

**MEMO# 18176**

November 10, 2004

## **2004 SURVEY OF SHAREHOLDER SENTIMENT REGARDING MUTUAL FUNDS**

[18176] November 10, 2004 TO: BOARD OF GOVERNORS No. 72-04 INDEPENDENT DIRECTORS COUNCIL No. 11-04 RE: 2004 SURVEY OF SHAREHOLDER SENTIMENT REGARDING MUTUAL FUNDS The Investment Company Institute recently published results of an annual survey of shareholders' views of the mutual fund industry. The shareholder sentiment survey found that the recent bear market and trading scandal have had an adverse impact on shareholder sentiment, but that investors continue to have an overall favorable view of fund companies. Background The Institute has measured shareholder sentiment of mutual fund companies since 1997 as part of its ongoing shareholder research program.<sup>1</sup> Beginning in 2004, this research will be released annually. Findings from "Shareholder Sentiment of the Mutual Fund Industry," Fundamentals, October 2004, [<http://www.ici.org/stats/res/fm-v13n4.pdf>] • Seventy-two percent of shareholders familiar with mutual fund companies indicated they had either a "very" or "somewhat" favorable impression of fund companies in 2004. By comparison, 74 percent of fund investors had a favorable impression of banks. • The share of fund owners with a "very" favorable impression of fund companies declined from 29 percent in 1999 to 16 percent in 2004. Consistently since 1997, however, more than half of shareholders have had a "somewhat" favorable impression of fund companies. <sup>1</sup>Questions on mutual fund shareholders' familiarity with and impression of the mutual fund industry have been included in each of the Institute's annual Mutual Fund Tracking Surveys since 1997. The survey is conducted each spring and includes telephone interviews with a representative, randomly selected sample of U.S. households. All interviews are conducted with sole or co-decisionmakers for household investments. In 2004, 1,110 of the households surveyed owned mutual funds and were familiar with fund companies. The standard error for the sample of 1,110 households is +/-2.9 percent at the 95 percent confidence level. <sup>2</sup> • The favorability with which shareholders view mutual fund companies historically has correlated with market performance. Both the performance of the S&P 500 Index and the mutual fund company favorability rating peaked in 2000 and declined in 2001, 2002, and 2003. The S&P 500 Index was higher in 2004 than in 2003, but the fund company favorability rating did not rise as much in this period as the increase in stock prices. • The modest improvement in shareholder favorability in 2004 over 2003 likely reflected the mutual fund trading scandal. More than three-quarters of fund owners were aware of the scandal in June 2004. Among these owners, over half indicated that news of the scandal had caused them to have a lower opinion of the fund industry than previously. • Despite the trading scandal, net new cash flow to long-term mutual funds rebounded in 2004. For the 12-month period ending in May 2004, net new cash flow was \$244 billion, the second-highest since the first shareholder sentiment survey was conducted in 1997. • Fund owners' impressions of the mutual fund industry are primarily shaped by fund performance and personal experience

with a fund company, followed by current financial events, professional financial advisers, stock market fluctuations, and friends and family. Media coverage is less influential. \*\*\*\* These and other findings are detailed in the publication, which is available online at <http://www.ici.org/stats/res/fm-v13n4.pdf> or by calling the Research Department at 202.326.5913. John D. Rea Vice President – Research Chief Economist 1997 1998 1999 2000 2001 2002 2003 2004 Very Favorable Somewhat Favorable Percent of fund owners familiar with and having a very or somewhat favorable impression of fund companies 83% 82% 83% 84% 79% 76% 71% 72% 56% 16% 17% 54% 19% 57% 23% 56% 57% 28% 29% 54% 53% 29% 26% 57%

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