A Close Look at ETF Households

A Report by the Investment Company Institute and Strategic Business Insights

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A Close Look at ETF Households

Larry Cohen, Strategic Business Insights vice president, and Sarah Holden, ICI senior director of retirement and investor research, prepared this report.

Key Findings

- **SBI's 2016–17 MacroMonitor Survey finds that 7 percent of US households report recent or ongoing ownership of exchange-traded funds (ETFs).** Households are counted as *ETF households* if they currently own or have owned ETFs within the two years prior to the survey. For comparison, households not owning ETFs but currently owning equity or bond mutual funds outside of retirement accounts—referred to as *retail mutual fund households*—are also analyzed.

- **ETF households tend to be younger than retail mutual fund households.** In SBI's MacroMonitor, 21 percent of ETF households were younger than 40, and 36 percent were 60 or older. By comparison, 15 percent of retail mutual fund households were younger than 40, and more than half (52 percent) were 60 or older.

- **ETF households tend to be more highly educated than retail mutual fund households or all US households.** In SBI's MacroMonitor, 66 percent of ETF households had a college degree or more, compared with 56 percent of retail mutual fund households and 34 percent of all US households. ETF households also tended to have higher incomes, although households across all income groups report ETF ownership.

- **ETF households are more concentrated in the early and middle stages of their lives than mutual fund households—for example, ETF households are more likely to be single or have children at home.** SBI's MacroMonitor finds that 34 percent of ETF households had children in the home, compared with 26 percent of retail mutual fund households. Nine percent of ETF households were single with no children and not retired, compared with 4 percent of retail mutual fund households.

- **ETF households tend to be early in their careers, with fewer households in retirement, compared with retail mutual fund households.** SBI's MacroMonitor finds that 24 percent of ETF households were retired (with no children), compared with 38 percent of retail mutual fund households.

- **Like retail mutual fund households, ETF households have relationships with investment firms and intermediaries, but ETF households show more affinity toward discount brokers.** In SBI's MacroMonitor, about one-quarter of ETF households and retail mutual fund households indicate that a financial planning company, full-service broker, or mutual fund company is their primary financial institution. In contrast, 11 percent of ETF households indicate that their primary financial institution is a discount broker, compared with only 2 percent of retail mutual fund households. Both groups are most likely to consider banks their primary financial institution, indicated by 52 percent of ETF households and 57 percent of retail mutual fund households.

» **ETF households tend to have confidence around investing, are self-reliant when making investment decisions, and are very comfortable going online.** In SBI's MacroMonitor, 30 percent of ETF households mostly agreed that they enjoyed learning about different investment opportunities, and 23 percent mostly agreed they had become more knowledgeable about savings and investments over the past several years. Twenty-eight percent mostly agreed that they feel qualified to make their own investment decisions, 37 percent mostly agreed that they feel comfortable doing business online.

» **Although awareness and use of robo-advisers are still not widespread, ETF households are more aware of robo-advisers than other households.** In SBI's MacroMonitor, 19 percent of ETF households are aware of the concept of robo-advisers, compared with 7 percent of retail mutual fund households and 5 percent of all US households. Eleven percent of ETF households currently use robo-advisers, and 6 percent indicated they were likely to use robo-advisers in the future.

» **ETF households express willingness to take financial risks and embrace equity investing.** SBI's MacroMonitor finds that 83 percent of ETF households express willingness to take at least average financial risk, with 37 percent willing to take high or very high financial risks. One-third of ETF households mostly agreed that over the long run, stocks will be a very good investment. In addition to their ETF investments—which typically focus on equities—59 percent of ETF households also owned publicly traded stocks.

