

## Ownership of Mutual Funds Through Professional Financial Advisers, 2007

### KEY FINDINGS

- **The majority of household mutual fund assets was held through professional financial advisers.** At year-end 2007, 56 percent of household mutual fund assets were held through professional financial advisers. Twenty-four percent of household mutual fund assets were held through defined contribution (DC) plans, and 14 percent directly with mutual fund companies. The remaining 6 percent were held through discount brokers and mutual fund supermarkets.
- **Most households that owned mutual funds outside DC retirement plans held funds through a professional financial adviser.** More than three-quarters of mutual fund-owning households owned funds outside DC retirement plans. Eighty percent of those households owned funds purchased through a professional financial adviser. Reliance on advisers was similar across demographic and financial characteristics of households.
- **Full-service brokers and independent financial planners were the most commonly used professional financial advisers.** Fifty-five percent of households that owned mutual funds outside DC plans owned funds purchased through a full-service broker, and nearly half owned funds purchased through an independent financial planner. About half of households owning funds outside DC plans used two or more types of advisers.
- **The majority of households that owned mutual funds through a professional financial adviser found that adviser through a referral.** Sixty-two percent of mutual fund-owning households with an ongoing relationship with a professional financial adviser found that adviser through a referral from a friend, family member, or business associate. Only 9 percent already knew their adviser.

### ABOUT THE ANNUAL MUTUAL FUND SHAREHOLDER TRACKING SURVEY

The Investment Company Institute conducts the Mutual Fund Shareholder Tracking Survey each spring to gather information on the demographic and financial characteristics of mutual fund-owning households in the United States. The most recent survey was undertaken in May 2007 and was based on a randomly selected sample of 3,977 U.S. households, of which 1,733 households, or 43.6 percent, owned mutual funds. Eligible households included those owning mutual funds inside or outside employer-sponsored retirement plans. All interviews were with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2007 sample of households owning mutual funds is  $\pm 2.4$  percentage points at the 95 percent confidence level.

## MOST HOUSEHOLD MUTUAL FUND ASSETS CONTINUE TO BE HELD THROUGH PROFESSIONAL FINANCIAL ADVISERS

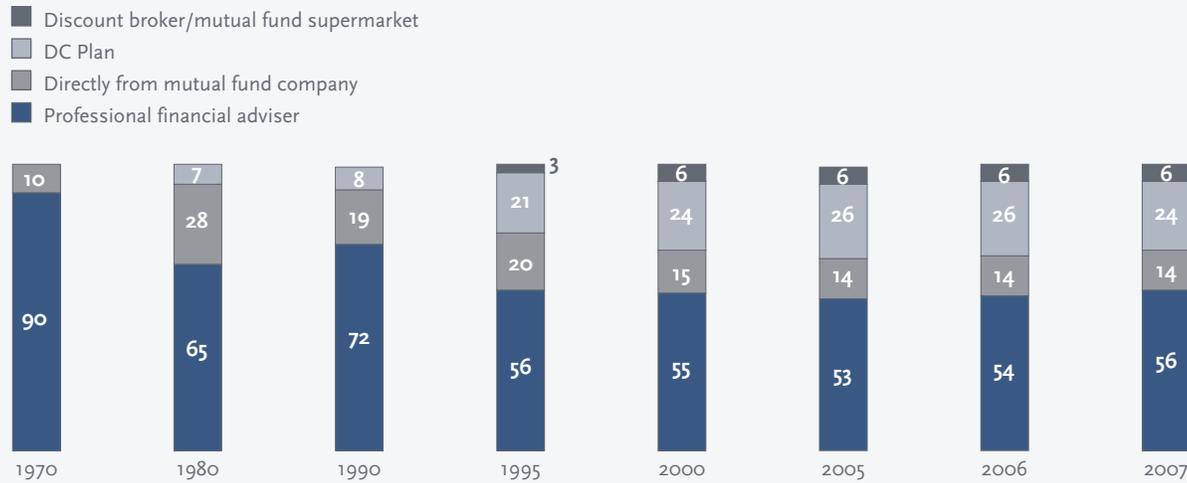
Mutual fund shares sold through professional financial advisers have traditionally accounted for a majority of household mutual fund asset holdings. Since 1980,

however, the rapid growth of DC plans has contributed to the reduction of the share of mutual fund assets held through advisers. Even so, in 2007, more than half (56 percent) of household mutual fund assets were invested through a professional financial adviser; a percentage that has held steady since 1995 (Figure 1).

