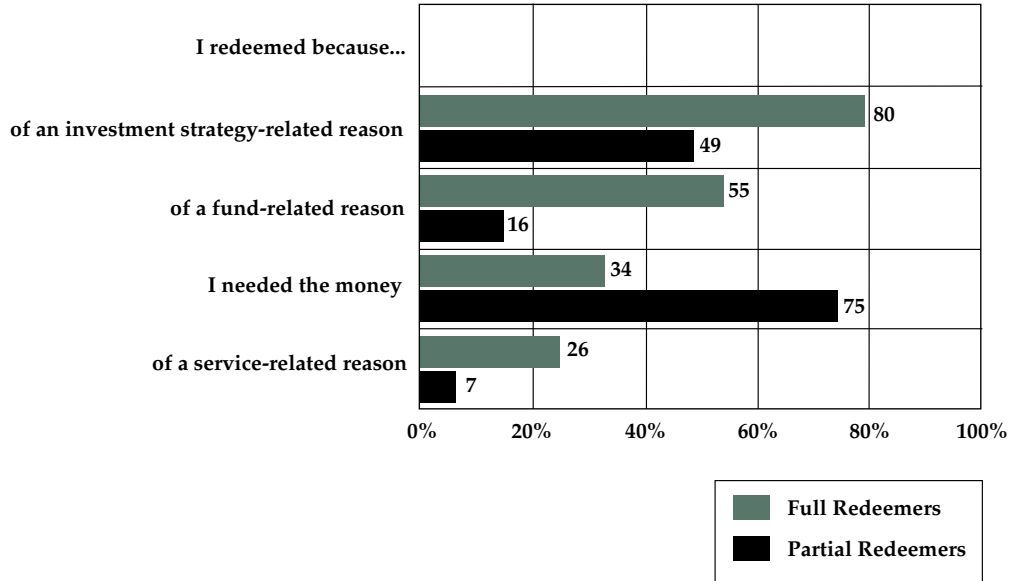
The research found that full and partial redeemers are generally motivated to sell fund shares for very different reasons. When asked why they sold fund shares, the largest proportion of full redeemers, 80 percent, cited an investment strategy-related reason, and the second largest proportion, 55 percent, reported a fund-related reason. In contrast, the largest proportion of partial redeemers, 75 percent, stated that they needed the money, and the second largest proportion, 49 percent, cited an investment strategy-related reason.

5. Rationale for Selecting a Particular Fund for Redemption

Just as full and partial redeemers cite different reasons for selling fund shares, they also give different rationales for selling shares of a particular fund. The largest proportion of full redeemers, 46 percent, indicated that their last redemption of shares was because the fund had a lower than expected return when compared with other sources of cash. In contrast, the largest proportion of partial redeemers, 45 percent, reported that the fund was their most convenient or liquid source of cash.

Figure 5
Reasons for Selling Fund Shares*

(percent of respondents)

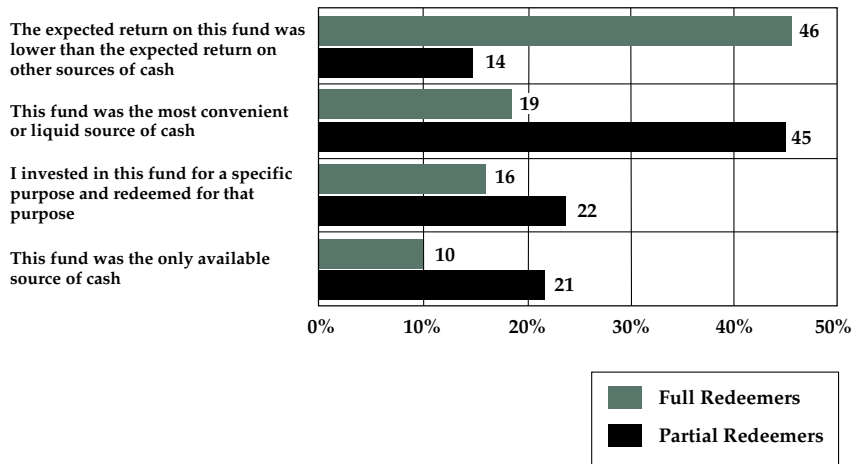


Base: Full Redeemers=1288, Partial Redeemers=1093

*Multiple responses included

Figure 6
Reasons for Selecting a Particular Fund for Redemption*

(percent of respondents)



Base: Full Redeemers=1202, Partial Redeemers=1077

*Multiple responses included

6. Satisfaction with the Redemption Process

Shareholders who redeem are reasonably satisfied with the redemption procedures of their fund companies. The redeemers surveyed were most satisfied with processing accuracy and the timeliness of the transaction confirmation. However, partial redeemers were somewhat more satisfied with the redemption process than were full redeemers. For example, on a scale of one to five, where one equaled very dissatisfied and five equaled very satisfied, accurate processing received an average rating of 4.8 from partial redeemers, and an average rating of 4.6 from full redeemers. When asked to list any dissatisfaction they may have had with the redemption process, a few respondents indicated that it took too long to receive their proceeds and that the procedures were too cumbersome.

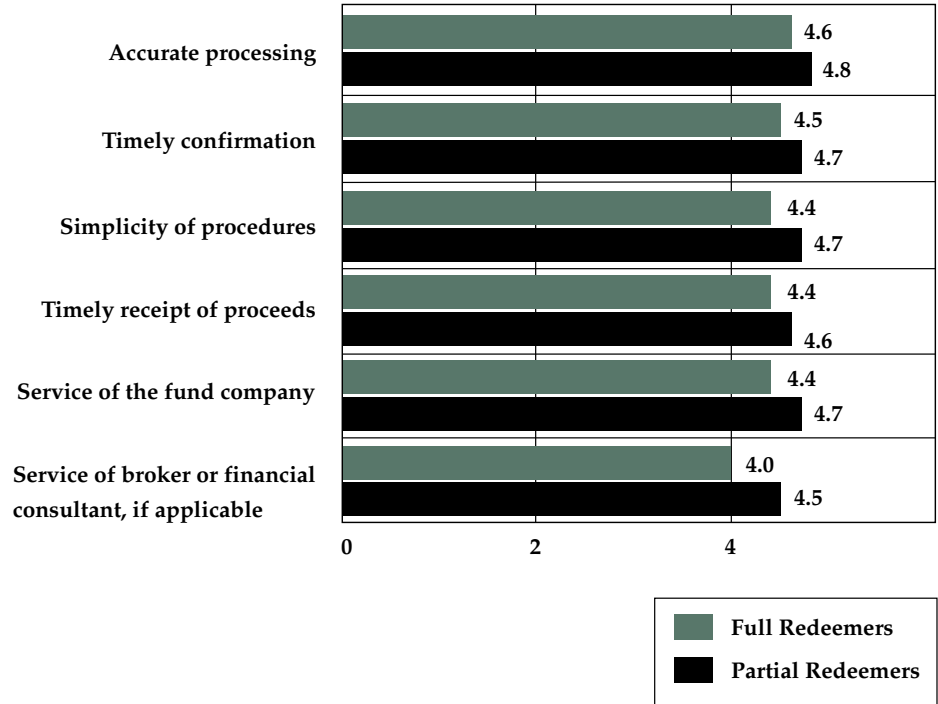
7. Likelihood of Reinvesting in the Same Fund and Fund Group

Because poor performance and poor services only rarely motivated partial redeemers to sell fund shares, they generally are more likely to say they would reinvest in both the same fund and fund group when compared with full redeemers. As Figure 8 demonstrates, 93 percent of the partial redeemers surveyed indicated a likelihood of reinvesting in the same fund, compared with 70 percent of full redeemers.

Figure 7

Satisfaction with the Redemption Process

(mean score*)

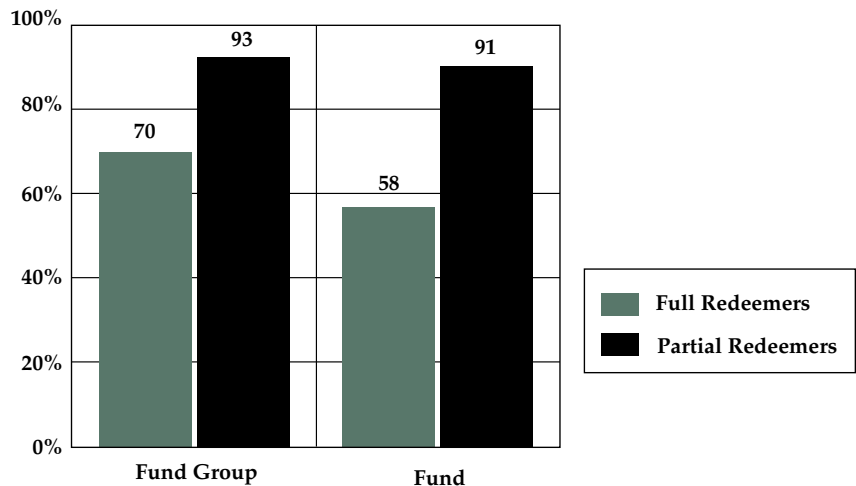


*1=very dissatisfied, 5=very satisfied

Figure 8

Likelihood of Redeemers Reinvesting in the Same Fund and Fund Group

(percent of respondents indicating "yes")



*Multiple responses included

8. Reinvestment Activity

Since most partial redeemers sold fund shares because they needed the money, it follows that the majority, 63 percent, did not reinvest their proceeds. Meanwhile, three quarters of full redeemers reinvested all or some of their proceeds.

The purchase patterns of reinvesting full and partial redeemers are somewhat different, too. When compared with partial redeemers, full redeemers who reinvested were more apt to purchase shares of another mutual fund and were less apt to purchase a nonfund investment.

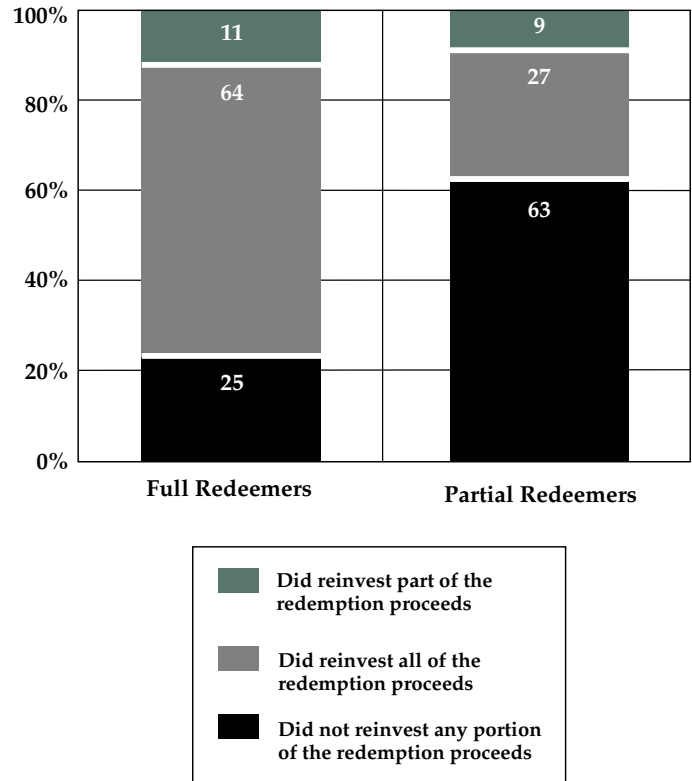
9. Tenure in the Fund

Both full and partial redeemers were shareholders of the fund from which they redeemed for a median of five years. Because equity and fixed-income funds are long-term investments, with average holding periods of approximately four and five years, respectively, these data are especially positive findings. However, some shareholders sell funds soon after purchasing them. Nearly one quarter of both full and partial redeemers indicated that they had been invested in the fund from which they redeemed for two years or less.

Figure 9

Reinvestment Activity

(percent of respondents)

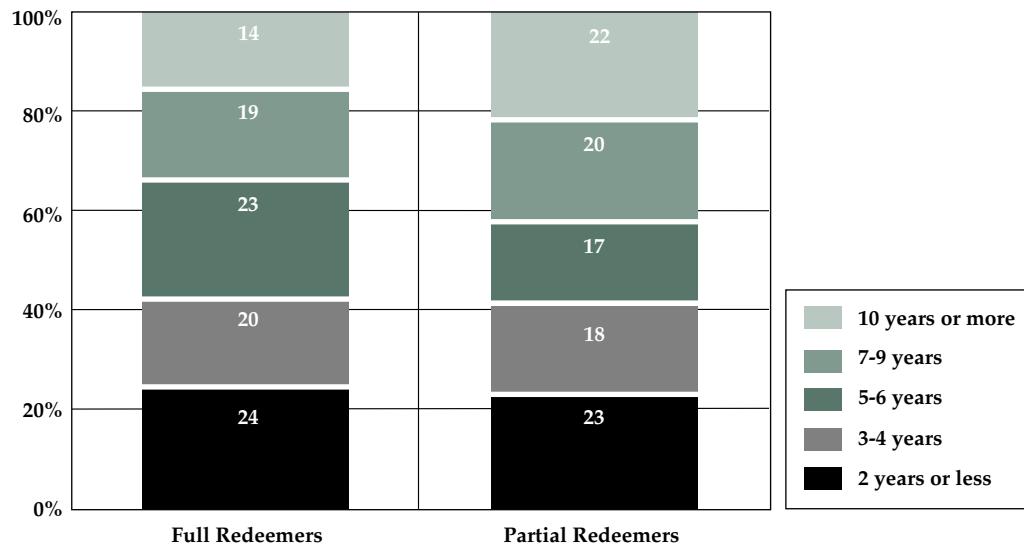


Base: Full Redeemers=1285, Partial Redeemers=1093

Figure 10

Shareholders' Tenure in Fund from Which Shares Were Redeemed

(percent of respondents)



Base: Full Redeemers=1187, Partial Redeemers=1011

10. Description of Fund Shares Sold

The majority of full and partial redeemers, roughly six or seven out of ten, indicated that the fund from which they sold shares was a stock fund. Almost half of each group originally purchased the shares they sold from a direct marketer.

11. Characteristics of Full and Partial Redeemers

As Figure 11 shows, the demographic characteristics of full and partial redeemers are quite similar. However, full redeemers have higher household incomes and greater household financial assets than partial redeemers, in addition to more diversified investment portfolios.

12. Marketing Implications

While fund owners confronted with financial difficulties may have no alternative but to sell some or all of the fund shares they own, those who sell for investment

strategy and fund-related reasons possibly could be influenced by a strengthening of their bond with the complex. Given that roughly one quarter of redeemers owned the fund they sold for two years or less, mutual fund companies should begin early to develop a strong and lasting shareholder relationship.

Because most shareholders reach the decision to sell fund shares independently, one tactic that would help strengthen the complex-shareholder bond, and perhaps lead to fewer redemptions, is to routinely send shareholders pertinent information about the fund and fund group. This information might include facts about the portfolio manager and his or her investment strategies or techniques, the history of the fund and the fund company, other funds in the fund family, exchange privileges, and the strength of the mutual fund industry.

While many full redeemers who cite poor performance as a reason for selling shares may have accurately assessed the fund's performance, it is possible that some may have had unrealistic expectations. Fund groups may wish to consider developing shareholder communications that caution against excessive performance optimism. These communications could be included with a prospectus or distributed to shareholders on an as-needed basis, such as during an economic downturn.

Also, some redeemers sold shares because they were concerned about market conditions, a finding that suggests that mutual fund companies should consider keeping shareholders informed about market conditions in order to alleviate their fears. In particular, shareholders might find useful information on how their fund behaves during various economic cycles. Information and assistance in asset allocation among the complex's own funds could also encourage exchanges in place of redemptions, assuming the complex has a full array of products for all market conditions.

Figure 11
Characteristics of Full and Partial Redeemers

	Full Redeemers	Partial Redeemers
Median		
Age	52	50
Household income	\$55,640	\$49,810
Household financial assets*	\$171,100	\$118,100
Household financial assets in mutual funds	\$49,850	\$40,640
Percent		
Male	75%	73%
Married	71	69
Completed graduate school	31	29
Employed	70	72
Retired from lifetime occupation	36	33
Own:**		
Stock funds	85	96
Taxable money market funds	69	67
Taxable bond funds	56	65
Tax-exempt municipal bond funds	51	58
Individual stocks	62	53
Annuities	32	26
Individual bonds	29	22

* Respondents were instructed to include assets in retirement plans and exclude their primary residence.

** Multiple responses included

Part I: Full Redeemers

Chapter 1: The Redemption Decision

Shareholder Redemption Patterns

In order to develop marketing programs that address shareholder redemption activity, mutual fund companies must understand how and why fund owners reach the decision to close an account, a transaction referred to by the industry as a full redemption. Also important, mutual fund companies need to determine whether shareholders close fund accounts occasionally or routinely.

The survey results indicate that most full redeemers only occasionally sell fund shares, but that a small proportion are frequent redeemers. When asked how many times they sold fund shares in the ten months preceding the survey, 66 percent of full redeemers indicated that they conducted only one or two redemptions. However, 25 percent stated that they completed between three and five redemptions, and almost one in ten full redeemers said that they conducted six or more redemptions.

Figure 12 shows that full redeemers of direct marketed funds tend to sell shares far more frequently than their sales force counterparts. For example, 43 percent of direct market full redeemers conducted at least three re-

demptions in the ten months preceding the survey, compared with 24 percent of sales force full redeemers.

Because direct marketed funds are typically no-load or low-load, shareholders who buy and sell these types of funds incur little or no transaction costs. For this reason, investors interested in switching in and out of funds are more likely to be drawn to direct marketed funds than sales force distributed funds, and this may explain why direct market full redeemers are more apt to sell fund shares more frequently than their sales force counterparts.

The Role of Financial Advisers and Published Financial Information

Although brokers, financial consultants, newsletters, articles in magazines and newspapers, and other informational sources are typically instrumental in the shareholder's decision to buy, they are less influential in the decision to sell. As Figure 13 shows, the vast majority of full redeemers, 71 percent, made their own decision to sell their mutual fund shares.

