

Understanding  
Shareholders'  
Use of  
Information  
and Advisers



# Understanding Shareholders' Use of Information and Advisers

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# I N T R O D U C T I O N

## BACKGROUND

The growth of the mutual fund industry since the early 1980s has led to an expansion in the sources of information on fund investments beyond mutual fund companies themselves and traditional financial advisers. Mutual fund information is now available, for example, from financial magazines, newsletters, mutual fund rating services, television and radio programs, and online computer services.

Despite this notable increase in information sources, only limited research has been undertaken to assess the extent to which the information from these various sources actually meets investors' needs. The principal research to date includes two shareholder surveys conducted by the Institute in 1996, one evaluating various methods of presenting risk information and the second examining shareholder reactions to innovations in mutual fund prospectus disclosure.<sup>1</sup>

The Institute undertook a survey of mutual fund investors to examine their information needs, their use of the full gamut of information sources, and the role played by financial advisers in investment decisions. This report presents the findings of this survey.

The specific objectives of the survey were:

- to examine the role of professional financial advisers in mutual fund decisionmaking;
- to identify information shareholders seek before and after investing in a fund;

- to identify the sources of information that shareholders consult before and after buying a mutual fund;
- to identify the information shareholders obtain from mutual fund prospectuses, annual reports, and account statements;
- to examine the information needs of those shareholders interested in learning more about mutual funds; and
- to segment shareholders according to their needs for investment information and use of professional financial advisers in the fund purchase process.

## SUMMARY OF RESEARCH METHODOLOGY

A two-stage research program was designed with these objectives in mind. In the first stage, Abt Associates qualitatively assessed shareholders' pre-purchase information needs and the role of professional advisers in focus group interviews. The information gathered from these discussions was used to develop the survey instrument for the second stage.

The second stage comprised a telephone survey of shareholders who had bought a stock or bond fund in the five years preceding the survey. A "purchase," for these purposes, was limited to shares bought from a fund in which no shares had been owned before the five-year period. Fund purchases made through employer-sponsored retirement plans were not included in the survey. A total of 1001 40-minute interviews were completed (See Appendix A).

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<sup>1</sup> *Shareholder Assessment of Risk Disclosure Methods* (Investment Company Institute, 1996) and *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* (Investment Company Institute, 1996).

# EXECUTIVE SUMMARY

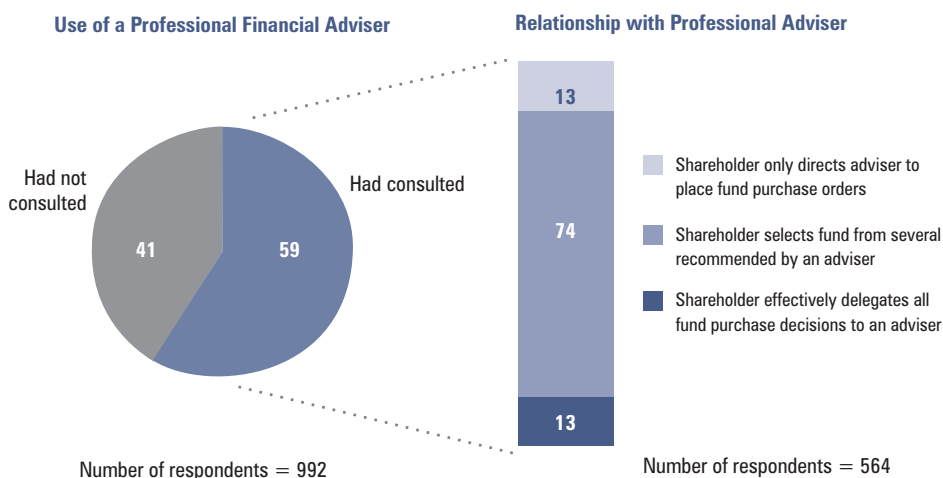
**1. The majority of mutual fund shareholders use a professional financial adviser in making investment decisions.** Almost three fifths of the survey participants had consulted an adviser for investment advice (Figure 1). Respondents who had used a professional financial adviser usually met with that adviser four times per year and typically followed his or her recommendations.

**2. Shareholders who use a professional financial adviser usually make the purchase decision, choosing a fund from among several recommended by the adviser.** Seventy-four percent of respondents who had used an

adviser described the relationship in this way. For 13 percent of respondents who had used an adviser, the adviser made all fund purchase decisions. For the remaining 13 percent, the adviser solely placed the purchase orders of the shareholder (Figure 1).

**3. The typical mutual fund shareholder, regardless of his or her use of an adviser, thoroughly investigates a fund before buying it.** Before making their most recent purchase of a stock or bond fund, shareholders typically reviewed 13 separate items of information about the fund or its sponsoring company. Risk, return, the reputation of the

FIGURE 1  
**The Relationship with Professional Financial Advisers in the Mutual Fund Purchase Process**  
*(percent of respondents)*





company sponsoring the fund, the fund's investment goals, and the types of companies in which it invests were the most frequently mentioned items. The least frequently mentioned items were information on the fund portfolio manager's professional background, the fund's portfolio turnover rate, and fund company services (Figure 2).

**4. The typical shareholder consults two sources of mutual fund information before making a purchase.**

Over half of the survey respondents consulted a professional financial adviser or articles in newspapers, magazines, or investment newsletters. Just under half of the respondents obtained information from fund company prospectuses and annual reports. Respondents referred to mutual fund ranking services like Morningstar or Lipper, fund company newsletters, investment seminars, or online services with considerably less frequency (Figure 3).

**5. The vast majority of mutual fund shareholders monitors the performance of their mutual fund holdings.** Their primary means for carrying out this task are by following the total value of their fund account, rates of return, price per share, economic conditions, and fund risk levels (Figure 2). The median number of items monitored by survey respondents was five.

**6. Shareholders typically use three sources to monitor their mutual fund investments, including several mutual fund company documents.** Three quarters of respondents reported using account statements to monitor their fund investments, and half cited annual reports. Fund listings in newspapers and financial advisers were also among the most frequently used sources of post-purchase mutual fund information, with two fifths or more of respondents consulting each (Figure 3).

**FIGURE 2**  
**Fund Information Most Frequently Considered Before and After a Purchase**  
*(in descending order)*

Before a Purchase	After a Purchase
1. Risk level	1. Total dollar value of an account
2. Total return	2. Yield or rate of return
3. Reputation of fund company	3. Price per share of a fund
4. Investment goals	4. Economic or market conditions
5. Types of companies invested in	5. Fund's risk level

**FIGURE 3**  
**Sources of Fund Information Most Frequently Used Before and After a Purchase**  
*(in descending order)*

Before a Purchase	After a Purchase
1. Professional financial advisers	1. Account statements
2. Articles in investment newsletters, newspapers, magazines	2. Mutual fund listings in a daily newspaper
3. Mutual fund prospectuses and annual reports	3. Mutual fund annual reports
4. Friends, family, business associates	4. Mutual fund prospectuses
5. Mutual fund ranking and information services, such as Morningstar and Lipper	5. Professional financial advisers

**7. Shareholders may be segmented into one of three groups based on their use of, and preferences for, investment information and guidance.** These segments are Do-It-Yourself Shareholders, Adviser-Partnership Shareholders, and Passive Shareholders.

- **Do-It-Yourself Shareholders** accounted for 52 percent of survey respondents. They were self-reliant, active investors who, at the time of the survey, typically had owned mutual funds for ten years. In most instances, they were customers of the direct-market channel. Nevertheless, 43 percent of Do-It-Yourself Shareholders said they had consulted with a professional financial adviser at least once before making a mutual fund purchase decision. This group tended to rely on printed information in newspapers, magazines, investment newsletters, and prospectuses for pre-purchase fund information. Do-It-Yourself Shareholders typically required pre-purchase information about fund risk and performance, the reputation of the fund company, fund

investment goals, and the securities held in the fund. Do-It-Yourself Shareholders usually monitored their funds with four pieces of fund-related information: the total dollar value of their fund’s account, the fund’s yield or rate of return, the fund’s price per share, and economic or market conditions. Account statements and newspaper listings were two of Do-It-Yourself Shareholders’ key sources for pre-purchase information (Figure 4).

- **Adviser-Partnership Shareholders** were also seasoned mutual fund investors, but had strong, collaborative relationships with professional financial advisers, usually full-service brokers. These shareholders tended to own more mutual funds and have more fund investment experience than other shareholders. Before making mutual fund purchase decisions, Adviser-Partnership Shareholders preferred to consult with a professional financial adviser, usually a full-service broker. Adviser-Partnership Shareholders generally required risk and return information before fund pur-

**FIGURE 4**  
**Characteristics of Respondent Segments**

	<b>Do-It-Yourself Shareholders</b>	<b>Adviser-Partnership Shareholders</b>	<b>Passive Shareholders</b>
<b>Median</b>			
Age	42	52	42
Household income	\$68,000	\$73,000	\$50,000
Household financial assets <sup>1</sup>	\$90,000	\$80,000	\$60,000
Mutual fund assets <sup>2</sup>	\$48,000	\$38,000	\$19,000
Number of funds owned <sup>2</sup>	6	10	4
Length of fund ownership	10 years	14 years	6 years
Time spent per month on investment matters	5 hours	6 hours	1 hour
<b>Percent of respondents</b>			
Male	78*	52	31
Enjoy investing	88	89	46
Primary mutual fund purchase channel:			
Sales force <sup>3</sup>	36	85	75
Direct market <sup>4</sup>	63*	14	26
Have a professional financial adviser	43*	97	71

<sup>1</sup> Excluding primary residence and assets in employer-sponsored plans.

<sup>2</sup> Outside of employer-sponsored plans.

<sup>3</sup> Includes full-service brokers, financial planners, insurance agents, and bank representatives.

<sup>4</sup> Includes fund companies and discount brokers.

*Note:* Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

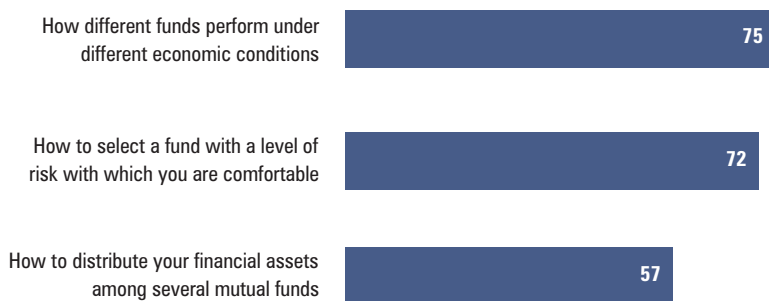
chases. However, more Adviser-Partnership Shareholders considered fund company reputation prior to purchase than did the other two segments. Of the three groups, Adviser-Partnership Shareholders monitored fund investments most vigilantly, and particularly followed: economic conditions, fund risks, fees and charges, and portfolio manager changes (Figure 4).

- **Passive Shareholders** represented 38 percent of respondents. Passive Shareholders were generally inexperienced investors who relied heavily on financial professionals, friends, and family when making investment decisions. Members of this segment primarily bought the funds they owned at the time of the survey from a fund company, full-service broker, or financial planner. More than any other segment, they reported a preference for leaving fund purchase decisions to a professional adviser. The Passive Shareholder typically had less experience with mutual funds than did other shareholders but nonetheless had

owned funds for six years. Before making their most recent purchases, these Passive Shareholders primarily reviewed or asked questions about a fund's risk, return, and the reputation of the sponsoring company. The majority of this shareholder segment said they regularly monitor their funds' account values, yields or rates of return, and price per share. Compared with other segments, Passive Shareholders more often listed the account statement as a source of post-purchase information (Figure 4).

- 8. **Most shareholders want to improve their understanding of mutual fund investing.** Seventy-two percent of the survey respondents said they are interested in learning more about mutual funds. These respondents were generally most interested in improving their understanding of how economic and market conditions can affect funds, followed by how to select a mutual fund with a risk level compatible with their own risk tolerance. (Figure 5).

**FIGURE 5**  
**Mutual Fund Topics of Interest<sup>1</sup>**  
*(percent of respondents interested in learning more about mutual fund investing)*

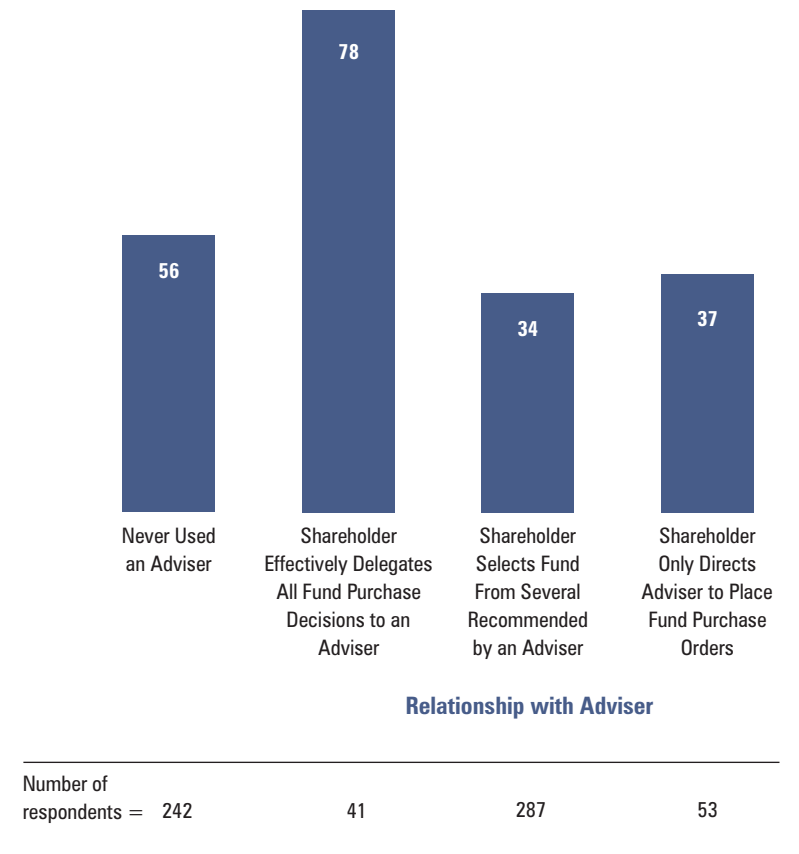


<sup>1</sup> Multiple responses included.