Introduction

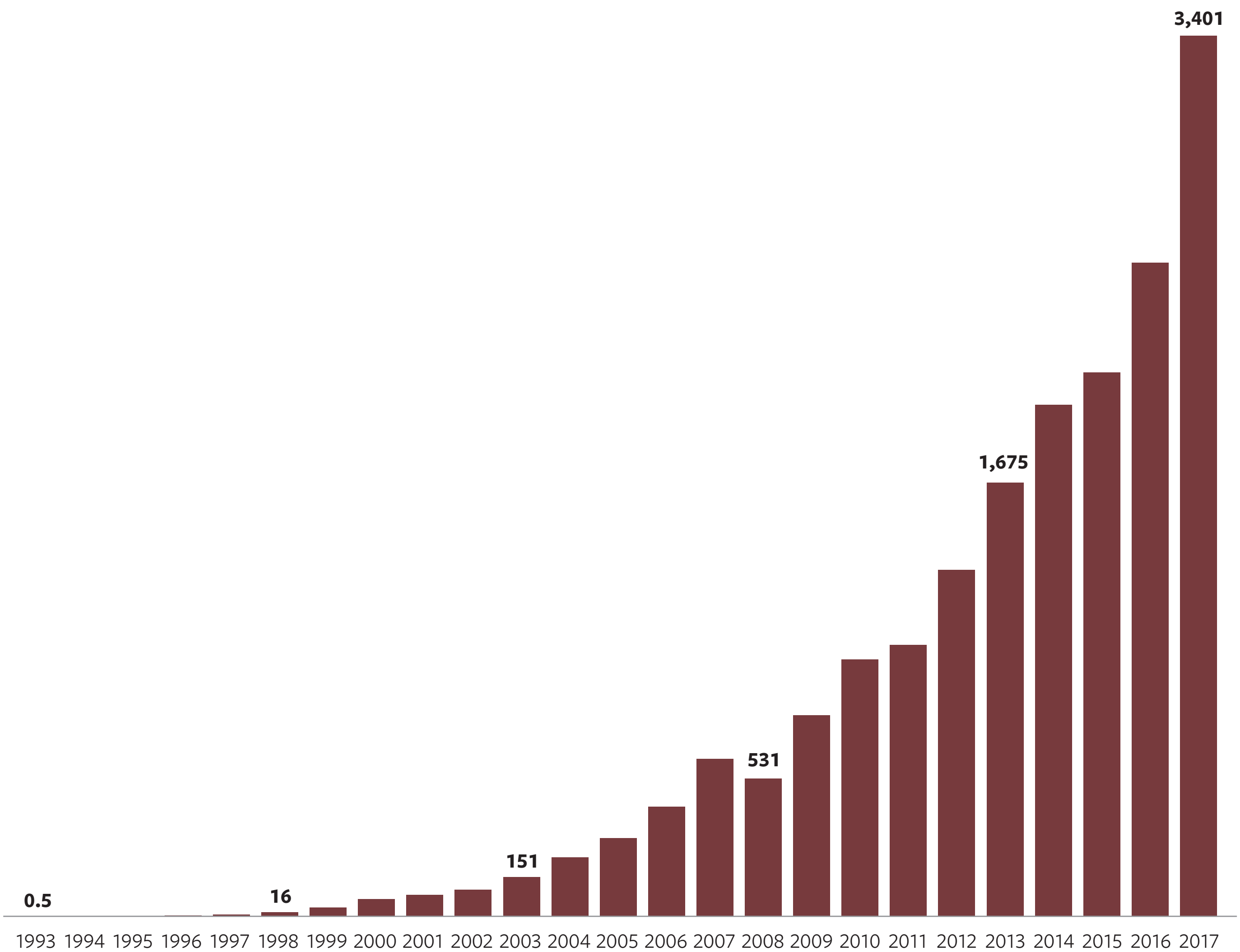
Growth of ETFs and Mutual Funds

An exchange-traded fund (ETF) is a pooled investment vehicle with shares that investors can buy and sell throughout the day on a stock exchange at a market-determined price; they predominantly offer index investing, often with a focus on equity investing. Though ETFs are similar to mutual funds in many ways, intraday trading on a stock exchange is a key difference between them and mutual funds.[1] ETFs are a popular investment among institutional investors and individual investors, and have grown to hold more than $3.4 trillion in assets in the 25 years since they were introduced (Exhibit 1).[2]

EXHIBIT 1

ETF Assets Have Grown

Billions of dollars, year-end



Note: ETF data prior to 2001 were provided by Strategic Insight Simfund. ETF data include ETFs not registered under the Investment Company Act of 1940 and exclude ETFs that primarily invest in other ETFs.

Sources: Investment Company Institute and Strategic Insight Simfund; see Investment Company Institute 2018

Mutual funds, which have been offered since 1924, have grown to $18.7 trillion in assets at year-end 2017 (Exhibit 2). The ICI Annual Mutual Fund Shareholder Tracking Survey finds that about 45 percent of US households owned mutual funds in mid-2017, often through retirement plans at work (e.g., 401(k) plans) and individual retirement accounts (IRAs).[3] For comparison to ETF households, the analysis in this report uses SBI's MacroMonitor to focus on a segment of mutual fund–owning households—those holding stock or bond mutual funds outside of retirement plans at work or IRAs. MacroMonitor finds that 13 percent of US households hold stock or bond mutual funds outside of retirement plans at work or IRAs.[4] In this paper, these households will be referred to as *retail mutual fund households*.

EXHIBIT 2

Mutual Funds Are More Established Than ETFs and Held by More Households

	Mutual funds	ETFs
First fund created	1924	1993
Total assets (year-end 2017)	$18.7 trillion	$3.4 trillion
Percentage of US households owning		
ICI Annual Mutual Fund Shareholder Tracking Survey[1]	45% overall[2]	6%
SBI's MacroMonitor Survey[3]	13% retail mutual funds[4]	7%

[1] The 2017 ICI Annual Mutual Fund Shareholder Tracking Survey, which is a phone survey (half of respondents reached on landlines, half on cell phones), was conducted in mid-2017.

[2] ICI's survey identifies 44.5 percent of US households as owning mutual funds in mid-2017 both inside employer-sponsored retirement plans and outside such plans.

