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Equity Ownership Increases Amid Bear Market, Study Finds

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Washington, DC, September 27, 2002 - Nearly half of all U.S. households, an estimated 52.7 million, owned equities as the year began, according to a survey released today by the Investment Company Institute (ICI) and the Securities Industry Association (SIA). That represents a 7.1 percent gain, or 3.5 million more households, from January 1999, when ICI and SIA conducted a similar study.

The typical investor holds an equity portfolio of moderate value (nearly half had equity assets of less than $50,000) and is married, employed, college-educated, and in his or her late 40's, with a median household income in the low $60,000's. More than a third (34 percent) own mutual funds, individual stocks, or a combination of both inside an employer-sponsored plan. Nearly as many (33.7 percent) hold equities outside such plans.

“The survey demonstrates that even in a bear market Americans understand the benefits and value of investing in equities to reach their long-term financial goals, such as retirement and saving for higher education,” said Matthew P. Fink, president of the Investment Company Institute.

“One key point that emerges from our survey is the important role that employer-sponsored retirement plans play in introducing Americans to investing,” said Marc E.

Lackritz, president of the Securities Industry Association, noting that 79 percent of equity owners participate in such plans. “Retirement remains the top financial goal for Americans.”

The 2002 ICI/SIA study, Equity Ownership in America, profiled the characteristics of equity investors, providing data on demographics, financial holdings, transaction activity, Internet usage, and views about equity investing. It also examined how the market downturn that began in March 2000 and the September 11, 2001 terrorist attacks affected equity investors’ assets, investment attitudes, and tolerance for risk.

The results are based on 4,009 interviews of financial decisionmakers, which were conducted in January and February 2002 on behalf of ICI and SIA by the Boston Research Group. During this survey period, the bear market, as measured by the Standard and Poor’s 500 Index, had reached its twenty-third month (February 2002). Also, the economy moved into a recession in 2001. In contrast, the January 1999 survey was conducted when stock prices were rising and the economy was growing at a faster pace.

Most Investors Follow ‘Buy-and-Hold’ Strategy to Reach Long-Term Goals

Most investors indicated that their investment horizon is long-term and generally expected the value of their investments to recover from a down market. Ninety-six percent of equity investors indicated they were investing in equities for the long term, and 86 percent reported following a “buy-and-hold” investment strategy. About three-quarters said they could withstand short-term fluctuations in their long-term investments, and 95 percent believed the value of their investments generally would recover after a bear market.

The study found that 40 percent of equity investors conducted equity transactions in 2001, a year in which stock prices fell. In comparison, 42 percent of equity investors made equity transactions in 1998, a year of rising stock prices. The percentage of equity investors purchasing equities was lower in 2001 (31 percent) than in 1998 (39 percent), while somewhat fewer (24 percent) sold equities in 2001 than in 1998 (27 percent). Most equity investors who bought or sold equities in 2001 conducted a small number of transactions (a median of four).

The study also found that more investors bought individual stock and stock mutual funds than sold their investments in 2001. Thirty-seven percent of individual stock investors bought stock, while 30 percent sold stock during the year. Among stock mutual fund investors, 22 percent bought stock mutual funds in 2001 and 16 percent sold stock mutual funds. Amid the bear market, equity investors expressed less tolerance for investment risk. Thirty-two percent were willing to take “above-average” or “substantial” risk for similar gain, compared with 40 percent in the initial survey. More than half, 58 percent, said they tend to rely on advice from a professional financial adviser when making decisions to buy or sell equities.

September 11 Had Little Impact on Equity Ownership

In the aftermath of the September 11 attacks, nearly three-quarters of U.S. equity investors indicated that they intended to maintain the proportion of their investment portfolios held in equities. Another 17 percent expected to increase the percentage, and 10 percent expected to decrease the percentage of household assets held in equities. Less than one-quarter of all equity investors bought or sold equities between September 17, 2001 and December 31, 2001, and the majority of these investors stated that their transactions were not directly in response to the events of September 11.

Among the survey’s key findings:

The estimated number of U.S. households owning equities increased 7.1 percent between early 1999 and early 2002. A total of 52.7 million U.S. households owned equities in January 2002, compared with 49.2 million in January 1999. The number of individuals owning equities in the United States rose to 84.3 million in January 2002 from 78.7 million in January 1999.