*Note:* Number of respondents varies.

**9. Mutual fund companies that prepare a variety of educational materials are in a good position to reach shareholders interested in improving their understanding of mutual fund investing.** Forty-six percent of respondents mentioned mutual fund companies as a preferred source for mutual fund educational materials. Among respondents with no professional adviser, it was 56 percent (Figure 6).

**FIGURE 6**  
**Respondents Mentioning Mutual Fund Companies as a Preferred Source of Mutual Fund Educational Materials**  
*(percent of respondents interested in learning more about mutual fund investing)*



Note: Number of respondents varies.

## The Role of Professional Investment Guidance in the Mutual Fund Purchase Decision

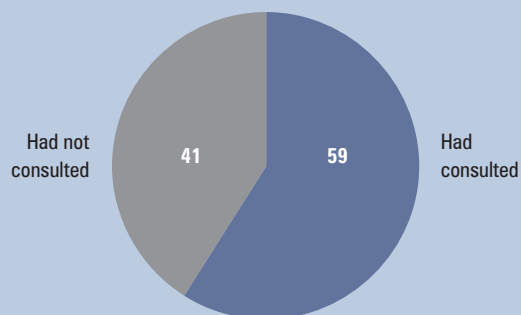
### SUMMARY

Nearly 60 percent of respondents reported having used a professional financial adviser, usually a full-service broker or a financial planner, to assist them in making investment decisions. For the most part, respondents working with advisers considered fund investment decisionmaking to be a collaborative process. Respondents using a professional financial adviser typically met with that adviser once per quarter and chose a fund investment from among the list of funds recommended by the adviser. The majority of respondents with a financial adviser rated the value of the services received from the adviser as excellent or very good.

FIGURE 7

#### Shareholders' Use of Professional Financial Advisers in Making Investment Decisions

(percent of respondents)



Number of respondents = 992

## USE OF PROFESSIONAL FINANCIAL ADVISERS

For many individuals, professional financial advisers are integral to the investment decisionmaking process. In fact, 59 percent of respondents reported having consulted a professional financial adviser at the time of the survey.<sup>2</sup> Among respondents who had consulted an adviser when making investment decisions, 43 percent identified a full-service broker as their primary financial adviser, 34 percent indicated a financial planner, 5 percent mentioned an insurance agent, and 4 percent cited a bank representative. Fourteen percent mentioned some other person as their primary financial adviser, usually either an accountant, lawyer, tax adviser, or estate planner (Figure 8)

Almost three quarters of respondents who had consulted a financial adviser described the relationship with their primary professional financial adviser as a collaborative one, in which the adviser recommends several funds as potential investments and the shareholder selects one in which to invest. The remaining respondents were evenly divided between those who indicate the adviser effectively makes all fund purchase decisions and those who tell the adviser which funds to buy and sell (see discussion on page 14).

## CHARACTERISTICS OF INVESTORS WHO CONSULT AND DO NOT CONSULT AN ADVISER

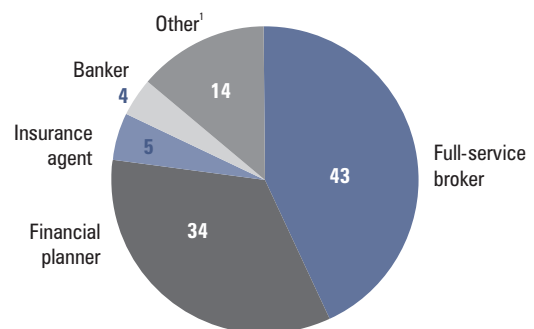
### Respondents Who Consulted an Adviser

The typical respondent who had consulted an adviser when making investment decisions was in his or her early forties at the time of the survey. However, respondents who consulted an adviser typically had higher household incomes and financial assets than those who had not consulted an adviser. At the time of the survey, the median household income of respondents with an adviser was \$70,000 and their median household financial assets totaled \$80,000, excluding primary residence and holdings in employer-sponsored retirement plans. Over half of respondents with an adviser were male and 31 percent had completed graduate school. Like respondents who had never consulted an adviser, most of those who had used one said they enjoy investing and typically spend three hours per month on investment matters (Figure 9).

Respondents who had consulted an adviser typically had 44 percent of their household financial assets, or \$35,000, invested in mutual funds at the time of the survey. Respondents with an adviser had slightly more investment experience than did respondents without one. The median length of fund ownership for respondents who had consulted an adviser was nine years, and the median number of funds owned by this group was seven. Individual fund ownership among respondents with an adviser was similar to that of respondents without an adviser. As a group, 91 percent of respondents who had consulted an adviser owned stock funds at the time of the survey, 60 percent owned bond funds, and 52 percent owned money market funds. More than three quarters of respondents who had consulted an adviser listed a sales-force purchase method as their primary mutual fund channel (Figure 10).<sup>3</sup>

The following sections describe the characteristics of respondents who had consulted an adviser by their level of dependency on a financial adviser when making fund purchase decisions. They are respondents who effectively delegate all fund purchase decisions, those who have a collaborative relationship with an adviser, and those who only direct an adviser to place fund purchase orders.

**FIGURE 8**  
**Primary Professional Financial Adviser**  
*(percent of respondents who had consulted a professional financial adviser)*



<sup>1</sup>Includes discount brokers, accountants, lawyers, tax advisers, and estate planners.

Number of respondents = 553

<sup>2</sup> Respondents were asked if they had ever consulted a professional financial adviser when making investment decisions. This is referred to throughout the text of the report and is not to be confused with current use of an adviser.

<sup>3</sup> Sales-force purchase methods include full-service brokers, financial planners, bank representatives, and insurance agents.

## Respondents Who Effectively Delegate All Fund Purchase Decisions to an Adviser

Respondents who effectively delegate all fund purchase decisions to an adviser represented 13 percent of all survey participants consulting an adviser. The typical respondent who effectively delegates all fund purchase decisions to an adviser was 42 years old at the time of the survey, had a household income of \$34,000 and household financial assets of \$99,000, excluding primary residence and holdings in employer-sponsored retirement plans. Just over half of respondents effectively delegating all fund purchase decisions to an adviser were male. Only 12 percent of this group had completed graduate school, the least of all respondents consulting an adviser. Most respondents who effectively delegate all fund purchase decisions to an adviser said they do not enjoy investing and indicated they typically spend only one hour per month on investment matters (Figure 9).

Respondents who effectively delegate all fund purchase decisions to an adviser typically had 40 percent of their household financial assets, or \$40,000, invested in mutual funds at the time of the survey. The median length of fund ownership

for this group of respondents was six years, and the median number of funds owned by this group was six. Altogether, 99 percent of the respondents in this group owned stock funds at the time of the survey, 45 percent owned bond funds, and 47 percent owned money market funds. Nearly all respondents who effectively delegate fund purchase decisions to an adviser listed a sales-force purchase method as their primary mutual fund channel (Figure 10).

Respondents who effectively delegate all fund purchase decisions to an adviser most frequently mentioned a financial planner as their primary financial adviser. As discussed in the next chapter, nearly all respondents in this segment listed an adviser as one of their mutual fund pre-purchase information sources. About 30 percent also mentioned each of the following as pre-purchase information sources: articles in investment newsletters, newspapers, and magazines; mutual fund prospectuses and annual reports; and friends, family, or business associates. Before purchasing their most recent fund, two thirds or more of respondents who effectively delegate fund purchase decisions to an adviser reviewed the fund's risk level, its performance compared with those of similar funds, and the reputation of the fund sponsor.

**FIGURE 9**  
**Demographic and Financial Characteristics**

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Relationship with Primary Financial Adviser			All Respondents Who Had Not Consulted a Professional Financial Adviser
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders	
<b>Median</b>					
Age	43	42	44	41	42
Household income	\$70,000	\$34,000	\$70,000	\$90,000	\$55,000
Household financial assets <sup>1</sup>	\$80,000	\$99,000	\$78,000	\$64,000	\$63,000
Time spent per month on investment matters	3 hours	1 hour	3 hours	4 hours	3 hours
<b>Percent of respondents</b>					
Male	53	52	52	51	65**
Completed graduate school	31	12	29	48	30
Enjoy investing	70	38*	72	83	75

<sup>1</sup> Excluding primary residence and assets in employer-sponsored retirement plans.

Note: Number of respondents varies.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who had never consulted an adviser for investment decisionmaking are statistically different from those using an adviser.

FIGURE 10

**Mutual Fund Ownership Characteristics**

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser			All Respondents Who Had Not Consulted a Professional Financial Adviser
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders	
<b>Median per Household</b>					
Mutual fund assets <sup>1</sup>	\$35,000	\$40,000	\$35,000	\$17,000	\$29,000
Number of funds owned <sup>1</sup>	7	6	7	6	6
Length of fund ownership	9 years	6 years	9 years	9 years	6 years
<b>Percent of Households Own:<sup>2</sup></b>					
Stock mutual funds	91	99	90	87	91
Bond mutual funds (net)	60	45*	62	58	46****
Tax-exempt bond mutual funds	45	47	48	28***	35****
Taxable bond mutual funds	40	36	39	37	18****
Money market funds	52	47	54	43	47
<b>Primary mutual fund purchase channel:</b>					
Sales force (net)	77	96	82	31***	0****
Full-service broker	41	31	45	28	0****
Financial planner	24	44	25	1***	0****
Insurance agent	8	3	10**	1	0
Bank representative	4	18*	2	1	0
Direct market (net)	23	4	18	69***	100****
Directly from fund company	19	3	14	61***	84****
Discount broker	4	1	4	8	16****

<sup>1</sup> Outside of employer-sponsored retirement plans.

<sup>2</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who share fund purchase decisions with an adviser are statistically different from those who only direct fund purchase orders through, or effectively delegate fund purchase decisions to, an adviser at the 95 percent confidence level.

\*\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*\*\*Respondents who had never consulted an adviser for investment decisionmaking are statistically different from those who had consulted an adviser at the 95 percent confidence level.



## Respondents Who Have a Collaborative Relationship with an Adviser

Respondents who have a collaborative relationship with their adviser represented 74 percent of survey participants. The typical respondent having a collaborative relationship with an adviser was 44 years old at the time of the survey. The median household income of respondents in this segment was \$70,000, and their median household financial assets was \$78,000, excluding the primary residence and holdings in employer-sponsored retirement plans. Over half of respondents who have a collaborative relationship with an adviser were male and 29 percent had completed graduate school. More than 70 percent of respondents in this segment said they enjoy investing and reported typically spending three hours per month on investment matters (see Figure 9).

Respondents who have a collaborative relationship with an adviser typically had 45 percent of their household financial assets, or \$35,000, invested in mutual funds at the time of the survey, the greatest portion of all respondents using an adviser. Respondents with a partnership relationship had slightly more investment experience than did other respondents using an adviser. The median length of fund ownership for this segment of respondents was nine years, and the median number of funds owned by this group was seven. Exactly 90 percent of respondents who have a partnership relationship with an adviser owned stock funds at the time of the survey, 62 percent owned bond funds, and 54 percent owned money market funds. More than four fifths of this group of respondents listed a sales-force purchase method as their primary mutual fund channel, in most instances a full-service broker (Figure 10).

Forty-seven percent of respondents who have a collaborative relationship an adviser mentioned a full-service broker as their primary financial adviser, and 37 percent mentioned a financial planner. As presented in the next chapter, nearly all respondents who have a partnership relationship with an adviser listed an adviser as a source of mutual fund pre-purchase information. Forty percent or more of the respondents in this group also mentioned investment newsletter, newspaper, and magazine articles, and mutual fund prospectuses and annual reports, as sources of pre-purchase information. Before purchasing their most recent fund, 95 percent or more of respondents who have a partnership relationship with an adviser reviewed the fund's risk level, its performance, and the reputation of the company sponsoring the fund.

## Respondents Who Only Direct an Adviser to Place Fund Purchase Orders

Respondents who only direct an adviser to place fund purchase orders represented 13 percent of all survey participants who said they had a professional financial adviser. The typical respondent who tells an adviser which funds to buy and sell was 41 years old at the time of the survey. The median household income of these respondents was \$90,000, the greatest among all respondents who had consulted a professional financial adviser. However, the median household financial assets of these respondents, excluding primary residence and holdings in employer-sponsored retirement plans, was \$64,000. Nearly half of respondents who only direct purchase and sales orders to an adviser had a graduate degree, the most of all respondents using an adviser. More than any other group of respondents consulting an adviser, this segment is enthusiastic about investing. Over 80 percent said they enjoy investing and indicated that they typically spend four hours per month on investment matters (Figure 9).

Respondents who only direct an adviser to place fund purchase orders had 27 percent of their household financial assets, or \$17,000, invested in mutual funds at the time of the survey. These respondents typically had owned funds for nine years and had investments in six different funds. As a group, 87 percent of these respondents owned stock funds, 58 percent owned bond funds, and 43 percent owned money market funds. Almost 70 percent of respondents who only direct an adviser to place purchase and sales orders cited a direct-market purchase method as their primary mutual fund channel, an indication that these respondents only funnel a few of their fund purchase requests through an adviser (Figure 10).