Even though most full redeemers made the decision to close their fund accounts themselves, some indicated

Figure 12

Frequency of Redemption Transactions Among Full Redeemers*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
1-2 times	66	56	54	62	76	78	73
3-5 times	25	30	32	27	20	19	21
6 or more times	9	13	14	12	4	3	6
Base =	1298	664	487	177	634	391	243

*For the ten-month period preceding survey

that they were influenced to do so. Fifteen percent of full redeemers reported they were influenced to sell by a broker or financial consultant. Not surprisingly, sales force full redeemers were far more likely to indicate that they were influenced by a broker or financial consultant than were direct market full redeemers. In fact, 31 percent of sales force full redeemers who sold a fixed-income fund indicated that they were influenced by a broker or financial consultant.

Another 14 percent of full redeemers indicated that they were influenced to sell shares by some form of published financial information—investor newsletters, articles and advertisements in magazines and newspapers, and solicited and unsolicited fund literature. Direct market full redeemers were the likeliest to indicate that they were influenced to sell by something they had read.

These findings suggest that marketing programs geared toward reducing account closings should have a shareholder focus. Also, fund marketers should not overlook the fact that some shareholders are motivated to sell by a person with whom they have talked or by

some form of published financial information they have read.

Reasons for Redeeming

Shareholders typically close fund accounts in order to facilitate specific investment objectives or because they are unhappy with a particular fund. When asked why they closed the account of the fund from which they most recently redeemed, 80 percent of full redeemers indicated a strategy-related reason, and more than one half cited a fund-related reason. In contrast, only about one third of full redeemers said that they needed the money, and only about a quarter mentioned a service-related reason.

Direct market full redeemers were the likeliest to mention a strategy-related reason. In contrast, sales force full redeemers were the likeliest to say that they needed the money, as well as to mention a fund-related or service-related reason.

Among direct market full redeemers, those who sold an equity fund were more likely to indicate a fund-

Figure 13

Factors that Influence the Decision to Redeem Among Full Redeemers*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Not influenced, made my own decision	71	75	76	73	66	70	61
Broker or financial consultant (total)	15	6	5	10	25	22	31
Broker or financial consultant who sold me the shares originally	7	1	1	2	12	10	16
Broker or financial consultant with whom I had done business before, but who did not sell me shares of this fund	5	2	2	4	7	6	9
Broker or financial consultant with whom I had not done business before	3	2	2	3	4	4	4
Accountant or lawyer	1	1	1	1	2	2	3
Published financial information (total)	14	19	20	16	9	8	10
Newsletter	8	13	14	8	4	4	5
Article in magazine or newspaper	7	8	8	8	6	5	6
Literature I requested from a fund group or broker	3	3	2	4	3	2	4
Unsolicited literature I received in the mail	1	1	1	1	1	1	2
Advertisement in magazine or newspaper	1	1	1	1	1		
Friend, relative, neighbor, or business associate	3	3	3	5	3	3	2
Base =	1292	661	486	175	631	388	243

*Multiple responses included

related reason than were those who sold a fixed-income fund. Among sales force full redeemers, more equity fund sellers indicated that they needed the money than did fixed-income fund sellers.

Investment Strategies as a Reason for Redeeming

Within the category of investment strategies as a reason for redeeming, 31 percent of full redeemers said that they closed an account because they wanted to invest in a mutual fund offered by a different company. About one quarter also indicated that they were concerned about investment conditions, a finding that suggests that mutual fund companies should consider keeping shareholders informed about market conditions in order to alleviate their fears. In particular, shareholders might benefit from information on how their fund behaves during various economic cycles. Information and assistance in asset allocation among the complex’s own funds could also encourage exchanges in place of redemptions, assuming the complex has a full array of products for all market conditions.

When compared with sales force full redeemers, direct market full redeemers were more likely to cite concerns about investment conditions. Among direct market full redeemers, equity fund sellers were the likeliest to indicate that they wanted to invest in a mutual fund from a different company, and fixed-income fund sellers were the likeliest to cite a change in investment goals. A similar pattern exists among sales force full redeemers.

Fund-Related Reasons for Redeeming

Overall, 55 percent of full redeemers said they closed their fund accounts for a fund-related reason. More than four out of ten full redeemers cited dissatisfaction with fund investment results as a reason for re-

deeming and nearly one third indicated a lower than expected fund yield or total return. Only 11 percent of full redeemers cited high fund expenses or fees as a reason for closing their fund account.

Sales force full redeemers were as likely as their direct market counterparts to mention dissatisfaction with investment results and a low yield or return as reasons for selling fund shares. However, the former were far more likely to cite high expenses and fees as a reason for closing an account. In fact, approximately one out of five full redeemers of sales force distributed funds indicated high expenses as a reason for closing their accounts. This is not an unexpected finding because sales force distributed funds generally have higher load structures than direct market funds.

While many full redeemers who cite poor performance as a reason for selling shares may have accurately assessed the fund’s performance, it is possible that some may have had unrealistic expectations. Fund groups may wish to consider developing shareholder communications that caution against excessive performance optimism. These communications could be included with a prospectus or distributed to shareholders on an as-needed basis, such as during an economic downturn.

The Need for Money as a Reason for Redeeming

About one third of full redeemers closed their fund accounts because they needed the money. Nearly one in five full redeemers said that they needed the money in order to make a large purchase, and 9 percent said that they needed the money to pay household bills. Sales force full redeemers were somewhat more likely than their direct market counterparts to indicate that they needed the money to make a large purchase.

Figure 14
Full Redeemers’ Reasons for Redeeming*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
I redeemed because...							
of an investment strategy-related reason	80	83	83	81	77	78	76
of a fund-related reason	55	52	57	37	58	59	56
I needed the money	34	30	30	30	38	42	33
of a service-related reason	26	16	14	19	36	35	38
Base =	1288	661	485	176	627	387	240

*Multiple responses included

Figure 15

Investment Strategies as a Reason for Redeeming Among Full Redeemers*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Percent citing an investment strategy-related reason (total)	80	83	83	81	77	78	76
Wanted to invest in a mutual fund from a different company	31	31	33	27	30	35	22
Concerned about investment conditions or market climate	26	32	32	34	19	15	24
Wanted to place money in an investment product other than a mutual fund	17	17	17	18	18	17	19
My investment goals changed	17	16	15	21	17	16	19
Wanted to take my gains or earnings	12	15	15	14	9	11	6
Wanted to rollover or transfer my IRA, Keogh, or SEP account	7	7	8	6	8	10	5
Wanted to declare a tax gain or loss	7	9	9	9	6	5	8
Wanted to invest in a tax-exempt investment	4	3	2	5	5	5	5
Wanted to protect my investment against inflation	4	4	4	5	4	3	5
Wanted the advice of a broker or financial consultant rather than make my own decisions	3	2	1	3	4	3	5
Didn't want the advice of a broker any longer	2	-	-	1	4	4	5
Base =	1288	161	485	176	627	387	240

*Multiple responses included

Figure 16

Fund-Related Reasons for Redeeming Among Full Redeemers*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Percent citing a fund-related reason (total)	55	52	57	37	58	59	56
I was dissatisfied with the fund's investment results	42	40	45	28	43	44	42
Fund yield or total return was below my expectations	32	30	34	20	33	33	33
Fund expenses or fees were too high	11	5	5	6	17	17	16
Base =	1288	161	485	176	627	387	240

*Multiple responses included

Figure 17

The Need for Money as a Reason for Redeeming Among Full Redeemers*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Percent citing that they needed the money (total)	34	30	30	30	38	42	33
To make a large purchase	18	15	15	15	20	22	17
To pay household bills	9	8	8	7	11	11	10
To pay educational expenses	4	3	4	3	4	5	2
To pay taxes	2	2	2	2	3	4	1
To pay medical bills	2	2	2	1	3	3	4
To settle an estate	1	1	-	2	2	3	1
Base =	1288	161	485	176	627	387	240

*Multiple responses included

These findings suggest that personal financial difficulties may have required some full redeemers to dip into their long-term holdings. Therefore, fund companies should promote the message that long-term mutual funds are less risky to investors when held for at least five to ten years. Of course, shareholders experiencing personal financial problems may have little choice but to liquidate their assets.

Moreover, data presented in the next chapter of this report indicate that nearly a quarter of full redeemers owned the fund from which they sold shares for two years or less. Hence, it is quite possible that some full redeemers who needed the money were using a long-term fund to save for a short-term financial goal.

Service as a Reason for Redeeming

When compared with other reasons for selling mutual fund shares, full redeemers cited service-related reasons much less frequently. In fact, just 26 percent of full redeemers said that a service-related reason led them to close their account. Moreover, it appears that shareholders rarely close an account because a financial adviser suggested it. Only 9 percent of all full redeemers mentioned that their current broker or financial consultant recommended that they sell the shares of the fund from which they most recently redeemed. Similarly, only 3 percent of full redeemers said that a newly retained broker advised them to sell fund shares. Also, full redeemers rarely cited dissatisfaction with their current broker

or financial consultant as a reason for closing a fund account.

However, as Figure 18 shows, service-related reasons were more apt to be mentioned by sales force full redeemers than direct market full redeemers. In fact, 15 percent of sales force full redeemers indicated that their current broker or financial consultant suggested that they sell shares of the fund from which they most recently redeemed. This finding parallels the earlier finding, presented in Figure 13, that some sales force full redeemers were influenced to sell shares by a financial adviser, usually the one who originally sold them the shares.

The finding that poor service is rarely a reason for redeeming is supported by earlier ICI research, which found that the mutual fund industry is perceived by shareholders as delivering very good service.² Although service problems alone do not generate significant redemption activity, it is possible that in combination with other dissatisfactions, such as poor performance, low yield or total return, or high fees or expenses, poor or mediocre service can contribute to the shareholder's decision to redeem.

Consequently, mutual fund groups should monitor their customer services to ensure that service delivery meets, or perhaps even exceeds, shareholders' expecta-

²The results of this study were published in *Mutual Fund Service: The Shareholder's Perspective*, which is only available to the fund groups that participated in the study. An overview of the findings were presented in the Fall 1991 *Perspective on Mutual Fund Activity*, a publication that is available to all ICI members and nonmembers.

Figure 18

Service-Related Reasons for Redeeming Among Full Redeemers*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Percent citing a service-related reason (total)	26	16	14	19	36	35	38
My current broker or financial consultant suggested that I sell these shares	9	4	3	6	15	13	18
I was dissatisfied with the fund company's service	7	4	5	3	9	9	10
I changed to a different broker or financial consultant	5	3	2	5	8	7	10
I was dissatisfied with the service of my broker or financial consultant	4	1	1	2	7	8	5
I wanted a combined statement for all my investments	3	3	3	2	4	4	3
My new broker or financial consultant advised me to sell these shares	3	2	2	3	4	4	3
Base =	1288	161	485	176	627	387	240

* Multiple responses included

tions. By doing so, mutual funds have a greater chance of eliminating redemptions for service-related reasons.

Reasons for Selecting a Particular Fund

It appears that shareholders typically close out a particular fund account because the fund's return has not met their expectations. When asked why they sold shares of a particular fund rather than withdraw money from some other source, the largest proportion of full redeemers, 46 percent, said it was because the expected return was lower than the expected return on other sources of cash. All other reasons were mentioned far less frequently. Just 19 percent of full redeemers said that the fund was the most convenient source of cash, only 16 percent indicated that their investment goal had been met, and a modest 10 percent reported that the fund was their only available source of cash.

Figure 19 illustrates that the various segments of full redeemers decided to redeem shares of a particular fund for different reasons. Full redeemers of sales force distributed funds were twice as likely as their direct market counterparts to state that the fund account they closed was the only available source of cash. In contrast, direct market full redeemers were more likely than their sales force counterparts to indicate that they invested for a specific purpose and redeemed for that purpose.

Among direct market full redeemers, those who sold an equity fund were far more likely to cite low return as a reason for redeeming than were those who sold a fixed-income fund. Among sales force full redeemers, equity fund sellers were more likely than their fixed-income counterparts to state that the fund they sold was the only available source of cash. This is not surprising because sales force equity fund redeemers are younger and have fewer household financial assets than sales force fixed-income fund redeemers. (See Chapter 4 for a description of the demographics of full redeemers.)

Opinions on Reinvesting in the Same Fund and Fund Group

Shareholders who close a fund account are more apt to buy another fund from the same fund group than to ever again invest in the fund they sold. Seventy percent of full redeemers responded that they would invest in another fund from the same fund group from which they most recently closed an account. However, only 58 percent of full redeemers said that they would invest again in the same fund. This is not surprising because more than one half of full redeemers cited a fund-related reason for selling shares.

In contrast, Figure 20 shows that direct market full redeemers were far more likely than sales force full re-

Figure 19

Reasons Why Full Redeemers Select a Particular Fund for Redemption*

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
The expected return on this fund was lower than the expected return on other sources of cash	46	46	51	32	46	44	50
This fund was the most convenient or liquid source of cash	19	18	16	22	20	20	20
I invested in this fund for a specific purpose and redeemed for that purpose	16	19	18	21	13	12	14
This fund was the only available source of cash	10	7	7	7	14	17	10
Base =	1202	612	451	161	590	365	225

*Multiple responses included

Figure 20

Likelihood of Full Redeemers Reinvesting in the Same Fund and Fund Group*

(percent indicating “yes”)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Fund group	70	84	82	90	55	57	51
Fund	58	71	68	80	44	45	41

*Multiple responses included

deemers to indicate that they would invest again in the same fund and in other funds offered by the same company. Among direct market full redeemers, those who sold a fixed-income fund were more likely to indicate that they would reinvest in the same fund or the same fund group than those who sold an equity fund. Among sales force full redeemers, the opposite was true, but the differences between the two groups are not statistically significant.

Satisfaction with the Redemption Process

One of the objectives of the research was to obtain data from redeemers concerning their satisfaction with the redemption process. Specifically, they were asked to indicate their level of satisfaction with the simplicity of redemption procedures, the accuracy of the processing of their redemption request, the timeliness of their re-

ceipt of the proceeds, the service they received from the fund company, and, if applicable, the service they received from their broker or financial consultant.

Overall, respondents who closed an account were quite satisfied with the redemption process—the lowest average rating recorded was a 4.0 (out of a maximum of 5.0) for service received from a broker or financial consultant. Accurate processing garnered the highest score, receiving an average rating of 4.6 from all full redeemers. Timely confirmation followed with a mean satisfaction rating of 4.5. Simplicity of procedures, timely receipt of proceeds, and fund company service each received a mean satisfaction rating of 4.4.

As a group, direct market full redeemers were somewhat more satisfied with their complexes’ redemption procedures than were sales force redeemers. Among direct market full redeemers, fixed-income fund sellers

Figure 21

Full Redeemers' Satisfaction with the Redemption Process

(mean score*)

	All	Direct Market			Sales Force		
	Full Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Accurate processing	4.6	4.7	4.7	4.8	4.5	4.5	4.4
Timely confirmation	4.5	4.6	4.6	4.7	4.4	4.4	4.3
Simplicity of procedures	4.4	4.5	4.4	4.6	4.3	4.3	4.3
Timely receipt of proceeds	4.4	4.5	4.4	4.7	4.3	4.4	4.3
Service of the fund company	4.4	4.5	4.5	4.6	4.2	4.2	4.2
Service of the broker or financial consultant, if applicable	4.0	4.2	4.2	4.4	3.9	4.0	3.9

*1=very dissatisfied, 5=very satisfied

were slightly more satisfied with the redemption process than were equity fund sellers.

Redeemers who were dissatisfied with any aspect of the redemption process were given the opportunity to describe what factors caused their dissatisfaction. Seventeen percent of full redeemers took advantage of this opportunity. Their dissatisfactions included the length of time it took to receive the redemption proceeds, cumbersome redemption procedures, difficulties in reaching brokers and financial consultants, and poor communications.

Chapter 2: Characteristics of the Fund from Which Shares Were Redeemed

Type of Fund Redeemed

Shareholders who redeemed in full were most apt to close an equity fund account, a finding which reflects the fact that there are more equity fund accounts than fixed-income fund accounts. The largest proportion of full redeemers, 68 percent, sold shares of an equity fund—43 percent sold shares of a nonaggressive equity fund, and 25 percent sold shares of an aggressive equity fund.³ Less than one quarter sold shares of a taxable bond fund. The smallest proportion, 10 percent, closed out a tax-exempt bond fund account.

Direct market full redeemers were far more likely to sell shares of an aggressive equity fund than sales force full redeemers. On the flip side, sales force full redeemers were more likely to sell shares of a taxable bond fund than their direct market counterparts.

Incidence of Tax-Advantaged Status

Only a small proportion of full redeemers, 19 percent, indicated that the fund shares they sold had tax-advantaged status. A total of 16 percent of full redeemers cited that the fund shares they sold were part

of an individual retirement account, 2 percent said that the shares were part of an employee contributory retirement plan, and 1 percent reported that the shares were part of a Keogh account. Among both direct market and sales force full redeemers, equity fund sellers were more likely to indicate that the shares they sold had tax-advantaged status than were fixed-income fund sellers.

Incidence of a Redemption Fee

The vast majority of full redeemers, 75 percent, indicated that they did not pay a redemption fee when they closed their accounts. Just 14 percent said that they did pay a redemption fee. However, 11 percent of full redeemers did not know whether they were charged a fee when they closed their accounts, a finding that signals the need for mutual fund companies to communicate more clearly with shareholders about the existence of redemption fees, or encourage brokers to do so.

As Figure 24 shows, sales force full redeemers were more likely to indicate that they paid a redemption fee than were direct market full redeemers. Also noteworthy, when compared with their direct market coun-

Figure 22

Type of Fund Sold by Full Redeemers

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Nonaggressive equity fund	43	43	58	-	42	69	-
Aggressive equity fund	25	31	42	-	19	31	-
Tax-exempt bond fund	10	9	-	34	9	-	24
Taxable bond fund	23	17	-	66	29	-	76
Base =	1298	664	487	177	634	391	243

³Nonaggressive equity funds include growth, growth and income, and income-equity funds. Aggressive equity funds include aggressive growth, international, global, option/income, and precious metals funds.