[3] SBI's 2016–17 MacroMonitor Survey, which is an online survey using the GfK Knowledge Panel®, was conducted from June to August 2016.

[4] Retail mutual fund households analyzed in this report are households that do not own ETFs, but do own stock or bond mutual funds outside of retirement accounts.

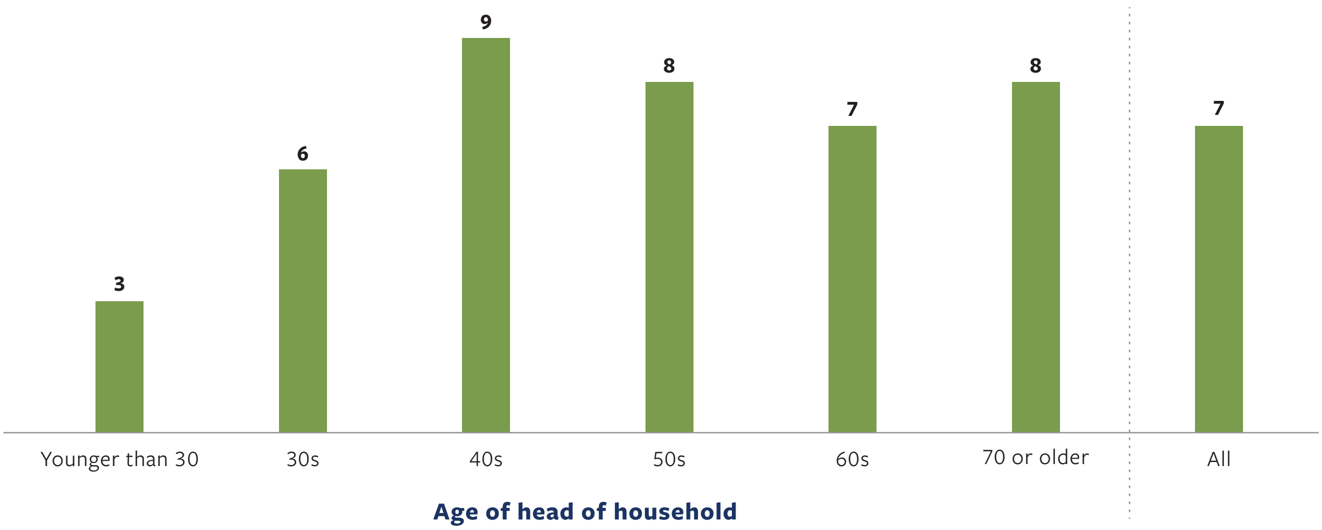
Sources: Investment Company Institute and SBI's MacroMonitor

SBI's MacroMonitor data find that approximately 9 million, or about 7 percent of, US households own ETFs (Exhibit 3).[5] Households are counted as *ETF households* if they currently own or have owned ETFs within the two years prior to the survey. With the exception of the very youngest households, ETF ownership occurs at similar rates across US households aged 40 or older. About 9 percent of households in their forties reported ETF ownership, compared with 7 percent of households in their sixties, 8 percent of households in their fifties, and 8 percent of those 70 or older.

EXHIBIT 3

Fewer Than One in 10 US Households Report ETF Ownership

Incidence of ETF ownership by age of head of household



Note: Age is based on the age of the head of household who is the primary financial decisionmaker for the household. SBI's MacroMonitor Survey was conducted online from June to August 2016.

Source: SBI's MacroMonitor

SBI's MacroMonitor

In 1978, several major financial institutions approached the Business Intelligence Center SRI International (SRI) about developing a study to augment their own research with household information from all other financial areas, syndicate it, and provide it to the participating financial institutions. SRI designed the study to cover all financial products, services, channels, institutions, attitudes, preferences, propensities, trade-offs, and goals. New products, services, channels, and issues have been added as they were introduced to the marketplace. The Business Intelligence Center became an SRI spin-off venture, Strategic Business Insights (SBI), in 2001.

Today known as SBI's MacroMonitor, the study uses GfK's KnowledgePanel®, a probability based online panel,[6] to survey household financial decisionmakers. Panelists include non-internet households, unlisted numbers, and cell phones. The questionnaire is sent to participants with multiple incentives, and the survey remains in the field for 10 weeks. The completion rate for both the general and affluent samples is 51 percent.

SBI's 2016–17 MacroMonitor has 4,320 respondents, which are representative of 136 million US (economic) households.[7] The survey includes 2,551 affluent households, defined as those with household income of $100,000 or more or assets of $500,000 or more (excluding the home).[8]

The survey results are weighted to age, income, gender, education, family composition, and value of primary home using the Census Bureau's March Current Population Study (CPS).