Respondents who tell an adviser which funds to buy and sell most frequently mentioned a full-service broker as their primary financial adviser. As discussed in the next chapter, only 43 percent of respondents in this segment listed an adviser as a source of mutual fund pre-purchase information. Sixty-one percent of respondents who provide an adviser with purchase and sales orders cited articles in investment newsletters, newspapers, and magazines as pre-purchase information sources, and 47 percent mentioned mutual fund prospectuses and annual reports. Before purchasing their most recent fund, 95 percent or more of respondents who tell an adviser which funds to buy and sell said they reviewed the fund's risk level, the types of companies in which it invests, and its investment goals.

## Respondents Who Do Not Consult an Adviser

Respondents who had never consulted a professional financial adviser when making investment decisions represented 41 percent of all survey participants. The typical respondent who had not consulted a professional financial adviser was 42 years old at the time of the survey, had household income of \$55,000 and household financial assets of \$63,000, the excluding primary residence and holdings in employer-sponsored retirement plans. Almost two thirds of respondents who had never used an adviser were male and 30 percent had a graduate degree. The majority of respondents without a professional financial adviser said they enjoy investing and generally spend three hours per month on financial matters (Figure 9).

Respondents who had not consulted an adviser typically had 46 percent of their household financial assets, or \$29,000, invested in mutual funds at the time of the survey. Respondents who had never used an adviser tended to be experienced

fund investors. The median length of fund ownership for these shareholders was six years, and the median number of funds owned by this group was six. Altogether, 91 percent of respondents who had never consulted an adviser owned stock funds at the time of the survey, 46 percent owned bond funds, and 47 percent owned money market funds (Figure 10).

## CHARACTERISTICS OF THE SHAREHOLDER/ADVISER RELATIONSHIP

The nature of the shareholder/adviser relationship differs by type of primary professional financial adviser. The vast majority of respondents who indicated either a full-service broker, financial planner, or insurance agent as their primary professional financial adviser described the relationship as a collaborative effort. Among respondents listing a bank representative as their primary professional financial adviser, 50 percent reported that they effectively delegate all fund purchase decisions to the bank representative, 42 percent described the

**FIGURE 11**  
**Nature of Relationship with Primary Professional Financial Adviser**  
*(percent of respondents who had consulted a professional financial adviser)*

	All Respondents Who Had Consulted a Professional Financial Adviser	Primary Professional Financial Adviser			
		Full-service Broker	Financial Planner	Bank Representative	Insurance Agent
<b>Professional financial adviser...</b>					
Selects all mutual fund investments	13	8	18	50*	6
Recommends several funds and shareholder selects one in which to invest	74	80	77	42*	93
Places purchase orders for funds selected solely by the shareholder	13	12	5	8	1
Number of respondents	564	230	188	14 <sup>1</sup>	30 <sup>1</sup>

<sup>1</sup> Small sample size.

\* Respondents who use a bank representative as their primary financial adviser are statistically different from those using a full-service broker, financial planner, or insurance agent at the 95 percent confidence level.

relationship as a joint effort, and 8 percent said they make all fund purchase decisions but ask the bank representative to place the purchase orders (Figure 11).<sup>4</sup>

## Contact with Adviser

Respondents who had consulted a professional financial adviser usually indicated having contact with their primary financial adviser four times per year. However, the frequency of contact varied considerably by type of adviser. Respondents working with an insurance agent reported the least number of annual contacts—a median of two. The median number of contacts was seven per year for respondents who work with a bank representative. Between these two extremes, the

median number of contacts for respondents who work with a full-service broker or a financial planner was four per year (Figure 12).

The number of annual contacts with a primary financial adviser also varied by the nature of a respondent’s relationship with that adviser. The median number of contacts for respondents effectively delegating all fund purchase decisions to an adviser or reaching purchase decisions with assistance from an adviser was four per year. For respondents who make their own purchase decisions but ask an adviser to place them, the median number of contacts was one per year (see Figure 43 in Appendix B).

**FIGURE 12**  
**Contacts with Primary Financial Adviser per Year**

	All Respondents Who Had Consulted a Professional Financial Adviser	Primary Professional Financial Adviser			
		Full-service Broker	Financial Planner	Bank Representative	Insurance Agent
Mean number of contacts	5	6	5	9	1*
Median number of contacts	4	4	4	7	2
Number of respondents	582	240	189	15 <sup>1</sup>	30 <sup>1</sup>

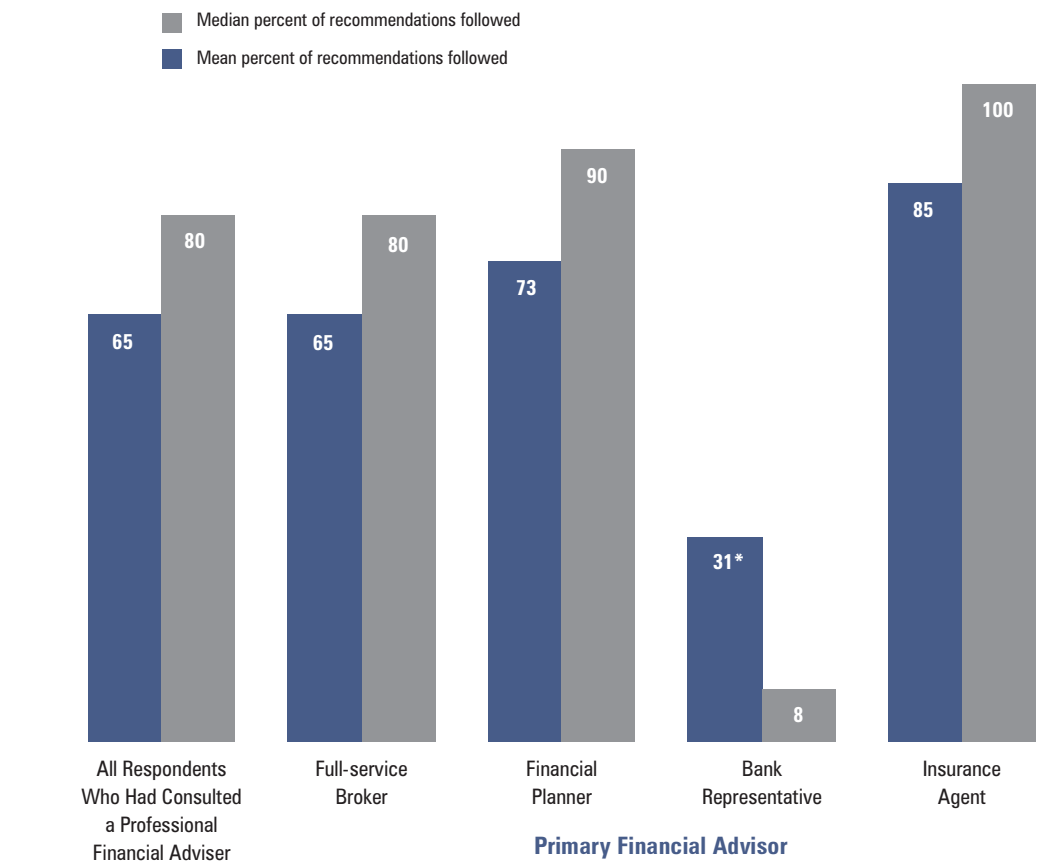
<sup>1</sup> Small sample size.

\* Respondents who use an insurance agent as their primary financial adviser are statistically different from those using a full-service broker, financial planner, or bank representative at the 95 percent confidence level.

<sup>4</sup> Although the sample size for respondents with bank representatives as their primary financial adviser is small, the findings remain noteworthy.

FIGURE 13

Acceptance of Adviser’s Fund Purchase Recommendations



Primary Financial Adviser	Number of respondents =
All Respondents Who Had Consulted a Professional Financial Adviser	30 <sup>1</sup>
Full-service Broker	21 <sup>1</sup>
Financial Planner	180
Bank Representative	218
Insurance Agent	554

<sup>1</sup>Small sample size.  
 \*Respondents who use a bank representative as their primary financial adviser are statistically different from those using a full-service broker, financial planner, or insurance agent at the 95 percent confidence level.

Acceptance of Adviser Purchase Recommendations

Respondents who had consulted a full-service broker, financial planner, or insurance agent typically followed their adviser’s fund purchase recommendations. However, respondents who work with a bank representative rarely followed that individual’s fund purchase suggestions (Figure 13).<sup>5</sup>

Acceptance of an adviser’s fund purchase recommendations also varied by the type of relationship that respondents had

with their professional financial adviser. For respondents who effectively delegate all purchase decisions to an adviser, the median percent of recommendations followed was 100 percent. The median percent for respondents who reach fund purchase decisions with the assistance of an adviser was 80 percent. Not surprisingly, respondents who only tell an adviser which funds to buy usually do not accept an adviser’s fund purchase recommendations (see Figure 44 in Appendix B).

<sup>5</sup> Although the sample size for respondents with bank representatives as their primary financial adviser is small, the findings remain noteworthy.

## Adviser's Most Important Function

Shareholders seek a relationship with a financial adviser for different reasons. Some shareholders have limited investment experience and look to an adviser to assist them in making informed decisions about allocating financial assets. Others use an adviser only to handle the administrative aspects of investing. To further understand why some shareholders work with a professional financial adviser, respondents who had consulted an adviser were asked to name the single-most important function that an adviser provides. Respondents frequently mentioned the function of making investment recommendations, followed by providing investment information, and monitoring investments.

Most respondents who use a full-service broker cited that their single-most important reason for using an adviser is either the provision of investment advice or the provision of investment information, followed by portfolio management. The largest proportion of respondents who work with a financial planner indicated that the number-one function their adviser provides is investment advice. Among respondents who use a bank representative, most mentioned that the bank representative provides investment advice or that he or she works with their other investment advisers (Figure 14).

According to nearly 60 percent of respondents who said they delegate all investment decisions to an investment professional, personal investment advice is the most important service that a financial adviser can offer. Among respondents who have a collaborative relationship with an adviser, the provision of investment information, advice, and portfolio management were the three most frequently mentioned functions, each of which was mentioned by roughly a quarter of these respondents. For respondents who use advisers only to execute orders, ordertaking is the most important function provided, mentioned by 43 percent of respondents in this group, followed by portfolio management, which was mentioned by 31 percent (see Figure 45 in Appendix B).

## Value of Relationship with Primary Adviser

Respondents who had consulted a professional financial adviser tended to evaluate that relationship positively. Forty percent of respondents with an adviser rated the value they obtain from their primary financial advisers as excellent, 22 percent said it was very good, and 30 percent stated it was good. Only 8 percent of respondents using an adviser described the value of the relationship as either marginal or poor.

FIGURE 14

### Primary Financial Advisers' Single Most Important Function

(percent of respondents who had consulted a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Primary Professional Financial Adviser			
		Full-service Broker	Financial Planner	Bank Representative	Insurance Agent
Provides investment advice	27	26	35	43	14*
Provides investment information	19	26	13	6	38
Manages your investment portfolio	25	25	27	1	1
Provides investment education	13	8	17	10	18
Places purchase and sale orders	10	8	1	4	6
Works with other investment advisers	6	4	4	34	22
Other	0	3	3	2	1
Number of respondents	558	226	183	20 <sup>1</sup>	30 <sup>1</sup>

<sup>1</sup> Small sample size.

\* Respondents who use an insurance agent as their primary financial adviser are statistically different from those using a full-service broker, financial planner, or bank representative at the 95 percent confidence level.

More than 60 percent of respondents whose primary financial adviser is a full-service broker or a financial planner indicated that the value provided by their adviser was excellent or very good. In contrast, more than half of respondents working with bank representatives and insurance agents described their adviser relationship as good (Figure 15).<sup>6</sup>

Respondents who accept advice and purchase recommendations from a financial adviser placed greater value on the adviser relationship than did respondents who treat advisers as

ordertakers. Seventy-two percent of respondents who effectively delegate all fund purchase decisions to an adviser rated the value they receive from their primary investment professional as excellent. In contrast, 17 percent of respondents who only use their advisers to place purchase orders considered the value of this relationship to be excellent. The majority of respondents who use a primary financial adviser as an order-taker rated the value of this relationship as either good or marginal (see Figure 46 in Appendix B).

**FIGURE 15**  
**Value Shareholders Associate with Primary Financial Adviser**  
*(percent of respondents who had consulted a professional financial adviser)*

	All Respondents Who Had Consulted a Professional Financial Adviser	Primary Professional Financial Adviser			
		Full-service Broker	Financial Planner	Bank Representative	Insurance Agent
Excellent value	40	42	43	26	33
Very good value	22	20	25	15	14
Good value	30	27	27	55	53
Marginal value	5	10	1	4	0
Poor value	3	1	4	0	0
Number of respondents	570	232	189	14 <sup>1</sup>	30 <sup>1</sup>

<sup>1</sup> Small sample size.

<sup>6</sup> Although the sample size for respondents with bank representatives as their primary financial adviser is small, the findings remain noteworthy.

## Information Needs Before and After Purchasing a Mutual Fund

### SUMMARY

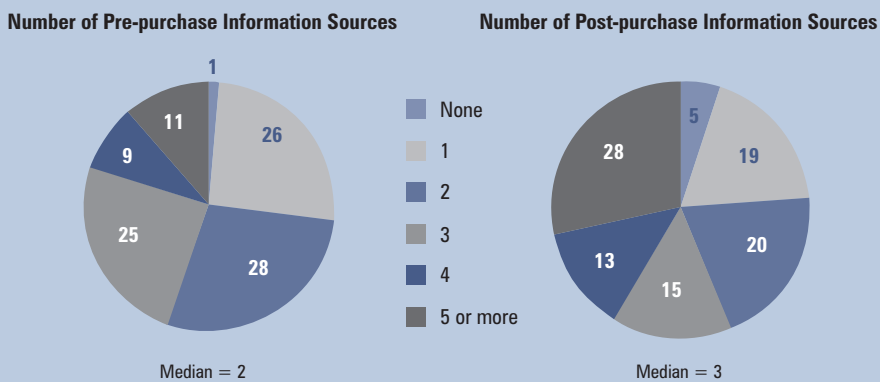
In selecting their most recent mutual fund investments, shareholders participating in the survey sought a wide range of information about a mutual fund, particularly its level of risk, total return or yield, investment goals, and types of investments. The majority of respondents also checked the reputation of the fund company offering the fund. Respondents typically consulted two different sources to obtain this information, usually a professional financial adviser and an article from an investment newsletter, newspaper, or magazine.

