

ICI Economist Reports that "Total Shareholder Cost" of Investing in Stock Mutual Funds Has Declined 45 Percent Since 1980, February 2004

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Report Tackles "Multiple Misconceptions" About Mutual Fund Fees; Finds Investor Preference for Lower Cost Funds Continuing

Washington, D.C., February 18, 2004 - "The actual costs borne by average stock mutual fund shareholders has dropped 45 percent since 1980," Investment Company Institute Deputy Chief Economist Brian Reid reported today.

Previous ICI studies also documented substantial declines in "total shareholder costs," a comprehensive methodology for evaluating mutual fund costs that was developed by Harvard Business School Professor Peter Tufano and Babson College Professor Erik Sirri. Reid's [report](#) updates this research through year-end 2002. "The long-term downward trend in what it costs shareholders to invest in mutual funds is consistent and unmistakable," Reid said.

Institute Chief Economist John Rea said that "the total shareholder cost approach to assessing mutual fund fee trends has been favorably received by government officials and many independent experts." Rea suggested that the reason the methodology has won acceptance is because "it measures both sales loads and annual fees, not just one or the other." Rea pointed out that in its January 2001 fee study, the SEC staff specifically warned that observers could easily draw misleading conclusions about fund fee trends if they failed to account for "significant changes" in how investors paid sales charges.

The fact that the downward trend in shareholders' total cost of investing in mutual funds "persisted through the three-year bear market is particularly gratifying," Rea added.

Reid's report presents several other important findings about mutual fund fees.

- The study reports that the interest of mutual fund shareholders in lower cost funds continues. With respect to stock mutual funds, Reid found that "60 percent of shareholder assets are invested in funds with total expense ratios under 1.00 percent."
- Reid pointed out that "confusion about a typical shareholders' costs persists, one of multiple misconceptions about mutual fund fees." Reid said confusion results from the mistaken assumption that the simple average of what mutual funds charge is the same as what the average investor pays. Reid said there is a wide gap between the two. "The data on this point is overwhelming; the typical mutual fund investor pays much, much less in fund fees than the typical fund charges."
- In discussing the new report, Reid noted that studies by the ICI, SEC, and GAO all independently confirmed that mutual fund fees reflect cost savings achieved through economies of scale. In particular, "each study found that the overwhelming majority of funds that experience significant growth reduce their fees, with the sharpest reductions at the funds that grew the most."