FIGURE 1

### HOUSEHOLDS' MUTUAL FUND ASSETS BY PURCHASE SOURCE

Percentage of stock, bond, and hybrid mutual funds held by households, selected years



Note: Components may not add to 100 percent because of rounding.  
Sources: Investment Company Institute and Cerulli Associates, Inc.

## INCIDENCE OF MUTUAL FUND OWNERSHIP THROUGH PROFESSIONAL FINANCIAL ADVISERS

An annual ICI survey of mutual fund ownership revealed that 51 million households in the United States, or 44 percent, owned mutual funds in 2007.<sup>1</sup> More than three-quarters of households that owned mutual funds owned funds outside DC plans (Figure 2). About half of these households only owned funds outside DC plans; the other half also held funds in DC plans.

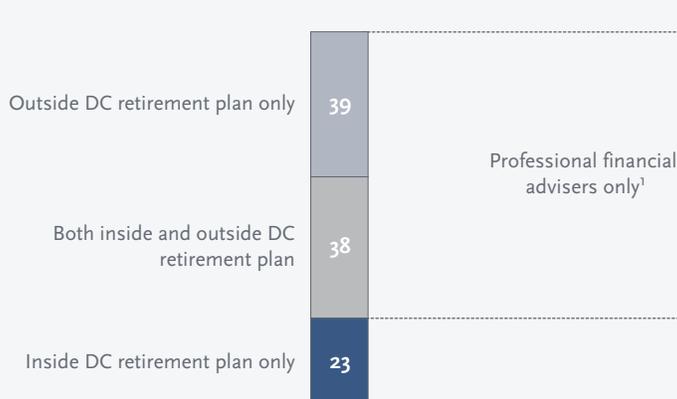
Forty-three percent of households that owned mutual funds outside DC plans owned funds solely through an adviser, while 37 percent owned funds purchased through advisers as well as directly from fund companies, fund supermarkets, or discount brokers. All told, about 30 million U.S. households, or 80 percent of households owning mutual funds outside DC plans, owned funds purchased from a professional financial adviser.

FIGURE 2

### WHERE HOUSEHOLDS OWN MUTUAL FUNDS

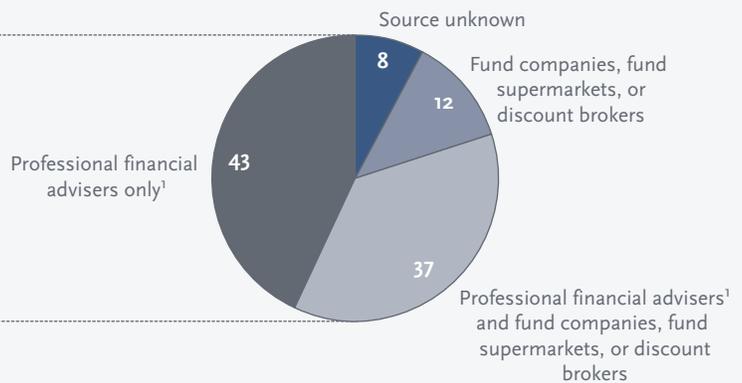
#### Sources of mutual fund ownership

Percentage of U.S. households owning mutual funds, 2007



#### Sources for households owning mutual funds outside defined contribution retirement plans

Percentage of U.S. households owning mutual funds outside DC retirement plans, 2007



<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

## MANY HOUSEHOLDS RECEIVE NUMEROUS SERVICES FROM PROFESSIONAL FINANCIAL ADVISERS

Professional financial advisers provide a wide array of investment and planning services.<sup>2</sup> Financial advisers generally help investors identify financial goals and recommend funds to meet those goals (Figure 3). They also provide a range of services to investors after the initial sale of fund shares, including conducting transactions, maintaining financial records, and coordinating the distribution of prospectuses, financial reports, and proxy statements.