Virtually all respondents indicated they monitor their mutual fund investments by following the total value of their fund account, fund rate of return, price per share, economic conditions affecting fund investments, and fund risk levels. Respondents said they typically use three information sources to monitor their fund investments, two of which are usually mutual fund account statements and annual reports.

FIGURE 16

### Number of Information Sources Used by Shareholders Before and After Purchasing Their Most Recent Fund

(percent of respondents)



## THE PRE-PURCHASE PROCESS

### Information Requirements

A wealth of information from a variety of sources is available to consumers considering a mutual fund purchase. Investment information providers include professional financial advisers, newspapers, magazines, investment newsletters, ranking services, and, of course, mutual fund companies. The U.S. Securities and Exchange Commission (SEC) requires mutual funds to provide certain information to investors before shares are purchased.<sup>7</sup>

To determine the information that is important to consumers in fund purchase decisionmaking, respondents were asked to indicate which of 20 separate pieces of investment information they considered before making their most recent fund purchases. Respondents typically said they reviewed 13 of the 20 items of information. The items most frequently considered by respondents were a fund's risk level, total return, and the reputation of the fund company offering a fund. Roughly nine out of ten respondents cited these items.<sup>8</sup> The items of information that the majority of respondents did not consider before their most recent fund purchase were a fund's portfolio turnover rate, the portfolio manager's professional background, and the availability of an 800 telephone number and 24-hour access.

Respondents who had consulted a professional financial adviser and those who had not reviewed a similar amount of information before purchasing their most recent mutual funds. The median number of items considered by both groups was 13. The mix of items reviewed by these two groups

was also not too different, with fund risk and return being the two items both groups most frequently considered. More respondents who had consulted a professional financial adviser, however, said they considered a fund manager's tenure and professional background than did respondents who had not consulted a professional financial adviser. More respondents without a professional financial adviser reviewed fund sales charges, the availability of an 800 telephone number for customers, and the availability of 24-hour access (Figure 17).

Respondents who effectively leave all fund investment decisions to a professional financial adviser reviewed fewer items of information before making their most recent fund purchase than did shareholders who use advisers but take an active role in the fund purchase process. For example, the median number of items considered by respondents who effectively delegate all fund purchase decisions to an adviser was 11, compared with a median of 14 for respondents who either tell their advisers what to purchase or work with an adviser to select a fund investment (see Figure 47 in Appendix B).

### Sources of Information

Respondents typically consulted two information sources before making their most recent fund purchase. Over 50 percent mentioned a professional financial adviser and an article from a newspaper, magazine, or investment newsletter. Forty-six percent of respondents indicated using mutual fund prospectuses and annual reports as pre-purchase information sources.<sup>9</sup> Thirty percent cited friends, family, and business associates, and 20 percent pointed to fund company newslet-

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<sup>7</sup> Investors purchasing a mutual fund from a sales representative can receive the prospectus, which contains the items that must be communicated to prospective shareholders, with the confirmation statement that verifies the purchase of fund shares.

<sup>8</sup> Two other Institute studies—*The Profile Prospectus: An Assessment by Mutual Fund Shareholders* (1996) and *Shareholder Assessment of Risk Disclosure Methods* (1996)—asked recent buyers of stock or bond funds to identify the information they reviewed before making their most recent fund purchases. In both of these studies, a fund's risk level, total return, investment goals, types of companies invested in, and annual fees were the five most frequently cited items of information. (Reputation of the fund company was not asked in either study.) However, the proportions citing these items in this report were higher than those citing these items in *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* and *Shareholder Assessment of Risk Disclosure Methods*. For example, 90 percent of the respondents in this study cited a fund's level of risk, whereas 68 percent of the respondents in *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* and 69 percent of the respondents *Shareholder Assessment of Risk Disclosure Methods* mentioned this item. The explanation appears to lie in methodological differences. In-person interviews were used to collect the data for *The Profile Prospectus: An Assessment by Mutual Fund Shareholders* and *Shareholder Assessment of Risk Disclosure Methods*, whereas the data collected for this survey was gathered through telephone interviews. In the in-person interviews, respondents were presented with an exhibit listing a variety of information items and were asked to select those items that they had reviewed. Respondents to the telephone survey, clearly, could not be presented with the list of items. Rather, each item was read to the telephone survey respondents, after which they were asked whether they considered that item.

<sup>9</sup> In *The Profile Prospectus: An Assessment by Mutual Fund Shareholders*, 50 percent of respondents indicated using a mutual fund prospectus as a source of pre-purchase information, and 29 percent cited annual reports.



ters. Only 19 percent of respondents said they consulted a mutual fund rating service before making their most recent purchase.

Respondents who had consulted a professional financial adviser and those who had not both typically relied on two sources to obtain the pre-purchase information they were interested in reviewing before making their most recent fund purchase. However, the sources these groups tended to consult

differed substantially. For example, 80 percent of respondents who had consulted a professional financial adviser listed a professional financial adviser as an information source for their most recent purchase. In contrast, more of those who had not consulted an adviser mentioned as pre-purchase information sources mutual fund prospectuses and annual reports; articles from a newspaper, magazine, or investment newsletter; and fund company newsletters (Figure 18).

**FIGURE 17**  
**Fund-related Information Considered Before Most Recent Purchase<sup>1</sup>**  
*(percent of respondents)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
Risk level	90	93	86*
Total return	88	91	85*
Reputation of fund company	88	92	82*
Investment goals	82	82	82
Types of companies in which the fund invests	81	86	73
Annual fees	76	72	82
Fund performance relative to similar funds	75	75	75
Sales charge	73	69	77*
Fund company's tenure in business	71	73	68
Fund company's selection of funds	69	69	69
Fund performance compared with an index	59	56	64*
Price per share	59	61	55
Fund manager's investment style	59	58	59
Minimum investment	58	54	62*
Total assets	57	58	56
Fund manager's tenure at fund	51	55	45*
Portfolio turnover rate	46	48	43
Fund manager's professional background	45	50	40*
800 telephone number for customers	42	34	53*
24-hour a day access	30	25	37*
Mean number of items considered	13	13	13
Median number of items considered	13	13	13

<sup>1</sup> Multiple responses included.

Note: Shaded items are those required by regulators. Number of respondents varies for each item.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

Among respondents who had consulted a professional financial adviser, differences existed in the pre-purchase information sources relied upon. For example, the median number of pre-purchase information sources used by respondents who leave all fund purchase decisions to an adviser was one. In most instances, that one source was a professional financial adviser. Respondents who use an adviser to place fund purchase orders also typically consulted one source for pre-purchase information, which was usually an article in an investment newsletter, newspaper, or magazine. The median number of pre-purchase information sources used by respondents who have a collaborative relationship with an adviser was two, and these typically were a professional financial

adviser, an investment newsletter, newspaper, or magazine article (see Figure 48 in Appendix B).

Respondents who indicate they referred to a magazine, newspaper, or investment newsletter article were asked to specify the publications that printed the articles. *Money* magazine and the *Wall Street Journal* were mentioned most often, with over 40 percent of respondents citing each. Similar proportions of respondents who had consulted and had not consulted advisers said they referred to *Money* magazine or a local newspaper. However, more adviser users than nonusers reported consulting the *Wall Street Journal* (Figure 19 and Figure 49 in Appendix B).

**FIGURE 18**  
**Mutual Fund Information Sources Used Before Most Recent Purchase<sup>1</sup>**  
*(percent of respondents using each source)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
Professional financial advisers	59	80	0*
Articles in investment newsletters, newspapers, magazines	53	47	62*
Mutual fund prospectuses and annual reports	46	39	56*
Friends, family, business associates	30	30	32
Mutual fund ranking and information services, such as Morningstar or Lipper	19	17	22
Mutual fund company newsletters	20	15	25*
Investment seminars	8	8	9
Online services	6	7	6
Mutual fund company telephone representatives	8	4	12*
Mean number of sources used	2	2	2
Median number of sources used	2	2	2

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

## MONITORING MUTUAL FUND INVESTMENTS

### Information Requirements

Mutual funds do not have guaranteed returns. Their values can increase or decrease in response to fluctuations in the stock and bond markets, international and national events, and other developments. Shareholders can use a variety of information sources to track the value of their mutual fund investments and the factors that affect them. These include documents prepared by mutual funds<sup>10</sup> and articles and reports in newspapers, magazines, investment newsletters, rating services, television programs, and radio shows.

Shareholders participating in the survey were asked to identify which of seven items they monitored at least four

times a year. The seven items were total dollar value of their mutual fund accounts, yield or rate of return, price per share, economic or market conditions affecting the value of a fund, risk level of a fund, fund fees and charges, and changes in a fund's portfolio manager.

The typical respondent followed four of the seven items. More than three quarters of respondents said they regularly monitored the total dollar value of their fund accounts, fund rate of return, and price per share. Slightly more than three fifths of respondents reported staying abreast of economic conditions that may affect fund investments and half said they monitor fund risk levels. Just under half indicated regularly reviewing fund fees and charges, and about a quarter said they watch for changes in fund portfolio managers.

**FIGURE 19**  
**Periodicals Most Frequently Consulted Before Most Recent Fund Purchase<sup>1</sup>**  
*(percent of respondents consulting investment newsletters, newspapers, or magazines)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
<i>Money</i>	43	45	42
<i>Wall Street Journal</i>	42	47	37*
Local paper	21	22	21
<i>Kiplinger's</i>	15	9	23*
<i>Forbes</i>	11	10	12
<i>Business Week</i>	11	12	9
<i>Investor's Business Daily</i>	9	8	9
<i>Fortune</i>	8	10	6
<i>Barron's</i>	7	8	6
Number of respondents	601	318	276

<sup>1</sup> Multiple responses included.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

<sup>10</sup> Mutual funds are required by regulators to communicate certain information to shareholders. Some items must be included in the mutual fund prospectus, others in the annual report.

Respondents who had not consulted a professional financial adviser and those who had were equally likely to monitor their fund investments. However, more respondents who had consulted an adviser followed a fund’s rate of return and fund fees and expenses (Figure 20).

Among respondents who consulted a professional financial adviser, those solely placing fund purchase orders through an adviser were the most vigilant, with all indicating that they monitor their fund investments. In contrast, 89 percent of respondents who effectively delegate all fund investment decisions to an adviser said they monitor their fund investments (see Figure 50 in Appendix B).

## Sources of Information

Respondents who said they monitor their mutual fund investments typically reported using three sources to garner

the information they needed. Two mutual fund company documents—account statements and annual reports—were among the most frequently consulted post-purchase information sources. Three quarters of respondents reported using account statements to monitor their fund investments and half indicated using annual reports. Newspapers and financial advisers were also among the most frequently cited sources of post-purchase mutual fund information, with about two fifths of respondents stating they consulted each.

Both respondents who had and had not consulted a financial adviser typically indicated using three sources to obtain the information they needed to monitor their fund investments. The sources these two groups consulted, however, differed. More respondents without an adviser turned to mutual fund listings in newspapers and fund rankings in business magazines than did respondents with an adviser (Figure 21).

**FIGURE 20**  
**Mutual Fund Information Monitored at Least Four Times a Year<sup>1</sup>**  
*(percent of respondents)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
Monitor any type of mutual fund information	95	96	94
Total dollar value of an account	90	89	90
Yield or rate of return	80	83	74*
Price per share of a fund	78	78	77
Economic or market conditions	61	61	61
Fund's risk level	50	52	49
Fees and charges of the fund	46	49	41*
Changes in the fund manager	24	22	27
Mean number of items monitored	4	4	4
Median number of items monitored	5	5	5

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

Among respondents consulting a professional financial adviser, those who effectively delegate all purchase decisions to an adviser primarily indicated using account statements and professional financial advisers to monitor their fund investments. The majority of respondents who reach purchase decisions with assistance from an adviser also said they rely on account statements and professional financial advisers to monitor their fund investments but also cited using fund listings from a daily newspaper and annual reports. The majority of respondents who make their own fund purchase decisions, but ask an adviser to place the order, reported using account statements, fund listings from a daily newspaper, and annual reports to track their fund investments. Very few

members of this group indicated using a professional financial adviser as a source of post-purchase fund information.

The number of sources used to monitor mutual fund investments varied among respondents consulting professional financial advisers. The median number of sources used by respondents who effectively delegate all purchase decisions to an adviser was three. For respondents who reach purchase decisions with assistance from an adviser, the median was four; and for respondents who make their own fund purchase decisions but ask an adviser to place the order, the median was two (see Figure 51 in Appendix B).

**FIGURE 21**  
**Sources Used to Monitor Mutual Funds<sup>1</sup>**  
*(percent of respondents who monitor their mutual fund investments)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
Account statements	75	74	76
Mutual fund listings in a daily newspaper	54	48	62*
Mutual fund annual reports	50	49	52
Mutual fund prospectuses	47	46	48
Professional financial advisers	38	52	0*
Mutual fund rankings in a business magazine	35	31	40*
Mutual fund ranking and information services, such as Morningstar or Lipper	13	13	14
Online services	5	5	5
Other	11	7	16*
Mean number of sources used to monitor fund investments	3	3	3
Median number of sources used to monitor fund investments	3	3	3
Number of respondents	938	558	372

<sup>1</sup> Multiple responses included.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

## USE OF ACCOUNT STATEMENTS, PROSPECTUSES, AND ANNUAL REPORTS Account Statements

To shareholders, the account statement is probably the most important communication they receive from a mutual fund company. Nearly all shareholders use them to monitor their mutual fund portfolios.

