

# When, Why, and How Do Mutual Fund Investors Use Financial Advisers?

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\*The views expressed in this presentation are those of the author and do not necessarily reflect the views of the Investment Company Institute or its members. The author wishes to thank Steven Bass, ICI Associate Economist, Michael Bogdan, ICI Associate Economist, and Daniel Schrass, ICI Associate Economist, for their expert research assistance with this project.

# Overview

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- U.S. Household Ownership of Mutual Funds
- When, Why, and How Do Mutual Fund Investors Use Professional Financial Advisers?
  - Investors Answers to Survey Questions
  - Regression Analysis on Investor Characteristics Related to the Probability of Having an Ongoing Advisory Relationship
- Conclusions
- References

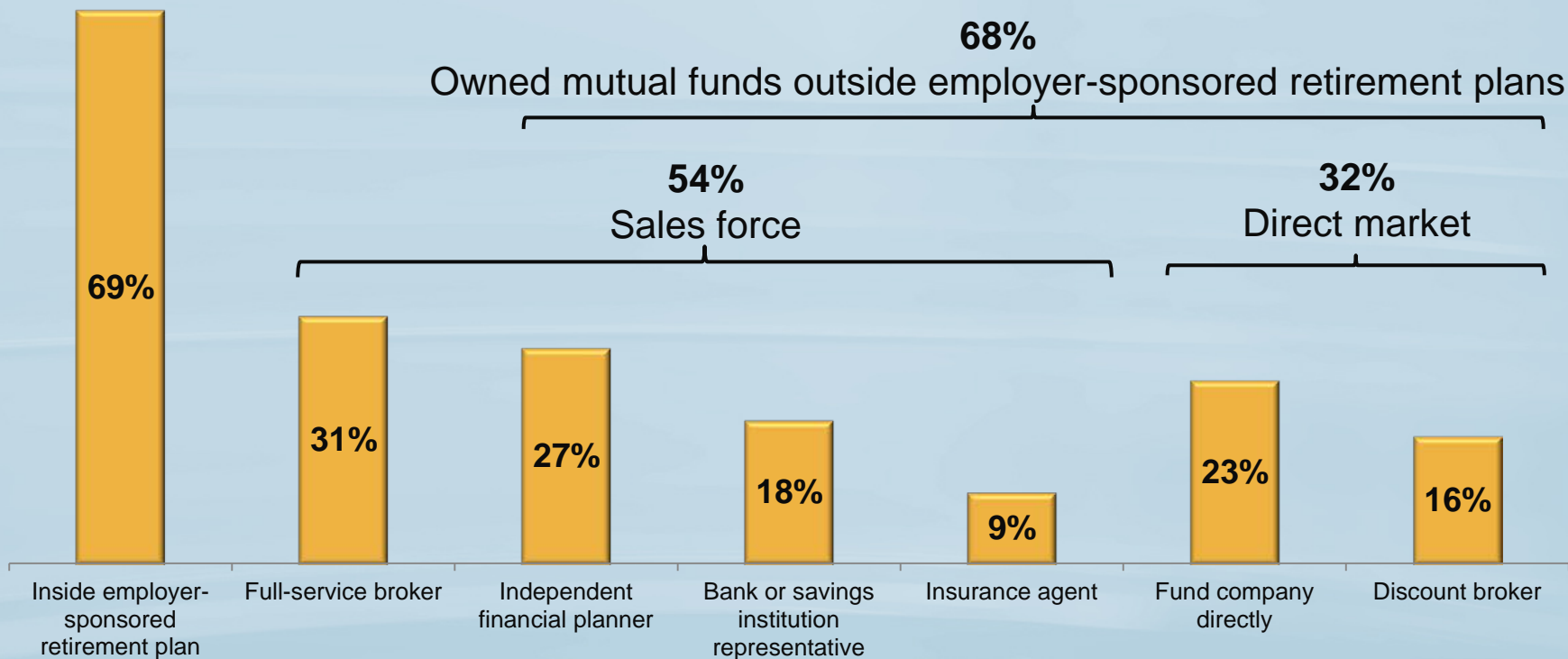
# ICI Annual Mutual Fund Shareholder Tracking Survey

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- Last Fielded May 2011
- RDD landline phone survey of the sole or co-decisionmaker responsible for household saving and investing
- 4,216 U.S. households
  - 38.8% owned IRAs
  - 51.1% owned defined contribution (DC) plan accounts
  - 44.1% owned mutual funds
    - Almost half owned mutual funds through multiple purchases sources
    - Half had ongoing advisory relationships