The type of advice a household receives from a professional financial adviser varies with the age of the head of household. For example, households headed by an individual 64 years of age or younger were more likely to receive assistance with planning to achieve specific goals, such as saving for retirement or paying for college (Figure 3). Households headed by an individual 65 years of age or older were less likely to have their advisers review employer-sponsored retirement plan asset allocation or to receive access to specialists in areas such as tax planning.

FIGURE 3

### SHAREHOLDERS RECEIVE NUMEROUS INVESTMENT SERVICES FROM PROFESSIONAL FINANCIAL ADVISERS

Percentage of respondents with ongoing advisory relationships by age of household head,<sup>1</sup> 2006

	Younger than 45	Between 45 and 64	65 or older	Total
<b>Types of services currently received from primary adviser<sup>1,2</sup></b>				
<i>Investment services</i>				
Regular portfolio review and investment recommendations	80	85	92	85
Review of allocation of investor's employer-sponsored retirement plan assets	68	68	40	61
<i>Planning services</i>				
Periodic discussion of financial goals	84	86	77	83
Planning to achieve specific goals, such as saving for retirement or paying for college	89	83	47	75
Comprehensive financial planning	79	76	68	75
Managing assets in retirement	54	60	66	60
Access to specialists in areas such as tax planning	51	57	38	51
<b>Number of services received</b>				
One or two services	13	10	21	14
Three or four services	18	21	32	23
Five or more services	69	69	47	63

<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, accountants, advisers working for discount brokers, and mutual fund company representatives.

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

Source: Investment Company Institute Mutual Fund Shareholders' Use of Advice Survey

#### ABOUT THE MUTUAL FUND SHAREHOLDERS' USE OF ADVICE SURVEY

The Investment Company Institute undertook a comprehensive survey in 2006 to examine mutual fund shareholders' use of ongoing, professional investment advice. The survey was based on a randomly selected sample of 1,003 households owning mutual funds outside workplace retirement plans, of which 602 had an ongoing advisory relationship. The survey sample was drawn from telephone exchanges with median household incomes of \$75,000 or more. The average household income of households owning funds outside workplace retirement plans was roughly \$75,000. To identify mutual fund shareholders with ongoing advisory relationships, each survey respondent was asked whether he or she had an ongoing relationship with a professional financial adviser, who was defined as "someone who makes a living by providing investment advice and services." The overall sampling error for the survey is  $\pm 4.0$  percentage points at the 95 percent confidence level among households with ongoing advisory relationships.

The number of services received from a professional financial adviser also varies depending upon the age of the head of household. Households headed by an individual 64 years of age or younger were more likely to receive five or more services from their financial adviser (Figure 3). Households headed by an individual 65 years of age or older were more likely to receive less than five services from their professional financial adviser.

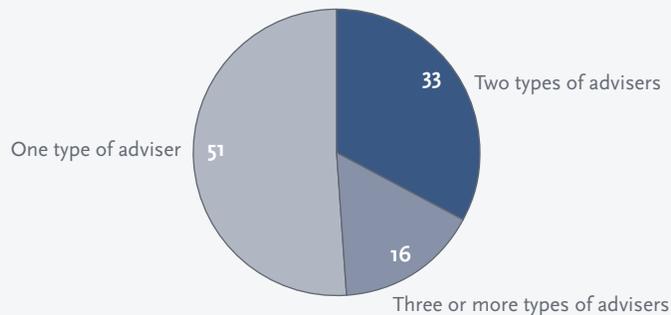
### MANY HOUSEHOLDS USE MORE THAN ONE TYPE OF ADVISER

Many households that invested in funds outside DC plans through professional financial advisers relied on the services of more than one type of adviser. Forty-nine percent of households owning funds through advisers used at least two types of advisers (Figure 4). Most households that owned funds through two types of advisers held funds purchased from full-service brokers and independent financial planners. Households that owned funds through three or more types of advisers commonly used bank or savings institution representatives in addition to full-service brokers and independent financial planners for fund purchases.