Figure 23

Full Redeemers' Redemption of Shares from Fund with Tax-Advantaged Status

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
IRA	16	16	16	14	16	19	12
Part of employee contributory retirement plan	2	2	2	-	2	2	1
Keogh account	1	1	1	-	1	-	2
Total	19	19	19	14	19	21	15
Base =	1298	664	487	177	634	391	243

Figure 24

Full Redeemers Who Paid a Redemption Fee

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Yes	14	10	13	4	18	15	23
No	75	83	81	87	67	72	59
Don't know	11	7	6	9	15	13	18
Base =	1282	658	485	173	624	383	241

terparts, sales force full redeemers were less likely to know whether they paid a redemption fee.

Among direct market redeemers, equity fund sellers were the likeliest to report that they paid a redemption fee when they closed their accounts. Among sales force full redeemers, fixed-income fund sellers were the likeliest to indicate that they were charged a redemption fee. However, also among sales force full redeemers, nearly one in five fixed-income sellers were unsure whether they paid a redemption fee.

Value of the Redemption

The mutual fund account closed by full redeemers had a median value of \$7,250. The median account value of direct market full redeemers was \$6,350, more than \$2,000 lower than the median value of \$8,380 for sales force full redeemers. Among both direct market and sales force full redeemers, the median account value of those who sold fixed-income funds was greater than the median account value of those who sold equity funds.

Tenure in the Fund

Full redeemers held their shares for a median of five years before closing their fund accounts. However, a look at the distribution in Figure 26 reveals that 24 percent of full redeemers owned the fund they sold for two years or less. This finding indicates that mutual fund companies should begin early to develop a strong and lasting shareholder relationship. One tactic that would help strengthen the complex-shareholder bond is to routinely send shareholders pertinent information about the fund and fund group. This information might include facts about:

- ◆ the portfolio manager and his or her investment strategies or techniques,
- ◆ the history of the fund and the fund company,
- ◆ other funds in the fund family,
- ◆ exchange privileges, and
- ◆ the strength of the mutual fund industry.

Turning to the differences between channel groups, sales force full redeemers held their shares for a median of six years, two years longer than the median for direct

Figure 25

Amount of Redemption Among Full Redeemers

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Under \$5,000	39	44	45	39	34	37	31
\$5,000-\$9,999	22	22	23	18	23	22	23
\$10,000-\$19,999	17	16	15	17	19	18	19
\$20,000-\$29,999	8	7	5	11	9	10	8
\$30,000-\$49,999	7	6	5	7	9	8	10
\$50,000-\$99,999	4	3	2	5	5	3	7
\$100,000 or more	2	3	4	2	2	2	1
Base =	1267	653	477	176	614	378	236
Mean	\$17,420	\$17,430	\$17,200	\$17,990	\$17,450	\$16,470	\$19,020
Median	\$7,250	\$6,350	\$5,880	\$7,970	\$8,380	\$7,860	\$9,180

Figure 26

Full Redeemers' Tenure in Fund

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
2 years or less	24	31	29	38	15	15	16
3-4 years	20	23	24	21	17	14	23
5-6 years	23	23	25	19	23	21	25
7-9 years	19	14	13	13	23	24	24
10 or more years	14	9	9	9	22	26	12
Base =	1187	622	460	162	565	344	221
Mean (in years)	6	5	5	5	8	9	6
Median (in years)	5	4	4	3	6	7	6

market full redeemers. Among both direct market and sales force full redeemers, those who closed out an equity fund account held their shares a median of one year longer than those who closed out a fixed-income fund account.

Distribution Channel Used for Purchase

Figure 27 shows that the largest proportion of full redeemers, 48 percent, sold shares of a fund they originally purchased directly from a mutual fund company. Another 28 percent sold shares they purchased from a full-service broker, and 13 percent sold shares they pur-

chased from a financial planner. Only 6 percent of full redeemers sold shares purchased from an insurance agent, 2 percent from a discount broker, and 1 percent from a bank representative.

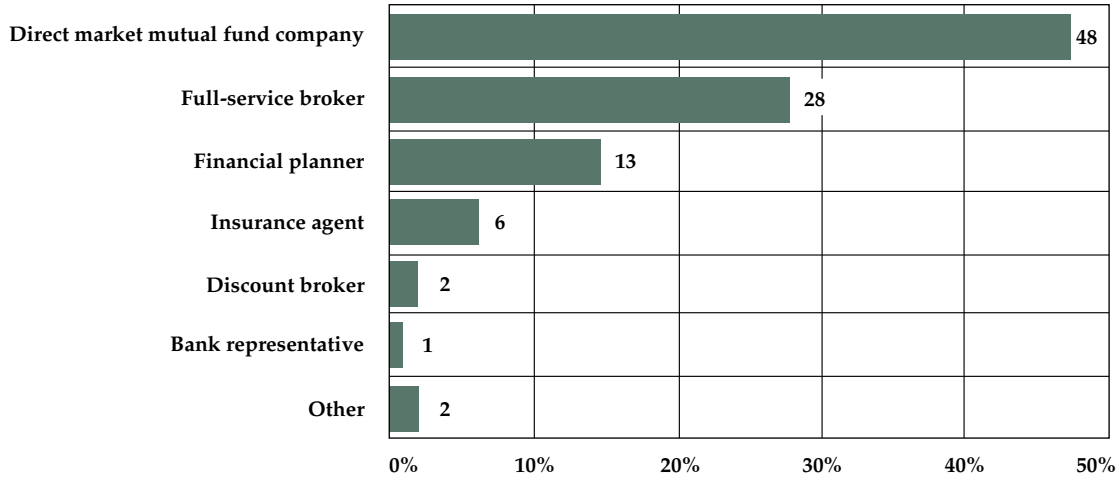
Reasons for Initial Investment in Fund

Respondents were asked why they first invested in the fund from which they redeemed. As Figure 28 shows, the largest proportion of full redeemers, 43 percent, reported that they first invested in the fund as part of a general savings program. The second largest proportion, 38 percent, cited saving for retirement as the

Figure 27

Distribution Channel Used by Full Redeemers to Purchase Fund from Which They Redeemed

(percent)



Base= 1227

Figure 28

Full Redeemers' Reasons for Initially Investing in Fund*

(percent)

	All	Direct Market		Sales Force			
	Full Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
As part of a general savings program	43	46	47	42	40	41	39
To provide future retirement income	38	36	38	30	40	43	36
To diversify my investments	33	40	39	44	25	25	25
As a hedge against inflation	14	18	21	12	10	11	7
To save for a large purchase	9	8	8	8	9	12	6
To supplement current income	9	6	5	10	11	6	19
To save for future educational expenses	8	6	7	4	10	13	6
To save in order to invest later in other types of securities	8	9	10	6	6	6	7
No particular reason or goal	1	1	1	1	2	1	2
Base =	1222	639	471	168	583	355	228

*Multiple responses included

reason for their initial fund investment. Also noteworthy, 33 percent of full redeemers indicated that they initially invested in the fund in order to diversify their investment portfolios. Next on the list, 14 percent of full redeemers indicated that they originally invested in the fund as a hedge against inflation, and 9 percent said they were saving for a large purchase.

A comparison of these findings with other ICI research findings indicates that the investment objectives

of shareholders who close fund accounts are slightly different from the investment objectives of the general shareholder population. For example, in a 1991 ICI mail survey of all shareholders, saving for retirement was the most frequently mentioned financial objective, cited by 56 percent of that study's respondents. General savings followed, mentioned by 29 percent of all responding shareholders.

Chapter 3: Reinvestment Activity

Because most shareholders who close a fund account are motivated by investment strategy and fund-related reasons, it is not surprising that most full redeemers reinvest their proceeds. The majority of respondents who closed an account, 75 percent, reinvested their redemption proceeds—64 percent reinvested all of the proceeds, and 11 percent reinvested part of the proceeds. Direct market full redeemers were somewhat more likely to say they reinvested their proceeds than sales force full redeemers. This finding follows because direct market full redeemers were less likely to say they needed the money than sales force full redeemers.

Reinvestment into Mutual Funds

Among full redeemers who reinvested, 70 percent selected another mutual fund investment, an indication that those who were dissatisfied with a particular fund were not completely deterred from future mutual fund investing. The largest proportion, 41 percent, purchased a stock fund from another complex. Twelve percent of reinvesting full redeemers ultimately purchased shares

of a different mutual fund from the same complex.⁴ Reinvesting direct market full redeemers were more likely than their sales force counterparts to purchase other mutual fund shares, including a different mutual fund offered by the same group.

The findings indicate that many full redeemers who reinvest their proceeds select a new fund of the same type. For example, among reinvesting direct market full redeemers, those who sold equity fund shares were more likely than their fixed-income counterparts to purchase shares in an equity fund offered by a different mutual fund group. Also among reinvesting direct market full redeemers, fixed-income fund sellers were more likely than equity fund sellers to purchase shares of tax-exempt and taxable bond funds.

Among reinvesting sales force full redeemers, equity fund sellers were also more likely to purchase an equity fund from another fund group than were fixed-income fund sellers. However, the two groups were about as likely to purchase tax-exempt and taxable bond funds.

Figure 29

Full Redeemers' Reinvestment of All or Some of Redemption Proceeds

(percent)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Did not reinvest any portion of the redemption proceeds	25	23	23	22	28	30	24
Did reinvest	75	77	77	78	72	70	76
All of the redemption proceeds	64	65	65	66	62	59	66
Part of the redemption proceeds	11	12	12	12	10	11	10
Base =	1285	658	483	175	627	387	240

⁴Because the survey questionnaire did not ask respondents about the details of this transaction, the transaction may have been an exchange rather than a redemption even though respondents were asked to exclude exchanges.

Figure 30

Reinvestment Activity Among Full Redeemers*

(percent of full redeemers who reinvested all or some of their redemption proceeds)

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Mutual Funds (total)	70	73	76	67	67	69	64
Stock funds from another group	41	42	47	29	39	46	29
Money market funds from another group	13	14	15	13	12	13	10
Different funds offered by the same group	12	16	15	18	8	7	9
Tax-exempt bond funds from another group	10	9	6	16	12	9	7
Taxable bond funds from another group	7	7	5	11	7	6	8
Other Investments (total)	34	31	28	40	38	34	43
Individual stocks (nonemployer)	18	20	19	23	15	10	23
Real estate	9	7	6	10	11	12	9
Annuities	5	3	2	4	7	7	7
Certificates of deposit	3	2	2	3	5	3	7
Individual government, municipal, or corporate bonds	3	3	2	6	4	4	3
Treasury bills	2	2	2	1	1	2	1
Precious metals	1	2	1	2	1	1	1
Life insurance	1	1	1	2	1	-	1
Depository Savings Products (total)	20	19	18	21	21	21	19
Checking accounts	11	10	9	14	12	12	12
Money market deposit accounts	10	10	10	12	9	9	9
Passbook savings accounts	6	5	4	7	8	9	7
All others (total)	8	6	6	9	9	7	12
Base =	955	508	372	136	447	267	180

*Multiple responses included

Reinvestment into Other Investments

Roughly one third of full redeemers who reinvested all or some of their proceeds purchased a nonfund investment. Eighteen percent of reinvesting full redeemers purchased shares of nonemployer stock, the most frequently mentioned nonfund investment choice. Nine percent of reinvesting full redeemers bought real estate, and 5 percent purchased annuities. Given the low rates on certificates of deposits (CDs) that prevailed at the time of the survey, it is not surprising that only 3 percent of reinvesting full redeemers put all or some of their proceeds into CDs.

Among sales force full redeemers who reinvested at least some of their proceeds, 38 percent purchased non-fund investments, compared with 31 percent of their direct market counterparts. However, the latter were more likely to purchase individual nonemployer stock than the former.

Among sales force full redeemers who reinvested proceeds, fixed-income fund sellers were more than twice as likely to purchase individual stock when compared with equity fund sellers. A similar pattern is evident among reinvesting direct market full redeemers, although the difference is not statistically significant.

Reinvestment into Depository Savings Products

Two out of ten full redeemers who reinvested proceeds put at least some of their money into various depository savings vehicles, such as checking accounts, money market deposit accounts, and passbook savings accounts. Reinvesting direct market and sales force full redeemers were just as likely to place some or all of their proceeds into savings products.

Chapter 4. Characteristics of Full Redeemers

Demographic and Financial Characteristics

- ◆ Mirroring the general shareholder population, the typical respondent who closed a fund account was a well-educated and middle-aged married man with a household income above the national average and substantial financial assets.
- ◆ Three quarters of the full redeemers who participated in the survey were male and one quarter were female.⁵ However, nearly one third of sales force full redeemers were female compared with 18 percent of direct market full redeemers. In fact, 41 percent of sales force full redeemers who sold fixed-income funds were female.
- ◆ The median age of full redeemers was 52 years at the time of the survey. The median ages of direct market and sales force full redeemers were comparable. Among both channel groups, however, fixed-income fund sellers were roughly ten years older than equity fund sellers.
- ◆ More than seven out of ten full redeemers were married when they completed the survey. Direct market full redeemers were more likely to be married than their sales force counterparts. Among both channel groups, those who sold equity funds were more likely to be married than those who sold fixed-income funds.
- ◆ When compared with the educational attainment of adults nationwide, a relatively large proportion of full redeemers, 31 percent, indicated that they completed graduate school. However, more direct market full redeemers said they completed graduate school than did sales force full redeemers.
- ◆ Most full redeemers, 70 percent, were employed at the time of the survey. Thirty-six percent were retired from their lifetime occupation, an indication that a few retirees were supplementing their retirement income by working. Slightly more sales force full redeemers than direct market full redeemers were retired from their lifetime occupation. Among

both channel groups, those who sold fixed-income funds were the likeliest to be retired.

- ◆ The 1991 median household income of full redeemers was \$55,640. The 1991 median household income of direct market full redeemers was higher than the median household income of sales force full redeemers—\$60,020 compared with \$50,800. Among both channel groups, those who sold equity funds had greater median household incomes in 1991 than those who sold fixed-income funds.
- ◆ The median value of full redeemers' total household financial assets was \$171,100 at the time of the survey.⁶ Direct market full redeemers had greater median savings and investments than sales force full redeemers—\$203,900 compared with \$143,200.
- ◆ The median value of full redeemers' total household financial assets in mutual funds was \$49,850 at the time of the survey. Direct market full redeemers had greater assets in funds than their sales force counterparts—a median of \$63,390 compared with \$40,160.

Fund Ownership Characteristics

Full redeemers owned a median of six funds at the time of the survey—three stock funds, one taxable money market fund, one taxable bond fund, and one tax-exempt bond fund. Direct market full redeemers typically owned more funds than their sales force counterparts—a median of seven funds compared with three. Among sales force full redeemers, those redeemers who sold a fixed-income fund owned a median of five funds compared with three for those who sold an equity fund.

Figure 32 also shows the incidence of ownership among full redeemer households for the various types of funds discussed in the previous paragraph. At the time of the survey, 85 percent of full redeemers owned stock funds, 69 percent owned taxable money market funds, 56 percent owned taxable bond funds, and 51 percent owned tax-exempt bond funds. Greater

⁵Each survey was directed to the household's main financial decisionmaker.

⁶Respondents were instructed to include assets in retirement plans and exclude their primary residence.

Figure 31

Demographic and Financial Characteristics of Full Redeemers

(percent)

	All Full Redeemers	Total	Direct Market Equity	Fixed-Income	Total	Sales Force Equity	Fixed-Income
Gender of Financial Decisionmaker							
Male	75	82	84	78	68	73	59
Female	25	18	16	22	32	27	41
Base =	1242	645	474	171	597	361	236
Age							
Less than 30	5	5	4	7	6	7	4
30-39	20	22	24	15	18	21	13
40-49	21	21	22	17	21	24	15
50-59	17	17	19	14	17	19	14
60-64	11	11	9	17	11	9	13
65 and over	25	24	20	30	27	19	41
Base =	1224	638	470	168	586	357	229
Mean (in years)	52	52	51	55	53	50	58
Median (in years)	52	51	49	57	52	49	61
Marital Status							
Married	71	74	76	68	68	71	62
Divorced or separated	8	8	8	7	8	7	10
Widowed	6	5	3	9	8	6	12
Never married	15	14	13	16	15	15	15
Base =	1234	644	473	171	590	356	234
Education							
High school or less	9	6	5	9	13	10	17
Some college	16	15	16	15	17	17	16
College or technical school degree	28	27	28	26	30	31	28
Some graduate school	15	17	17	18	14	11	17
Graduate school degree	31	34	35	32	28	31	23
Base =	1241	646	475	171	595	359	236
Employment Status							
Employed full-time	61	62	65	54	60	66	49
Employed part-time	9	9	10	8	9	10	9
Not presently employed	30	29	25	37	31	25	42
Base =	1204	630	464	166	574	363	211
Retirement Status							
Retired from lifetime occupation	36	34	30	44	38	29	53
Not retired	64	66	70	56	62	71	47
Base =	1155	599	437	162	556	338	218

Figure 31, continued

	All Full Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
1991 Household Income							
Under \$20,000	7	4	4	3	11	10	12
\$20,000-\$29,999	10	10	7	19	10	7	13
\$30,000-\$39,999	13	11	10	14	15	16	13
\$40,000-\$49,999	15	15	15	14	14	14	15
\$50,000-\$74,999	25	25	26	20	25	23	27
\$75,000-\$99,999	14	17	18	13	11	14	7
\$100,000 or more	17	19	19	16	14	16	13
Base =	1204	629	461	168	575	350	225
Mean	\$75,870	\$81,650	\$84,280	\$74,400	\$69,560	\$73,330	\$63,700
Median	\$55,640	\$60,020	\$62,810	\$50,000	\$50,800	\$53,440	\$48,030
Total Household Financial Assets*							
Less than \$25,000	13	11	11	11	14	15	12
\$25,000-\$49,999	9	7	7	8	12	12	11
\$50,000-\$99,999	14	13	14	9	15	17	13
\$100,000-\$149,999	11	11	12	11	10	11	8
\$150,000-\$199,999	8	7	6	8	9	8	9
\$200,000-\$249,999	9	10	8	14	8	8	8
\$250,000-\$499,999	18	19	19	21	17	14	22
\$500,000 or more	18	22	23	19	15	14	15
Base =	1226	634	467	167	592	368	224
Mean	\$268,400	\$296,300	\$299,900	\$286,500	\$238,400	\$226,000	\$258,700
Median	\$171,100	\$203,900	\$198,100	\$211,700	\$143,200	\$126,200	\$178,000
Total Household Financial Assets in Funds							
Under \$1,000	8	5	4	8	12	13	12
\$1,000-\$4,999	5	5	6	3	6	6	4
\$5,000-\$9,999	7	5	5	6	8	9	7
\$10,000-\$19,999	9	8	9	7	10	10	9
\$20,000-\$29,999	9	10	9	11	9	9	8
\$30,000-\$49,999	12	12	13	8	11	12	10
\$50,000-\$99,999	18	18	18	18	17	16	19
\$100,000-\$249,999	20	21	21	24	18	16	21
\$250,000 or more	12	16	15	15	10	9	10
Base =	1194	624	460	164	570	358	212
Mean	\$119,460	\$135,220	\$133,440	\$140,200	\$102,200	\$98,300	\$108,800
Median	\$49,850	\$63,390	\$61,450	\$68,970	\$40,160	\$35,240	\$50,000

*Respondents were instructed to include assets in retirement plans and exclude their primary residence.

proportions of direct market full redeemers owned all types of funds than did sales force full redeemers.

