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By William F. "Ted" Truscott

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Despite what you may have heard, the least exciting aspect of our financial markets over the last 80 years has been the behavior of mutual fund investors during periods of volatility or crisis.

And that's a good thing. The nearly $22 trillion held by more than 100 million fund investors is a wet blanket on a market fire sale—not an accelerant.

Fund investors overwhelmingly take the long view of their investments. According to research from the Investment Company Institute, the global trade association for mutual funds, three-quarters of mutual fund–owning households say that saving for retirement is their primary reason for investing in funds. Another 5% say they're primarily saving for education. And 3% are saving for a home or other big-ticket purchase.

Taken together, more than four out of five fund investors are looking toward long-term goals and beyond the daily ups and downs in the markets.

And their actions speak even louder than their words.

In the bear market of 1973–1974, the S&P 500 fell by 42%. Over those two years, stock-fund investors redeemed just 5.8% of those funds' assets.

In October 1987, the month of "Black Monday," the S&P was down 22%. Outflows from stock funds were only 3.2% of assets.

When the tech bubble burst in 2000 and 2001, fund investors confounded run theorists by purchasing more stock funds, not selling off.

During the financial crisis, from October 2007 to February 2009, the S&P lost more than half its value. Yet stock fund outflows over that time were a mere 3.6% of assets.

Those episodes involved stock funds. But bond fund investors were just as solid in periods like the Taper Tantrum of 2013 and the sharp decline in high-yield bonds in 2015.

The reasons fund investors overcome the urge to flee from bad markets are many.

For one, as some investors are selling, others are buying. As Merrill Griswold said back in 1940, "The very market action that would cause some holders to liquidate would cause others to hold or increase their investment." In other words, "That is what makes a market."

Another reason behind all that sticky mutual fund money is structural. More than half of stock and bond fund assets are held in long-term savings plans such as 401(k) or other defined contribution plans, or individual retirement accounts. Retirement goals naturally position fund shareholders to invest for the long run and avoid trying to time the market, and employers and plan administrators work hard to educate participants in principles of good investing.

Another reason fund investors act rationally is because of the support they receive from financial intermediaries. ICI research finds that about 80% of mutual fund–owning households that hold funds outside of retirement plans were guided by investment professionals. Financial professionals help investors set goals, design portfolios to meet those goals, and then help investors stay on course.

The bottom line is that fund investors recognize investment risk—and accept it. About one-third of mutual fund–owning households tell ICI that they can accept substantial or above-average risk for the prospect of gaining substantial or above-average returns. And almost half say the same for average investment risks if they bring average returns. The vast majority of fund investors understand that assuming and managing risk is necessary if they want to reap the rewards of the market.

The data make clear that fund investors have stayed the course through market downturns, volatility, and crises. The popular misconceptions about panicky fund investors don't stand up to any scrutiny; in fact, mutual fund investors are a great source of stability to our financial markets.

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