Research Agenda

This report primarily focuses on ETF households drawing on data collected in SBI's MacroMonitor Survey fielded in 2016. To better understand the ETF households, they are compared with retail mutual fund households and all US households. The report focuses on demographic characteristics of ETF households, exploring their age, education, and income composition, as well as their life stage. It also analyzes key financial metrics to understand ETF households' balance sheets, and reports on their motivations for saving. It provides insights into ETF households' financial decisionmaking processes, and analyzes their use of financial strategies, the types of financial services firms they engage with, and their use of financial advice. Finally, it analyzes their attitudes on investment risk and their views toward equity investing, and reports on the wide range of investments these households hold.

Who Are ETF and Retail Mutual Fund Households?

ETF Households

For this study, *ETF households* are households that currently own ETFs outside of retirement accounts or have bought an ETF within the past two years. (Some of these households also own mutual funds.)

Retail Mutual Fund Households

For this study, *retail mutual fund households* are households that own stock or bond mutual funds outside of retirement accounts. (None of these households owns ETFs, because ETF households were gathered first for analysis.)

Characteristics of ETF Households

This section analyzes the demographic and financial characteristics of ETF households. ETF households are those identified in SBI's MacroMonitor as owning ETFs at the time of the survey or having recently owned ETFs (within the prior two years to the time they took the survey). To understand how ETF households differ from or are similar to other households, two comparison groups are considered: all US households and retail mutual fund households. Retail mutual fund households are households that indicated they owned equity or bond mutual funds outside of retirement accounts (e.g., 401(k) plans or IRAs) at the time of the survey.

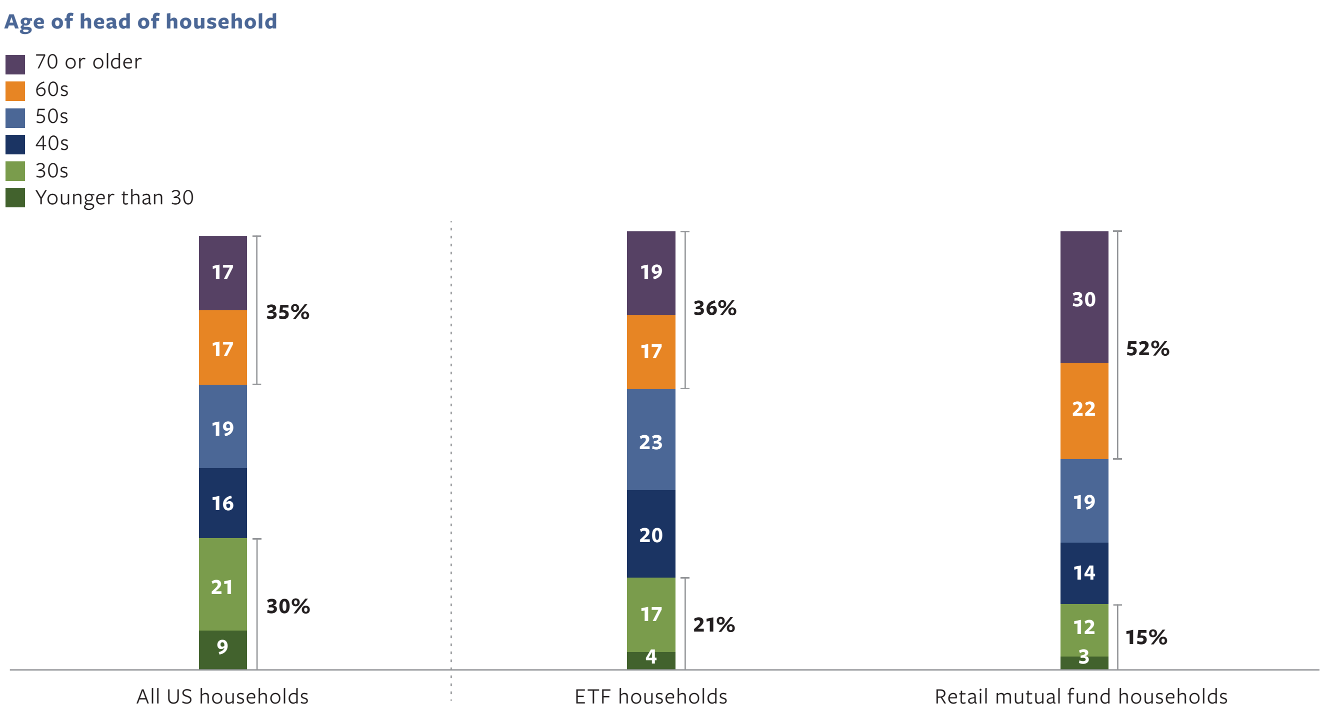
ETF Households Tend to Be Younger, Higher Educated, and Higher Income

ETF households tend to be younger than households owning equity or bond mutual funds through retail accounts. SBI's MacroMonitor finds that 21 percent of ETF households were younger than 40, and 36 percent were 60 or older (Exhibit 4). By comparison, 15 percent of retail mutual fund households were younger than 40, and 52 percent were 60 or older.