FIGURE 4

#### NUMBER OF DIFFERENT TYPES OF PROFESSIONAL FINANCIAL ADVISERS USED TO PURCHASE MUTUAL FUNDS

Percentage of households owning funds through advisers outside DC retirement plans,<sup>1</sup> 2007



<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

## FULL-SERVICE BROKERS AND INDEPENDENT FINANCIAL PLANNERS ARE THE MOST COMMONLY USED ADVISERS

The 30 million U.S. households that owned mutual funds outside DC plans through professional financial advisers used a variety of advisers to purchase fund shares. Fifty-five percent of these households held mutual funds through full-service brokers, and nearly half owned funds purchased through independent financial planners (Figure 5). In addition, 32 percent held funds through bank or savings institution representatives, 18 percent owned funds through insurance agents, and 14 percent had funds purchased through accountants.

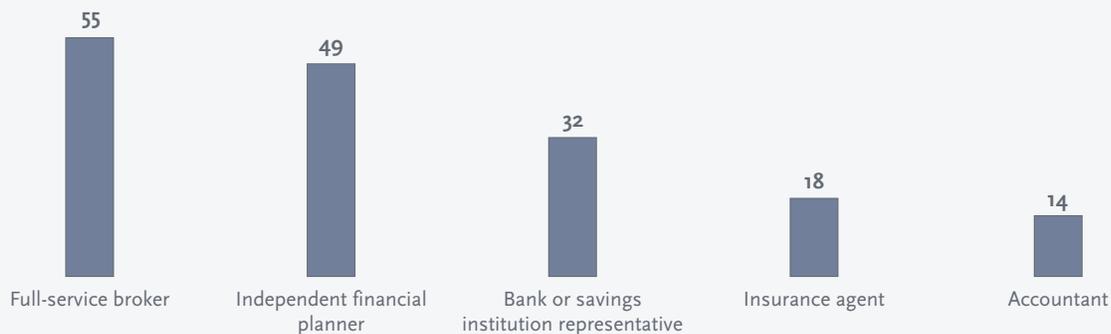
## CHARACTERISTICS OF MUTUAL FUND INVESTORS OWNING FUNDS THROUGH PROFESSIONAL FINANCIAL ADVISERS

Mutual fund ownership outside DC plans through professional financial advisers was common across a variety of shareholder demographic and financial classifications, including age, generation, and education of the household head, as well as household income, mutual fund assets, and year of initial mutual fund purchase.<sup>3</sup> Even so, some shareholder groups were more likely than others to own funds through professional financial advisers. Households headed by individuals aged 55 to 64 were the most likely to hold funds exclusively through an adviser, perhaps because this group felt the need for financial advice as they entered the final years of retirement planning (Figure 6). On the other hand, the lowest incidence of adviser use was among households headed by individuals 44 years of age or younger, who were more likely to go directly to mutual fund companies, fund supermarkets, or discount brokers.

FIGURE 5

### TYPES OF ADVISERS USED TO PURCHASE MUTUAL FUNDS

Percentage of households owning funds through advisers outside DC retirement plans,<sup>1</sup> 2007