# Sources Used by Mutual Fund Shareholders to Purchase Mutual Funds

Percentage of U.S. households owning mutual funds, \* May 2011

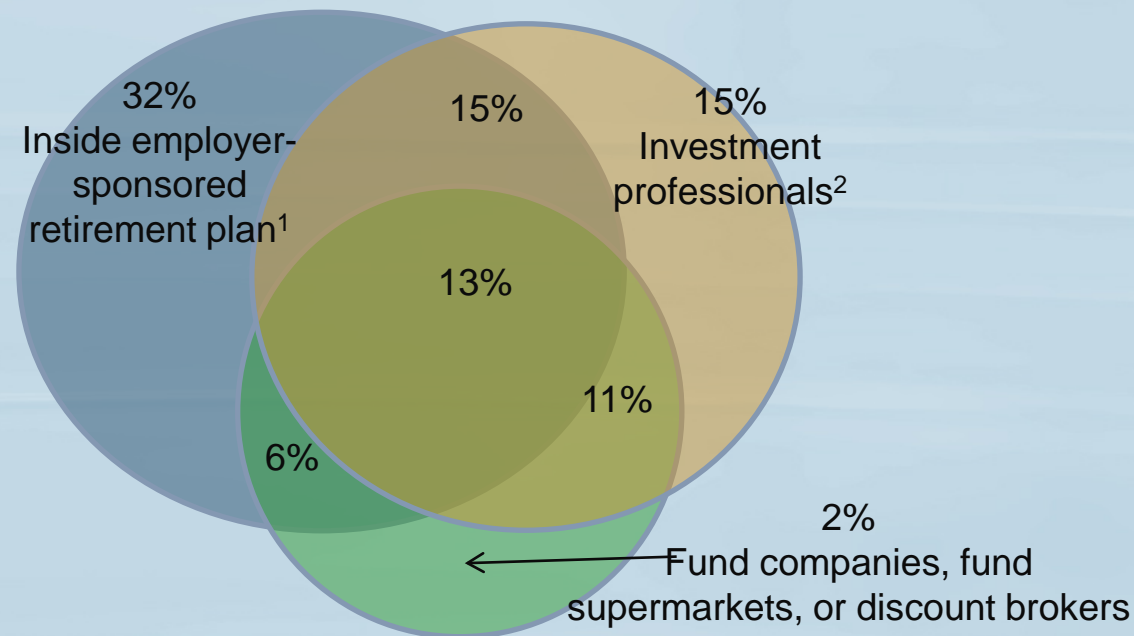


\*Multiple responses are included. Sample is 1,859 U.S. households owning mutual funds in May 2011.

Source: ICI Annual Mutual Shareholder Tracking Survey; see Schrass and Bodgan, "Profile of Mutual Fund Shareholders, 2011," ICI Research Report (February 2012)

# Nearly Half of Mutual Fund–Owning Households Held Shares Through Multiple Sources

*Percentage of mutual fund–owning households, May 2011*



<sup>1</sup> Employer-sponsored retirement plans include DC plans (401(k), 403(b), or 457 plans, Keoghs, and other DC plans without 401(k) features) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

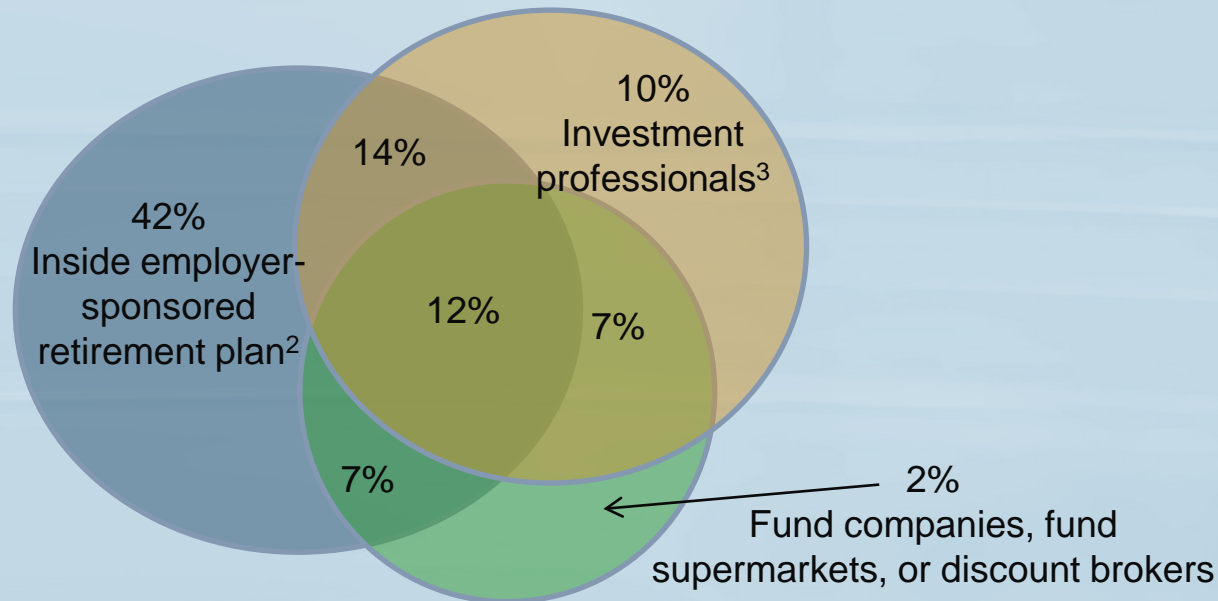
<sup>2</sup> Investment professionals include registered investment advisers, full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Note: Figure does not add to 100 percent because 6 percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. Of this 6 percent, 3 percent owned funds both inside and outside employer-sponsored retirement plans and 3 percent only owned funds outside of employer-sponsored retirement plans.

Source: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey

# Sources Used by Younger Mutual Fund Shareholders to Purchase Mutual Funds

Percentage of mutual fund–owning households younger than 50,<sup>1</sup> May 2011



<sup>1</sup> Age is based on the age of the sole or co-decisionmaker for household saving and investing.