EXHIBIT 4

ETF Households Tend to Be Younger Than Retail Mutual Fund Households

Percentage of US households by ownership status and age of head of household



Note: Age is based on the age of the head of household who is the primary financial decisionmaker for the household. SBI's MacroMonitor Survey was conducted online from June to August 2016. Components may not add to the total because of rounding.

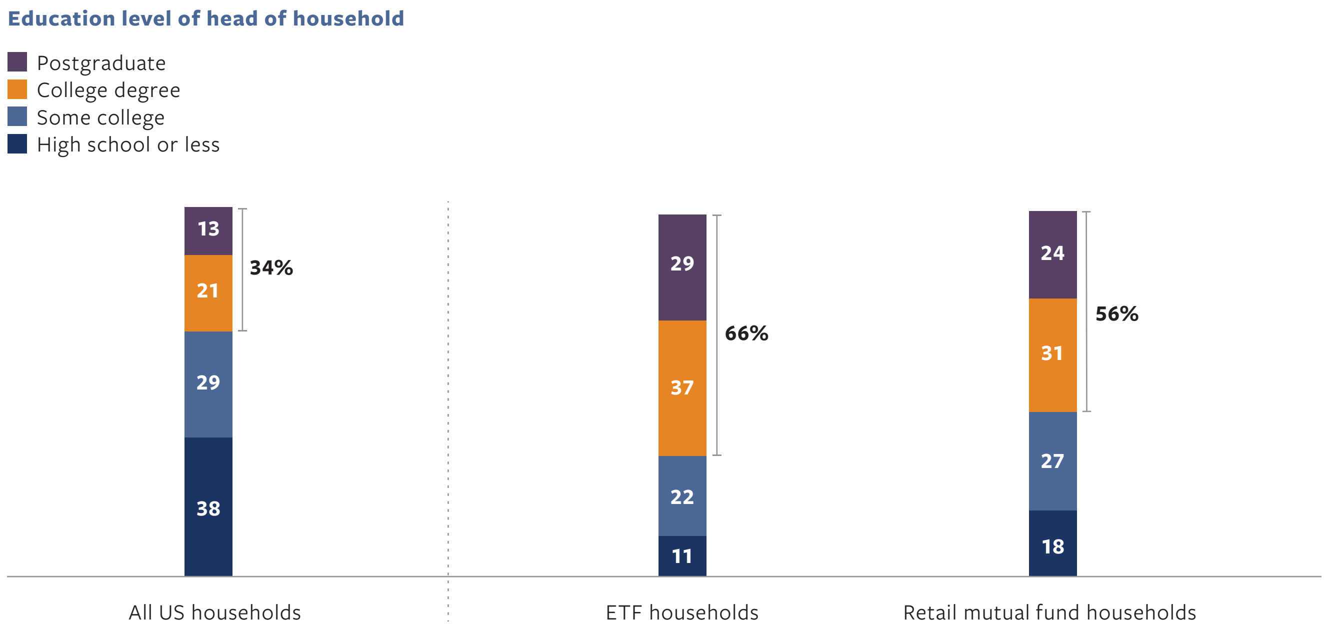
Source: SBI's MacroMonitor

ETF households tend to be more highly educated than retail mutual fund households or all US households. SBI's MacroMonitor finds 66 percent of ETF households had a college degree or more, compared with 56 percent of retail mutual fund households and 34 percent of all US households (Exhibit 5). While 38 percent of all US households had a high school degree or less, only 11 percent of ETF households and 18 percent of retail mutual fund households had that level of education.

EXHIBIT 5

ETF Households Tend to Have High Education Levels

Percentage of US households by ownership status and education level



Note: Education level is based on the education level of the head of household who is the primary financial decisionmaker for the household. SBI's MacroMonitor Survey was conducted online from June to August 2016. Components may not add to 100 percent or add to the total because of rounding.