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

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

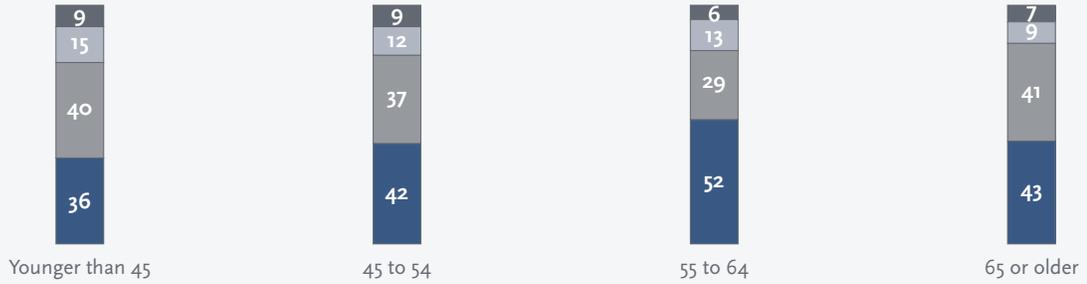
FIGURE 6

**USE OF PROFESSIONAL FINANCIAL ADVISERS TO PURCHASE MUTUAL FUNDS BY HEAD OF HOUSEHOLD CHARACTERISTICS**

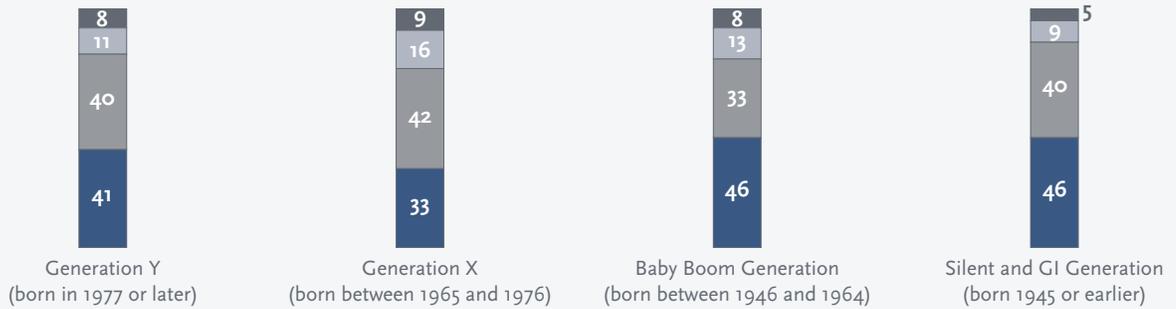
Percentage of households owning mutual funds outside DC retirement plans, 2007

- Source unknown
- Fund companies, fund supermarkets, or discount brokers only
- Professional financial advisers<sup>1</sup> and fund companies, fund supermarkets, or discount brokers
- Professional financial advisers only<sup>1</sup>

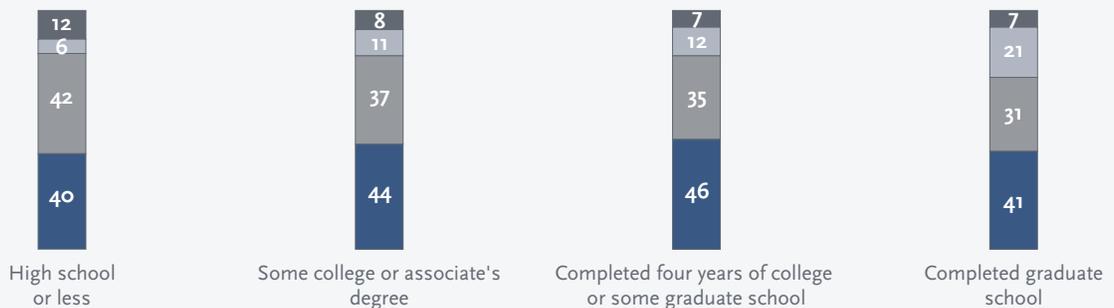
**Age of head of household**



**Head of household generation**



**Education of head of household**



<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

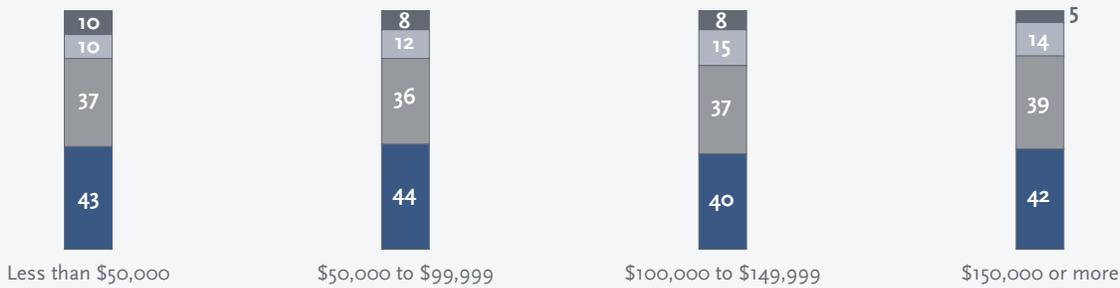
Adviser use among households that owned mutual funds outside DC plans spanned across all household income groups. Eighty percent of households that owned mutual funds outside DC plans with incomes of less than \$50,000 owned funds through professional