<sup>2</sup> Employer-sponsored retirement plans include DC plans (401(k), 403(b), or 457 plans, Keoghs, and other DC plans without 401(k) features) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

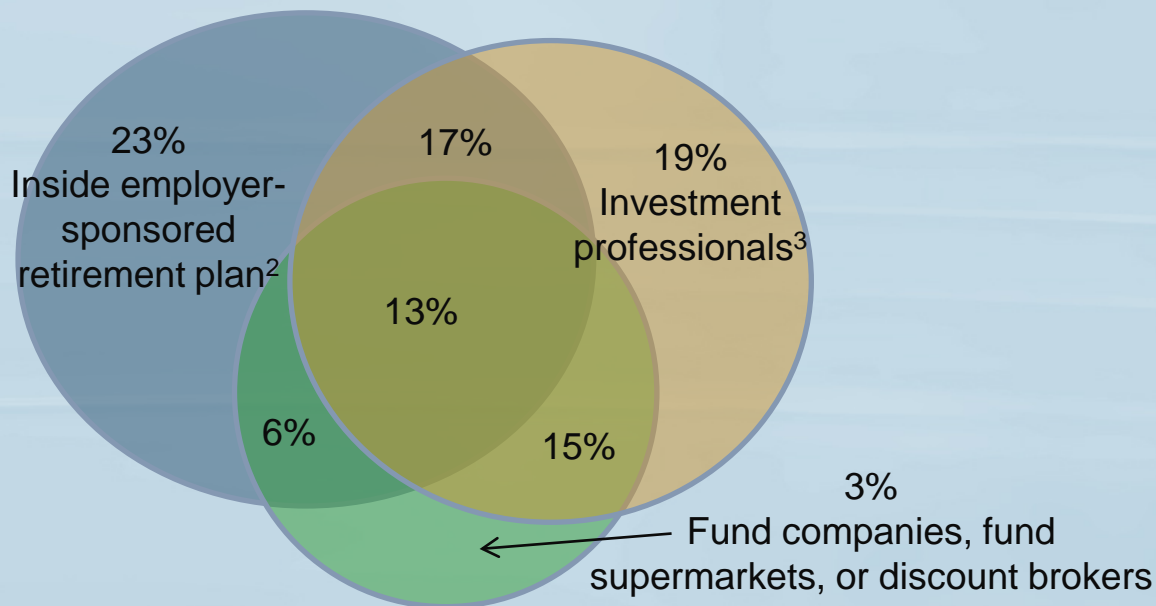
<sup>3</sup> Investment professionals include registered investment advisers, full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Note: Figure does not add to 100 percent because 6 percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. Of this 6 percent, 3 percent owned funds both inside and outside employer-sponsored retirement plans and 3 percent only owned funds outside of employer-sponsored retirement plans.

Source: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey

# Sources Used by Older Mutual Fund Shareholders to Purchase Mutual Funds

Percentage of mutual fund–owning households aged 50 or older,<sup>1</sup> May 2011



<sup>1</sup> Age is based on the age of the sole or co-decisionmaker for household saving and investing.

<sup>2</sup> Employer-sponsored retirement plans include DC plans (401(k), 403(b), or 457 plans, Keoghs, and other DC plans without 401(k) features) and employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs, and SIMPLE IRAs).

<sup>3</sup> Investment professionals include registered investment advisers, full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Note: Figure does not add to 100 percent because 4 percent of households owning mutual funds outside of employer-sponsored retirement plans did not indicate which source was used to purchase funds. Of this 4 percent, 2 percent owned funds both inside and outside employer-sponsored retirement plans and 2 percent only owned funds outside of employer-sponsored retirement plans.

Source: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey

# ICI Mutual Fund Shareholder Financial Advice Survey

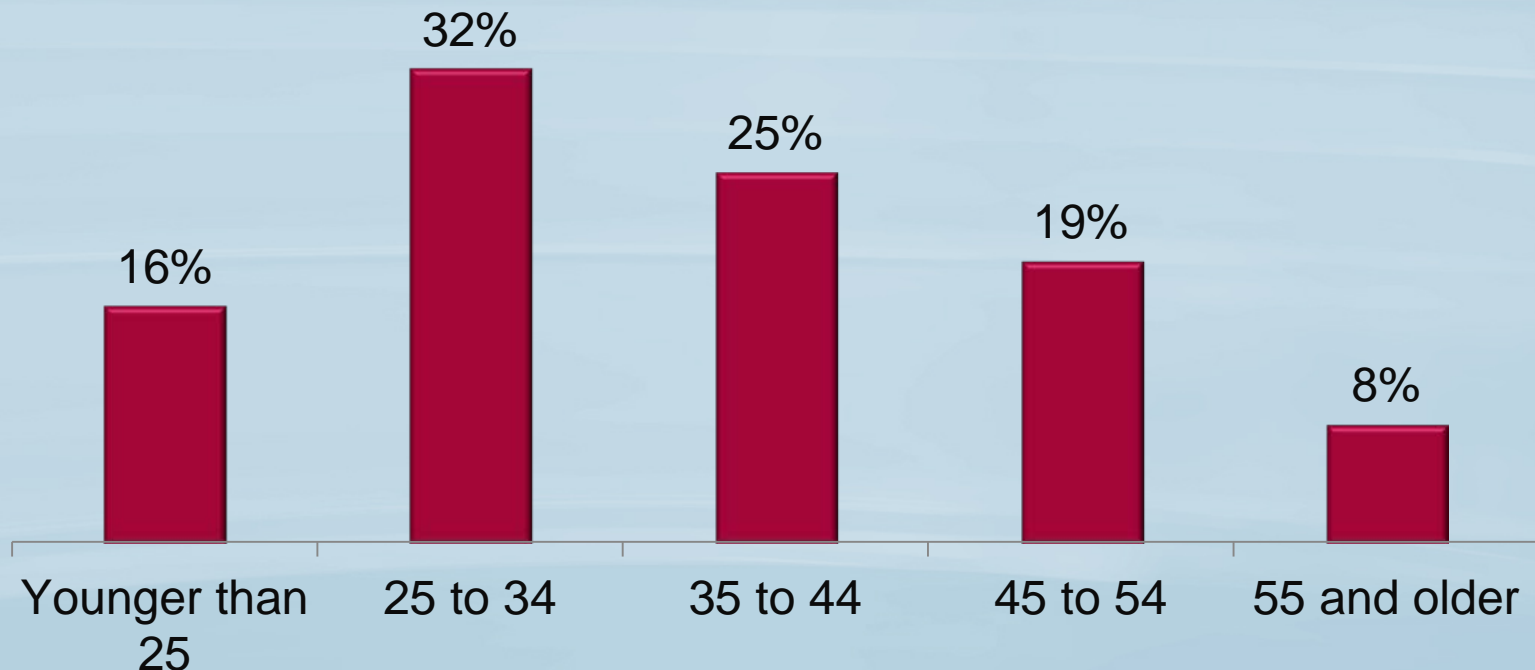
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- Fielded Late July 2006 – September 2006
- Phone survey; random selection of households from telephone exchanges with median household incomes of \$75,000 or more
- 1,003 U.S. households owning mutual funds outside of workplace retirement plans
  - 602 with ongoing advisory relationships; and
  - 401 without ongoing advisory relationships