To identify how mutual fund shareholders use account statements, respondents who indicated they had received an account statement in the 12 months preceding the survey were asked whether they had used account statements to obtain the four pieces of information listed in Figure 22. Respondents typically used account statements to obtain the total value of a fund account, a change in the value of an account balance, and the price per share of a fund.

Respondents who had consulted professional financial advisers said they typically obtain three items of information from fund account statements, whereas respondents who had not consulted advisers indicated two. In fact, more respon-

dents with an adviser than without reported using mutual fund account statements to obtain a fund's price per share and to compare a fund's performance with that of other investments (Figure 22).

Some differences in the use of account statements were evident among respondents who had consulted a professional financial adviser. Compared with respondents who rely completely on an adviser for fund purchase decisions, more of those participating in or controlling the fund decisionmaking process said they use account statements to track a fund's price per share (see Figure 52 in Appendix B).

## Annual Reports

Annual reports generally contain detailed information on a range of mutual fund topics, including one-, five-, and ten-year performance data, information about a fund's portfolio manager, a listing of the companies in which a fund invests, and management's discussion of fund performance over the preceding year. The median number of items that respondents indicated obtaining from mutual fund annual reports was

**FIGURE 22**  
**Use of Mutual Fund Account Statements<sup>1</sup>**  
(percent of respondents who recalled receiving an account statement)

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
To find out the total dollar value of a fund account	90	91	89
To track the change in the total dollar value of a fund	86	86	86
To track the price per share of a fund	73	76	69*
To compare a fund to other investments owned	42	50	28*
Mean number of items obtained from account statements	3	3	2
Median number of items obtained from account statements	3	3	2

<sup>1</sup> In the 12 months preceding the survey. Multiple responses included.

Note: Number of respondents varies.

\* Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

three. In particular, the majority of respondents reported using mutual fund annual reports to identify the type of companies in which a fund is invested, track total return, and determine the share of a fund's portfolio invested in any particular company. Most respondents said they do not use mutual fund annual reports to determine how market conditions have affected a fund, identify the portfolio manager's tenure with a fund,<sup>11</sup> or compare fund performance with other similar funds.<sup>12</sup>

Respondents who had and had not consulted an adviser used annual reports with equal intensity. The median number

of items obtained from annual reports by both groups was three. The items they said they look for, however, differed. For example, more respondents with an adviser indicated using annual reports to find out how market conditions had affected a fund and to identify a portfolio manager's tenure with a fund than did respondents without an adviser (Figure 23). Among respondents who had consulted a professional financial adviser, respondents who share or control the fund selection process indicated obtaining more information from annual reports than did respondents who delegate all decisions to an adviser. The median number of items obtained by the

**FIGURE 23**  
**Use of Mutual Fund Annual Reports<sup>1</sup>**  
*(percent of respondents who recalled receiving an annual report)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
To identify the companies or organizations in which a fund is invested	68	70	63
To identify a fund's total return or yield over time	67	65	69
To identify what percent of a fund is invested in a given company or organization	57	55	59
To find out how economic and market conditions have affected a fund	43	37	51*
To compare a fund's performance with other similar funds <sup>2</sup>	29	32	22
To find out a portfolio manager's tenure with a fund <sup>3</sup>	20	14	30*
Mean number of items obtained from annual reports	3	3	3
Median number of items obtained from annual reports	3	3	3

<sup>1</sup> In the 12 months preceding the survey. Multiple responses included.

<sup>2</sup> Mutual funds are not required to compare their performance to those of similar funds. However, shareholders can compare a fund's performance, as presented in the annual report or prospectus as part of management's narrative discussion of fund performance during the last year (this discussion can be in either document) to those of similar funds, as presented in their prospectuses, annual reports, or other sources.

<sup>3</sup> Regulators require a fund to disclose its manager's tenure with the fund in its prospectus. The provision of such information in its annual report is at the fund's discretion.

*Note:* Number of respondents varies.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

<sup>11</sup> Regulators require a fund to disclose its manager's tenure with the fund in its prospectus. The provision of such information in the annual report is at the fund's discretion.

<sup>12</sup> Mutual funds are not required to compare their performance to those of similar funds. However, shareholders can compare a fund's performance, as presented in the annual report or prospectus as part of management's narrative discussion of fund performance during the last year (this discussion can be in either documents), with the performance of other similar funds, as presented in their prospectuses, annual reports, or some other source.

former group was three, compared with two for the latter group (see Figure 53 in Appendix B).

## Prospectuses

A prospectus, the official document that describes a mutual fund to all prospective investors, contains information required by the U.S. Securities and Exchange Commission. The majority of respondents indicated using a prospectus primarily to identify fund investment objectives, total return over time, fees, expenses, and sales charges. Respondents rarely reported using a prospectus to identify the tenure of a fund manager<sup>13</sup> or to compare a fund's performance with other similar funds.<sup>14</sup> The median number of items respondents obtained from a mutual fund prospectus was five. For

respondents who had consulted a professional financial adviser, the median number of items obtained from a prospectus was four; for those who had not consulted an adviser, it was five (Figure 24).

Use of mutual fund prospectuses varies widely among respondents who had consulted a professional financial adviser. For respondents leaving all fund investment decisions to an adviser, the median number of items obtained from a mutual fund prospectus was one. In contrast, the median for respondents who have a collaborative relationship with an adviser was four; for respondents who use advisers solely to place purchase and sales orders, the median was six (see Figure 54 in Appendix B).

**FIGURE 24**  
**Use of Mutual Fund Prospectuses<sup>1</sup>**  
*(percent of respondents who recalled receiving a prospectus)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
To identify a fund's investment goals	64	61	68*
To identify a fund's yield or total return over time	57	57	60
To identify a fund's annual fees or expenses	54	53	58
To identify whether a fund has a sales charge	51	52	50
To assess a fund's level of risk	47	44	51
To identify a fund's minimum investment	41	40	44
To identify whether there is an 800 telephone number for customers	35	29	49*
To compare a fund's performance with other similar funds <sup>2</sup>	29	28	30
To identify a fund manager's tenure with a fund <sup>3</sup>	25	25	26
Mean number of items obtained from prospectuses	4	4	4
Median number of items obtained from prospectuses	5	4	5

<sup>1</sup> In the 12 months preceding the survey. Multiple responses included.

<sup>2</sup> Mutual funds are not required to compare their performance to those of similar funds. However, shareholders can compare a fund's performance, as presented in the annual report or prospectus as part of management's narrative discussion of fund performance during the last year (this discussion can be in either document) to those of similar funds, as presented in their prospectuses, annual reports, or other sources.

<sup>3</sup> Regulators require a fund to disclose its manager's tenure with the fund in its prospectus. The provision of such information in its annual report is at the fund's discretion.

*Note:* Number of respondents varies.

\* Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

<sup>13</sup> See Footnote 11.

<sup>14</sup> See Footnote 12.



## Improving Shareholder Understanding of Mutual Fund Investing

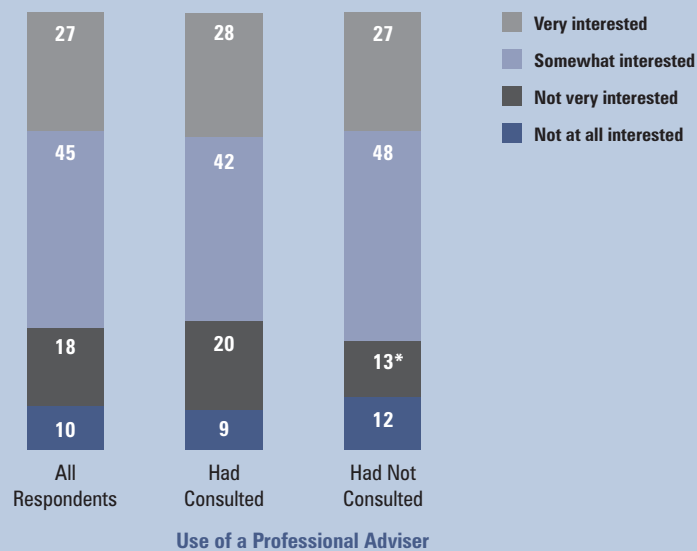
### SUMMARY

Seventy-two percent of respondents expressed an interest in learning more about mutual funds. Roughly three quarters of these respondents indicated they would like to learn more about how different types of funds perform under different market conditions and how to select a fund with a risk level with which they could be comfortable. Respondents interested in improving their understanding of mutual funds generally preferred traditional formats, such as brochures, for mutual fund educational materials. Newer formats, such as videotapes and online services, were not as appealing. Respondents' most frequently mentioned sources of mutual fund educational materials were investment professionals and newspapers or magazines.

FIGURE 25

### Interest in Learning More About Investing in Mutual Funds

(percent of respondents)



Number of respondents = 1001                      590                      402

\*Respondents who had not consulted with an adviser are statistically different from those who had at the 95 percent confidence level.

## INTEREST IN LEARNING MORE ABOUT MUTUAL FUNDS

Respondents said they want to expand their understanding of mutual fund investing. Almost three quarters indicated that they are very or somewhat interested in learning more about this subject. Respondents who had and had not used an adviser were equally interested in improving their understanding of mutual funds (see Figure 25).

Among respondents who had consulted an adviser, however, the desire to increase mutual fund knowledge varied depending on the nature of the adviser/shareholder relationship. Desire to learn more about mutual funds was weakest among respondents who effectively delegate all fund investment decisions to an adviser. Fifty-two percent of this group expressed minimal or no interest in improving their understanding of mutual funds. In contrast, only 27 percent of respondents who have a collaborative relationship with an adviser, and 20 percent of those who inform an adviser of what to buy, provided these same answers (see Figure 55 in Appendix B).

Respondents with a desire to learn more about mutual funds were asked about their interest in three mutual fund topics: how different types of funds perform under disparate

economic conditions, how to select a fund with a level of risk with which they would be comfortable, and how to distribute financial assets among several mutual funds. These respondents were generally most keen to improve their understanding of economic and market conditions that can affect funds, followed by how to select a mutual fund with a risk level compatible with their own risk tolerance. More respondents who had not consulted an adviser were interested in learning how different funds perform under different market conditions than were those who had used an adviser. The topic of how to select a fund with a level of risk that matches the investor's own risk tolerance appealed more to respondents with an adviser than without. Both adviser users and nonusers were equally interested in learning how to distribute financial assets across several funds (Figure 26). Among respondents with an adviser, those who have a collaborative relationship were by far the most interested in learning how to distribute financial assets among several funds (see Figure 56 in Appendix B).

## REACHING INTERESTED SHAREHOLDERS

Respondents interested in learning more about mutual funds were asked to identify their source and format preferences for receiving mutual fund educational materials. Investment professionals and newspapers or magazines were the two most

FIGURE 26

### Mutual Fund Topics of Interest by Use of an Adviser<sup>1</sup>

(percent of respondents interested in learning more about mutual fund investing)

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
How different funds perform under different economic conditions	75	71	82*
How to select a fund with a level of risk with which you are comfortable	72	76	68*
How to distribute your financial assets among several mutual funds	57	59	57

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

**FIGURE 27**

**Preferred Sources for Mutual Fund Educational Materials<sup>1</sup>**

*(percent of respondents interested in learning more about mutual fund investing)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
Investment professional (net)	70	81	57*
Financial planners	39	53	20*
Full-service brokers	33	41	22*
Discount brokers	25	22	30*
Bank representatives	11	14	7*
Insurance agents	7	12	0*
Newspapers or magazines	63	56	73*
Mutual fund companies	46	39	56*
Mutual fund ranking or information services, such as Morningstar or Lipper	41	40	43
Number of respondents	647	404	242

<sup>1</sup> Multiple responses included.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

frequently mentioned sources for mutual fund educational materials (Figure 27). Not surprisingly, far more respondents with an adviser than without cited an investment professional as a preferred source for mutual fund educational materials. Nevertheless, 57 percent of respondents without an adviser mentioned some type of investment professional as a preferred source for fund educational materials, with 30 percent pointing to a discount broker, 22 percent to a full-service broker, and 20 percent to a financial planner. Respondents who had not consulted advisers, however, most frequently selected newspapers or magazines as a preferred source for mutual fund educational materials (Figure 27).

Among respondents who had consulted an adviser, those effectively delegating all decisions to an adviser most

frequently mentioned mutual fund companies as a preferred source for mutual fund information, followed closely by investment professionals and mutual fund ranking services, such as Morningstar or Lipper. In fact, more members of this segment mentioned both fund companies and rating services as sources of mutual fund educational materials than did other adviser-using respondents (see Figure 57 in Appendix B).

Respondents to the survey generally preferred traditional formats for mutual fund educational materials. These included brochures, workbooks, and consultations with a professional adviser. More contemporary formats, such as videotapes, audiotapes, and online services, were of less interest to respondents. Both respondents who had and had not consulted an adviser most frequently mentioned brochures as

a preferred format for mutual fund educational materials. For respondents not using an adviser, the second most preferred format was a workbook; for respondents using an adviser, it was a one-on-one discussion with an investment professional (Figure 28). Among respondents who had worked with an

adviser, those delegating all purchase decisions generally preferred the workbook format, those having a collaborative relationship about equally preferred one-on-one discussions and brochures, and those controlling the purchase decisions preferred brochures (see Figure 58 in Appendix B).