financial advisers (Figure 7). Similarly, 81 percent of households that owned mutual funds outside DC plans with incomes of \$150,000 or more owned funds purchased through advisers.

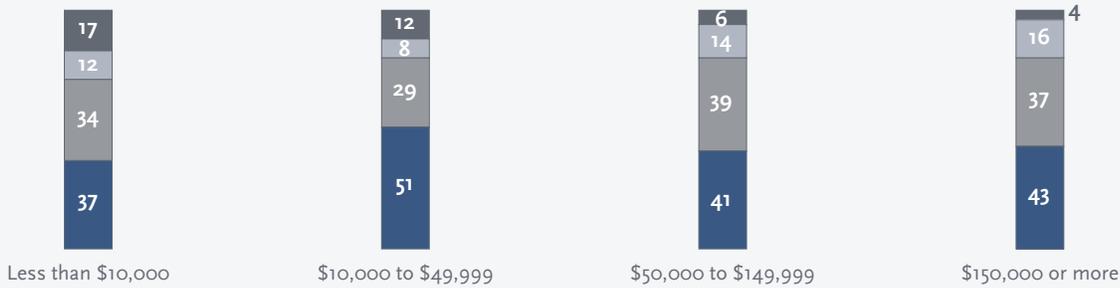
**FIGURE 7**  
**USE OF PROFESSIONAL FINANCIAL ADVISERS TO PURCHASE MUTUAL FUNDS BY HOUSEHOLD CHARACTERISTICS**  
*Percentage of households owning mutual funds outside DC retirement plans, 2007*

- Source unknown
- Fund companies, fund supermarkets, or discount brokers only
- Professional financial advisers<sup>1</sup> and fund companies, fund supermarkets, or discount brokers
- Professional financial advisers only<sup>1</sup>

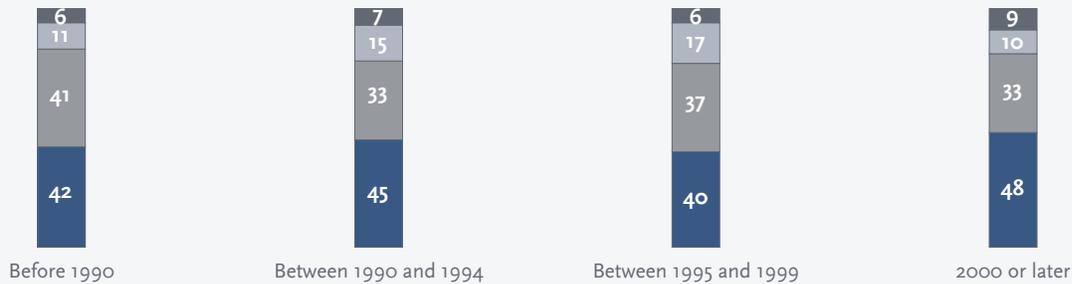
**Household income<sup>2</sup>**



**Household mutual fund assets**



**Year of initial mutual fund purchase<sup>3</sup>**



<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

<sup>2</sup>Total reported is household income before taxes in 2006.

<sup>3</sup>The household's initial mutual fund purchase could have been through a DC plan or outside such a plan.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

## REFERRALS ARE THE MOST COMMON WAY FOR HOUSEHOLDS TO FIND ADVISERS

Households that owned mutual funds through a professional financial adviser found their adviser through a variety of ways.<sup>4</sup> Sixty-two percent of households that owned mutual funds outside DC plans that had an ongoing relationship with an adviser found their adviser through a referral from a friend, family member, or business associate (Figure 8). Households headed by an individual younger than 45 were more likely to have found their adviser through a referral. Fourteen percent of households that had an ongoing relationship with a professional financial adviser did their own research to find an adviser. Only 9 percent of households already knew their adviser.