Nonfund Investment Ownership Characteristics

To gain a complete financial profile of redeeming shareholders, each respondent was asked to indicate the

types of nonfund savings and investment products that were owned by their household, including any investments held in IRAs, Keoghs, or employer-sponsored pension plans. As Figure 33 shows, virtually all full redeemers had checking accounts. More than six in ten owned individual stocks, and more than one half owned nonemployer life insurance and passbook sav-

Figure 32

Fund Ownership Characteristics of Full Redeemers*

	All Full Redeemers	Direct Market		Sales Force			
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Median Number of Funds Owned per Household							
Stock funds	3	4	4	3	2	2	2
Taxable money market funds	1	1	1	1	1	1	1
Taxable bond funds	1	1	1	1	0	0	1
Tax-exempt bond funds	1	1	0	1	0	0	1
Total	6	7	6	6	3	3	5
Percent of Households Owning**							
Stock funds	85%	91%	93%	82%	79%	80%	78%
Taxable money market funds	69	74	75	70	63	60	69
Taxable bond funds	56	61	58	69	50	42	60
Tax-exempt bond funds	51	52	50	58	50	43	60

*Respondents were instructed to include any fund investments that were part of an IRA, Keogh, or employer-sponsored retirement plan.

**Multiple responses included

Figure 33

Nonfund Investment Ownership Characteristics of Full Redeemers*

(percent)

	All Full Redeemers	Direct Market		Sales Force			
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Checking accounts	96	96	96	98	95	96	94
Individual stocks	62	64	65	62	59	57	62
Life insurance (nonemployer)	55	49	50	44	63	63	63
Passbook savings accounts	54	50	49	53	58	59	56
Money market desposit accounts	45	47	47	44	44	43	45
Investment real estate	41	40	43	32	42	42	43
Annuities	32	27	25	34	38	33	45
Certificates of deposit	32	27	26	33	37	33	44
Individual bonds	29	30	28	36	27	24	32
Unit investment trusts	16	16	15	19	16	13	22
Base =	1239	648	476	172	591	357	234

*Respondents were instructed to include any nonfund investments that were part of an IRA, Keogh, or employer-sponsored pension plan; multiple responses included

ings accounts. Forty-five percent of full redeemers had money market deposit accounts, 41 percent had investment real estate, and 32 percent each had certificates of deposit and annuities.

As the data show, direct market full redeemers, on the one hand, were more likely to own individual stocks and bonds than were sales force full redeemers. On the other hand, when compared with their direct market counterparts, sales force full redeemers were more likely to own nonemployer life insurance, passbook savings accounts, certificates of deposit, and annuities. They were both just as likely to own unit investment trusts.

Among direct market full redeemers, greater proportions of equity fund sellers owned nonemployer life insurance and investment real estate, while greater proportions of fixed-income fund sellers owned annuities, individual bonds, and certificates of deposit.

Among sales force full redeemers, those who sold fixed-income funds were also more likely to own annuities, individual bonds, and certificates of deposit.

Part II. Partial Redeemers

Chapter 5: The Redemption Decision

Shareholder Redemption Patterns

One of the keys to understanding the shareholder redemption process is comprehending how and why shareholders reach the decision to sell some of their mutual fund shares, a transaction referred to by the industry as a partial redemption. It is also important to determine whether shareholders redeem frequently or occasionally.

The survey results reveal that most partial redeemers only occasionally sell fund shares, but that a small proportion redeem frequently. More than six out of ten partial redeemers indicated that they transacted only one or two redemptions in the ten months preceding the survey. However, 26 percent reported that they conducted between three and five redemptions, and 12 percent said that they conducted six or more redemptions.

Figure 34 shows that direct market partial redeemers were more likely to be frequent sellers of fund shares than sales force partial redeemers. Illustrating this point, 17 percent of direct market partial redeemers conducted at least six redemptions in the ten months preceding the survey, compared with just 8 percent of sales force partial redeemers.

One reason why more direct market partial redeemers were heavier fund sellers than sales force partial redeemers may be because direct marketed

funds are more apt to be no-load or low-load. Hence, shareholders interested in moving in and out of funds are more likely to be drawn to direct marketed funds than sales force distributed funds because they generally will incur fewer transaction costs.

Among sales force partial redeemers, fixed-income fund sellers were more apt to be frequent redeemers during the ten months preceding the survey when compared with equity fund sellers. Among direct market partial redeemers, the differences in the redemption patterns of equity fund and fixed-income fund sellers are not statistically significant.

The Role of Financial Advisers and Published Financial Information

Brokers, financial consultants, investor newsletters, newspaper articles, fund company brochures, and other sources of information often play a pivotal role in the shareholder's decision to purchase shares of a particular fund. However, the survey results indicate that these means of influence are far less instrumental in the shareholder's decision to sell some of his or her fund shares. The vast majority of partial redeemers, 82 percent, stated that they reached the decision to sell fund shares themselves.

Figure 34

Frequency of Redemption Transactions Among Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
1-2 times	62	54	56	51	70	73	65
3-5 times	26	29	29	28	23	18	29
6 or more times	12	17	14	21	8	9	6
Base =	1111	570	354	216	541	303	238

*For the ten-month period preceding survey

Figure 35 shows that strong majorities of both sales force and direct market partial redeemers made the decision to sell themselves. However, more than one in ten sales force partial redeemers were influenced to sell by a broker, and nearly one in ten direct market partial redeemers was influenced to sell by something they read.

These findings indicate that the shareholder should be a primary focus of any marketing program geared toward stemming partial redemptions. The findings also indicate that, while brokers and other means of influence do not play a prominent role in the decision to sell shares, they should not be overlooked.

Reasons for Redeeming

Shareholders typically conduct partial redemptions because they need the money. When asked why they sold shares of the fund from which they most recently redeemed, 75 percent of partial redeemers said that they needed the money. In contrast, only about half mentioned a strategy-related reason, 16 percent cited a fund-

related reason, and 7 percent mentioned a service-related reason.

When compared with their direct market counterparts, sales force partial redeemers were more likely to cite that they needed the money and to mention service-related and fund-related reasons for redeeming. In contrast, direct market partial redeemers were more likely to cite a strategy-related reason. Among both sales force and direct market partial redeemers, the differences in the general reasons for selling mentioned by equity and fixed-income fund sellers are not statistically significant.

The Need for Money as a Reason for Redeeming

The survey findings suggest that personal financial demands caused many partial redeemers to dip into their long-term investments. The largest proportion of partial redeemers, 35 percent, stated that they needed the money in order to make a large purchase. Nearly three in ten partial redeemers said that they needed the money to pay household bills, 9 percent each men-

Figure 35

Factors that Influence the Decision to Redeem Among Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Not influenced, made my own decision	82	85	84	87	80	79	81
Broker or financial consultant (total)	8	2	2	3	13	13	14
Broker or financial consultant who sold me the shares originally	5	1	1	1	10	9	12
Broker or financial consultant with whom I had done business before, but who did not sell me shares of this fund	2	1	1	1	2	3	2
Broker or financial consultant with whom I had not done business before	-	-	-	-	1	1	1
Accountant or lawyer	-	1	1	-	-	1	-
Published financial information (total)	6	9	8	9	3	3	4
Newsletter	4	6	5	6	1	1	1
Article in magazine or newspaper	3	4	4	5	1	1	-
Literature I requested from a fund group or broker	2	2	1	4	1	1	2
Advertisement in magazine or newspaper	-	1	-	1	-	-	-
Friend, relative, neighbor, or business associate	2	2	1	2	2	3	1
Base =	1104	569	354	215	535	300	235

*Multiple responses included

Figure 36

Partial Redeemers' Reasons for Redeeming*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
I redeemed because...							
I needed the money	75	70	69	72	81	81	81
of an investment strategy-related reason	49	56	58	53	42	39	46
of a fund-related reason	16	15	17	11	17	16	17
of a service-related reason	7	2	3	2	12	11	13
Base =	1093	562	349	212	532	299	233

*Multiple responses included

Figure 37

The Need for Money as a Reason for Redeeming Among Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Percent citing that they needed the money (total)	75	70	69	72	81	81	81
To make a large purchase	35	33	33	33	36	36	36
To pay household bills	28	24	23	26	33	35	31
To pay educational expenses	9	7	9	5	11	10	11
To pay taxes	9	10	7	15	8	6	10
To pay medical bills	6	4	4	4	9	6	12
To settle an estate	1	1	1	-	1	-	1
Base =	1093	562	349	212	532	299	233

*Multiple responses included

tioned the need to pay educational expenses and taxes, and 6 percent cited the need to pay medical bills.

When compared with their direct market counterparts, sales force partial redeemers were more likely to cite the need to pay household bills as a reason for redeeming. Among sales force partial redeemers, perhaps because they were older, fixed-income fund sellers were twice as likely to mention the need to pay medical bills as equity fund sellers. Among direct market partial redeemers, fixed-income fund sellers were more likely to cite the need to pay taxes than equity fund sellers.

Investment Strategies as a Reason for Redeeming

Nearly one half of partial redeemers said they sold fund shares for investment strategy-related reasons. Within this category, 16 percent of partial redeemers said that they wanted to take investment gains or earnings. Twelve percent indicated that they wanted to purchase a nonfund investment, and 11 percent stated that they were concerned about investment conditions. Partial redeemers mentioned other investment strategy-related reasons even less frequently. For example, only 7 percent of partial redeemers cited either a change in investment goals or the desire to purchase shares of a mutual fund offered by a different company as reasons for selling shares.

Figure 38

Investment Strategies as a Reason for Redeeming Among Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Percent citing an investment strategy- related reason (total)	49	56	58	53	42	39	46
Wanted to take my gains or earnings	16	18	19	16	14	14	14
Wanted to place money in an investment product other than a mutual fund	12	13	12	16	11	11	12
Concerned about investment conditions or market climate	11	16	17	14	6	4	8
Wanted to invest in a mutual fund from a different company	7	9	10	8	5	6	4
My investment goals changed	7	8	7	8	6	6	7
Wanted to rollover or transfer my IRA, Keogh, or SEP account	5	5	5	3	5	4	6
Wanted to declare a tax gain or loss	3	4	3	5	3	3	3
Wanted to invest in a tax-exempt investment	2	2	2	4	2	2	3
Wanted to protect my investment against inflation	2	2	1	3	1	1	1
Wanted the advice of a broker or financial consultant rather than make my own decisions	1	1	-	1	1	1	1
Base =	1093	562	349	212	532	299	233

*Multiple responses included

When compared with their sales force counterparts, direct market partial redeemers were more likely to cite concerns about investment conditions and the desire to invest in a fund offered by a different company as reasons for redeeming. Among both direct market and sales force partial redeemers, the proportions of equity and fixed-income fund sellers who indicated that they were redeeming for various strategy-related reasons are not significantly different.

Fund-Related Reasons for Redeeming

Overall, just 16 percent of partial redeemers indicated that they sold fund shares for a fund-related reason. Only about one in ten partial redeemers mentioned dissatisfaction with fund investment results and a lower than expected fund yield as reasons for redeeming. Only 2 percent cited high fund expenses or fees.

Service-Related Reasons for Redeeming

Service-related reasons for selling fund shares, cited by only 7 percent of partial redeemers, were rarely mentioned by this group. For example, only 4 percent of partial redeemers indicated that their current broker or financial consultant suggested that they sell shares.

Moreover, only 1 percent of partial redeemers cited dissatisfaction with a fund company or broker services.

Given that most partial redeemers sold fund shares because they needed the money, it is not surprising that service dissatisfaction was rarely a motivating factor in the decision to sell. Moreover, other ICI research has found that mutual fund shareholders are generally satisfied with the service they receive from mutual fund companies. Even so, fund complexes should monitor service delivery and maintain standards of excellence so that poor service can be eliminated as a reason for redeeming.

Reasons for Selecting a Particular Fund

Convenience and liquidity appear to be key factors that lead shareholders to select a particular fund for a partial redemption. When asked why they sold shares of the fund from which they most recently redeemed rather than withdraw money from some other source, 45 percent of partial redeemers responded that the fund was the most convenient or the most liquid source of cash. All other reasons were mentioned less frequently.

Figure 39

Fund-Related Reasons for Redeeming Among Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Percent citing a fund-related reason (total)	16	15	17	11	17	16	17
I was dissatisfied with the fund's investment results	9	10	11	7	8	9	7
Fund yield or total return was below my expectations	9	7	9	4	11	11	10
Fund expenses or fees were too high	2	1	1	1	3	3	3
Base =	1093	562	349	212	532	299	233

*Multiple responses included

Figure 40

Service-Related Reasons for Redeeming Among Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Percent citing a service-related reason (total)	7	2	3	2	12	11	13
My current broker or financial consultant suggested that I sell these shares	4	1	1	1	6	6	7
I was dissatisfied with the fund company's service	1	1	1	-	2	1	2
I changed to a different broker or financial consultant	1	-	-	-	2	2	1
I was dissatisfied with the service of my broker or financial consultant	1	-	1	-	1	1	2
I wanted a combined statement for all my investments	-	-	-	-	1	1	-
Base =	1093	562	349	212	532	299	233

* Multiple responses included

For example, 22 percent of partial redeemers said that they invested in the fund for a particular purpose and redeemed for that purpose, 21 percent indicated that the fund was their only available source of cash, and 14 percent said they redeemed because the fund's expected return was lower than the expected return on other sources of cash.

The largest proportion of both sales force and direct market partial redeemers mentioned convenience or li-

quidity as the reason why they sold shares of a particular fund. However, when compared with their direct market counterparts, a greater proportion of sales force partial redeemers said that the fund shares they sold were their only available source of cash. Meanwhile, a greater proportion of direct market partial redeemers mentioned that the fund's return was lower than the expected return on other sources of cash.

Among direct market partial redeemers, fixed-income fund sellers were the likeliest to mention convenience and that they accomplished their investment goal as reasons for redeeming from a particular fund. Meanwhile, their equity fund-selling counterparts were likelier to cite that the fund was their only available source of cash.

Opinions on Reinvesting in the Same Fund and Fund Group

Shareholders who conduct partial redemptions are likely to invest in another fund offered by the same group, as well as to invest again in the fund from which they recently sold shares. More than nine out of every ten partial redeemers indicated that they would invest in another fund offered by the same fund group, and nine out of ten also said that they would invest in the same fund from which they redeemed. These results are not surprising because only a few partial redeemers sold fund shares for fund-related or service-related reasons.

As Figure 42 shows, though, direct market partial redeemers were more likely than their sales force counterparts to indicate that they would invest again in the same fund and in other funds offered by the same company. Among both direct market and sales force partial redeemers, the proportions of equity and fixed-income fund sellers who said that they would invest in the same fund and fund complex are not significantly different.

Satisfaction with the Redemption Process

In addition to learning how and why shareholders reach the decision to redeem, another objective of the study was to determine how satisfied shareholders are with the redemption process. Toward that goal, redeeming shareholders were asked to indicate their level of satisfaction with six aspects of the redemption process: accurate processing of the redemption request, simplicity of redemption procedures, timely confirmation of the redemption request, timely receipt of the redemption proceeds, service received from the mutual fund company, and, if applicable, service received from the broker or financial consultant. These evaluations were then converted into an average rating for which a score of one equaled very dissatisfied and five equaled very satisfied.

Partial redeemers who participated in the survey were quite satisfied with the process of selling fund shares. Accurate processing received the highest score, garnering an average rating of 4.8. Simplicity of procedures, timely confirmation of request, and the fund company's service each obtained an average rating of 4.7. Timely receipt of proceeds followed with an average satisfaction rating of 4.6. Finally, where applicable, the service of a broker or financial consultant received an average rating of 4.5.

An analysis of the data by distribution channel revealed that the satisfaction ratings of direct market and sales force partial redeemers were quite comparable. Moreover, an analysis of the type of fund sold by partial

Figure 41

Reasons Why Partial Redeemers Select a Particular Fund for Redemption*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
This fund was the most convenient or liquid source of cash	45	44	39	51	46	47	45
I invested in this fund for a specific purpose and redeemed for that purpose	22	24	21	28	21	20	22
This fund was the only available source of cash	21	16	20	9	26	24	28
The expected return on this fund was lower than the expected return on other sources of cash	14	17	17	16	12	12	12
Base =	1077	549	337	212	528	297	231

*Multiple responses included

Figure 42

Likelihood of Partial Redeemers Reinvesting in the Same Fund and Fund Group*

(percent indicating “yes”)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Fund group	93	97	97	97	89	88	89
Fund	91	95	94	96	87	88	86

*Multiple responses included

Figure 43

Partial Redeemers’ Satisfaction with the Redemption Process

(mean score*)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Accurate processing	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Simplicity of procedures	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Timely confirmation	4.7	4.7	4.7	4.7	4.6	4.6	4.7
Service of the fund company	4.7	4.7	4.8	4.7	4.6	4.6	4.6
Timely receipt of proceeds	4.6	4.6	4.6	4.7	4.6	4.6	4.6
Service of the broker or financial consultant, if applicable	4.5	4.5	4.5	4.5	4.4	4.5	4.4

*1=very dissatisfied, 5=very satisfied

redeemers within each distribution channel revealed no significant differences.

