

Fundamentals

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Shareholder Sentiment of the Mutual Fund Industry

The recent trading scandal and bear market have had an impact on shareholder sentiment, but investors retain a favorable view of fund companies. To understand shareholder views of the mutual fund industry, the Investment Company Institute has measured shareholder sentiment of mutual fund companies since 1997 as part of an ongoing research program.¹ This research will become an annual ICI publication in response to heightened interest in the level of investor confidence.

In 2004, 72 percent of fund owners familiar with the mutual fund industry said they had a favorable impression of mutual fund companies. Because attitudes about the industry are largely

influenced by fund performance, shareholders' opinion of fund companies did decline between 2001 and 2003 after peaking in 2000.

Favorability Rating of Mutual Fund Companies

Seventy-two percent of those familiar with mutual fund companies indicated they had either a "very" or "somewhat" favorable impression of fund companies in 2004 (Figure 1). By comparison, the favorability rating among fund owners for banks was 74 percent. Fund shareholders' favorability ratings of other financial institutions in 2004 ranged from 42 percent to 70 percent.

figure 1

Mutual Fund Shareholders' Favorability Rating of Financial Institutions, 1997–2004

(percent of mutual fund shareholders familiar with and having a "very" or "somewhat" favorable impression of the financial institution)

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

source: ICI Mutual Fund Tracking Surveys, 1997–2004



¹ Questions on mutual fund shareholders' familiarity with and impression of the mutual fund industry are included in each of the Institute's annual Mutual Fund Tracking Surveys. The survey is conducted each spring and includes 3,000 telephone interviews with a representative, randomly selected sample of U.S. households. All interviews are conducted with sole or co-decisionmakers for household investments. In 2004, 1,110 of the households surveyed owned mutual funds and were familiar with fund companies. The standard error for the sample of 1,110 households is +/-2.9 percent at the 95 percent confidence level.

The overall favorability rating of mutual fund companies has remained high since ICI first began measuring shareholder sentiment in 1997. The share of fund owners with a “very” favorable impression of fund companies declined from 29 percent in 1999 to 16 percent in 2004 (Figure 2). In contrast, shareholders with a “very” unfavorable impression have varied from 1 to 2 percent. Consistently since 1997, more than half of shareholders have had a “somewhat” favorable impression of fund companies. Shareholders with an overall unfavorable impression increased during the bear market and into 2004.

Factors Shaping Fund Owners’ Impressions of the Mutual Fund Industry

Fund owners’ impressions of the mutual fund industry are primarily shaped by fund performance and personal experience with a fund company (Figure 3). Current financial events, professional financial advisers, stock market fluctuations, and friends and family also play a role in forming shareholders’ impressions of the fund industry. Media coverage is less influential.

figure 2

Mutual Fund Company Favorability Rating, 1997–2004

(percent of mutual fund shareholders familiar with mutual fund companies)

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

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

source: ICI Mutual Fund Tracking Surveys, 1997–2004

figure 3

Factors that Shape Opinion of the Mutual Fund Industry, 1997–2004

(percent of mutual fund shareholders familiar with mutual fund companies and indicating each factor is “very” important)

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

NA = not asked that year

source: ICI Mutual Fund Tracking Surveys, 1997–2004

Reflecting the importance of fund performance in shaping shareholder opinion, mutual fund company favorability has historically correlated with market performance. Both the performance of the S&P 500 Index and the mutual fund company favorability rating peaked in 2000 and declined in 2001, 2002, and 2003 (Figure 4). The S&P 500 Index was higher in 2004 than in 2003, but the fund company favorability rating did not rise as much as the increase in stock prices.

Awareness and Effect of the Mutual Fund Trading Scandal

The modest improvement in shareholder favorability in 2004 likely reflected the mutual fund trading scandal. More than three-quarters of fund owners were aware of the scandal in June 2004 (Figure 5). Among these owners, more than half indicated that news of the scandal had caused them to have a lower opinion of the fund industry than previously.

figure 4

Mutual Fund Company Favorability Rating and S&P 500 Index, 1997–2004



note: The mutual fund company favorability rating is the percent of mutual fund shareholders familiar with and having a “very” or “somewhat” favorable impression of mutual fund companies.

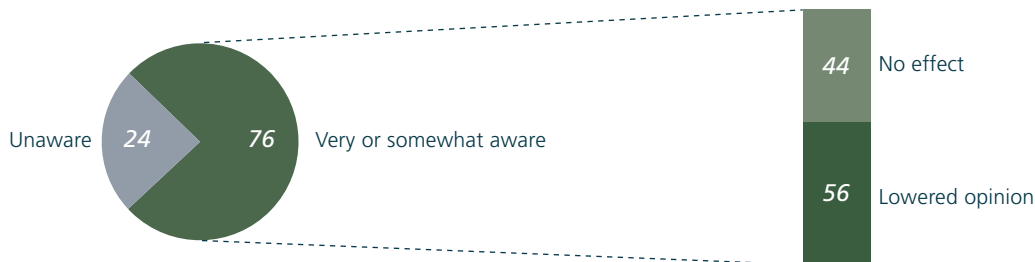
sources: ICI Mutual Fund Tracking Surveys, 1997–2004, and Bloomberg

figure 5

Awareness and Effect of Mutual Fund Trading Scandal, June 2004

Shareholder Awareness of Trading Scandal
(percent of all mutual fund shareholders)