# When Do Mutual Fund Investors Initially Seek Financial Advice?

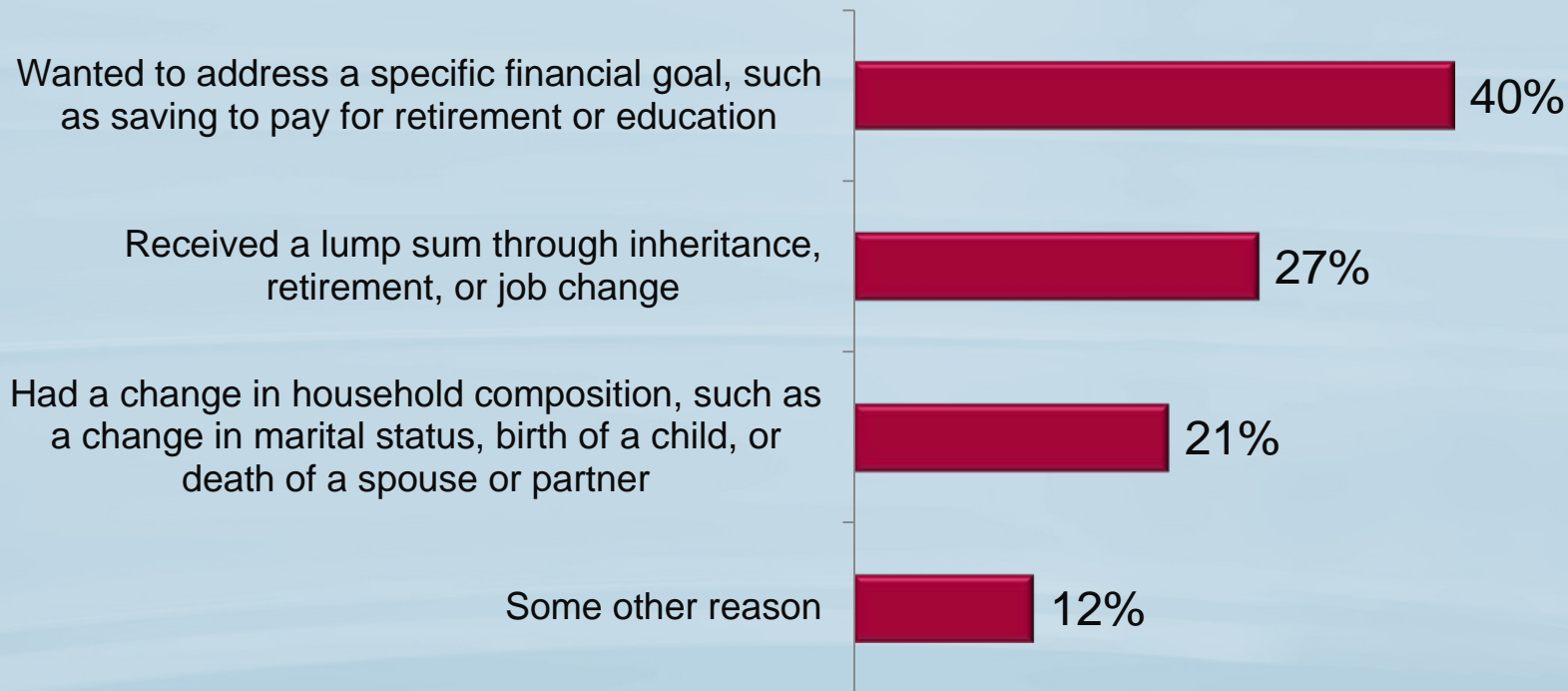
*Percentage of respondents with ongoing advisory relationships, by age at which they first sought professional investment advice, 2006*