**FIGURE 28**  
**Preferred Format for Mutual Fund Educational Materials<sup>1</sup>**  
*(percent of respondents interested in learning more about mutual fund investing)*

	All Respondents	Use of a Professional Financial Adviser	
		Had Consulted	Had Not Consulted
Brochures	70	59	83*
Workbooks	53	46	63*
One-on-one discussions with a professional financial adviser	38	52	21*
Videotapes	32	31	34
Classroom-style lectures or seminars	30	37	22*
Computer programs or online services	28	28	29
Audiotapes	24	25	22
Number of respondents	647	404	242

<sup>1</sup> Multiple responses included.

\*Respondents who had not consulted an adviser are statistically different from those who had at the 95 percent confidence level.

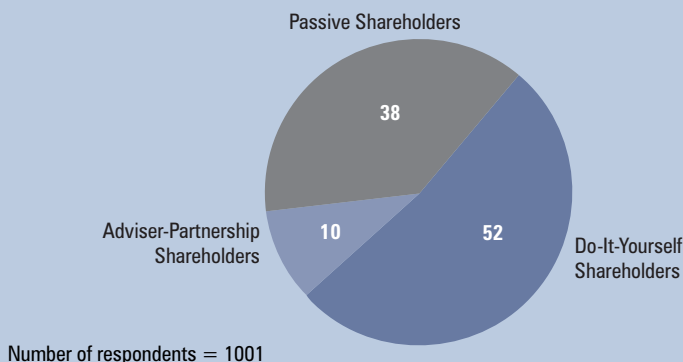
## Shareholder Market Segments by Needs for Information and Professional Assistance

### SUMMARY

Responding shareholders were grouped into three segments based upon the major factors that shape their mutual fund investing behavior. Each segment was given a name that encompasses its general mutual fund purchasing habits. Do-It-Yourself Shareholders are self-reliant, active investors who, at the time of the survey, typically had owned mutual funds for ten years. In most instances, they were customers of the direct-market channel. Adviser-Partnership Shareholders were seasoned mutual fund investors with strong, collaborative relationships with professional financial advisers, usually full-service brokers. Passive Shareholders generally were inexperienced investors and relied heavily on financial professionals, friends, and family when making investment decisions. The majority of these shareholders bought their funds directly from a fund company, a full-service broker, or a financial planner. Very few have purchased funds from an insurance agent, bank representative, or discount broker.

FIGURE 29

### Market Share of Respondent Segments (percent of respondents)



## MARKET SEGMENTATION

Segmentation analysis groups survey participants by characteristics such as demographics, purchasing habits, motivations, needs, or attitudes. In this study, cluster analysis<sup>15</sup> was used to group survey respondents by their needs for information and professional financial guidance. Based upon this analysis, shareholders fell into three segments, each of which was named according to their most predominant characteristics: Do-It-Yourself Shareholders, Adviser-Partnership Shareholders, and Passive Shareholders. A detailed description of each segment is presented below. Figures 36 through 41 at the end of the chapter summarize the main characteristics of each group.

### DO-IT-YOURSELF SHAREHOLDERS

Do-It-Yourself Shareholders, representing 52 percent of all respondents, tended to be self-reliant shareholders. They said they enjoy investing and typically spend five hours a month managing their investments. More than three fifths of Do-It-Yourself Shareholders listed a direct-market purchase method as their primary mutual fund channel. Most Do-It-Yourself Shareholders were males with high levels of education.

Do-It-Yourself Shareholders typically had 53 percent of their household financial assets, or \$48,000, invested in mutual funds at the time of the survey. The median length of fund ownership for these shareholders was ten years, and the median number of funds owned by this group was six, excluding funds held in employer-sponsored retirement plans. Altogether, 93 percent of Do-It-Yourself Shareholders owned stock funds at the time of the survey, 47 percent owned bond funds, and 51 percent owned money market funds.

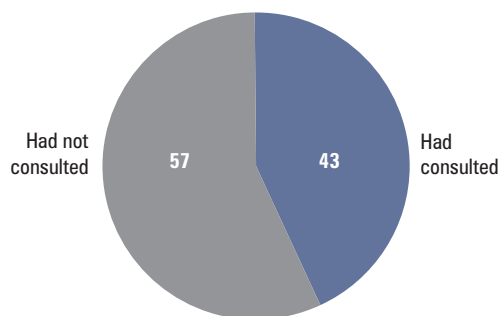
Do-It-Yourself Shareholders tended to rely on printed information in newspapers, magazines, investment newsletters, and prospectuses when selecting their most recent fund purchase. Do-It-Yourself Shareholders typically wanted pre-purchase information about fund risk and performance, followed by fund investment goals, reputation of the fund company, and the securities held in the fund.

Do-It-Yourself Shareholders reported typically using four pieces of fund-related information to monitor their mutual fund investments, usually the total dollar value of a fund

FIGURE 30

### Use of Professional Financial Advisers by Do-It-Yourself Shareholders

(percent of respondents)

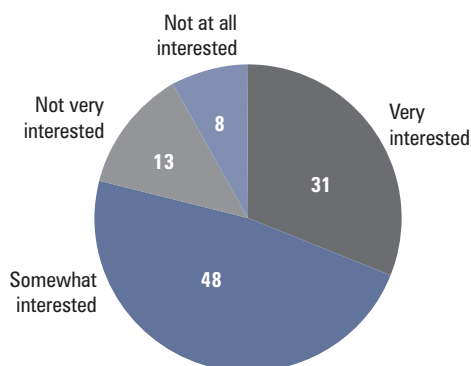


Number of respondents = 511

FIGURE 31

### Do-It-Yourself Shareholders' Interest in Learning More About Investing in Mutual Funds

(percent of respondents)



Number of respondents = 520

<sup>15</sup> For an explanation of cluster analysis, see Appendix A: Research Methodology.

account, yield or rate of return, price per share, and economic conditions affecting fund investments. Account statements and newspaper listings were two key sources that Do-It-Yourself Shareholders relied on for this information.

Forty-three percent of Do-It-Yourself Shareholders said they had consulted with a professional financial adviser at one time or another. Of the Do-It-Yourself Shareholders who had consulted an adviser, more than half said the adviser was a full-service broker. Do-It-Yourself Shareholders who had used an adviser indicated they typically meet with that adviser once per quarter.

With regard to mutual fund investing, adviser-using Do-It-Yourself Shareholders described their adviser relationship as a collaborative effort, in which the adviser recommends several funds and they select the one in which to invest. These shareholders typically accepted half of the adviser’s fund purchase recommendations. Do-It-Yourself Shareholders who use an adviser were fairly satisfied with the services of their advisers. Forty-seven percent rated the value of the service they received as excellent or very good, 39 percent rated it good, and only 14 percent rated it marginal or poor.

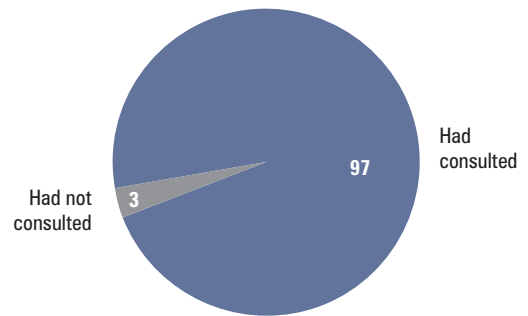
The typical Do-It-Yourself Shareholder was 42 years old at the time of the survey, had a household income of \$68,000 and financial assets of \$90,000. Almost four fifths of Do-It-Yourself Shareholders said they would be interested in learning more about mutual funds, particularly how different funds perform under different economic conditions. Do-It-Yourself Shareholders said they would prefer to receive mutual fund educational materials from a newspaper or magazine, followed by a professional financial adviser and a mutual fund company. Do-It-Yourself Shareholders would prefer to receive educational materials in the form of brochures, followed by workbooks.

## ADVISER-PARTNERSHIP SHAREHOLDERS

Adviser-Partnership Shareholders accounted for 10 percent of all respondents. Like most Do-It-Yourself Shareholders, the majority of Adviser-Partnership Shareholders said they enjoy investing and indicated they typically spend six hours each month managing their investments. More than four fifths of Adviser-Partnership Shareholders listed a sales-force purchase method as their primary mutual fund channel.

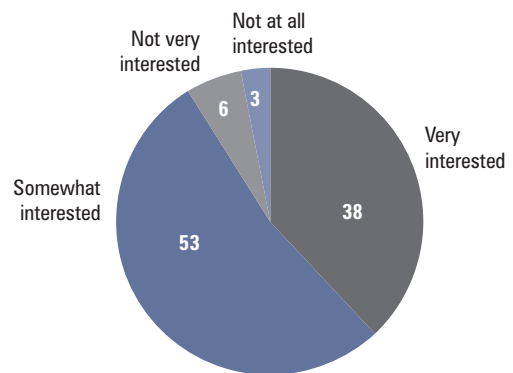
Adviser-Partnership Shareholders typically had 48 percent of their household financial assets, or \$38,000, invested in

**FIGURE 32**  
**Use of Professional Financial Advisers by Adviser-Partnership Shareholders**  
*(percent of respondents)*



Number of respondents = 104

**FIGURE 33**  
**Adviser-Partnership Shareholders’ Interest in Learning More About Investing in Mutual Funds**  
*(percent of respondents)*



Number of respondents = 104

mutual funds at the time of the survey. Of all respondent segments, Adviser-Partnership Shareholders were the most experienced mutual fund investors. The median length of fund ownership for these shareholders was 14 years, and the median number of funds owned by this group was ten. Altogether, 92 percent of Adviser-Partnership Shareholders owned stock funds at the time of the survey, 77 percent owned bond funds, and 64 percent owned money market funds. This segment’s ownership of bond funds and money market funds exceeded that of other segments.

Like Do-It-Yourself Shareholders, Adviser-Partnership Shareholders generally required risk and return information before deciding on their most recent fund purchase. Of the three groups, Adviser-Partnership Shareholders were the most vigilant in monitoring their mutual fund investments: the median number of items regularly tracked by this group was six.

Ninety-seven percent of Adviser-Partnership Shareholders said they had consulted with a professional financial adviser before making investment decisions. Of the Adviser-Partnership Shareholders who had consulted an adviser, more than half said their primary financial adviser was a full-service broker, and almost one third said the adviser was a financial planner. Adviser-Partnership Shareholders indicated they typically meet with their adviser every other month and accept 90 percent of the adviser's fund purchase recommendations. More than 90 percent of adviser-using Adviser-Partnership Shareholders described the relationship they have with their adviser as one in which they select a fund investment from a list of funds recommended by their adviser, the most of all segments. And compared with other segments, adviser-using Adviser-Partnership Shareholders were most satisfied with adviser services. Eighty-seven percent rated the value of service they received from their adviser as excellent or very good, 12 percent rated it good, and only 1 percent rated it marginal or poor.

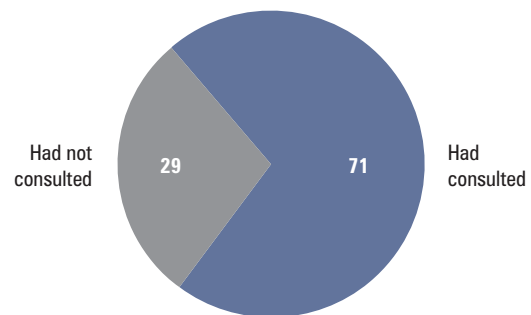
Compared with other shareholders, Adviser-Partnership Shareholders tended to be older and have higher incomes. At the time of the survey, the typical Adviser-Partnership Shareholder was 52 years old, had a household income of \$73,000 and household financial assets of \$80,000. More than 90 percent of Adviser-Partnership Shareholders said they would be interested in learning more about mutual funds, particularly how different funds perform under different economic conditions and how to select a fund with a risk level that is comfortable for the investor. Adviser-Partnership Shareholders said they would prefer to receive mutual fund educational materials from a professional financial adviser, followed by a newspaper or magazine. This segment of respondents would prefer to receive educational materials in a brochure or through a one-on-one discussion with a professional financial adviser.

## PASSIVE SHAREHOLDERS

Passive Shareholders represented 38 percent of survey participants. Passive Shareholders said they do not enjoy investing and indicated they typically spend only an hour per month on investment matters. Three quarters of Passive Shareholders listed a sales-force purchase method as their primary mutual fund channel.

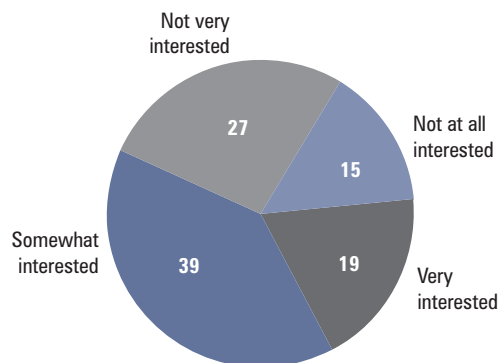
Passive Shareholders typically had 32 percent of their household financial assets, or \$19,000, invested in mutual funds at the time of the survey. In contrast to other segments, the Passive Shareholder segment comprised more shareholders new to mutual fund investing. Passive Shareholders bought their first mutual fund a median of six years before the date of

**FIGURE 34**  
**Use of Professional Financial Advisers by Passive Shareholders**  
*(percent of respondents)*



Number of respondents = 377

**FIGURE 35**  
**Passive Shareholders' Interest in Learning More About Investing in Mutual Funds**  
*(percent of respondents)*



Number of respondents = 377



the survey, compared with ten years for Do-It-Yourself Shareholders and 14 years for Adviser-Partnership Shareholders. Altogether, 89 percent of Passive Shareholders owned stock funds at the time of the survey, 57 percent owned bond funds, and 41 percent owned money market funds.

