

NEWS RELEASE

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Majority of Mutual Fund Shareholders Own Stock Mutual Funds that Have Lower Fees than Industry Average, September 1998

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Washington, DC, September 29, 1998 - A substantial majority of investors own stock mutual funds that charge lower fees than the industry average, Investment Company Institute President Matthew P. Fink told a subcommittee of the Committee on Commerce of the House of Representatives in [testimony](#) today.

"Competition is working in the interests of investors," Fink said. "Mutual funds fiercely compete to attract and earn the loyalty of investors. Indeed, mutual funds compete on many levels, including performance, investment philosophy, experience, specialized expertise, and service. And let there be no doubt in anyone's mind—mutual funds compete vigorously based on price."

Fink said more than three-quarters of all mutual fund investor accounts are in lower-cost funds—funds that charge less than the industry average. The average shareholder owns funds whose annual fees are 36 percent lower than the simple industry average.

"We believe it is extremely significant that so many equity fund investors pay far less than the average fund charges," Fink said. "In our judgment, this indicates that the market readily enables investors to own lower-cost mutual funds—and that most of them do."

Fink said there are several likely explanations why so many investors own low-cost mutual funds. "First, information about mutual fund fees is widely and readily available," he said, adding that the Securities and Exchange Commission (SEC) requires a fee table to be included at the front of every fund prospectus.

Fink also noted that mutual fund fee disclosure is unmatched in the 401(k) market. "Most workers whose 401(k) plans offer mutual funds receive clear descriptions of fees because they receive a fund prospectus, including the fee table," Fink said. "Other financial products, however, do not provide this type of disclosure. The Institute supports a requirement that all 401(k) participants receive full information regarding the fees charged by every investment option in the plan."

A second reason so many investors own low-cost funds may stem from what Fink characterized as a "quantum increase" in investor education in the last five years. "SEC Chairman Arthur Levitt deserves special credit here for launching a national investor awareness campaign," Fink said. "In addition, there are an enormous number of magazines, newspaper columns, websites, and newsletters focused on mutual fund investing, including fees."

Fink noted that millions more shareholders are in low-cost stock funds possibly as a result of their effort to find strong performing investments. "Mutual fund performance figures are strictly regulated. The law requires that fund performance be reported after it is adjusted downward to account for fees. If a fund's fees are higher than average, the downward adjustment to its performance will be higher," he said.

Economies of scale also may play a role in attracting shareholders to lower-cost funds. "Many stock funds automatically reduce fee rates when certain levels of fund assets have been reached," Fink said, adding that one report estimates that three-quarters of all stock mutual funds have such breakpoints.

Fink noted that while a number of surveys indicate that many investors are unaware of the specific components and details of fund fees, Institute research confirms that fees are generally one of three items most likely to be considered before a shareholder invests in a new mutual fund. "The crucial question is whether investors understand how fees can affect their bottom lines," Fink said. "The evidence, which shows that 77 percent of investors are putting their money in low-cost funds, speaks powerfully. The evidence indicates that many investors do understand the impact of fees on their fund investments."

"Although we are gratified that so many investors appear to be developing appropriate sensitivity to fees as an element of informed investing, it hardly means our job is complete," Fink said. "The challenge of educating investors—about fees and other important elements of mutual fund investing—is a continuing responsibility. But just as there is no magic pill that will produce instant good health, there is no magic regulation that will produce instant investor awareness."

Fink said the mutual fund industry remains fully committed to working with Congress, the SEC, and others on a variety of investor education efforts. "We stand ready to consider measures that promise to improve investor awareness, including the understanding of fees."

The Investment Company Institute is the national association of the investment company industry. Its members include mutual funds, closed-end funds, and unit investment trusts.