## MOST MUTUAL FUND–OWNING HOUSEHOLDS MAINTAIN RELATIONSHIP WITH ADVISER FOR MANY YEARS

Households that owned mutual funds outside DC plans that had an ongoing relationship with a professional financial adviser had usually maintained that relationship for many years. These households were receiving investment advice from their primary financial adviser for a median of 10 years (Figure 9). Thirty-seven percent of mutual fund–owning households with an ongoing relationship with a professional financial adviser had been with their primary adviser for one to five years, and 29 percent had been with their primary adviser for six to 10 years. Thirty-four percent of households with an ongoing relationship with a professional financial adviser had been with their primary financial adviser for more than 10 years.

FIGURE 8

### PROFESSIONAL FINANCIAL ADVISER MOST OFTEN FOUND THROUGH A REFERRAL

Percentage of respondents with ongoing advisory relationships by age of household head,<sup>1</sup> 2006

	Younger than 45	Between 45 and 64	65 or older	Total
<b>How did household find their primary financial adviser?</b>				
A referral from a friend, family member, or business associate	70	62	53	62
Already knew adviser	7	9	9	9
Found adviser through your own research	8	14	19	14
Adviser contacted respondent	7	7	8	7
Other	8	8	11	8

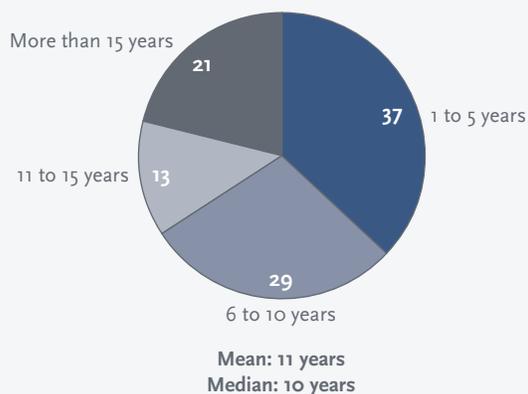
<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, accountants, advisers working for discount brokers, and mutual fund company representatives.

Source: Investment Company Institute Mutual Fund Shareholders' Use of Advice Survey

FIGURE 9

**THE MEDIAN SHAREHOLDER TENURE WITH A PROFESSIONAL FINANCIAL ADVISER IS 10 YEARS**

Percentage of respondents with ongoing advisory relationships,<sup>1</sup> 2006



<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, accountants, advisers working for discount brokers, and mutual fund company representatives.

Source: Investment Company Institute Mutual Fund Shareholders' Use of Advice Survey

**APPENDIX: ADDITIONAL DATA ON OWNERSHIP OF MUTUAL FUNDS THROUGH PROFESSIONAL FINANCIAL ADVISERS, 2007**

Figure A1 of the appendix presents the data displayed in Figures 6 and 7, but from a different perspective. In Figure 6, the distribution of purchase channels used by households owning mutual funds outside of DC retirement plans is shown grouped by the household head's age, generation, and education. In Figure A1, the distributions of the household head's age, generation, and education are shown grouped by the purchase channels used by households owning mutual funds outside of DC plans.

Households that owned mutual funds outside of DC retirement plans may have purchased those funds from professional financial advisers, fund companies, fund supermarkets, or discount brokers. Households that purchased mutual funds only from a financial adviser tended to be headed by an older individual compared with households that purchased mutual funds from financial advisers and other sources. (Figure A1). The median age of the household head among households that only used professional financial advisers to purchase mutual funds was 53. For households that purchased mutual funds from professional financial advisers and other sources, the median age of the household head was 49.