Like other shareholders, Passive Shareholders primarily reviewed or asked questions about a fund’s risk, return, and the reputation of the sponsoring company before making their most recent fund purchase. The majority of this shareholder segment indicated monitoring the following fund information on a regular basis: account value, yield or rate of return, price per share, and fees and charges of the fund. Compared with other segments, Passive Shareholders more often listed the account statement as a source of post-purchase information.

Seventy-three percent of Passive Shareholders said they had consulted with a professional financial adviser when making mutual fund purchase decisions. Of the Passive Shareholders who had consulted an adviser, more than 70 percent said the adviser was a full-service broker or a financial planner. Passive Shareholders using an adviser indicated they typically meet with an adviser every four months and accept 85 percent of the adviser’s fund purchase recommendations. Almost three

quarters of Passive Shareholders who had used an adviser described the relationship they have with their adviser as a collaborative effort. But 21 percent indicated they delegate all fund purchase decisions to an adviser, the most of all segments. Sixty-three percent of Passive Shareholders who had used an adviser rated the value of service they receive from their adviser as excellent or very good, 30 percent rated it good, and only 6 percent rated it marginal or poor.

Passive Shareholders had lower household incomes and household financial assets than other segments. In addition, more Passive Shareholders were female and fewer had a graduate level education than did other respondents. More than 40 percent of Passive Shareholders said they were not interested in learning more about mutual funds, the most of all segments. Among those who were interested, the topic that was most appealing was how to select a fund with a risk level with which they could be comfortable. Passive Shareholders said they would prefer to receive mutual fund educational materials from a professional financial adviser, followed by a newspaper or magazine and a fund company. This segment of respondents would prefer to receive educational materials in a brochure, workbook, or through a one-on-one discussion with a professional financial adviser.

**FIGURE 36**  
**Demographic and Financial Characteristics by Respondent Segments**

	All Respondents	Respondent Segments		
		Do-It-Yourself Shareholders	Adviser-Partnership Shareholders	Passive Shareholders
<b>Median</b>				
Age	43	42	52	42
Household income	\$64,000	\$68,000	\$73,000	\$50,000
Household financial assets <sup>1</sup>	\$75,000	\$90,000	\$80,000	\$60,000
Time spent per month on investment matters	3 hours	5 hours	6 hours	1 hour
<b>Percent of Respondents</b>				
Male	58	78*	52	31
Completed graduate school	31	39	34	18
Enjoy investing	72	88	89	46

<sup>1</sup> Excluding primary residence and assets in employer-sponsored plans.

Note: Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

FIGURE 37

**Mutual Fund Ownership Characteristics by Respondent Segments**

	All Respondents	Respondent Segments		
		Do-It-Yourself Shareholders	Adviser-Partnership Shareholders	Passive Shareholders
<b>Median per Household</b>				
Mutual fund assets <sup>1</sup>	\$34,000	\$48,000	\$38,000	\$19,000
Number of funds owned <sup>1</sup>	6	6	10	4
Length of fund ownership	9 years	10 years	14 years	6 years
<b>Percent of Households Own:<sup>2</sup></b>				
Stock mutual funds	91	93	92	89
Bond mutual funds (net)	54	47	77**	57
Tax-exempt bond mutual funds	40	31	62**	48
Taxable bond mutual funds	30	23	66**	31
Money market funds	49	51	64**	41
Primary mutual fund purchase channel:				
Sales force (net)	56	36	85	75
Full-service broker	28	25	56**	25
Financial planner	17	8*	21	29
Insurance agent	7	2	7	13
Bank representative	4	1	1	8***
Direct market (net)	44	63	14	26
Directly from fund company	37	53	13	21
Discount broker	7	10	1	5

<sup>1</sup> Outside of employer-sponsored retirement plans.

<sup>2</sup> Multiple responses included.

Note: Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

\*\*Adviser-Partnership Shareholders are statistically different from Do-It-Yourself and Passive Shareholders at the 95 percent confidence level.

\*\*\*Passive Shareholders are statistically different from Do-It-Yourself and Adviser-Partnership Shareholders at the 95 percent confidence level.

FIGURE 38

## Respondent Segments' Pre-Purchase Information Needs

	All Respondents	Respondent Segments		
		Do-It-Yourself Shareholders	Adviser-Partnership Shareholders	Passive Shareholders
<b>Fund-related Information Considered Prior to Most Recent Purchase<sup>1</sup></b> (percent of respondents considering each item)				
Risk level	90	91	91	89
Total return	88	90	98**	83
Reputation of fund company	88	86	99	87
Investment goals	82	89	82	72
Types of companies in which the fund invests	81	85	90	73***
Annual fees	76	80	77	70***
Fund performance relative to similar funds	75	79	80	69***
Sales charge	73	78*	65	67
Fund company's tenure in business	71	74	82**	65
Fund company's selection of funds	69	66	83**	70
Fund performance compared with an index	59	71	63	43***
Price per share	59	59	77**	54
Fund manager's investment style	59	60	91**	47
Minimum investment	58	52	59	66***
Total assets	57	54	77**	56
Fund manager's tenure at fund	51	50	79**	43
Portfolio turnover rate	46	43	77**	43
Fund manager's professional background	45	38	80**	46
800 telephone number for customers	42	45	45	36
24-hour a day access	30	34	37	23***
Mean number of items considered	13	13	15**	12
Median number of items considered	13	14	15	12
<b>Pre-purchase Information Sources<sup>1</sup></b> (percent of respondents consulting each source)				
Professional financial advisers	59	46*	75	73
Articles in investment newsletters, newspapers, or magazines	53	70*	41	33
Mutual fund prospectuses and annual reports	46	52	42	38
Friends, family, or business associates	30	19*	39	45
Mutual fund rating or information services	19	24	22	9***
Mutual fund company newsletters	20	23	20	15
Investment seminars	8	8	10	8
Online services	6	8	10	3***
Mutual fund company telephone representatives	8	8	4	7
Mean number of sources used	2	2	2	2
Median number of sources used	2	2	2	1

<sup>1</sup> Multiple responses included.

Note: Shaded items are those required by regulators. Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

\*\*Adviser-Partnership Shareholders are statistically different from Do-It-Yourself and Passive Shareholders at the 95 percent confidence level.

\*\*\*Passive Shareholders are statistically different from Do-It-Yourself and Adviser-Partnership Shareholders at the 95 percent confidence level.

FIGURE 39

**Respondent Segments' Post-Purchase Information Needs**

	All Respondents	Respondent Segments		
		Do-It-Yourself Shareholders	Adviser-Partnership Shareholders	Passive Shareholders
<b>Mutual Fund Information Monitored at Least Four Times a Year<sup>1</sup></b>				
<i>(percent of respondents monitoring each item)</i>				
Total dollar value of account	90	91	93	87
Yield or rate of return	80	76	90	82
Price per share of fund	78	81	82	72***
Economic or market conditions	61	72	83	40***
Fund's risk level	50	49	74**	45
Fees and charges of the fund	46	34*	65	58
Changes in the fund manager	24	24	37**	20
Mean number of items monitored	4	4	5	4
Median number of items monitored	5	4	6	5
<b>Sources Used to Monitor Mutual Funds<sup>1</sup></b>				
<i>(percent of respondents using each source)</i>				
Account statements	75	71	60**	84
Listings in newspapers	54	64	58	37***
Annual reports	50	48	71**	46
Prospectuses	47	48	48	46
Financial adviser	38	28	62**	45
Rankings in a business magazine	35	42	38	23***
Ranking or information services, such as Morningstar or Lipper	13	17	20	7***
Online services	5	8*	3	2
Investment management software	4	6	3	0
Mean number of sources used	3	3	4**	3
Median number of sources used	3	3	4	3

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

\*\*Adviser-Partnership Shareholders are statistically different from Do-It-Yourself and Passive Shareholders at the 95 percent confidence level.

\*\*\*Passive Shareholders are statistically different from Do-It-Yourself and Adviser-Partnership Shareholders at the 95 percent confidence level.

FIGURE 40

**Respondent Segments' Relationship with Professional Financial Advisers**

(for those who have used a professional financial adviser)

	All Respondents	Respondent Segments		
		Do-It-Yourself Shareholders	Adviser-Partnership Shareholders	Passive Shareholders
<b>Median</b>				
Number of contacts per year	4	4	6	3
Percent of advisers' recommendations followed	80%	50%	90%	85%
<b>Percent of Respondents</b>				
Primary financial adviser:				
Full-service broker	43	54	55	32***
Financial planner	34	29	32	39
Banker	4	6	2	3
Discount broker	2	5	0	1
Accountant, lawyer, or tax planner	6	4	3	9
Insurance agent	5	1*	7	8
Other	5	2	0	8***
Segments' relationship with primary financial adviser:				
Adviser usually selects all mutual fund investments	13	6	5	21***
Adviser recommends several funds and shareholder selects one in which to invest	74	66	91**	73
Shareholder actively directs adviser on which funds to purchase and adviser places the order	13	28*	5	6
Value associated with primary financial adviser:				
Excellent or very good	62	47	87**	63
Good	30	39	12**	30
Marginal or poor	8	14	1	6

Note: Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

\*\*Adviser-Partnership Shareholders are statistically different from Do-It-Yourself and Passive Shareholders at the 95 percent confidence level.

\*\*\*Passive Shareholders are statistically different from Do-It-Yourself and Adviser-Partnership Shareholders at the 95 percent confidence level.

FIGURE 41

**Respondent Segments' Preferences for Mutual Fund Educational Materials**

(percent of respondents interested in learning more about mutual fund investing)

	All Respondents	Respondent Segments		
		Do-It-Yourself Shareholders	Adviser-Partnership Shareholders	Passive Shareholders
<b>Mutual Fund Topics of Interest<sup>1</sup></b>				
How different funds perform under different economic conditions	75	80	72	67
How to select a fund with a level of risk with which you are comfortable	72	65	70	86***
How to distribute your financial assets among several mutual funds	57	56	60	60
<b>Segments' Preferred Sources of Mutual Fund Educational Materials<sup>1</sup></b>				
Professional financial advisers (net)	70	60*	94	81
Financial planners	39	31	39	53***
Full-service brokers	33	24*	51	43
Discount brokers	25	26	23	24
Bank representatives	11	9	12	15
Insurance agents	7	2	28**	7
Newspapers or magazines	63	73*	41	53
Mutual fund companies	46	47	33**	50
Mutual fund rating services	41	44	30	40
<b>Preferred Format for Educational Materials<sup>1</sup></b>				
Written materials such as brochures	70	74*	61	64
Written materials such as a workbook	53	55	36**	58
Discuss topics one-on-one with a professional financial adviser	38	27*	51	53
Videotape	32	32	26	36
Lecture or seminar	30	33	25	28
Computer program or access information via online service	28	36	8**	24
Audiotape	24	23	22	25

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Do-It-Yourself Shareholders are statistically different from Adviser-Partnership and Passive Shareholders at the 95 percent confidence level.

\*\*Adviser-Partnership Shareholders are statistically different from Do-It-Yourself and Passive Shareholders at the 95 percent confidence level.

\*\*\*Passive Shareholders are statistically different from Do-It-Yourself and Adviser-Partnership Shareholders at the 95 percent confidence level.

## Research Methodology

### RESEARCH DESIGN

The data presented in this report are the result of a survey conducted by Abt Associates under the direction of the Investment Company Institute's Research Department. Its purpose is to evaluate the information and advice needs of shareholders when making mutual fund purchase decisions. The research program comprised two stages.

In stage one, Abt Associates conducted focus group interviews with mutual fund shareholders to identify and understand shareholders' pre-purchase information needs and the role of professional advisers in the decisionmaking process. The demographic characteristics of the focus group participants varied. All participants were 18 years of age or older and were either their household's primary or co-decisionmaker for savings and investments. The information gathered from these discussions was used to develop the survey instrument for stage two, the quantitative phase of the project.

Stage two used a random digit dial telephone survey design. To qualify for the survey, respondents' households had to be recent buyers of long-term funds. A "purchase" was defined as the purchase of shares in a fund from which no shares were owned before the five-year period. Purchases of fund shares through employer-sponsored retirement plans were excluded from the survey.

The survey instrument was designed to assess shareholders' mutual fund purchase process and educational needs. Survey topics included shareholders' use of professional advisers, the types of information shareholders consider when making a purchase, the sources they turn to for that information (e.g., written materials, audiotapes, and videotapes), what types of information shareholders monitor after purchasing a mutual

fund, the sources of post-purchase information, and shareholders' interest in mutual fund investing.

Interviewing was completed in 1995. Respondents were either a household primary or co-financial decisionmaker for saving and investment. A total of 1001 interviews, each lasting roughly 40 minutes, were completed. Interviews were conducted at Abt Associates' Telephone Interviewing Center in Amherst, Massachusetts and MKTG in East Islip, New York. All interviews were conducted on a CATI (Computed Aided Telephone Interviewing) system. Abt Associates' Survey Research Group completed all open-end coding and data entry. Data files were computer-edited for logical consistency.

### SAMPLE DESIGN AND WEIGHTING

A national sample of randomly generated telephone numbers was used as the sample for the study. To reduce data collection costs, however, the random sample was skewed to include a larger proportion of numbers from high-income exchanges where the likelihood of mutual fund ownership is greater. The survey data were weighted to correct for the over-sampling of high-income exchanges across the country. Weights were scaled so that the weighted sample size equaled the raw (or unweighted) sample size.

### SAMPLING TOLERANCES

The use of sample surveys is standard practice for constructing estimates about a total population. Estimates derived through survey sampling are subject to sampling error. As sample size increases, the level of potential sampling error generally becomes smaller. This confidence level can be used to construct confidence intervals. Confidence intervals are ranges

that would include the average estimate taken across all possible samples with known probability. Approximately 95 percent of the intervals figured in all possible samples would contain the average estimate taken across all samples. Figure 42 shows the approximate sampling error for estimates of proportions computed for the sample as a whole and for sub-samples of various sizes.

