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ICI Chairman Stresses Importance of Serving Shareholders Responsibly, May 2001

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Washington, DC, May 17, 2001 - Investment Company Institute Chairman Terry K. Glenn today outlined several key facts about mutual funds and said he is confident that the industry's longstanding culture of serving shareholders responsibly will continue to enable it to "recognize changes as opportunities" to benefit shareholders.

"Our business—like our perspective—is long term. That has always meant ensuring that investors are placed first and that they are always protected," Glenn, also Chairman Americas and President of Merrill Lynch Funds, said in an address at the General Membership Meeting of the Institute, the national association of the investment company industry. "It is critically important that we, as an industry, respond to difficult market conditions and challenges and recognize changes as opportunities, as we always have in the past."

Noting the backdrop of recent market volatility, Glenn stressed the importance of investor education and urged the industry to continue to take an active role in promoting a greater understanding of the basic facts about mutual funds and mutual fund shareholders.

For example, mutual fund shareholders do not drive the stock market. Glenn cited a recent Federal Reserve report, which refutes the theory that the bull market of the 1990s was driven by cash flows to mutual funds. The report found little evidence that mutual fund investors have been a destabilizing force in the U.S. equity market in recent years. "There is no established correlation between mutual fund flows and stock market activity," Glenn said.

Glenn also pointed out that most mutual fund sales are made through a third party. According to Institute research, an estimated 82 percent of new sales of long-term funds were made through a third party or intermediary—such as banks, insurance companies, stockbrokers, financial planners, and retirement plans.

"It is also a fact that most mutual fund shareholders trade infrequently," Glenn said. "Although redemptions are a normal part of the mutual fund business, a number of ICI surveys of fund owners and other empirical research have consistently found that the vast majority of owners are long-term investors and do not redeem shares during a one- or two-year period."

In a recent Institute survey of equity fund owners, 82 percent said they had not redeemed shares from any of their equity funds in a year's time and another nine percent had redeemed shares only once. A small number of fund owners, however, report that they trade frequently. Glenn noted that the redemption rate for mutual funds is not an appropriate indicator of redemption activity of the typical fund shareholder. "Even a few high-turnover shareholders can push up a fund’s redemption rate," he said.

Glenn said the recent volatility in the financial markets has prompted some to question the mettle of mutual fund shareholders. "'Panic' is not a word one would associate with our investors," he said. "Shareholders are not insensitive to stock price movements, but their response to market movements tends to be spread over time." Glenn cited Institute research showing that since World War II fund investors have never responded to sharp market breaks by redeeming shares en masse. "And there is no evidence that this long-established pattern of behavior will change," he said.

Turning to another basic fact about mutual funds, Glenn said the industry remains fiercely competitive. "It's hard for me to imagine that in this, the world's most successful free market economy, anyone could suggest that an industry with 8,000 competing investment choices delivered through literally hundreds of thousands of points of sale, where the barrier to new market entrants is very small, that competition doesn’t exist," he said.

"The fact is that, over the past 20 years, vibrant competition has produced substantially lower mutual fund costs and an array of innovative investment products and services that make saving and investing simpler, accessible, and affordable," Glenn said, noting that Institute research shows that more than three-quarters of all equity fund investor accounts in 1998 were invested in funds charging below the industry’s simple average. Institute research also shows that, since 1980, the average cost of investing in equity mutual funds has decreased 40 percent; in bond funds, 29 percent; and in money market funds, 24 percent.

Glenn also highlighted an important role played by the fund industry, along with the financial intermediaries who introduce fund products and services to shareholders, in helping the nation’s 88 million mutual fund shareholders map their financial journey and stay the course to realize their financial objectives.

"We share the blessing of not only being involved in an activity that is intellectually challenging, but one where we make a significant contribution to the people that we serve. We are the shepherds of our shareholders' hopes and dreams," Glenn said. "Today and in the future, our challenge is to provide the products and services that will help fund shareholders successfully navigate the sometimes stormy seas. I am confident that we can meet and exceed the high standards that our shareholders have come to expect from us."