Source: ICI Mutual Fund Shareholder Financial Advice Survey; see Leonard-Chambers and Bogdan, "Why Do Mutual Fund Investors Use Professional Financial Advisers?" *ICI Fundamentals* (April 2007)

# Shareholders Often Seek Professional Investment Advice in Response to Life Events or to Achieve Financial Goals

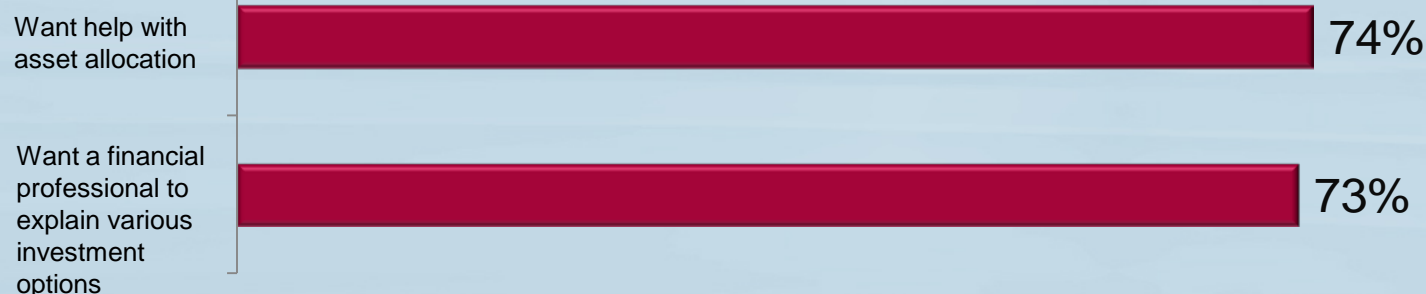
*Percentage of respondents with ongoing advisory relationships, 2006*



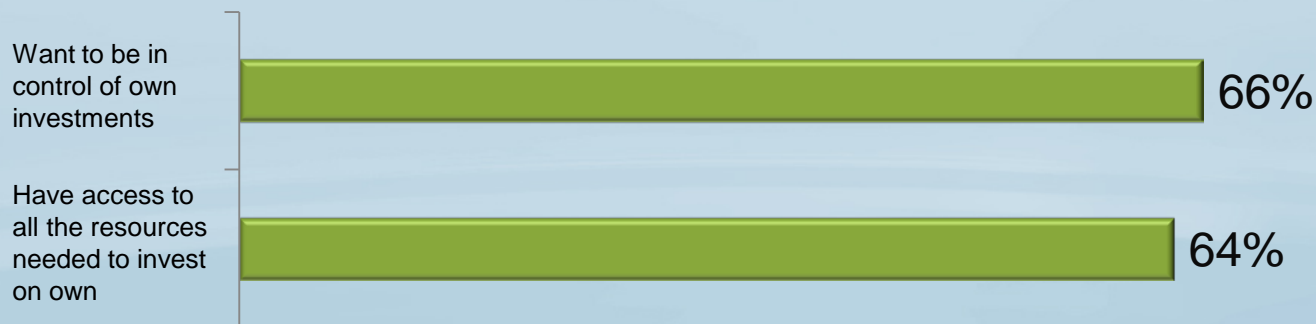
Source: ICI Mutual Fund Shareholder Financial Advice Survey; see Leonard-Chambers and Bogdan, "Why Do Mutual Fund Investors Use Professional Financial Advisers?" *ICI Fundamentals* (April 2007)

# Mutual Fund Investors and Help with Asset Allocation

*Percentage of respondents with ongoing advisory relationships indicating each is a “major” reason for using advisers, 2006*



*Percentage of respondents without ongoing advisory relationships indicating each is a “major” reason for not using advisers, 2006*



Source: ICI Mutual Fund Shareholder Financial Advice Survey; see Leonard-Chambers and Bogdan, “Why Do Mutual Fund Investors Use Professional Financial Advisers?” *ICI Fundamentals* (April 2007)

# Mutual Fund Investors and Help with Financial Planning

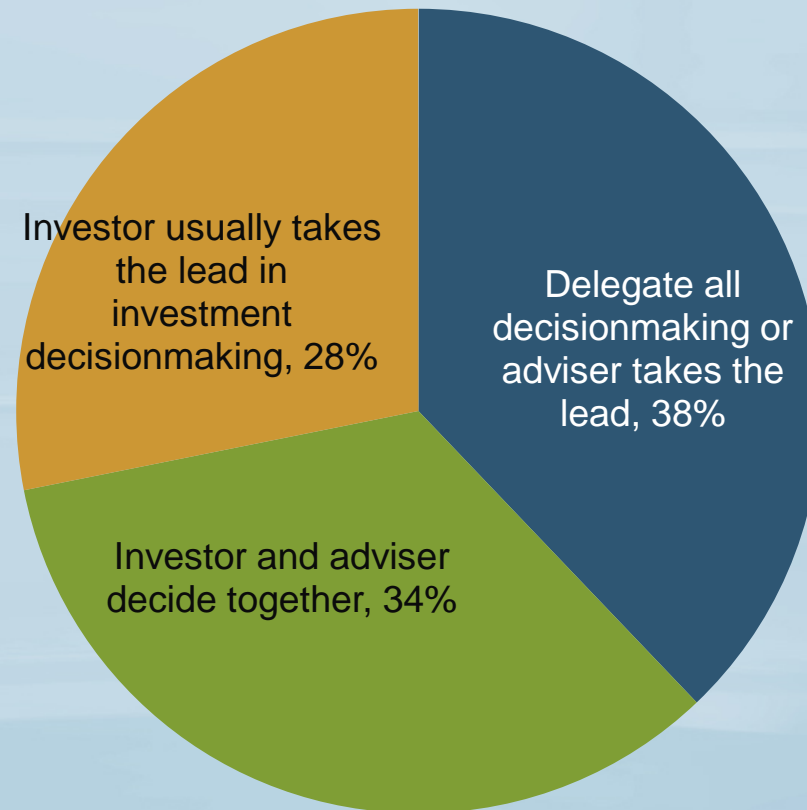
*Percentage of respondents with ongoing advisory relationships indicating each is a “major” reason for using advisers, 2006*