Employer-sponsored retirement plans have introduced many U.S. households to investing in equities, and the majority of equity investors own equities in employer-sponsored retirement plans. Forty-eight percent of U.S. households owning equities in January 2002 initially bought equities inside employer retirement plans while 44 percent initially bought equities outside of these plans. Overall, 66 percent of equity investors in January 2002 owned stock mutual funds in retirement plans, and 17 percent owned individual stock, including employer stock, in retirement plans.

Ownership of stock mutual funds in employer-sponsored retirement plans, such as 401(k) plans, increased significantly between 1999 and 2002. A total of 33.2 million U.S. households owned stock mutual funds through employer retirement plans in January 2002, up 16.5 percent from 28.5 million in January 1999. Ownership of stock mutual funds outside of employer-sponsored retirement plans grew modestly to 28.7 million in January 2002, up 3.2 percent from 27.8 million in 1999.

Ownership of individual stock declined between 1999 and 2002. The number of U.S. households owning individual stock dropped 4.9 percent to 25.4 million from 26.7 million between January 1999 and January 2002. Ownership fell both in employer-sponsored retirement plans and in accounts outside these plans.

More equity investors own stock mutual funds than individual stock. Eighty-nine percent of U.S. equity investors owned stock mutual funds in January 2002, while 49 percent owned individual stock directly. Moreover, 52 percent of U.S. equity investors only held stock mutual funds, 11 percent only held individual stock, and 38 percent held both stock mutual funds and individual stock. These patterns were similar in 1999.

Most equity owners have owned equities for several years and cite retirement as their primary financial goal. Most have owned equities for several years: 44 percent first purchased equities before 1990, and 26 percent first purchased equities between 1990 and 1995. Sixty-five percent cited saving for retirement as their primary financial goal. In addition, 87 percent of equity owners said they are investing in equities to finance retirement.

The typical equity investor is married, employed, has a median age in the late 40’s, a median household income in the low $60,000’s, and holds only a modest number of equity investments. Nearly half, 48 percent, of all equity investors are Baby Boomers (born between 1946 and 1964) and 25 percent are members of Generation X (born in 1965 or later). Equity ownership does not stop with retirement. Twenty-three percent of equity owners are members of the Silent Generation (born between 1926 and 1945) and four percent are members of the GI Generation (born in 1926 or earlier).

Equity investors generally have equity portfolios of moderate value. Nearly half of all equity investors in January 2002 had equity assets of less than $50,000 and only seven percent had equity assets of $500,000 or more—nearly the same as in 1999 for both categories.

Investment decisionmaking is a shared responsibility in most equity-owning households. Co-decisionmakers, usually married couples, share the responsibility for making financial decisions in 57 percent of equity-owning households.

Professional financial advice plays an important role in equity decisions. Fifty-eight percent said they rely on advice from professional financial advisers when making decisions about equity purchases or sales.

More investors are using the Internet to conduct equity transactions. Nearly one-third, 31 percent, of investors buying or selling equities outside of employer-sponsored retirement plans and 33 percent of investors inside retirement plans during 2001 used the Internet to execute some or all of these transactions, up substantially from the 15 percent who used the Internet outside employer plans in 1998. Equity investors also use the Internet to collect a variety of financial information. During 2001, 46 percent used the Internet to check stock prices and 38 percent used it to read online financial publications. In contrast, very few used the Internet to send email to professional financial advisers or brokers, or to seek specific investment recommendations.

The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,973 open-end investment companies (mutual funds), 514 closed-end investment companies, and six sponsors of unit investment trusts. Its mutual fund members have assets of about $6.363 trillion, accounting for approximately 95 percent of total industry assets, and more than 87.8 million of the nation’s 93 million individual mutual fund shareholders.

The Securities Industry Association brings together the shared interests of more than 600 securities firms to accomplish common goals. SIA member firms (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance.

The U.S. securities industry manages the accounts of nearly 93 million investors directly and indirectly through corporate, thrift, and pension plans. In the year 2001, the industry generated $198 billion in U.S. revenue and $358 billion in global revenues. Securities firms employ approximately 750,000 individuals in the United States.