In addition to indicating their level of satisfaction with the six aspects of the redemption process, shareholders who were in any way dissatisfied were invited to describe what factors caused their dissatisfaction. Slightly more than 8 percent of partial redeemers took advantage of this opportunity. The most frequently mentioned dissatisfaction by this group was the lengthy time it took to receive the redemption proceeds, followed by cumbersome redemption procedures, and difficulties in reaching brokers and financial consultants.

Chapter 6: Characteristics of the Fund from Which Shares Were Redeemed

Type of Fund Redeemed

Partial redeemers were most apt to sell shares of an equity fund. This finding is not surprising since shareholders own more equity funds than fixed-income funds, according to other ICI research. The largest proportion of partial redeemers, 59 percent, sold shares of an equity fund—46 percent sold shares of a nonaggressive equity fund, and 13 percent sold shares of an aggressive equity fund.⁷ Altogether, 41 percent of partial redeemers sold shares of a fixed-income fund—28 percent sold shares of a taxable bond fund, and 13 percent sold shares of a tax-exempt bond fund.

When compared with their sales force counterparts, direct market partial redeemers were more likely to sell shares of both an aggressive equity fund and a tax-exempt bond fund. In contrast, sales force partial redeemers were the likeliest of the two groups to sell shares of a taxable bond fund.

Incidence of Tax-Advantaged Status

Only a small proportion of partial redeemers, 19 percent, indicated that the fund shares they sold had tax-

advantaged status. A total of 15 percent of partial redeemers indicated that the fund shares they sold were part of an individual retirement account, 2 percent stated that the shares were part of a Keogh account, and another 2 percent said that the shares were part of an employee contributory retirement plan.

Incidence of a Redemption Fee

Most partial redeemers, 83 percent, reported that they did not pay a redemption fee when they sold fund shares. Just 8 percent indicated that they did pay a redemption fee. However, 8 percent were not sure whether they paid a fee, a finding that indicates mutual fund companies and brokers may need to communicate more clearly to shareholders about the existence of redemption fees.

Figure 46 shows that sales force partial redeemers were more apt to indicate that they paid a redemption fee than direct market partial redeemers. Also noteworthy, sales force partial redeemers were the channel group likeliest to be unsure about whether they paid a redemption fee.

Figure 44

Type of Fund Sold by Partial Redeemers

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Nonaggressive equity fund	46	45	73	-	48	85	-
Aggressive equity fund	13	17	27	-	9	15	-
Tax-exempt bond fund	13	18	-	47	8	-	17
Taxable bond fund	28	20	-	53	36	-	83
Base =	1111	570	354	216	541	303	238

⁷Nonaggressive equity funds include growth, growth and income, and income-equity funds. Aggressive equity funds include aggressive growth, international, global, option/income, and precious metals funds.

Figure 45

Partial Redeemers' Redemption of Shares from Fund with Tax-Advantaged Status

(percent)

	All	Direct Market			Sales Force		
	Partial Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
IRA	15	16	18	12	13	13	13
Part of employee contributory retirement plan	2	2	1	3	3	3	3
Keogh account	2	2	2	1	2	2	1
Total	19	20	21	16	18	18	17
Base =	1111	570	354	216	541	303	238

Figure 46

Partial Redeemers Who Paid a Redemption Fee

(percent)

	All	Direct Market			Sales Force		
	Partial Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Yes	8	4	4	3	14	12	16
No	83	93	93	94	72	73	71
Don't know	8	3	3	3	14	14	14
Base =	1096	568	352	216	528	294	234

Account Value Before the Redemption and Value of the Redemption

Partial redeemers sold shares from an account that had a median value of \$11,940 before the redemption. The preredemption account values of direct market and sales force partial redeemers were fairly comparable—a median of \$11,190 versus \$12,670, respectively.

Among both channel groups, the preredemption account values of fixed-income fund sellers were larger than those of their equity fund-selling counterparts. The difference is especially significant among direct market partial redeemers, where the median preredemption account value of fixed-income fund sellers was \$23,130, while the preredemption account value of equity fund sellers was \$7,470.

Partial redeemers received a median of \$4,270 when they sold their fund shares, or 36 percent of the account's preredemption value. The size of the proceeds received by direct market and sales force partial redeem-

ers was similar both in dollar amount and as a percentage of the account's preredemption value.

Among both channel groups, the median dollar amount received by fixed-income sellers exceeded the amount received by equity fund sellers. Among direct market partial redeemers, the median size of the withdrawal transacted by fixed-income fund sellers was almost 1.75 times larger than the withdrawal transacted by equity fund sellers. As a percentage of the account's preredemption value, though, equity fund sellers of both channel groups redeemed a greater proportion than did fixed-income fund sellers.

To increase the odds of retaining the partial redeemer's remaining account balance, mutual fund companies should consider developing a retention program directed toward this group of shareholders. While fund owners confronted with financial difficulties may have no alternative but to sell some of the fund shares they own, those who sell for investment strategy and fund-related reasons possibly could be influenced by a strengthening of their bond with the complex.

Figure 47

Account Value Before Redemption and Amount of Redemption Among Partial Redeemers

(percent)

	All		Direct Market		Sales Force		
	Partial Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
Account Value Before Redemption							
Under \$1,000	4	4	7	-	4	4	3
\$1,000-\$4,999	24	25	33	13	22	23	21
\$5,000-\$9,999	18	18	21	13	19	22	16
\$10,000-\$19,999	19	18	17	19	20	20	20
\$20,000-\$29,999	11	11	10	11	12	14	10
\$30,000-\$49,999	9	7	5	11	10	8	12
\$50,000-\$99,999	9	10	5	18	7	6	9
\$100,000 or more	6	7	2	13	6	4	9
Base =	1096	561	349	212	535	298	237
Mean	\$30,920	\$31,880	\$17,750	\$55,120	\$29,880	\$24,240	\$37,050
Median	\$11,940	\$11,190	\$7,470	\$23,130	\$12,670	\$10,850	\$15,000
Amount of Redemption							
Under \$1,000	16	18	21	12	15	16	14
\$1,000-\$4,999	41	40	44	33	42	43	41
\$5,000-\$9,999	18	17	15	19	19	18	19
\$10,000-\$19,999	13	12	10	14	13	13	14
\$20,000-\$29,999	4	5	4	7	4	3	4
\$30,000-\$49,999	4	5	3	8	3	2	3
\$50,000-\$99,999	3	2	1	4	3	3	3
\$100,000 or more	1	1	1	4	1	1	1
Base =	1084	560	348	212	524	294	230
Mean	\$12,040	\$12,840	\$8,180	\$20,500	\$11,190	\$9,800	\$12,950
Median	\$4,270	\$4,240	\$3,620	\$6,280	\$4,290	\$4,120	\$4,530

Figure 48

Partial Redeemers' Tenure in Fund

(percent)

	All		Direct Market		Sales Force		
	Partial Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
2 years or less	23	30	28	33	16	15	17
3-4 years	18	20	21	18	16	14	19
5-6 years	17	15	16	14	20	16	25
7-9 years	20	19	19	16	22	18	27
10 or more years	22	16	16	19	26	37	12
Base =	1011	530	332	198	481	273	208
Mean (in years)	8	6	6	6	9	11	7
Median (in years)	5	5	5	5	6	7	6

Tenure in the Fund

Partial redeemers owned the fund from which they most recently redeemed for a median of five years. Sales force partial redeemers owned the fund from which they sold shares for a median of six years, one year longer than the median for direct market partial redeemers. Among sales force partial redeemers, those who sold shares of an equity fund owned their fund a median of one year longer than those who sold a fixed-income fund—seven years compared with six years.

Distribution Channel Used for Purchase

As Figure 49 shows, the largest proportion of partial redeemers, 47 percent, sold shares of a fund they purchased directly from a mutual fund company. Another 22 percent sold shares of a fund they purchased from a full-service broker, and 17 percent sold shares they purchased from a financial planner. Only 7 percent of partial redeemers sold shares purchased from an insurance agent, 1 percent from a discount broker, and 2 percent from a bank representative.

Reasons for Initial Investment in Fund

When asked why they originally invested in the fund from which they most recently sold shares, the majority of partial redeemers, 52 percent, indicated that they first invested in the fund as part of a general savings program. Slightly more than one third, 36 percent, reported that they originally established the fund account in order to save for retirement, and nearly three in ten said it was to achieve investment diversity.

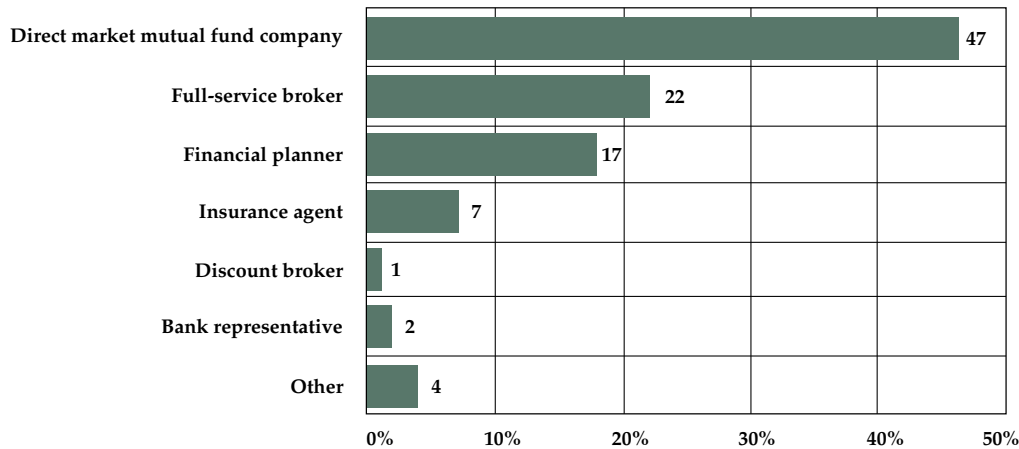
Also noteworthy, 15 percent reported that they originally opened the fund account in order to save for a large purchase. Because 35 percent of partial redeemers said that they sold fund shares in order to make a large purchase (see Figure 37), it would appear that many partial redeemers who bought a big-ticket item with their proceeds dipped into holdings that had been earmarked for general savings or for some other financial goal.

Moreover, a comparison of the investment objectives of partial redeemers with the investment objectives of the general shareholder population reveals a slight

Figure 49

Distribution Channel Used by Partial Redeemers to Purchase Fund from Which They Redeemed

(percent)



Base= 1053

difference. A 1991 mail survey of all shareholders found that saving for retirement was the most often mentioned financial objective, cited by 56 percent of responding fund owners. General savings was the second most frequently mentioned financial objective, cited by 29 percent of all respondents.

Figure 50

Partial Redeemers' Reasons for Initially Investing in Fund*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
As part of a general savings program	52	55	58	52	48	48	47
To provide future retirement income	36	34	39	26	39	43	34
To diversify my investments	29	34	30	41	25	20	31
To save for a large purchase	15	17	17	16	13	14	10
As a hedge against inflation	13	15	15	16	10	12	8
To save for future educational expenses	12	12	17	4	12	12	11
To supplement current income	10	9	5	16	10	6	15
To save in order to invest later in other types of securities	7	9	9	8	5	6	4
No particular reason or goal	1	1	1	1	2	2	1
Base =	1055	546	340	206	509	285	224

*Multiple responses included

Chapter 7: Reinvestment Activity

Because most partial redeemers sold fund shares because they needed the money, it is not surprising to find that most did not reinvest their proceeds. The majority of respondents who conducted a partial redemption, 63 percent, did not reinvest their proceeds. Of the 36 percent who did reinvest their proceeds, 27 percent reinvested all of the money and 9 percent reinvested some of the money. Direct market partial redeemers were more likely to reinvest their proceeds than their sales force counterparts, probably because more direct market partial redeemers sold fund shares for investment strategy-related reasons than did sales force partial redeemers.

Reinvestment into Mutual Funds

Among the partial redeemers who reinvested all or part of their proceeds, 54 percent selected another mutual fund investment, an indication that many of those who were dissatisfied with a particular fund were not deterred from investing in others. Two in ten reinvesting partial redeemers purchased a stock mutual fund from another fund group, and two in ten ultimately purchased a different mutual fund offered by the same fund complex.⁸ A greater proportion of

reinvesting direct market partial redeemers than sales force partial redeemers purchased a mutual fund—60 percent versus 44 percent.

Reinvestment into Other Investments

Nearly one half of reinvesting partial redeemers purchased a nonfund investment. Nearly one quarter purchased real estate, the most frequently mentioned nonfund investment choice. Seventeen percent of reinvesting partial redeemers bought shares of individual stocks, 4 percent purchased annuities, and 4 percent bought certificates of deposit. It is not surprising that certificates of deposit were an unpopular choice among this group given the relatively low interest rates that prevailed at the time of the survey.

As Figure 52 shows, when compared with their direct market counterparts, more reinvesting sales force partial redeemers purchased a nonfund investment, particularly real estate. In fact, among reinvesting sales force partial redeemers, 30 percent of equity fund sellers bought real estate.

Figure 51

Partial Redeemers' Reinvestment of All or Some of Redemption Proceeds

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Did not reinvest any portion of the redemption proceeds	63	57	57	57	70	70	71
Did reinvest	36	43	43	42	30	30	29
All of the redemption proceeds	27	33	32	33	22	22	21
Part of the redemption proceeds	9	10	11	9	8	8	8
Base =	1093	564	352	212	529	297	232

⁸Because the survey questionnaire did not ask respondents about the details of this transaction, the transaction may have been an exchange rather than a redemption even though respondents were asked to exclude exchanges.

Figure 52

Reinvestment Activity Among Partial Redeemers*

(percent of partial redeemers who reinvested all or some of their redemption proceeds)

	All Partial Redeemers		Direct Market		Sales Force		
	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income	
Mutual Funds (total)	54	60	64	52	44	36	55
Stock funds from another group	20	22	26	13	17	17	16
Different funds offered by the same group	20	24	22	26	15	11	21
Money market funds from another group	9	11	10	13	6	4	7
Tax-exempt bond funds from another group	7	10	9	10	4	2	6
Taxable bond funds from another group	7	7	9	4	6	3	10
Other Investments (total)	48	44	43	46	55	63	45
Real estate	23	21	20	22	27	30	22
Individual stocks (nonemployer)	17	17	18	17	17	20	12
Annuities	4	2	2	2	6	6	6
Certificates of deposit	4	2	2	1	7	10	3
Individual government, municipal, or corporate bonds	3	4	3	4	3	1	4
Treasury bills	1	2	2	1	1	-	1
Precious metals	1	1	1	1	1	1	-
Life insurance	1	-	-	-	1	1	1
Depository Savings Products (total)	23	20	18	24	27	28	27
Checking accounts	15	13	13	15	17	13	22
Money market deposit accounts	10	10	8	13	11	10	12
Passbook savings accounts	7	4	4	4	11	11	12
All others (total)	12	12	9	16	13	16	10
Base =	398	241	152	89	157	90	67

*Multiple responses included

Reinvestment into Depository Savings Products

Nearly one quarter of reinvesting partial redeemers put at least some of their proceeds into a depository savings product, such as a checking account, money market deposit account, or a passbook savings account. Although the difference is not statistically significant, more reinvesting sales force partial redeemers placed at least some of their proceeds in a savings product when compared with reinvesting direct market partial redeemers.

Chapter 8: Characteristics of Partial Redeemers

Demographic and Financial Characteristics

- ◆ Like the overall fund shareholder population, the respondents who conducted a partial redemption were generally male, middle-aged, married, college-educated, and employed. Also paralleling the general shareholder population, partial redeemers typically had a household income above the national average and considerable financial assets.
- ◆ Fully 73 percent of partial redeemers who participated in the survey were male and 27 percent were female.⁹ However, 36 percent of sales force partial redeemers were female, compared with 19 percent of their direct market counterparts.
- ◆ The median age of partial redeemers was 50 years. The median ages of direct market and sales force partial redeemers were comparable. Among sales force partial redeemers, fixed-income and equity fund sellers were about the same age. However, among direct market partial redeemers, the median age of fixed-income fund sellers was 15 years older than the median age of equity fund sellers.
- ◆ Nearly seven out of ten partial redeemers were married at the time of the survey. When compared with their direct market counterparts, sales force partial redeemers were slightly less likely to be married and slightly more likely to be widowed.
- ◆ Nearly three in ten partial redeemers completed graduate school. Slightly more direct market partial redeemers completed graduate school than did sales force partial redeemers.
- ◆ Most partial redeemers, 72 percent, were employed when they completed the survey. One third indicated that they were retired from their lifetime occupations. Among both channel groups, fixed-income fund sellers were the likeliest to be retired.
- ◆ The 1991 median household income of partial redeemers was \$49,810. The 1991 median household income of direct market partial redeemers was \$59,170, \$17,400 higher than the median household

income of sales force partial redeemers. Among direct market partial redeemers, fixed-income fund sellers typically had greater incomes in 1991 than equity fund sellers. Among sales force partial redeemers, the opposite pattern emerged.

- ◆ The median value of partial redeemers' total household financial assets was \$118,100 at the time of the survey.¹⁰ Direct market partial redeemers had greater savings and investments than their sales force counterparts—a median of \$156,100 compared with \$92,480. Among both channel groups, fixed-income sellers had greater household financial assets than did equity fund sellers.
- ◆ The median value of partial redeemers' total household financial assets in mutual funds was \$40,640 at the time of the survey. Direct market partial redeemers had a median of \$48,770 in fund assets, compared with \$31,910 for sales force partial redeemers.