Source: ICI Mutual Fund Shareholder Financial Advice Survey; see Leonard-Chambers and Bogdan, “Why Do Mutual Fund Investors Use Professional Financial Advisers?” *ICI Fundamentals* (April 2007)

# Investor/Adviser Split of Investment Decisionmaking

*Percentage of mutual fund-owning households with ongoing advisory relationships, 2006*



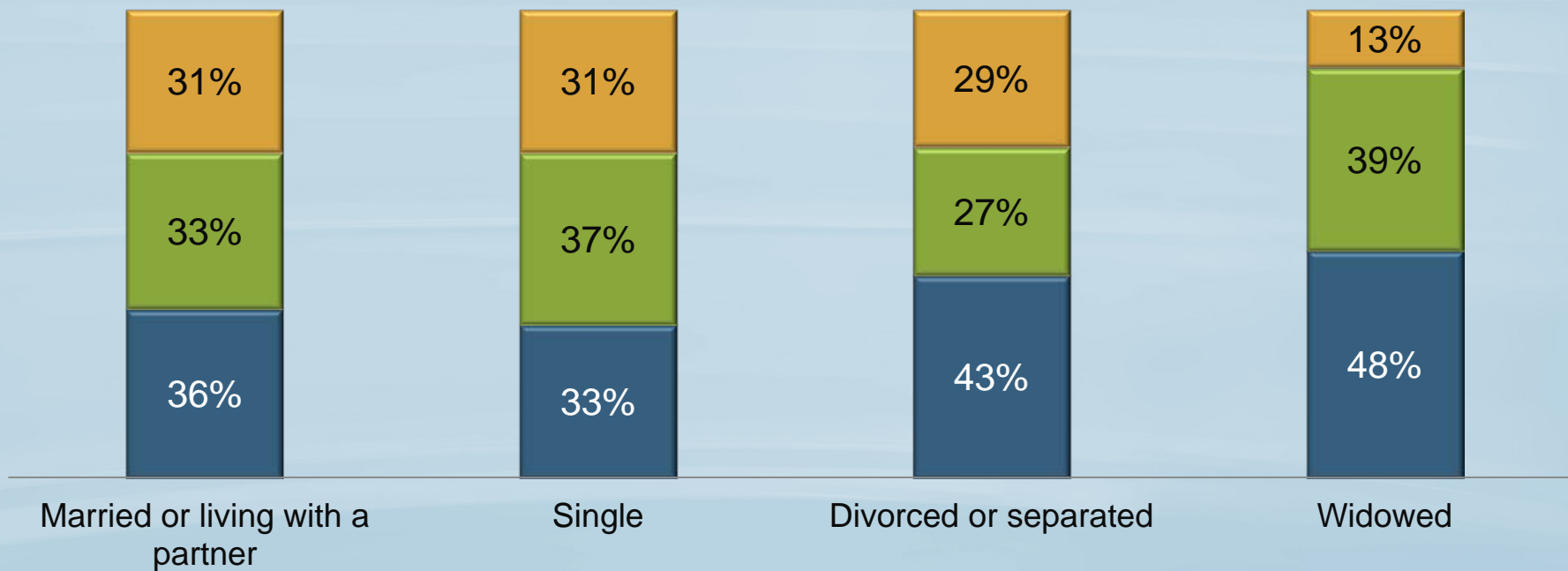
Note: The number of respondents is 595.

Source: ICI Mutual Fund Shareholder Financial Advice Survey

# Investor/Adviser Split of Investment Decisionmaking

Percentage of mutual fund-owning households with ongoing advisory relationships, 2006