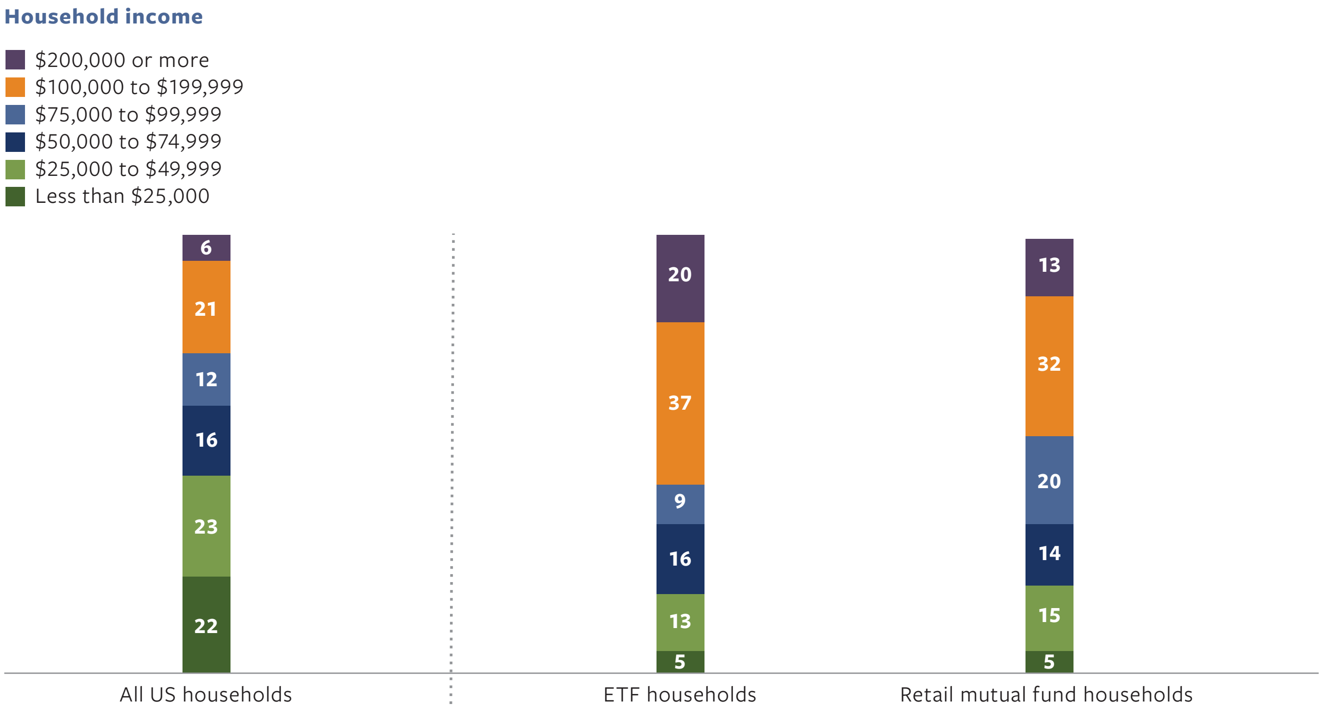
Source: SBI's MacroMonitor

ETF households also tended to have higher incomes, likely reflecting their educational differences. SBI's MacroMonitor finds 57 percent of ETF households had household incomes of $100,000 or more, compared with 45 percent of retail mutual fund households (Exhibit 6).

EXHIBIT 6

ETF Households Represent a Range of Moderate to Higher Incomes

Percentage of US households by ownership status and household income



Note: Household income is total 2015 household income before taxes. SBI's MacroMonitor Survey was conducted online from June to August 2016. Components may not add to 100 percent because of rounding.

Source: SBI's MacroMonitor

ETF Households Tend to Be at Earlier Life Stages Than Retail Mutual Fund Households

SBI analyzes households' life stages by grouping households on the basis of the presence of children in the home, retirement status, and broad age group. The first step to this analysis is to gather households that have children at home, regardless of other characteristics. The remaining households (which have no children in the home) are divided into two groups—those that are retired and those that are not retired.[9] The retired group is then divided into two groups, based on the primary head of the household being old enough to be taking required minimum distributions (RMDs) from their retirement accounts.[10] The remaining nonretired households are first divided into two groups: younger than 45 and 45 or older. The younger-than-45 group is divided again into single versus married households. The 45-or-older group that has no children in the home and is not retired is called the "pre-retired" group. This life-stage analysis is conducted for all US households, ETF households, and retail mutual fund households.