## DATA ANALYSIS

The survey data were evaluated using several analytical techniques. Cross tabulations of the data were used for descriptive analysis. Cluster analysis, along with analysis of variance, was

used to generate the shareholder segments and determine the most discriminating variables in the segment creation. Cluster analysis is a multivariate statistical procedure that organizes respondents into relatively homogeneous groups based on their answers to survey questions. Three clusters emerged from the survey data using this technique. Univariate, one-way analysis of variance tests were then computed on the variables used in the cluster analysis to determine the most discriminating variables in the cluster solution. A univariate analysis of variance tests the hypothesis that the means for each cluster (or segment) are equal for each variable. Other multivariate techniques, such as factor analysis, were used to confirm the veracity of the segments.

**FIGURE 42**  
**Statistical Reliability for Determining Accuracy of Observed Percentages by Sample Size and Percent of Responses**

Sample Size	OBSERVED PERCENTAGES				
	Sampling Errors at the 95 Percent Confidence Level				
	10 percent or 90 percent	20 percent or 80 percent	30 percent or 70 percent	40 percent or 60 percent	50 percent
1000	2	3	3	3	3
700	2	3	4	4	4
500	3	4	4	5	5
250	4	5	6	6	6
100	6	8	9	10	10

This table shows that if, for example, the sample size is 700 and if 10 percent of the respondents provide the same answer to a question and 90 percent provide the other answer, then a 95 percent confidence interval for responses for the first answer is 10 percent  $\pm$  2 percent and a 95 percent interval for responses for the second answer is 90 percent  $\pm$  2 percent.



## Supplemental Data

**FIGURE 43**

**Contacts with Primary Professional Financial Adviser per Year by Nature of Relationship**

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Mean number of contacts	5	6	6	3*
Median number of contacts	4	4	4	1
Number of respondents	582	67	415	74

\*Respondents who only direct fund purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

**FIGURE 44**

**Acceptance of Adviser’s Fund Purchase Recommendations by Nature of Relationship**

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Mean number of recommendations followed	65	82	71	27*
Median number of recommendations followed	80	100	80	0
Number of respondents	554	74	383	72

\*Respondents who only direct fund purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 45

**Primary Financial Adviser’s Single Most Important Function by Nature of Relationship**

(percent of respondents who had consulted a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Provides investment advice	27	57	24	11**
Provides investment information	19	3	24*	9
Manages your investment portfolio	25	20	22	31**
Provides investment education	13	3	17*	2
Places purchase and sale orders	10	14	3	43**
Works with your other advisers	6	0	6	1
Other	0	3	1	3
Number of respondents	558	73	389	73

\*Respondents who share fund purchase decisions with an adviser are statistically different from those who only direct fund purchase orders through, or effectively delegate fund purchase decisions to, an adviser at the 95 percent confidence level.

\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 46

**Value Shareholders Associate with Primary Financial Adviser by Nature of Relationship**

(percent of respondents who had consulted a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Places Fund Purchase Orders Through an Adviser
Excellent value	40	72*	39	17
Very good value	22	17	25	8**
Good value	30	8*	31	42
Marginal value	5	2	3	22**
Poor value	3	0	2	11**
Number of respondents	570	66	408	73

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 47

**Fund-related Information Considered Prior to Most Recent Purchase by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted with a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Risk level	93	72*	95	99
Reputation of fund company	92	66*	98	88
Total return	91	64*	95	91
Types of companies in which the fund invests	86	61*	89	95
Investment goals	82	40*	85	95
Fund performance relative to similar funds	75	67	78**	67
Fund company's tenure in business	73	42*	80	74
Annual fees	72	43*	73	94
Fund company's selection of funds	69	49*	75	64
Sales charge	69	42*	69	95
Price per share	61	30*	66	78
Total assets	58	39	60	76
Fund manager's investment style	58	51	58	61
Fund performance compared with an index	56	15*	59	71
Fund manager's tenure at fund	55	53	57	52
Minimum investment	54	41	57	53
Fund manager's professional background	50	53	52	40
Portfolio turnover rate	48	27	52	44
800 telephone number for customers	34	29	33	28
24-hour a day access	25	29	22	36
Mean number of items considered	13	9*	13	14
Median number of items considered	13	11	14	14

<sup>1</sup> Multiple responses included.

Note: Shaded items are those required by regulators. Number of respondents varies for each item.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who share fund purchase decisions with an adviser are statistically different from those who only direct fund purchase orders through, or effectively delegate fund purchase decisions to, an adviser at the 95 percent confidence level.

FIGURE 48

**Pre-purchase Mutual Fund Information Sources for Most Recent Purchase by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Professional financial advisers	80	86	89	43*
Articles in investment newsletters, newspapers, magazines	47	31	46	61*
Mutual fund prospectuses and annual reports	39	32	40	47
Friends, family, business associates	30	30	32	13*
Mutual fund ranking and information services, such as Morningstar and Lipper	17	15	18	11
Mutual fund company newsletters	15	14	14	21
Investment seminars	8	13	9	1*
Online services	7	0	8	5
Mutual fund company telephone representatives	4	1	4	9
Mean number of sources used	2	2	2	2
Median number of sources used	2	1	2	1

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 49

**Periodicals Most Frequently Consulted Before Most Recent Fund Purchase by Nature of Relationship with Adviser<sup>1</sup>**  
*(percent of respondents who had consulted a professional financial adviser and also referred to investment newsletters, newspapers, or magazines)*

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
<i>Money</i>	45	10*	49	36
<i>Wall Street Journal</i>	47	10*	52	38
Local paper	22	7	18	33
<i>Kiplinger's</i>	9	11	7	18
<i>Forbes</i>	10	5	11	9
<i>Business Week</i>	12	34*	13	3
<i>Investor's Business Daily</i>	8	34*	8	1
<i>Fortune</i>	10	1	13	3
<i>Barrons</i>	8	4	6	18
Number of respondents	318	22 <sup>2</sup>	222	55

<sup>1</sup> Multiple responses included.

<sup>2</sup> Small sample size.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 50

**Mutual Fund Information Monitored at Least Four Times a Year by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
<b>Monitor any type of mutual fund information</b>	96	89	96	100
Total dollar value of an account	89	77	89	98**
Yield or rate of return	83	82	80	96**
Price per share of a fund	78	62*	78	87
Economic or market conditions	61	25*	63	73
Fund's risk level	52	41	50	67**
Fees and charges of the fund	49	52	49	50
Changes in the fund manager	22	17	21	33**
Mean number of items monitored	4	4	4	5**
Median number of items monitored	5	4	5	5

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 51

**Sources Used to Monitor Mutual Funds by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted a professional financial adviser and said they monitor their mutual fund investments)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Account statements	74	73	77	62
Mutual fund listings in a daily newspaper	48	28*	51	53
Mutual fund annual reports	49	39	52	53
Mutual fund prospectuses	46	46	47	43
Professional financial advisers	52	73	57	16**
Mutual fund rankings in a business magazine	31	9*	33	31
Mutual fund ranking and information services, such as Morningstar or Lipper	13	3	15	7
Online services	5	1	6	3
Other	7	4	8	6
Mean numbers of sources used to monitor fund investments	3	3	3	3
Median number of sources used to monitor fund investments	3	3	4	2
Number of respondents	558	66	391	74

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 52

**Use of Mutual Fund Account Statements by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted a professional financial adviser and recalled receiving an account statement)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
To find out the total dollar value of a fund account	91	93	91	99
To track the change in the total dollar value of a fund	86	90	83	94
To track the price per share of a fund	76	57*	81	62
To compare a fund to other investments owned	50	38	54	52
Mean number of items obtained from account statements	3	3	3	3
Median number of items obtained from account statements	3	3	3	3

<sup>1</sup> In the 12 months preceding the survey.

Note: Number of respondents varies.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.



FIGURE 53

**Use of Mutual Fund Annual Reports by Nature of Relationship with Adviser**

(percent of respondents who had consulted a professional financial adviser and recalled receiving an annual report<sup>1</sup>)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
To identify the companies or organizations in which a fund is invested	70	49	76**	52
To identify a fund's total return or yield over time	65	40*	67	80
To identify what percent of a fund is invested in a given company or organization	55	26*	59	49
To find out how economic and market conditions have affected the fund <sup>2</sup>	37	22*	40	43
To compare a fund's performance with other similar funds	32	16	37	24
To find out a portfolio manager's tenure with a fund <sup>3</sup>	14	6	14	21
Mean number of items obtained from annual reports	3	2*	3	3
Median number of items obtained from annual reports	3	2	3	3

<sup>1</sup> In the 12 months preceding the survey.

<sup>2</sup> Mutual funds are not required to compare their performance to those of similar funds. However, shareholders can compare a fund's performance, as presented in the annual report or prospectus as part of management's narrative discussion of fund performance during the last year (this discussion can be in either document) to those of similar funds, as presented in their prospectuses, annual reports, or other sources.

<sup>3</sup> Regulators do not require a fund to disclose its manager's tenure with the fund in its annual report. The provision of such information is at the fund's discretion.

Note: Number of respondents varies.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who share fund purchase decisions with an adviser are statistically different from those who only direct fund purchase orders through, or effectively delegate fund purchase decisions to, an adviser at the 95 percent confidence level.

FIGURE 54

**Use of Mutual Fund Prospectuses by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted a professional financial adviser and recalled receiving a prospectus)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
To identify a fund's investment goals	61	13*	69	65
To identify a fund's yield or total return over time	57	27*	63	54
To identify a fund's annual fees or expenses	53	10*	59	63
To identify whether a fund has a sales charge	52	11*	59	53
To assess a fund's level of risk	44	21*	49	41
To identify a fund's minimum investment	40	8*	44	51
To identify whether there is an 800 telephone number for customers	29	10*	30	38
To compare a fund's performance with other similar funds <sup>2</sup>	28	5*	32	27
To identify a fund manager's tenure with a fund <sup>3</sup>	25	2*	28	29
Mean number of items obtained from prospectuses	4	1*	4	4
Median number of items obtained from prospectuses	4	1	4	6

<sup>1</sup> In the 12 months preceding the survey.

<sup>2</sup> Mutual funds are not required to compare their performance to those of similar funds. However, shareholders can compare a fund's performance, as presented in the annual report or prospectus as part of management's narrative discussion of fund performance during the last year (this discussion can be in either document) to those of similar funds, as presented in their prospectuses, annual reports, or other sources.

<sup>3</sup> Regulators require a fund to disclose its manager's tenure with the fund in its prospectus. The provision of such information in its annual report is at the fund's discretion.

Note: Number of respondents varies.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 55

**Interest in Learning More About Investing in Mutual Funds by Nature of Relationship with Adviser**

(percent of respondents who had consulted a professional financial adviser)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Very interested	28	18*	30	29
Somewhat interested	42	30*	43	51
Not very interested	20	45*	18	15
Not at all interested	9	7	9	5
Number of respondents	590	74	416	74

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 56

**Mutual Fund Topics of Interest by Nature of Relationship with Adviser**

(percent of respondents who had consulted a professional financial adviser and were interested in learning more about mutual fund investing)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
How different funds perform under different economic conditions	71	72	69	76
How to select a fund with a level of risk with which you are comfortable	76	71	81	52**
How to distribute your financial assets among several mutual funds	59	35	67*	37

<sup>1</sup> Multiple responses included.

Note: Number of respondents varies.

\*Respondents who share fund purchase decisions with an adviser are statistically different from those who place only direct purchase orders through, or effectively delegate fund purchase decisions to, an adviser at the 95 percent confidence level.

\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 57

**Preferred Sources for Mutual Fund Educational Materials by Nature of Relationship with Adviser<sup>1</sup>**

(percent of respondents who had consulted a professional financial adviser and were interested in learning more about mutual fund investing)

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Investment professionals (net)	81	72	89	56
Financial planners	53	48	59	35
Full-service brokers	41	19	49**	20
Discount brokers	22	8	23	23
Bank representatives	14	2	18**	5
Insurance agents	12	12	14	2***
Newspapers or magazines	56	68	54	67
Mutual fund companies	39	78*	34	37
Mutual fund ranking or information services, such as Morningstar or Lipper	40	69*	38	37
Number of respondents	404	41	287	53

<sup>1</sup> Multiple responses included.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who share fund purchase decisions with an adviser are statistically different from those who only direct fund purchase orders through, or effectively delegate fund purchase decisions to, an adviser at the 95 percent confidence level.

\*\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

FIGURE 58

**Preferred Format for Mutual Fund Educational Materials by Nature of Relationship with Adviser<sup>1</sup>**

*(percent of respondents who had consulted a professional financial adviser and were interested in learning more about mutual fund investing)*

	All Respondents Who Had Consulted a Professional Financial Adviser	Nature of Mutual Fund Relationship with Primary Financial Adviser		
		Shareholder Effectively Delegates All Fund Purchase Decisions to an Adviser	Shareholder Selects Fund from Several Recommended by an Adviser	Shareholder Only Directs Adviser to Place Fund Purchase Orders
Brochures	59	58	57	80**
Workbooks	46	73	47	18**
One-on-one discussions with a professional financial adviser	52	57	58	23**
Videotapes	31	41	34	18**
Classroom-style lectures or seminars	37	17	41	32
Computer programs or online services	28	34	29	11**
Audiotapes	25	7*	27	29
Number of respondents	404	41	287	53

<sup>1</sup> Multiple responses included.

\*Respondents who effectively delegate fund purchase decisions to an adviser are statistically different from those who only direct fund purchase orders through, or share fund purchase decisions with, an adviser at the 95 percent confidence level.

\*\*Respondents who only direct purchase orders through an adviser are statistically different from those who effectively delegate to, or share fund purchase decisions with, an adviser at the 95 percent confidence level.



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