Fund Ownership Characteristics

Respondents who transacted a partial redemption reported that their households owned a median of five funds when they completed the survey—two stock funds, one taxable bond fund, one taxable money market fund, and one tax-exempt bond fund. Direct market partial redeemers typically owned more funds per household than did sales force partial redeemers—a median of six funds compared with five funds.

The percent of households that owned the various types of funds is also shown in Figure 54. Nearly all partial redeemers, 96 percent, owned stock mutual funds. Roughly two thirds owned taxable money market funds and taxable bond funds. Almost six in ten owned tax-exempt bond funds. Slightly greater proportions of direct market partial redeemers owned each of these four types of funds than did sales force partial redeemers.

⁹Each survey was directed to the household's main financial decisionmaker.

¹⁰Respondents were instructed to include assets in retirement plans and exclude their primary residence.

Figure 53

Demographic and Financial Characteristics of Partial Redeemers

(percent)

	All Partial Redeemers	Total	Direct Market Equity	Fixed- Income	Total	Sales Force Equity	Fixed- Income
Gender of Financial Decisionmaker							
Male	73	81	80	83	64	66	63
Female	27	19	20	17	36	34	37
Base =	1065	550	344	206	515	288	227
Age							
Less than 30	8	9	12	4	10	8	7
30-39	20	22	26	16	23	19	15
40-49	21	20	23	15	22	21	24
50-59	16	16	18	13	18	19	15
60-64	9	8	4	16	6	8	12
65 and over	25	25	18	36	26	24	27
Base =	1050	543	342	201	507	286	221
Mean (in years)	51	51	47	56	52	51	53
Median (in years)	50	49	45	60	50	50	53
Marital Status							
Married	69	72	69	76	66	68	63
Divorced or separated	10	10	10	9	11	9	12
Widowed	6	3	3	4	8	6	12
Never married	15	15	18	11	15	17	13
Base =	1059	545	342	203	514	288	226
Education							
High school or less	12	7	10	4	16	17	14
Some college	16	15	16	15	16	14	17
College or technical school degree	30	31	31	31	30	30	29
Some graduate school	14	14	13	16	13	13	14
Graduate school degree	29	32	30	34	25	25	26
Base =	1066	550	344	206	516	290	226
Employment Status							
Employed full-time	62	65	72	52	60	62	57
Employed part-time	10	9	8	11	12	11	13
Not presently employed	27	26	20	37	28	27	30
Base =	1029	532	332	200	497	282	215
Retirement Status							
Retired from lifetime occupation	33	33	24	47	34	31	37
Not retired	67	67	76	53	66	69	63
Base =	990	509	309	200	481	268	213

Figure 53, continued

	All	Direct Market			Sales Force		
	Partial Redeemers	Total	Equity	Fixed-Income	Total	Equity	Fixed-Income
1991 Household Income							
Less than \$20,000	10	6	5	6	14	13	17
\$20,000-\$29,999	13	9	11	5	18	17	19
\$30,000-\$39,999	14	13	13	11	15	16	15
\$40,000-\$49,999	13	13	14	12	13	14	12
\$50,000-\$74,999	24	26	26	26	22	21	22
\$75,000-\$99,999	14	18	18	18	10	10	9
\$100,000 or more	12	16	12	19	8	9	6
Base =	1043	534	333	201	509	287	222
Mean	\$67,100	\$77,520	\$72,290	\$86,190	\$56,160	\$58,910	\$52,610
Median	\$49,810	\$59,170	\$56,250	\$63,920	\$41,770	\$43,210	\$39,700
Total Household Financial Assets*							
Less than \$25,000	20	18	25	7	21	22	20
\$25,000-\$49,999	11	10	12	7	13	12	14
\$50,000-\$99,999	15	12	13	10	18	19	17
\$100,000-\$149,999	11	9	9	9	12	13	11
\$150,000-\$199,999	6	6	5	7	7	5	9
\$200,000-\$249,999	9	10	8	14	8	8	7
\$250,000-\$499,999	15	19	16	25	11	12	9
\$500,000 or more	13	15	12	22	10	8	13
Base =	1045	532	328	204	513	288	225
Mean	\$215,800	\$247,100	\$202,200	\$319,400	\$183,300	\$173,500	\$196,000
Median	\$118,100	\$156,100	\$101,500	\$235,000	\$92,480	\$91,130	\$94,490
Total Household Financial Assets in Funds							
Under \$1,000	4	3	5	-	4	5	3
\$1,000-\$4,999	12	10	14	4	14	15	14
\$5,000-\$9,999	7	7	8	5	7	6	10
\$10,000-\$19,999	11	9	10	8	13	13	14
\$20,000-\$29,999	9	7	8	6	10	11	8
\$30,000-\$49,999	14	14	14	12	13	14	13
\$50,000-\$99,999	17	16	15	19	18	18	19
\$100,000-\$249,999	16	19	16	26	13	12	14
\$250,000 or more	10	13	10	19	7	8	6
Base =	1040	535	332	203	505	285	220
Mean	\$105,370	\$125,810	\$105,270	\$159,400	\$83,730	\$85,920	\$80,890
Median	\$40,640	\$48,770	\$36,670	\$86,180	\$31,910	\$31,250	\$32,860

*Respondents were instructed to include assets in retirement plans and exclude their primary residence.

Nonfund Investment Ownership Characteristics

In addition to owning mutual funds, many respondents who transacted a partial redemption also owned nonfund savings and investment products. Nearly six in ten partial redeemers owned nonemployer life insurance, 53 percent owned shares of individual stocks, and

53 percent had passbook savings accounts. Slightly more than a third each owned investment real estate and money market deposit accounts, and 29 percent owned certificates of deposit.

Figure 55 shows that direct market partial redeemers were more likely to own individual stocks than their sales force counterparts. However, more sales force par-

Figure 54

Fund Ownership Characteristics of Partial Redeemers*

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Median Number of Funds Owned per Household							
Stock funds	2	3	3	3	2	2	2
Taxable bond funds	1	1	1	2	1	1	1
Taxable money market funds	1	1	1	1	1	1	1
Tax-exempt bond funds	1	1	0	1	1	1	1
Total	5	6	5	7	5	5	5
Percent of Households Owning**							
Stock funds	96%	97%	99%	93%	94%	98%	88%
Taxable money market funds	67	72	69	76	60	59	62
Taxable bond funds	65	67	55	86	63	54	72
Tax-exempt bond funds	58	60	45	79	56	52	60

*Respondents were instructed to include any fund investments that were part of an IRA, Keogh, or employer-sponsored pension plan.

**Multiple responses included

Figure 55

Nonfund Investment Ownership Characteristics of Partial Redeemers*

(percent)

	All Partial Redeemers	Direct Market			Sales Force		
		Total	Equity	Fixed- Income	Total	Equity	Fixed- Income
Checking accounts	97	97	97	98	96	95	96
Life insurance (nonemployer)	59	54	54	55	65	64	65
Individual stocks	53	58	55	63	47	47	47
Passbook savings accounts	53	51	53	48	56	57	54
Investment real estate	36	37	32	44	35	34	35
Money market deposit accounts	34	36	34	40	32	29	36
Certificates of deposit	29	26	23	33	33	33	32
Annuities	26	24	21	28	27	28	27
Individual bonds	22	23	20	29	19	19	20
Unit investment trusts	11	12	8	19	10	8	12
Base =	1060	547	342	205	513	288	225

*Respondents were instructed to include any nonfund investments that were part of an IRA, Keogh, or employer-sponsored pension plan; multiple responses included

tial redeemers owned nonemployer life insurance than did direct market partial redeemers. Among direct market partial redeemers, fixed-income fund sellers were more apt than their sales force counterparts to own individual stocks, investment real

estate, certificates of deposit, and individual bonds. Among sales force partial redeemers, equity fund sellers were as likely to own these nonfund investments as were fixed-income fund sellers.

Part III: Key Segments to Target

Chapter 9: Big-Ticket Redeemers

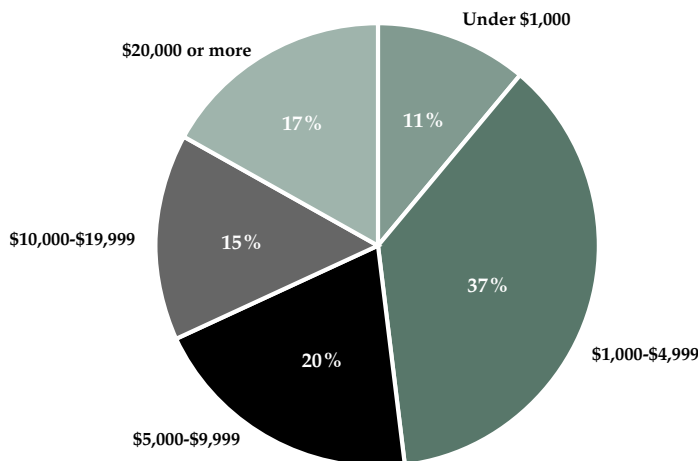
The research found that nearly one third of redeemers received proceeds valued at \$10,000 or more. Because they redeemed large sums, learning more about these shareholders is particularly important to mutual fund companies.

When compared with their small-ticket counterparts, big-ticket redeemers were more likely to say they were influenced to sell by financial advisers and published financial information. In fact, 30 percent of big-ticket redeemers said they were influenced to sell, compared with just 21 percent of small-ticket redeemers.

Figure 56

Size of Most Recent Redemption

(percent of respondents)



Base=2380

Key Characteristics of the Redemption Decision

Shareholders who received at least \$10,000 in redemption proceeds, referred to in this analysis as “big-ticket” redeemers, were more apt to conduct a full redemption than shareholders who received less than \$10,000, or “small-ticket” redeemers. Nearly two thirds of big-ticket redeemers redeemed in full, compared with less than one half of small-ticket redeemers.

Also noteworthy, big-ticket redeemers typically sold fund shares for investment strategy and fund-related reasons. Hence, it should come as no surprise that big-ticket redeemers most frequently indicated an expected return lower than the expected return on other sources of cash as the reason why they sold shares of the fund from which they most recently redeemed. In contrast, small-ticket redeemers were most apt to sell fund shares because they needed the money, and, therefore, most often cited convenience or liquidity as the reason for selecting the fund from which they redeemed.

Reflecting the fact that big-ticket redeemers were more apt to sell fund shares because they were dissatisfied with the fund, a smaller percentage of big-ticket redeemers than small-ticket redeemers indicated that they would invest again in the same fund and fund complex.

Key Characteristics of the Fund from Which Shares Were Redeemed

Big-ticket redeemers owned the fund from which they sold shares for a median of six years, one year longer than small-ticket redeemers. Big-ticket redeemers had a median preredemption account balance of \$25,580, compared with \$5,080 for small-ticket redeemers.

Figure 57

Key Characteristics of the Redemption Decision by Size of Redemption

	All Redeemers	\$10,000 or more	Under \$10,000
Average Satisfaction Rating*			
Simplicity of procedures	4.5	4.5	4.5
Timely receipt of proceeds	4.5	4.5	4.5
Percent			
Conducted a full redemption	54%	64%	49%
Redeemed six or more times in ten months preceding survey	10	12	10
Influenced to sell fund shares by:**			
A broker or financial consultant	12	17	9
Published financial information	10	15	8
Not influenced, made own decision	76	70	79
Sold fund shares for:**			
Investment strategy-related reasons	66	79	59
Needed the money	53	37	61
Fund-related reasons	37	43	34
Service-related reasons	17	24	14
Selected particular fund for redemption because:**			
The expected return on this investment was lower than other sources of cash	31	36	29
It was the most convenient or liquid source of cash	31	26	34
It was the only available source of cash	15	9	18
Likelihood of reinvesting in same:**			
Fund group	80	75	83
Fund	73	67	76

*1=very dissatisfied, 5=very satisfied

**Multiple responses included

Like their small-ticket counterparts, big-ticket redeemers were fairly evenly divided between having originally purchased the fund directly or through a sales force. The largest proportion of big-ticket redeemers, 43 percent, cited saving for retirement as the reason why they initially invested in the fund from which they sold shares. Following closely, 40 percent indicated that they originally invested in the fund as part of a general savings program. In contrast, 50 percent of small-ticket redeemers said that they first invested in the fund in order to establish a general savings program, and 34 percent indicated that they wanted to save for retirement.

Key Characteristics of Reinvestment Activity

Since very few big-ticket redeemers sold shares because they needed the money, it is no surprise that a large majority of these shareholders, 64 percent, reinvested all of their redemption proceeds. In contrast, just 39 percent of small-ticket redeemers reinvested all of their redemption proceeds. As Figure 59 shows, however, the purchase patterns of the big- and small-ticket redeemers who reinvested are quite similar.

Figure 58

Key Characteristics of the Fund From Which Shares Were Redeemed by Size of Redemption

	All Redeemers	\$10,000 or more	Under \$10,000
Median			
Years in fund	5	6	5
Amount in fund before redemption	\$8,830	\$25,580	\$5,080
Amount of redemption	\$5,540	\$21,760	\$3,510
Percent			
Type of fund redeemed:			
Nonaggressive equity fund	44%	40%	46%
Agressive equity fund	19	18	19
Tax-exempt bond fund	11	17	8
Taxable bond fund	26	26	29
Distribution channel used for original purchase:			
Direct market	48	48	53
Sales force	52	52	47
Fund was originally purchased:*			
As part of a general savings program	47	40	50
To provide future retirement income	37	43	34
For investment diversification	31	33	30
Fund was part of an IRA, Keogh, or employer-sponsored retirement plan	19	21	17
Fund had redemption fee	12	11	11

*Multiple responses included

Figure 59

Key Characteristics of Reinvestment Activity by Size of Redemption

(percent of respondents)

	All Redeemers	\$10,000 or more	Under \$10,000
Reinvested all of the proceeds	47	64	39
Reinvested part of the proceeds	10	14	9
Reinvesting redeemers who purchased: *			
Stock funds from another group	35	34	35
Money market funds from another group	12	11	12
Tax-exempt bond funds from another group	10	11	8
Taxable bond funds from another group	7	9	5
Individual stocks	18	18	18
Real estate	13	14	12
Checking accounts	13	12	12
Money market deposit accounts	10	11	9
Individual bonds	3	4	3

*Multiple responses included

Figure 60

Key Demographic and Financial Characteristics of Redeemers by Size of Redemption

	All Redeemers	\$10,000 or more	Under \$10,000
Median			
Age	51	59	47
Household income	\$52,470	\$65,570	\$47,980
Household financial assets*	\$143,400	\$295,830	\$93,060
Household financial assets in mutual funds	\$45,710	\$108,140	\$28,830
Percent			
Male	74%	75%	74%
Married	70	76	67
Never married	15	8	18
Completed graduate school	30	35	27
Employed	71	62	76
Retired from lifetime occupation	36	46	29
Own:**			
Stock funds	90	91	90
Taxable money market funds	68	77	63
Taxable bond funds	60	66	57
Tax-exempt bond funds	55	65	48
Individual stocks	58	62	55
Annuities	29	32	27
Individual bonds	25	29	23

*Respondents were instructed to include assets in retirement plans and exclude their primary residence.

**Multiple responses included

Key Demographic and Financial Characteristics

Big-ticket redeemers were older than their small-ticket counterparts—they had a median age of 59 compared with 47. Big-ticket redeemers also had higher household incomes and greater household financial assets than did small-ticket redeemers.

While the two groups were just as likely to be male, big-ticket redeemers were more apt to be married than small-ticket redeemers. Also noteworthy, 35 percent of big-ticket redeemers completed graduate school, compared with 27 percent of small-ticket redeemers. Reflecting the fact that they tended to be older, big-ticket redeemers were more likely to be retired than small-ticket redeemers. When contrasted with their small-ticket counterparts, big-ticket redeemers were also more

apt to own a variety of financial products, including taxable money market funds, taxable bond funds, tax-exempt bond funds, and individual stock.

Chapter 10: Frequent Redeemers

While most shareholders only occasionally sell fund shares, some redeem often. The research found that in the ten months preceding the survey, 25 percent of respondents redeemed fund shares between three and five times, and 10 percent redeemed six or more times. Because servicing frequent redeemers can be costly to mutual fund complexes, fund groups have a keen interest in learning more about these shareholders. Once the characteristics and motivations of frequent redeemers are understood, then fund companies can develop and implement a plan of action to reduce redemption activity.

Key Characteristics of the Redemption Decision

Frequent redeemers, defined in this analysis as respondents who sold fund shares at least six times in the ten months preceding the survey, were less likely to transact a full redemption than infrequent redeemers, defined here as respondents who sold fund shares only once or twice in the ten months preceding the survey.

The majority of frequent redeemers, 73 percent, made their own decision to sell fund shares. However, 16 percent said that they were influenced to sell by a broker or financial consultant, and 10 percent were influenced by something they read.

When asked why they decided to sell fund shares, the largest proportion of frequent redeemers, 74 percent, mentioned an investment strategy-related reason. A sizable proportion of this group, 45 percent, also indicated that they needed the money. Infrequent redeemers also mentioned these two reasons most often.

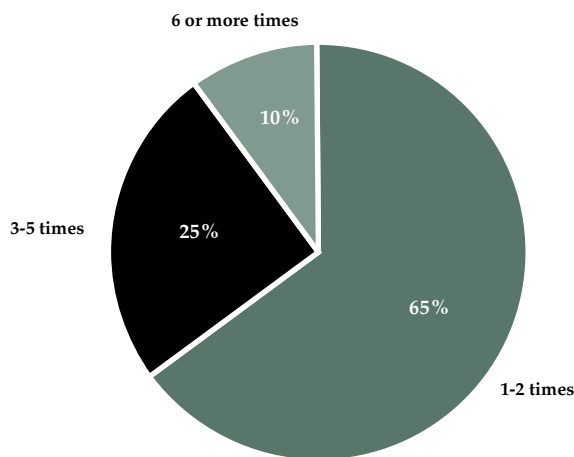
Frequent redeemers decided to sell shares of the particular fund from which they redeemed for a variety of reasons. Nearly three in ten said the fund had an expected return that was lower than the expected return on other sources of cash, 25 percent indicated that it was the most convenient or liquid source of money, and 10 percent said it was the only available source of cash.

