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Mutual-funds assets rise, but growth slows

Russ Wiles, The Arizona Republic

Mutual funds, like many of their shareholders, are looking a little gray around the temples.
After a dizzying ascent in the 1980s and 1990s, when funds became the preferred investment choice for millions of Americans, the industry's growth has stalled a bit. Assets are rising, but the shareholder count has leveled off.

The industry's direction will be under the microscope as more than 1,800 fund-company executives convene this week at the Marriott Desert Ridge Resort & Spa in Phoenix.

In part, slower growth reflects a drop in the nation's savings rate. It's hard to attract a lot of new money when Americans overall are spending almost everything they earn.

That said, funds haven't been hit as hard as other investments. For example, the fund business now controls 23 percent of household financial assets, a record-high level.

But mutual funds also are feeling competition. For example, hedge funds also have been growing by appealing to many wealthy investors. These private, snooty partnerships claim (but don't always deliver) better performance derived from a broader array of investment tools and tactics.

Meanwhile, exchange-traded funds are luring some cost-conscious investors and active traders. ETFs trade more frequently than traditional mutual funds and tend to charge lower expenses.

"While the (mutual fund) industry is healthy, the health of the industry is challenged," said Geoff Bobroff, a consultant in East Greenwich, R.I.

Amid this competition, mutual funds gradually are improving, with the advent of new types of portfolios such as lifecycle funds and those designed to manage investor withdrawals in retirement.

Also, costs have been dropping, making funds a better deal for investors. In 1980, stock-fund investors paid an average $2.32 in annual expenses for each $100 invested, but that's down to $1.07, reports the Investment Company Institute, a trade group. Bond-fund costs have dropped from $2.05 per $100 in 1980 to 83 cents today.

The industry could get a lift from recent reforms of 401(k)-style retirement plans, where funds are the top investment with 52 percent of assets.

Such reforms include a new rule that's allowing employers to enroll lower-paid and younger workers automatically. Employers also have been given the green light to place worker contributions in life-cycle funds if employees don't make their own decisions. Life-cycle funds are solid choices since they feature diversification tailored to people at various ages.

Even when people stop investing in 401(k) plans upon retirement, many shift their money into IRAs. That, too, bodes well for mutual funds, which are key IRA investments, said Brian Reid, the ICI's chief economist.

"Most people don't immediately spend all their money in retirement," he said.

One notable development is the likely emergence of "summary" or shortened prospectuses. Fund companies must provide a prospectus or type of owner's manual to investors. The documents tend to be long, legalistic and mostly ignored.

But after 15 years of debate, the Securities and Exchange Commission said in February that it probably will allow short summary prospectuses, provided investors could still obtain a longer version. The proposal, a key point of discussions at this week's Phoenix conference, could make funds more understandable and relevant to investors.

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Are mutual funds still relevant for most investors? Many Valley financial advisers believe they are.

* Russell Biehl of Classic Investment Management in Scottsdale favors individual stocks and bonds for his upscale clients but says mutual funds are good choices for most other investors. "They definitely fit the bill for people who are accumulating wealth," he said, citing people who invest gradually through a dollar-cost averaging strategy.

* Gale Northrop, manager of a Charles Schwab office in Sun City, considers funds particularly useful for gaining exposure to foreign stocks and other assets where information can be hard to obtain. "Overall, in terms of ease of use, liquidity, diversification, cost and risks, mutual funds are the best solution," she said.

* David Fernandez, a certified financial planner at Wealth Engineering in Scottsdale, likes mutual funds for all types of clients, whether millionaires or those with small nest eggs. "Mutual funds are still one of the cornerstones of my client recommendations and the portfolios I manage," he said. "I think they're good for everyone."

Mutual funds by the numbers

About 88 million people own mutual funds. Here's a profile of typical fund investors:

* 48 years old on average.

* Own four funds worth $48,000 on average.

* Have $125,000 in financial assets on average.

* 49 percent are boomers.

* 24 percent are Generation Xers.

* 56 percent are college graduates.

* 58 percent bought their first fund in a 401(k)-style workplace retirement account.

* 71 percent tend to rely on financial advisers.

* 84 percent invest in 401(k)-style workplace retirement plans.

* 84 percent consider themselves average or above-average risk takers.

* 92 percent are saving for retirement.

Investment Company Institute

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