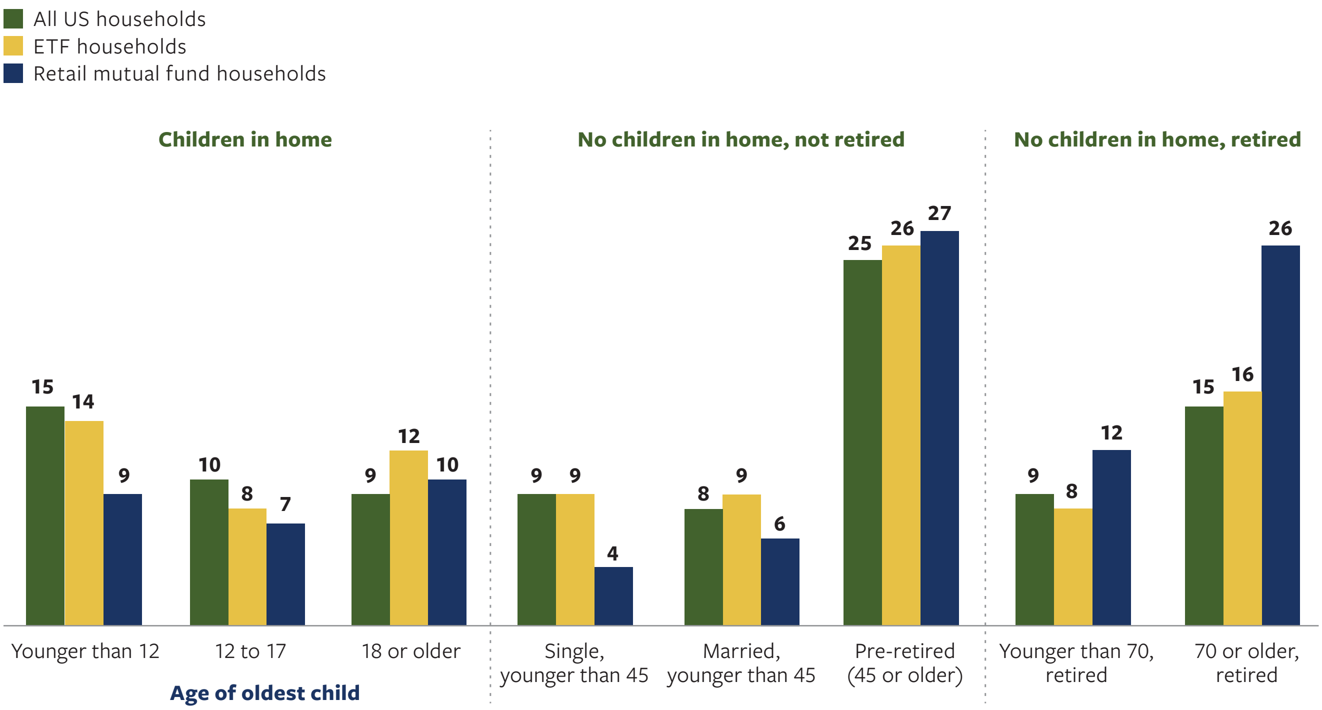
ETF households are more concentrated in the early and middle stages of their lives—for example, there are more single-headed ETF households, as well as households with children in the home. SBI's MacroMonitor finds that 34 percent of ETF households had children in the home (the same as all US households), compared with 26 percent of retail mutual fund households (Exhibit 7). Nine percent of ETF households were single with no children and not retired, compared with only 4 percent of retail mutual fund households.

ETF households tend to be early in their careers, with many fewer households in retirement, compared with retail mutual fund households. SBI's MacroMonitor finds that 24 percent of ETF households were retired (with no children), compared with 38 percent of retail mutual fund households. Reflecting their older ages (Exhibit 4), 26 percent of retail mutual fund households were in the older retired category (Exhibit 7).

EXHIBIT 7

ETF Households Are More Likely to Be in Earlier Life Stages Than Retail Mutual Fund Households

Percentage of US households by ownership status and life stage



Note: Age is based on the age of the head of household who is the primary financial decisionmaker for the household. SBI's MacroMonitor Survey was conducted online from June to August 2016. Components may not add to 100 percent because of rounding.

Source: SBI's MacroMonitor

ETF Households Have Significant Financial Assets

Across nearly all household key financial metrics, ETF households tend to have higher accumulations than retail mutual fund households. SBI's MacroMonitor gathers information to calculate household total assets, financial assets, investable assets, home equity (i.e., the value of the home minus mortgage debt), and net worth (i.e., total assets less total liabilities).

Looking at the households' total assets, which includes the value of the home, the average was nearly $1.7 million, and the median was nearly $930,000 for ETF households, compared with an average of about $1.3 million and a median of about $856,000 for retail mutual fund households (Exhibit 8). The average financial assets also were higher for ETF households compared with retail mutual fund households (about $1.0 million versus about $0.8 million), although ETF households had a slightly lower median. Investable assets were closer in value between the two groups of households, with the ETF households' average above the average for retail mutual fund households, and the ETF households' median a bit lower. Home equity was similar between the two groups, although the ETF households' average and median were slightly higher than that of retail mutual fund households.

EXHIBIT 8

ETF Households Have Higher Average Balances for All Financial Metrics Than All US Households

Average (mean) and median household assets

	All US households	ETF households	Retail mutual fund households
Total assets			
Mean	$544,300	$1,696,900	$1,326,000
Median	$213,100	$929,800	$856,300
Financial assets			
Mean	$272,700	$1,006,100	$835,600
Median	$37,700	$401,700	$436,000
Investable assets			
Mean	$209,300	$858,000	$713,000
Median	$18,900	$248,300	$334,100
Home equity			
Mean	$175,600	$310,800	$258,800
Median	$117,500	$217,800	$192,400
Net worth			
Mean	$459,100	$1,532,500	$1,215,300
Median	$126,700	$744,400	$727,700

Note: SBI's MacroMonitor Survey was conducted online from June to August 2016. Means and medians are calculated across all households including those with zero balances; amounts are rounded to the nearest hundred.