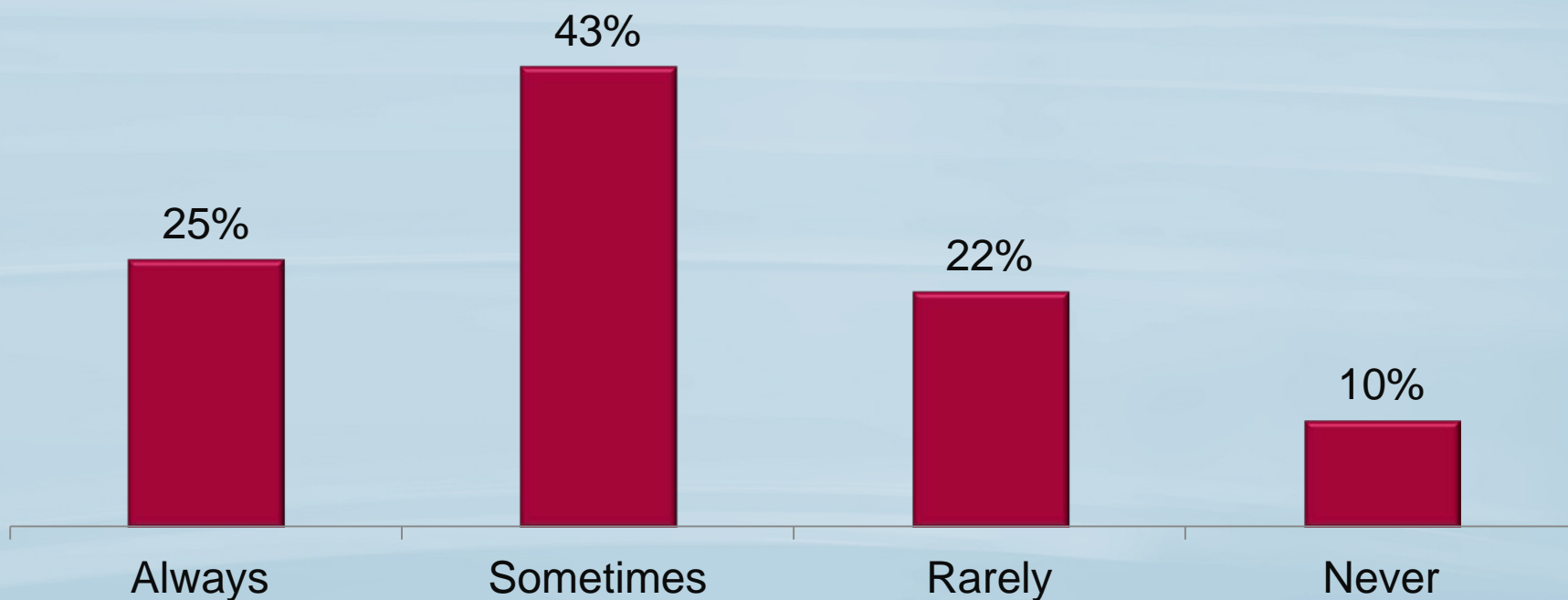
- Investor usually takes the lead in investment decisionmaking
- Investor and adviser decide together
- Delegate all decisionmaking or adviser takes the lead



Note: The Number of respondents is 595. Components may not add to 100% because of rounding.  
Source: ICI Mutual Fund Shareholder Financial Advice Survey

# Investor Conducts Own Research?

*Percentage of mutual fund-owning households with ongoing advisory relationships, 2006*

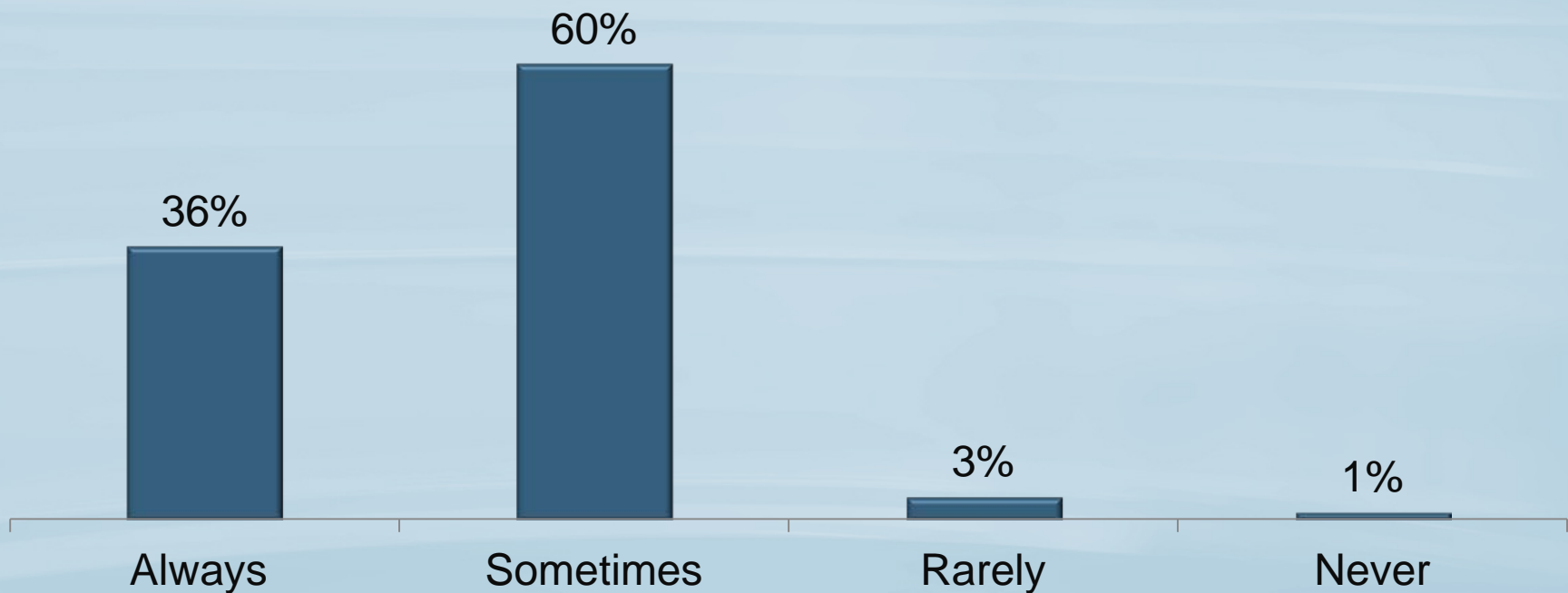


Note: The Number of respondents is 595.