When asked whether they would invest again in the fund from which they sold shares, 83 percent of frequent redeemers responded yes. Most frequent redeemers, 84 percent, also indicated that they would invest in another fund offered by the same fund group. In contrast, infrequent redeemers were less inclined to say that they would invest again in the same fund and fund complex.

Figure 61

Frequency of Redemption Transactions*

(percent of respondents)



*In the ten-month period preceding the survey
Base=2602

Figure 62

Key Characteristics of the Redemption Decision by Frequency of Redemption Transactions*

	All Redeemers	1-2 times	3-5 times	6 or more times
Average Satisfaction Rating**				
Simplicity of procedures	4.5	4.5	4.5	4.8
Timely receipt of proceeds	4.5	4.5	4.5	4.5
Percent				
Conducted a full redemption	54%	56%	53%	46%
Influenced to sell fund shares by:***				
A broker or financial consultant	12	13	10	10
Published financial information	10	8	15	16
Not influenced, made own decision	76	76	75	73
Sold fund shares for:***				
Investment strategy-related reasons	66	62	70	74
Needed the money	53	55	52	45
Fund-related reasons	37	36	38	32
Service-related reasons	17	19	15	13
Selected particular fund for redemption because:***				
The expected return on this investment was lower than other sources of cash	31	31	33	29
It was the most convenient or liquid source of cash	31	33	29	25
It was the only available source of cash	15	17	14	10
Likelihood of reinvesting in same:***				
Fund group	80	79	82	84
Fund	73	72	73	83

*In the ten-month period preceding the survey

**1=very dissatisfied, 5=very satisfied

***Multiple responses included

Key Characteristics of the Fund from Which Shares Were Redeemed

Frequent redeemers typically had more money in their fund account before and after the redemption than did infrequent redeemers. For example, frequent redeemers had a median preredemption account balance of \$15,330, while infrequent redeemers had a median of just \$7,780 in their accounts. Frequent redeemers received a median of \$6,560 in redemption proceeds, leaving a median of \$8,770 in their accounts. In contrast, infrequent redeemers received a median of \$4,890, leaving a median of only \$2,890 in their accounts.

The research findings also indicate that a much larger proportion of frequent redeemers than infrequent redeemers sold shares of a direct marketed fund—72 percent versus 44 percent. This finding supports the notion that investors interested in switching in and out of funds are more inclined to purchase and sell direct marketed funds than sales force distributed funds.

Finally, when compared with infrequent redeemers, frequent redeemers were more apt to cite investment diversification as a reason for originally purchasing the fund from which they most recently sold shares.

Figure 63

Key Characteristics of the Fund From Which Shares Were Redeemed by Frequency of Redemption Transactions*

	All Redeemers	1-2 times	3-5 times	6 or more times
Median				
Years in fund	5	5	5	5
Amount in fund before redemption	\$8,830	\$7,780	\$10,180	\$15,330
Amount of redemption	\$5,540	\$4,890	\$7,230	\$6,560
Percent				
Type of fund redeemed:				
Nonaggressive equity fund	44%	46%	42%	39%
Aggressive equity fund	19	18	21	23
Tax-exempt bond fund	11	11	11	11
Taxable bond fund	26	25	26	27
Distribution channel used for original purchase:				
Direct market	48	44	60	72
Sales force	52	56	40	28
Fund was originally purchased:**				
As part of a general savings program	47	48	46	47
To provide future retirement income	37	37	36	38
For investment diversification	31	27	35	44
Fund was part of an IRA, Keogh, or employer-sponsored retirement plan				
Fund had redemption fee	12	12	12	9

*In the ten-month period preceding the survey

**Multiple responses included

Key Characteristics of Reinvestment Activity

Because they were most apt to sell shares for investment strategy-related reasons, it is not surprising that 56 percent of frequent redeemers reinvested all of their redemption proceeds. In contrast, only 45 percent of infrequent redeemers reinvested all of their redemption proceeds. Figure 64 shows that the reinvestment patterns of frequent and infrequent redeemers differ somewhat. When compared with infrequent redeemers, slightly greater proportions of frequent redeemers reinvested proceeds in individual stocks, money market funds, and taxable bond funds offered by another fund complex. Meanwhile, infrequent redeemers were more apt to reinvest proceeds in real estate.

Key Demographic and Financial Characteristics

Frequent redeemers' median age of 59 was eight years older than infrequent redeemers' median age. Frequent redeemers are a very affluent segment of the mutual fund shareholder population, too. For example, at the time of the survey, frequent redeemers typically had greater household incomes, household financial assets, and assets held in mutual funds than did infrequent redeemers. Illustrating this point, the median household financial assets of frequent redeemers is \$222,920, compared with \$122,840 for infrequent redeemers.

Frequent redeemers were more apt to be married, male, and have graduate degrees than infrequent redeemers. Because they tended to be older, quite a few frequent redeemers, 49 percent, were retired from their

Figure 64

**Key Characteristics of Reinvestment Activity
by Frequency of Redemption Transactions***

(percent of respondents)

	All Redeemers	1-2 times	3-5 times	6 or more times
Reinvested all of the proceeds	47	45	49	53
Reinvested part of the proceeds	10	9	13	14
Reinvesting redeemers who purchased:**				
Stock funds from another group	35	33	37	38
Money market funds from another group	12	11	13	16
Tax-exempt bond funds from another group	10	10	9	9
Taxable bond funds from another group	7	6	7	11
Individual stocks	18	15	21	22
Real estate	13	15	12	9
Checking accounts	13	11	15	15
Money market deposit accounts	10	9	11	15
Individual bonds	3	3	3	5

*In the ten-month period preceding survey

**Multiple responses included

lifetime occupations. In contrast, only a third of infrequent redeemers were retired.

Frequent redeemers had very diversified financial portfolios, too. The majority owned stock funds, taxable money market funds, and taxable bond funds. Almost seven in ten owned individual stocks.

Figure 65

**Key Demographic and Financial Characteristics of Redeemers
by Frequency of Redemption Transactions***

	All Redeemers	1-2 times	3-5 times	6 or more times
Median				
Age	51	51	50	59
Household income	\$52,470	\$49,740	\$57,470	\$58,990
Household financial assets**	\$143,400	\$122,840	\$189,200	\$222,920
Household financial assets in mutual funds	\$45,710	\$35,560	\$66,060	\$85,460
Percent				
Male	74%	71%	78%	82%
Married	70	68	71	77
Never married	15	15	16	11
Completed graduate school	30	28	32	35
Employed	71	73	70	62
Retired from lifetime occupation	36	33	36	49
Own:***				
Stock funds	90	88	93	94
Taxable money market funds	68	63	75	82
Taxable bond funds	60	55	64	77
Tax-exempt bond funds	55	52	58	62
Individual stocks	58	56	60	68
Annuities	29	30	30	29
Individual bonds	25	23	27	29

*In the ten-month period preceding survey

**Respondents were instructed to include assets in retirement plans and exclude their primary residence.

***Multiple responses included

Chapter 11: Independent Decisionmakers

Nearly two thirds of survey respondents indicated that they reached the decision to sell fund shares without influence from a financial adviser or some form of printed material. Understanding the characteristics of this group of redeeming shareholders—referred to in this analysis as independent decisionmakers—can assist mutual fund companies in designing strategies to retain their assets.

Key Characteristics of the Redemption Decision

Nearly one half of independent decisionmakers conducted a full redemption, compared with 63 percent of guided decisionmakers (redeeming shareholders who were influenced by an external source to sell fund

shares). When asked why they sold shares of the fund from which they most recently redeemed, independent decisionmakers usually cited an investment strategy-related reason or the need for money. Guided decisionmakers also most often cited an investment strategy-related reason, but were far less likely to mention that they needed the money.

Independent decisionmakers cited a variety of reasons when asked why they decided to sell shares of the particular fund from which they redeemed. The largest proportion, 35 percent, said that the fund was the most convenient or liquid source of cash, and 27 percent cited an expected return lower than the expected return on other sources of cash. The opposite pattern occurred among guided decisionmakers. The largest proportion of guided decisionmakers, 39 percent, cited an expected return lower than the expected return on other sources of cash, and 23 percent mentioned convenience and liquidity.

Most independent decisionmakers are likely to reinvest in the fund from which they sold shares, as well as in other funds offered by the same fund complex. More than three quarters indicated they would reinvest in the same fund, and more than eight in ten said they would reinvest in the same fund group. Independent decisionmakers were somewhat more likely than their guided counterparts to say they would invest again in the same fund and fund group.

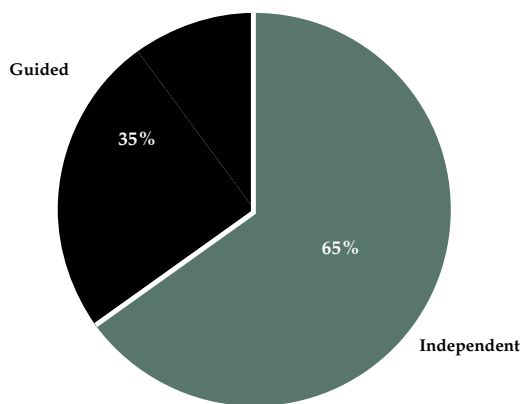
Key Characteristics of the Fund from Which Shares Were Redeemed

Independent decisionmakers owned the fund from which they redeemed for a median of five years, compared with six years for guided decisionmakers. The median preredemption account balance of independent decisionmakers was slightly lower than guided decisionmakers'—\$8,160 compared with \$10,000. However, independent decisionmakers typically withdrew 59 percent of their account balance, while guided

Figure 66

Incidence of Independent Versus Guided Decisionmakers Among Redeeming Shareholders

(percent of respondents)



Base=2602

Figure 67

Key Characteristics of the Redemption Decision Among Independent and Guided Decisionmakers

	All Redeemers	Independent	Guided
Average Satisfaction Rating*			
Simplicity of procedures	4.5	4.5	4.5
Timely receipt of proceeds	4.5	4.6	4.5
Percent			
Conducted a full redemption	54%	49%	63%
Redeemed six or more times in ten months preceding survey	10	9	9
Sold fund shares for:**			
Investment strategy-related reasons	66	61	74
Needed the money	53	61	37
Fund-related reasons	37	32	45
Service-related reasons	17	9	33
Selected particular fund for redemption because:**			
The expected return on this investment was lower than other sources of cash	31	27	39
It was the most convenient or liquid source of cash	31	35	23
It was the only available source of cash	15	18	11
Likelihood of reinvesting in same:**			
Fund group	80	82	77
Fund	73	76	69

*1=very dissatisfied, 5=very satisfied

**Multiple responses included

decisionmakers typically withdrew 75 percent.

When compared with their guided counterparts, independent decisionmakers were more apt to have sold fund shares purchased directly from the fund company. Nearly one half of independent decisionmakers said they originally invested in the fund as part of a general savings program, and one third indicated that the fund was for retirement savings. In contrast, 43 percent of guided decisionmakers said that the fund was for general savings and another 43 percent indicated it was for retirement savings.

Independent decisionmakers were also less likely than guided decisionmakers to indicate that the fund shares they sold were part of an IRA, Keogh, or employer-sponsored retirement plan.

Meanwhile, guided decisionmakers were more likely to report that they paid a redemption fee than independent decisionmakers.

Key Characteristics of Reinvestment Activity

Almost one half of independent decisionmakers reinvested their redemption proceeds—39 percent reinvested all of the proceeds, and 10 percent reinvested part of the proceeds. In contrast, 73 percent of guided decisionmakers reinvested their redemption proceeds—62 percent reinvested all of the proceeds, and 11 percent reinvested part of the proceeds.

Reinvesting redeemers were asked to indicate the types of financial products they purchased with their proceeds. Figure 69 shows that reinvesting independent

Figure 68

Key Characteristics of the Fund From Which Shares Were Redeemed Among Independent and Guided Decisionmakers

	All Redeemers	Independent	Guided
Median			
Years in fund	5	5	6
Amount in fund before redemption	\$8,830	\$8,160	\$10,000
Amount of redemption	\$5,540	\$4,790	\$7,460
Percent			
Type of fund redeemed:			
Nonaggressive equity fund	44%	44%	45%
Aggressive equity fund	19	19	19
Tax-exempt bond fund	11	11	10
Taxable bond fund	26	25	25
Distribution channel used for original purchase:			
Direct market	48	54	46
Sales force	52	46	54
Fund was originally purchased:*			
As part of a general savings program	47	49	43
To provide future retirement income	37	33	43
For investment diversification	31	30	31
Fund was part of an IRA, Keogh, or employer-sponsored retirement plan	19	15	25
Fund had redemption fee	12	10	15

*Multiple responses included

decisionmakers were somewhat less inclined to purchase mutual funds from another group than were guided decisionmakers.

Key Demographic and Financial Characteristics

The median age of independent decisionmakers was 49 years, seven years less than the median age of guided decisionmakers. While independent and guided decisionmakers had comparable household incomes, the household financial assets of the latter were considerably greater than the former. Guided decisionmakers had median household financial assets totaling \$189,990, compared with \$125,190 for independent decisionmakers. Both groups kept almost one third of their household financial assets in mutual funds.

Most independent and guided decisionmakers were male, married, and employed. However, greater proportions of independent decisionmakers were male and employed. While the majority of both groups owned the four types of mutual funds discussed in this report, guided decisionmakers were more apt to own taxable money market funds and tax-exempt bond funds. Independent decisionmakers were also less likely to own individual stocks and annuities than were guided decisionmakers.

Figure 69

Key Characteristics of Reinvestment Activity Among Independent and Guided Decisionmakers

(percent of respondents)

	All Redeemers	Independent	Guided
Reinvested all of the proceeds	47	39	62
Reinvested part of the proceeds	10	10	11
Reinvesting redeemers who purchased: *			
Stock funds from another group	35%	31%	40%
Money market funds from another group	12	10	15
Tax-exempt bond funds from another group	10	8	12
Taxable bond funds from another group	7	6	8
Individual stocks	18	19	16
Real estate	13	17	8
Checking accounts	13	14	11
Money market deposit accounts	10	9	12
Individual bonds	3	3	4

**Multiple responses included*

Figure 70

Key Demographic and Financial Characteristics of Independent and Guided Decisionmakers

	All Redeemers	Independent	Guided
Median			
Median age	51	49	56
Household income	\$52,470	\$52,440	\$52,530
Household financial assets*	\$143,400	\$125,190	\$189,990
Household financial assets in mutual funds	\$45,710	\$39,690	\$60,090
Percent			
Male	74%	76%	69%
Married	70	70	69
Never married	15	16	13
Completed graduate school	30	31	28
Employed	71	73	66
Retired from lifetime occupation	36	32	42
Own:**			
Stock funds	90	89	91
Taxable money market funds	68	66	73
Taxable bond funds	60	57	66
Tax-exempt bond funds	55	50	63
Individual stocks	58	56	62
Annuities	29	27	34
Individual bonds	25	25	26

*Respondents were instructed to include assets in retirement plans and exclude their primary residence.

**Multiple responses included

Appendices

Appendix A: Research Methodology

The Sample Structure

The ICI shareholder redemption study used a proportional stratified sampling methodology so that the universe of redemption activity among long-term funds could be duplicated as closely as possible. The sampling frame consisted of ICI member funds that reported to the Institute their dollar volume of redemptions for at least nine out of 12 months in 1990, as well as their number of individual shareholder accounts and total net assets. (This statistical information is published in ICI's monthly reports and its annual *Fact Book*.)

As a first step, ICI member funds were stratified according to the industry's two major distribution channel categories—direct market and sales force. The funds within the direct market and sales force categories were then stratified into two broad investment categories—equity and fixed-income. Next, the funds within each investment category were classified into subsets. Funds in the equity category were classified as nonaggressive and aggressive¹¹, and funds in the fixed-income category as taxable and tax-exempt. In all, eight categories of funds were created.

The funds in each of the eight categories were ranked by their redemption ratio (total redemptions/average fund assets) and were then divided into groups of high, medium, and low redemption activity. In all, 24 subcategories were created from which a proportional sample of 30,000 redeemers was drawn, comprising 87 funds from 44 participating fund complexes.

The funds selected for sampling and the number of randomly selected redeemers from these funds were representative of the universe of funds that are managed by ICI member fund companies. Likewise, the fund companies that provided shareholder names were systematically identified and included companies with small, medium, and large numbers of accounts.

Participating fund companies were instructed to include both full redeemers (shareholders who closed an

account) and partial redeemers (shareholders who withdrew money from an account, but left the account open) who had sold shares between May 1991 and October 1991 when drawing their random samples. They were also instructed to exclude shareholders who exchanged between funds and shareholders who made automatic or systematic withdrawals.

Shareholder Account Specifications

In addition, participating fund complexes were asked to exclude several different types of accounts from their fund samples, such as institutional accounts, street name accounts, accounts with contractual purchase plans, and accounts with overseas addresses. Participating fund complexes were also instructed to draw only one account per household for each fund included in the sample.

Survey Procedures and Response Rate

An eight-page questionnaire was mailed to the sample of 30,000 redeeming shareholders in March 1992, querying them about their redemption activity for the preceding ten months. These redeeming shareholders also received a postcard ten days prior to the mailing of the questionnaire, informing them of the upcoming survey and its general objective. A total of 2,932 usable responses were received, which constitutes a 9.8 percent response rate. Figure 71 shows the number of usable responses for key survey categories.

Analytical Methods and Data Cleaning

Because of the possibility that survey respondents may have redeemed more than one fund in the ten months preceding the survey, multiple redeemers were instructed to provide answers for the fund that had the largest preredemption account balance.

¹¹Nonaggressive equity funds include growth, growth and income, and income-equity funds. Aggressive equity funds include aggressive growth, international, global, option/income, and precious metals funds.

Figure 71

Number of Mailback Responses for Key Survey Categories

Direct Market	
Equity	961
Fixed-Income	471
Sales Force	
Equity	868
Fixed-Income	632
Total	2932

The likelihood of multiple redemptions also dictated that analysis of responses by distribution channel and type of fund sold should be based on the fund indicated by the respondent rather than on the fund from which the respondent's name was drawn.