Effect of Trading Scandal on Opinion of Mutual Fund Industry
(percent of mutual fund shareholders aware of trading scandal)



source: ICI Mutual Fund Tracking Survey, 2004

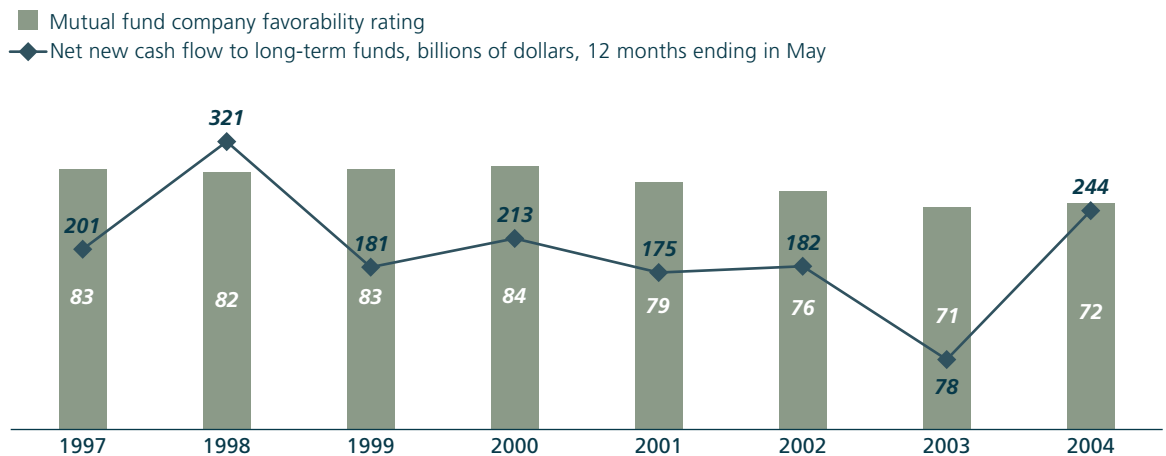
Despite the trading scandal, net new cash flow to long-term mutual funds rebounded in 2004 (Figure 6). For the 12-month period ending in May 2004, net new cash flow was \$244 billion, the second-highest since the first shareholder sentiment survey was conducted in 1997.

Factors Influencing Fund Ownership

Mutual fund shareholders noted a number of factors influencing their use of mutual funds as investments. More than half of all shareholders cite the reputations of the fund companies with which they own funds, the investment diversification funds provide, and the availability of a range of investment choices as very important factors for owning funds (Figure 7).

figure 6

Mutual Fund Company Favorability Rating and Net New Cash Flow to Long-Term Funds, 1997–2004



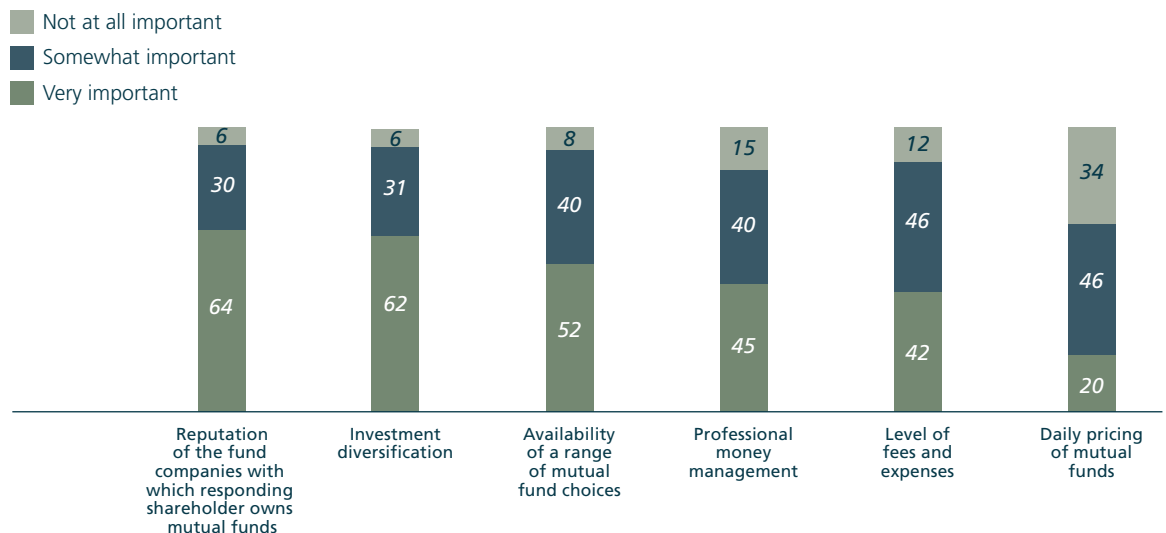
note: The mutual fund company favorability rating is the percent of mutual fund shareholders familiar with and having a “very” or “somewhat” favorable impression of mutual fund companies.

sources: ICI Mutual Fund Tracking Surveys, 1997–2004, and ICI data collections

figure 7

Important Factors for Owning Mutual Funds, June 2004

(percent of all mutual fund shareholders)



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

source: ICI Mutual Fund Tracking Survey, 2004