Source: ICI Mutual Fund Shareholder Financial Advice Survey

# Investor Follows the Investment Advice?

*Percentage of mutual fund-owning households with ongoing advisory relationships, 2006*



Note: The Number of respondents is 595.

Source: ICI Mutual Fund Shareholder Financial Advice Survey



# Regression Analysis: 2011 ICI Tracking Survey

- Dependent variable:
  - = 0 if not in ongoing advisory relationship
  - = 1 if in an ongoing advisory relationship
- Independent variables:
  - Intercept
  - Age + Age<sup>2</sup>
  - Female decisionmaker (1 if female)
  - Household income (dummies/ranges)
  - ***Household financial assets (dummies/+most ranges)***
  - ***Education level (dummies)+completed grad school***

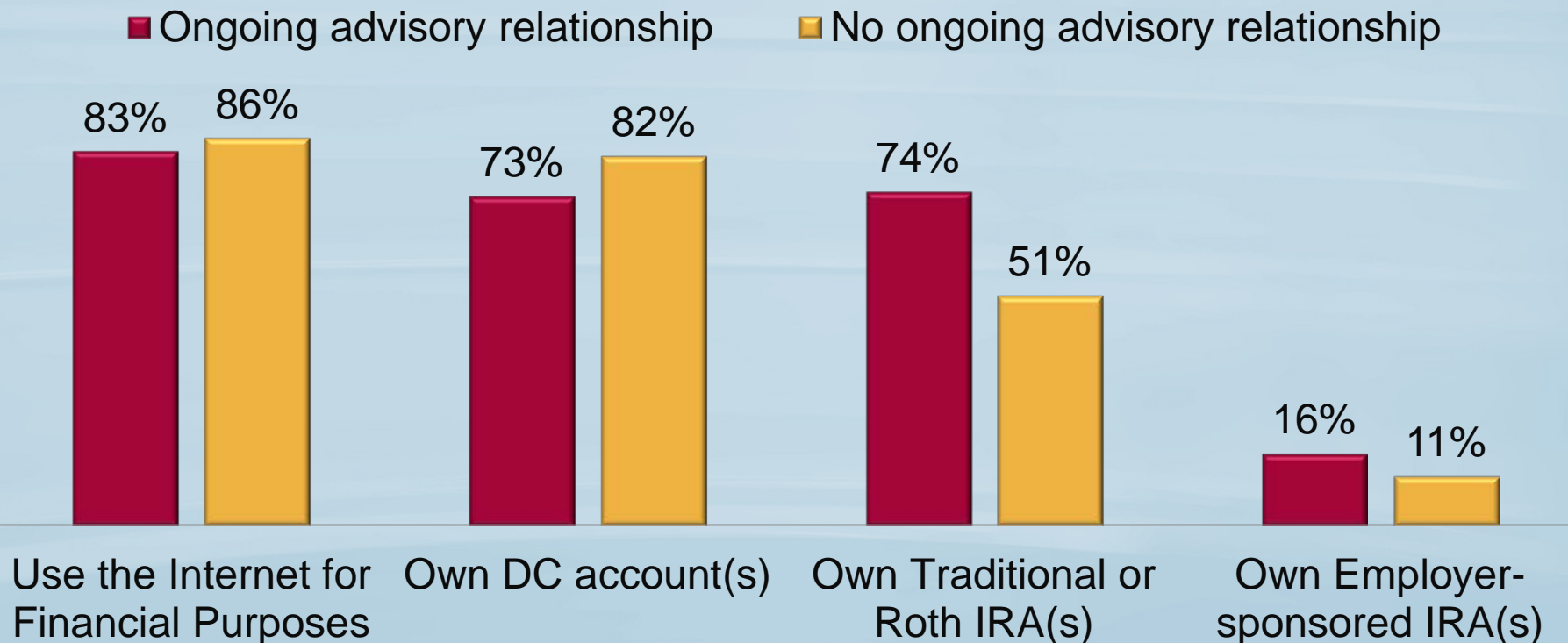
## Regression Analysis, continued

- Independent variables, continued:
  - ***Willingness to take financial risk (dummies/ + most scale categories)***
  - ***Confidence mutual funds can help reach financial goals (dummies/ + highest scale “very confident”)***
  - **Use Internet for financial purposes (1 if yes) –**
  - **Own a DC account (1 if yes) –**
  - **Own an IRA (1 if yes) +**

Note: Omitted variables were the lowest category. Sample of 1,229 mutual fund–owning households.

# Internet for Financial Purposes, DC Accounts, or IRAs

*Percentage of mutual fund-owning households by advisory relationship status, May 2011*



Source: 2011 ICI Annual Mutual Fund Shareholder Tracking Survey

# Conclusions

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- Mutual fund investors seek professional financial advice for a variety of reasons going much beyond the selection and purchase of specific mutual funds.
- About half of mutual fund–owning households in May 2011 reported that they have ongoing financial advisory relationships.
- The advisory relationship is complex and involves a range of give and take in the decisionmaking process.
- Although a wide range of mutual fund investors uses professional financial advisers, certain investors are more likely to work with advisers than others.

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