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Half of American Households Own Equities, November 2005

Half of American Households Own Equities Equity Ownership Increased Through Bull and Bear Markets, Growth Stimulated by Retirement Plans

Washington, DC, November 10, 2005 - Equity ownership in America has grown over the past two decades, and now half of all U.S. households and one in three individuals own equities. Nearly 57 million U.S. households own stocks directly or through mutual funds, according to a survey released today by the Investment Company Institute (ICI) and the Securities Industry Association (SIA).

The growth in equity ownership among America's individual investors has been largely fueled by the expansion of defined contribution retirement plans, particularly 401(k) plans. Between 1999 and 2005, the number of households owning equities through employer-sponsored plans, which often offer stock mutual funds as investment options, grew by 5.2 million, to 37.6 million.

"We have become a society of equity investors and defined contribution retirement plans play a central role in introducing Americans to equity investing," said Sandy West, Director of Market Policy Research at ICI. "Today, almost half of all equity owners made their initial equity investment by purchasing stock mutual funds through these plans."

"Americans clearly understand the benefits and value of investing in equities to reach their long-term financial goals," noted Frank Fernandez, Senior Vice President of the Securities Industry Association, on the growth in equity ownership through bull and bear markets. "Despite experiencing a market contraction that was one of the worst bear markets since the Great Depression, the number of individuals in the U.S. owning equities is up 5.2 percent since 2002, and up 14.4 percent since 1999."

The 2005 ICI/SIA study, Equity Ownership in America, profiles equity investors, providing data on demographics, financial holdings, use of professional financial advisers, and views about equity investing. The results are based on interviews of 4,927 household financial decisionmakers, which were conducted in January 2005. The survey covers a period of significant change in the stock market since the last ICI/SIA survey in early 2002. An appendix to the study offers supplementary data on equity owners.

The research survey finds that equity investors tend to be middle-aged, with moderate household incomes and financial assets. The "average" equity investor is married, 51 years old, college-educated, employed, and is saving for retirement. Ninety percent of equity investors own stock mutual funds and nearly half own individual stocks.

Patterns of Equity Ownership

Defined contribution plans are an important source of growth for equity ownership. DC plans also play an important role in introducing investors to equity investing and influence investors' initial equity purchases. More than six out of every ten equity investors under age 35 initially purchased equities through stock mutual funds in retirement plans at work. In contrast, the majority of investors age 65 or older made their initial equity investments outside employer plans. As a result, there are clear generational differences among America's individual investors with regard to the types of equities held and the tax status of these investments.

Equity Investors' Characteristics

Two-thirds of all equity investors in 2005 are between the ages of 35 and 64, the peak earning and investing years. Younger investors typically seek asset accumulation as an investment focus, while older investors have a greater demand for income-producing investments and wealth management.

As in past years, nearly all equity owners in 2005 follow a buy-and-hold investment philosophy and view their equity holdings as long-term investments. However, equity investors today are somewhat more conservative financially than they were six years ago, likely in response to the 2000–2002 bear market. Although equity owners are more cautious about investment risk today, their equity holdings continue to account for more than half of their household financial assets.

Use of Professional Financial Advisers

While the increase in the number of investors holding equities through retirement plans at work has driven the growth of equity ownership, nearly three-quarters of all equity investors hold equities outside these plans. Professional financial advisers are the main conduit to equity ownership outside employer plans. More than three-quarters of investors who hold equities outside employer-sponsored plans in 2005 own equities purchased through advisers.

The Investment Company Institute is the national association of the American investment company industry. ICI members include 8,518 open-end investment companies (mutual funds), 663 closed-end investment companies, 148 exchange-traded funds, and 5 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately $8.5 trillion (representing more than 95 percent of all assets of US mutual funds); these funds serve approximately 86.7 million shareholders in more than 51.0 million households.

The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. SIA's primary mission is to build and maintain public trust and confidence in the securities markets. SIA members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. The U.S. securities industry employs 800,000 individuals, and its personnel manage the accounts of nearly 93 million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated an estimated $236.7 billion in domestic revenue and $340 billion in global revenues. More information about the SIA is available at http://www.siaonline.org/.