When asked how many times in the past year they had sold shares of long-term mutual funds, 11 percent of survey respondents indicated that they had not conducted a redemption during this period. These responses were omitted from the analysis. However, it is not known whether these respondents were inadvertently included in the sample, had simply forgotten about their redemption transaction, or had assigned management responsibility to a third-party, and, therefore, were not aware of account activity.

Telephone Survey with Nonrespondents

A telephone survey with those who did not respond to the mail survey (nonrespondents) was conducted in order to determine how, if at all, respondents differed from the nonrespondents. The sample for the telephone survey was selected from the names and addresses provided by the fund groups that participated in the mail-back portion of the study. Telephone numbers were found using directory assistance, and a total of 407 redeeming shareholders who had not returned their questionnaires were interviewed. The number of telephone interviews completed for key survey categories are presented in Figure 72. Telephone interviews were conducted in April and May of 1992. Up to six contacts, including an initial contact and five callbacks, were made to each designated respondent.

Figure 72

Number of Telephone Interviews by Key Survey Categories

Direct Market	
Equity	101
Fixed-Income	102
Sales Force	
Equity	101
Fixed-Income	103
Total	407

The results of the telephone survey of nonrespondents indicate that the responses to the mail survey were representative of the population of redeeming shareholders. A comparison of responses from the mail and telephone surveys found that the two groups were similar in age, marital status, and employment status. The educational level of the two groups did differ—respondents were typically better-educated than nonrespondents.

Another key difference between the redeemers who responded to the mail survey and those who did not was their reason for selling fund shares. Respondents were more apt to have cited poor fund performance as a reason for redeeming than nonrespondents, an indication that dissatisfaction with a fund was a motivating factor for some mail survey respondents to complete and return their questionnaire.

Appendix B: Detailed Tabulations for All Redeemers

Figure 73

Type and Frequency of Redemption Transactions

(percent)

Type of Transaction	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Full redemption	54	54	54	57	48**
Partial redemption	46	46	46	43	52**
Base =	2409	1234	1175	1535	874
Frequency of Redemption Transactions*					
1-2 times	64	56	73**	65	64
3-5 times	25	30	21**	25	26
6 or more times	10	14	6**	10	11
Base =	2602	1327	1275	1654	948

*For ten-month period preceding survey

** Statistically different at the 95 percent confidence level

Figure 74

Factors that Influence the Decision to Redeem*

(percent)

Factor	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Not influenced, made my own decision	76	79	72**	76	75
Broker or financial consultant (total)	12	5	20**	10	16**
Broker or financial consultant who sold me the shares originally	6	1	12**	5	9**
Broker or financial consultant with whom I had done business before, but who did not sell me shares of this fund	3	2	5**	3	4
Broker or financial consultant with whom I had never done business before	2	1	3**	2	2
Accountant or lawyer	1	1	1	1	1
Published financial information (total)	10	14	6**	11	9
Newsletter	6	9	3**	7	5**
Article in magazine or newspaper	5	6	3**	5	4
Literature I requested from a fund group or broker	2	2	2	2	3
Unsolicited literature I received in the mail	1	1	1	1	1
Advertisement in magazine or newspaper	1	1	-	-	1
Friend, relative, neighbor, or business associate	2	3	2	3	2
Base =	2578	1320	1258	1640	938

*Multiple responses included

** Statistically different at the 95 percent confidence level

Figure 75

Reasons for Redeeming*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
I redeemed because...					
of an investment strategy-related reason	66	70	61**	67	63**
I needed the money	53	49	57**	52	55
of a fund-related reason	37	34	39**	40	30**
of a service-related reason	17	10	25**	16	18
Base =	2419	1237	1182	1542	877

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 76

Investment Strategies as a Reason for Redeeming*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Percent citing an investment strategy-related reason (total)	66	70	61**	67	63**
Wanted to invest in a mutual fund from a different company	20	21	18	23	15**
Concerned about investment conditions or market climate	19	24	13**	18	19
Wanted to place money in an investment product other than a mutual fund	15	15	15	14	16
Wanted to take my gains or earnings	14	16	11**	15	12
My investment goals changed	12	12	12	11	14
Wanted to rollover or transfer my IRA, Keogh, or SEP account	6	6	6	7	5
Wanted to declare a tax gain or loss	6	7	5**	5	6
Wanted to invest in a tax-exempt investment	3	3	4	3	4**
Wanted to protect my investment against inflation	3	3	2	3	3
Wanted the advice of a broker or financial consultant rather than make my own decisions	2	1	2**	1	3**
Didn't want the advice of a broker any longer	1	-	3**	1	2
Base =	2419	1237	1182	1542	877

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 77

Fund-Related Reasons for Redeeming*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Percent citing a fund-related reason (total)	37	34	39**	40	30**
I was dissatisfied with the fund's investment results	26	26	27	29	21**
Fund yield or total return was below my expectations	21	19	23**	23	17**
Fund expenses or fees were too high	7	3	10**	7	7
Base =	2419	1237	1182	1542	877

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 78

The Need for Money as a Reason for Redeeming*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Percent citing that they needed the money (total)	53	49	57**	52	55
To make a large purchase	25	24	27**	25	26
To pay household bills	18	16	21**	18	19
To pay educational expenses	6	5	7	6	5
To pay taxes	5	6	5	4	7**
To pay medical bills	4	3	6**	4	5**
Needed the cash	4	4	4	4	5
To settle an estate	1	1	1	1	1
Base =	2419	1237	1182	1542	877

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 79

Service-Related Reasons for Redeeming*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Percent citing a service-related reason (total)	17	10	25**	16	18
My current broker or financial consultant suggested that I sell these shares	7	3	11**	6	8**
I was dissatisfied with the fund company's service	4	3	6**	4	4
I changed to a different broker or financial consultant	3	2	5**	3	4
I was dissatisfied with the service of my broker or financial consultant	3	1	4**	3	3
I wanted a combined statement for all my investments	2	1	2	2	1
My new broker or financial consultant advised me to sell these shares	2	1	2	2	2
A friend, relative, or business associate suggested that I sell these shares	1	1	2	1	2
Base =	2419	1237	1182	1542	877

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 80

Reasons for Selecting a Particular Fund for Redemption*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
The expected return on this fund was lower than the expected return on other sources of cash	31	32	30	33	27**
This fund was the most convenient or liquid source of cash	31	30	32	29	35**
I invested in this fund for a specific purpose and redeemed for that purpose	19	21	16	18	21**
This fund was the only available source of cash	15	11	20**	16	15
Base =	2309	1174	1135	1466	843

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 81

Likelihood of Redeemers Reinvesting in the Same Fund and Fund Group*

(percent indicating “yes”)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Fund group	80	90	69**	80	81
Fund	73	82	64**	72	75

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 82

Satisfaction with the Redemption Process

(mean score*)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Accurate processing	4.7	4.8	4.6**	4.7	4.7
Timely confirmation	4.6	4.6	4.5**	4.6	4.6
Timely receipt of proceeds	4.5	4.5	4.5	4.5	4.5
Simplicity of procedures	4.5	4.6	4.5**	4.5	4.5
Service of the fund company	4.5	4.6	4.4**	4.5	4.5
Service of the broker or financial consultant, if applicable	4.2	4.3	4.2**	4.2	4.2

*1=very dissatisfied, 5=very satisfied

**Statistically different at the 95 percent confidence level

Figure 83

Type of Fund Sold

(percent)

	All Redeemers	Distribution Channel	
		Direct Market	Sales Force
Nonaggressive equity fund	44	44	45
Aggressive equity fund	19	24	14*
Tax-exempt bond fund	11	13	9*
Taxable bond fund	26	19	32*
Base =	2602	1327	1275

*Statistically different at the 95 percent confidence level

Figure 84

Redemption of Shares from Fund with Tax-Advantaged Status

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
IRA	16	16	16	18	13*
Part of employee contributory retirement plan	2	1	2	2	2
Keogh account	1	1	2	2	1
Total	19	18	20	22	16*
Base =	2460	1275	1185	1564	896

*Statistically different at the 95 percent confidence level

Figure 85

Redeemers Who Paid a Redemption Fee

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Yes	12	7	16*	11	12
No	79	88	69*	80	77
Don't know	10	5	15*	9	11
Base =	2558	1315	1243	1628	930

*Statistically different at the 95 percent confidence level

Figure 86

Account Balance Before Redemption and Amount of Redemption

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Account Balance Before Redemption					
Under \$1,000	5	4	5	6	3*
\$1,000-\$4,999	29	33	26*	33	23*
\$5,000-\$9,999	20	20	21	22	17*
\$10,000-\$19,999	18	17	19	17	19
\$20,000-\$29,999	10	9	11	9	11
\$30,000-\$49,999	7	5	9*	6	10*
\$50,000-\$99,999	6	6	6	4	10*
\$100,000 or more	4	4	4	2	6
Base =	2380	1225	1155	1513	867
Mean	\$23,330	\$23,620	\$23,030	\$17,780	\$33,020
Median	\$8,830	\$8,150	\$9,550	\$7,470	\$13,400
Amount of Redemption					
Under \$1,000	11	12	10	12	10
\$1,000-\$4,999	37	39	35*	39	33*
\$5,000-\$9,999	20	20	21	20	20
\$10,000-\$19,999	15	14	16	14	16
\$20,000-\$29,999	6	6	6	6	7
\$30,000-\$49,999	6	5	6	5	7
\$50,000-\$99,999	3	3	4*	3	4
\$100,000 or more	2	2	1	2	2
Base =	2380	1225	1155	1513	867
Mean	\$14,950	\$15,180	\$14,700	\$13,470	\$17,530
Median	\$5,540	\$4,940	\$6,220	\$4,920	\$6,804

*Statistically different at the 95 percent confidence level

Figure 87

Redeemers' Tenure in Fund

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
2 years or less	23	30	15*	23	25
3-4 years	19	21	16*	18	20
5-6 years	21	20	21	20	22
7-9 years	19	15	23*	18	20
10 or more years	18	14	25*	21	15*
Base =	2359	1233	1126	1511	848
Mean	7	6	9	8	6
Median	5	4	6	5	5

*Statistically different at the 95 percent confidence level

Figure 88

Distribution Channel Used by Redeemers to Purchase Fund from Which They Redeemed

(percent)

	All Redeemers	Fund Type	
		Equity	Fixed-Income
Direct market mutual fund company	48	51	41*
Full-service broker	25	20	33*
Financial planner	14	15	13
Insurance agent	6	7	6
Discount broker	2	2	2
Bank representative	1	-	3
Other	4	4	3
Base =	2460	1564	896

*Statistically different at the 95 percent confidence level

Figure 89

Redeemers' Reasons for Initially Investing in Fund*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
As part of a general savings program	47	50	44**	48	46
To provide future retirement income	37	35	39**	40	31**
To diversify my investments	31	37	24**	29	34**
As a hedge against inflation	13	17	10**	15	10**
To save for a large purchase	11	11	11	12	10
To save for future educational expenses	10	9	11	12	7**
To supplement current income	9	8	10**	6	15**
To save in order to invest later in other types of securities	7	8	6**	8	6
No particular reason or goal	2	1	2	2	1
Base =	2460	1275	1185	1564	896

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 90

Redeemers' Reinvestment of All or Some of Redemption Proceeds

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Did not reinvest any portion of the redemption proceeds	43	38	47*	42	44
Did reinvest	57	62	53*	59	56
All of the redemption proceeds	47	50	44*	48	46
Part of the redemption proceeds	10	12	9	11	10
Base =	2560	1313	1247	1632	928

*Statistically different at the 95 percent confidence level

Figure 91

Reinvestment Activity*

(percent of all redeemers who reinvested all or some of their redemption proceeds)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Mutual Funds (total)	65	69	61**	68	61**
Stock funds from another group	35	36	33	41	24**
Different funds offered by the same group	15	19	10**	13	18**
Money market funds from another group	12	13	11	12	11
Tax-exempt bond funds from another group	10	9	11	7	15**
Taxable bond funds from another group	7	7	7	6	8
Other Investments (total)	39	36	43**	36	44**
Individual stocks (nonemployer)	18	19	16	16	20
Real estate	13	12	15	13	14
Annuities	5	3	7**	4	6
Certificates of deposit	4	2	5**	3	4
Individual government, municipal, or corporate bonds	3	3	3	3	5
Treasury bills	2	2	1	2	1
Precious metals	1	1	1	1	1
Life insurance	1	1	1	1	1
Depository Savings Products (total)	21	20	22	20	23
Checking accounts	13	12	13	11	15**
Money market deposit accounts	10	10	10	9	11
Passbook savings accounts	7	5	9**	6	8
All others (total)	9	8	10	7	12**
Base =	1458	805	653	947	511

*Multiple responses included

**Statistically different at the 95 percent confidence level

Figure 92

Demographic and Financial Characteristics of Redeemers

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Gender of Financial Decisionmaker					
Male	74	81	66*	76	70*
Female	26	19	34*	24	30*
Base =	2498	1286	1212	1585	913
Age					
Less than 30	7	7	6	7	5*
30-39	19	22	17*	22	14*
40-49	21	20	21	22	18*
50-59	17	17	17	18	14*
60-64	10	10	11	8	13*
65 and over	26	25	28	22	35*
Base =	2458	1270	1188	1569	889
Mean (in years)	52	52	53*	50	56*
Median (in years)	51	50	52*	49	58*
Marital Status					
Married	70	73	66*	72	66*
Divorced or separated	9	9	10	9	10
Widowed	7	4	9*	5	10*
Never married	15	14	15	15	14
Base =	2483	1280	1203	1577	906
Education					
High school or less	11	7	15*	10	11
Some college	16	15	17	16	16
College or technical school degree	29	29	28	29	28
Some graduate school	15	16	13	14	16
Graduate school degree	30	33	27*	31	29
Base =	2496	1287	1209	1586	910
Employment Status					
Employed full-time	61	63	59*	65	52*
Employed part-time	10	9	11	10	11
Not presently employed	29	28	30	25	37*
Base =	2411	1248	1163	1550	861
Retirement Status					
Retired from lifetime occupation	36	34	37	30	46*
Not retired	64	66	63	70	54*
Base =	1554	832	722	1015	539

Figure 92, continued

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
1991 Household Income					
Under \$20,000	9	5	13*	8	11*
\$20,000-\$29,999	12	10	14*	10	14*
\$30,000-\$39,999	13	12	15*	13	14
\$40,000-\$49,999	14	14	13	14	13
\$50,000-\$74,999	24	25	22	24	24
\$75,000-\$99,999	14	17	11*	15	12*
\$100,000 or more	14	17	11*	15	13
Base =	2431	1252	1179	1547	844
Mean	\$71,400	\$79,460	\$62,840	\$73,580	\$67,590
Median	\$52,470	\$59,250	\$46,120	\$54,510	\$49,110
Total Household Financial Assets**					
Less than \$25,000	16	14	17*	17	13*
\$25,000-\$49,999	10	9	12*	10	11
\$50,000-\$99,999	14	12	16*	15	12*
\$100,000-\$149,999	11	11	11	12	10
\$150,000-\$199,999	7	6	8	7	8
\$200,000-\$249,999	9	10	8	8	10
\$250,000-\$499,999	16	19	14*	15	19*
\$500,000 or more	16	19	13*	16	17
Base =	2450	1254	1196	1564	886
Mean	\$245,700	\$273,700	\$216,400	\$236,200	\$262,600
Median	\$143,400	\$180,200	\$119,600	\$131,700	\$173,100
Total Household Financial Assets in Funds					
Under \$1,000	6	4	8*	7	6
\$1,000-\$4,999	8	7	9	9	7
\$5,000-\$9,999	7	6	7	6	7
\$10,000-\$19,999	10	9	11	10	9
\$20,000-\$29,999	9	9	9	9	8
\$30,000-\$49,999	13	13	12	13	11
\$50,000-\$99,999	18	17	18	17	19
\$100,000-\$249,999	18	20	16*	17	20*
\$250,000 or more	11	14	8*	11	12
Base =	2410	1247	1163	1548	862
Mean	\$113,400	\$130,270	\$95,310	\$109,510	\$120,380
Median	\$45,710	\$55,880	\$37,430	\$42,250	\$54,320

*Statistically different at the 95 percent confidence level

**Respondents were instructed to include assets in retirement plans and exclude their primary residence.

Figure 93

Fund Ownership Characteristics of Redeemers*

	All Redeemers	Distribution Channel	
		Direct Market	Sales Force
Median Number of Funds Owned per Household			
Stock funds	3	3	2
Taxable bond funds	1	1	1
Taxable money market funds	1	1	1
Tax-exempt bond funds	1	1	1
Total	6	6	5
Percent of Households Owning**			
Stock funds	90	93	86***
Taxable money market funds	68	73	62***
Taxable bond funds	60	64	56***
Tax-exempt bond funds	55	56	53

*Respondents were instructed to include any fund investments that were part of an IRA, Keogh, or employer-sponsored retirement plan.

**Multiple responses included

***Statistically different at the 95 percent confidence level

Figure 94

Nonfund Investment Ownership Characteristics of Redeemers*

(percent)

	All Redeemers	Distribution Channel		Fund Type	
		Direct Market	Sales Force	Equity	Fixed-Income
Checking accounts	96	97	95	96	96
Individual stocks	58	62	53**	58	58
Life insurance (nonemployer)	57	51	62**	56	57
Passbook savings accounts	53	50	57**	54	53
Money market deposit accounts	40	42	38	39	41
Investment real estate	39	39	39	38	39
Certificates of deposit	31	27	35**	28	36**
Annuities	29	26	33**	27	34**
Individual bonds	25	27	23**	24	28**
Unit investment trusts	14	14	14	12	18**

*Respondents were instructed to include any nonfund investments that were part of an IRA, Keogh, or employer-sponsored pension plan; multiple responses included

**Statistically different at the 95 percent confidence level



1600 M Street, NW, Suite 600
Washington, DC 20036
202/293-7700