Households that purchased mutual funds outside of DC retirement plans through professional financial advisers or through advisers and other sources were likely to be headed by highly educated individuals. Fifty-one percent of individuals heading households that purchased mutual funds only through professional financial advisers have college or postgraduate degrees (Figure A1). Forty-six percent of individuals heading households that owned mutual funds through both professional financial advisers and other sources have college or postgraduate degrees.

Households that owned mutual funds through professional financial advisers only and through advisers and other sources had similar household incomes and mutual fund assets. For both groups, the median household income was \$75,000, and the median household mutual fund assets were \$125,000 (Figure A1).

FIGURE A1

## USE OF PROFESSIONAL FINANCIAL ADVISERS TO PURCHASE MUTUAL FUNDS BY SHAREHOLDER CHARACTERISTICS

Percentage of households owning mutual funds outside DC retirement plans, 2007

	Professional financial advisers only <sup>1</sup>	Fund companies, fund supermarkets, or discount brokers only	Professional financial advisers <sup>1</sup> and fund companies, fund supermarkets, or discount brokers
<b>Age of head of household</b>			
Younger than 45	30	41	37
45 to 54	23	21	24
55 to 64	27	24	18
65 or older	20	14	21
Median	53 years	48 years	49 years
Mean	52 years	49 years	50 years
<b>Head of household generation</b>			
Generation Y (born in 1977 or later)	9	8	10
Generation X (born between 1965 and 1976)	16	27	24
Baby Boom Generation (born between 1946 and 1964)	48	46	39
Silent and GI Generation (born 1945 or earlier)	27	19	27
<b>Education of head of household</b>			
High school or less	21	10	26
Some college or associate's degree	28	25	28
Completed four years of college or some graduate school	30	28	27
Completed graduate school	21	37	19
<b>Household income<sup>2</sup></b>			
Less than \$50,000	25	21	25
\$50,000 to \$99,999	39	36	37
\$100,000 to \$149,999	19	24	20
\$150,000 or more	17	19	18
Median	\$75,000	\$90,000	\$75,000
Mean	\$99,700	\$104,400	\$101,400
<b>Household mutual fund assets</b>			
Less than \$10,000	8	8	9
\$10,000 to \$49,999	18	9	12
\$50,000 to \$149,999	27	30	31
\$150,000 or more	47	53	48
Median	\$125,000	\$180,000	\$125,000
Mean	\$274,500	\$314,600	\$295,800
<b>Year of initial mutual fund purchase<sup>3</sup></b>			
Before 1990	43	37	47
Between 1990 and 1994	18	21	16
Between 1995 and 1999	22	31	24
2000 or later	17	11	13
Median	1990	1992	1990
Mean	1989	1990	1988

<sup>1</sup>In this figure, professional financial advisers include full-service brokers, independent financial planners, bank and savings institution representatives, insurance agents, and accountants.

<sup>2</sup>Total reported is household income before taxes in 2006.

<sup>3</sup>The household's initial mutual fund purchase could have been through a DC plan or outside such a plan.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

## NOTES

- <sup>1</sup> The 2007 ICI Mutual Fund Shareholder Tracking Survey included a randomly selected sample of 3,977 U.S. households, of which 1,733 households, or 43.6 percent, owned mutual funds. Survey data are weighted to match census region, age distribution, household income distribution, and educational attainment of the U.S. population. For additional discussion of mutual fund ownership in the United States, see Holden and Bogdan (November 2007). The U.S. Bureau of the Census (August 2007) reports there were 116 million households in the United States in 2007.
- <sup>2</sup> The 2006 ICI Mutual Fund Shareholders' Use of Advice Survey included 602 households with ongoing advisory relationships. For additional analysis of mutual fund shareholder use of professional financial advisers, see Leonard-Chambers and Bogdan (April 2007).
- <sup>3</sup> For additional detail on the characteristics of U.S. households that own mutual funds, see Schrass and Holden (April 2008) and Schrass and Sabelhaus (April 2008).
- <sup>4</sup> For additional results from the 2006 ICI Mutual Fund Shareholders' Use of Advice Survey, see Leonard-Chambers and Bogdan (April 2007).

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