Source: SBI's MacroMonitor

More Than Three-Quarters of ETF and Retail Mutual Fund Households Are Saving for Retirement

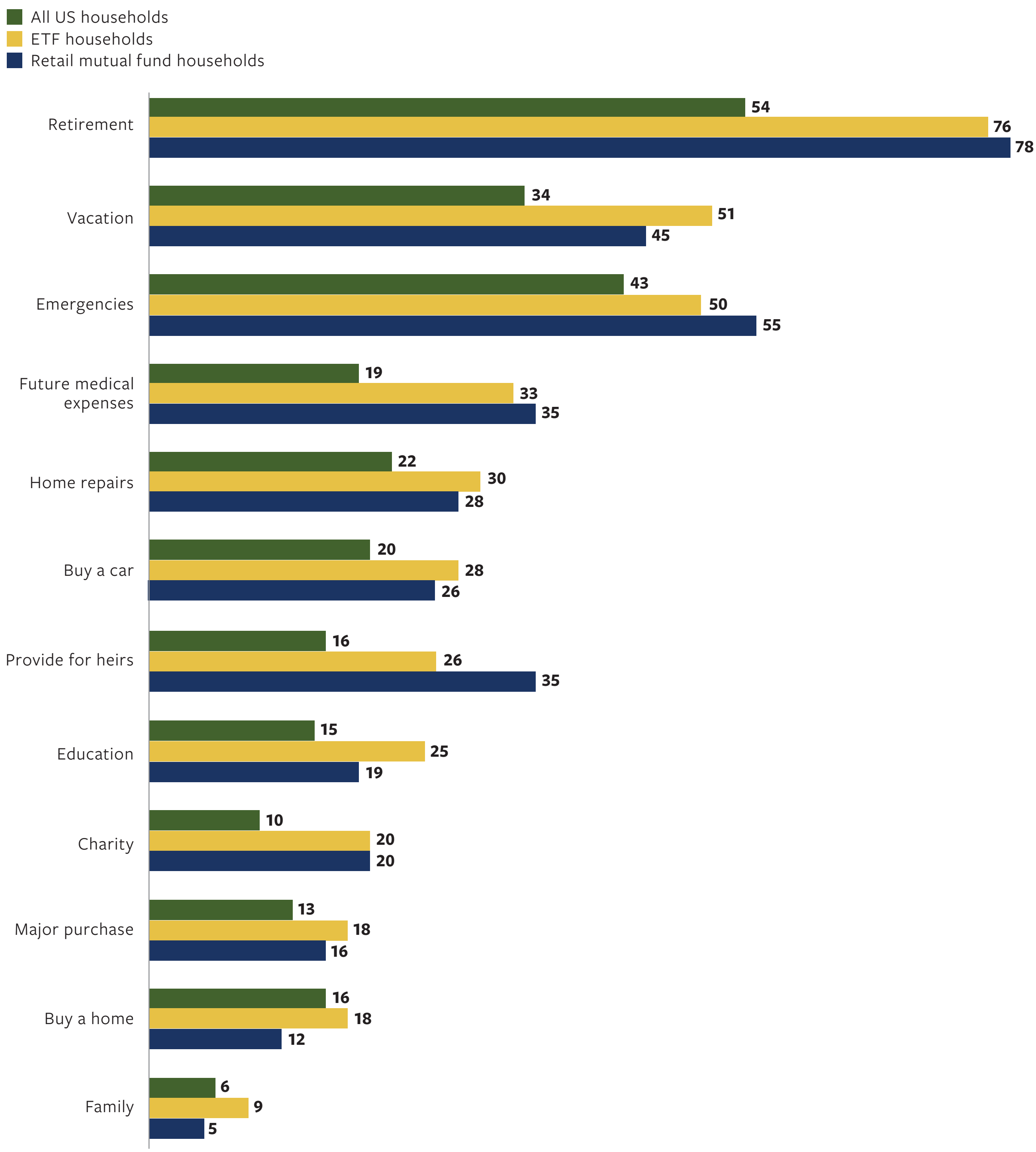
Households have a variety of financial goals, but retirement saving often is a financial goal of ETF and retail mutual fund households. SBI's MacroMonitor finds the most commonly cited financial goal—cited by 76 percent of ETF households and 78 percent of retail mutual fund households (and 54 percent of all US households)—was retirement (Exhibit 9).

However, retirement is not the only financial goal for households' saving and investments. About half of ETF households indicated that saving for a vacation was a goal, and half indicated saving for emergencies was a goal (Exhibit 9). Forty-five percent of retail mutual fund households were saving for a vacation and 55 percent were saving for emergencies. Reflecting their older age composition (Exhibit 4), retail mutual fund households were more likely to indicate their goals for saving and investing included providing for their heirs (35 percent) (Exhibit 9). ETF households, being in earlier life stages, were more likely to be saving for education expenses.

EXHIBIT 9

More Than Three-Quarters of ETF and Retail Mutual Fund Households Are Saving for Retirement

Goals for saving and investing; percentage of US households by ownership status



Note: SBI's MacroMonitor Survey was conducted online from June to August 2016. Multiple responses are included.

Source: SBI's MacroMonitor

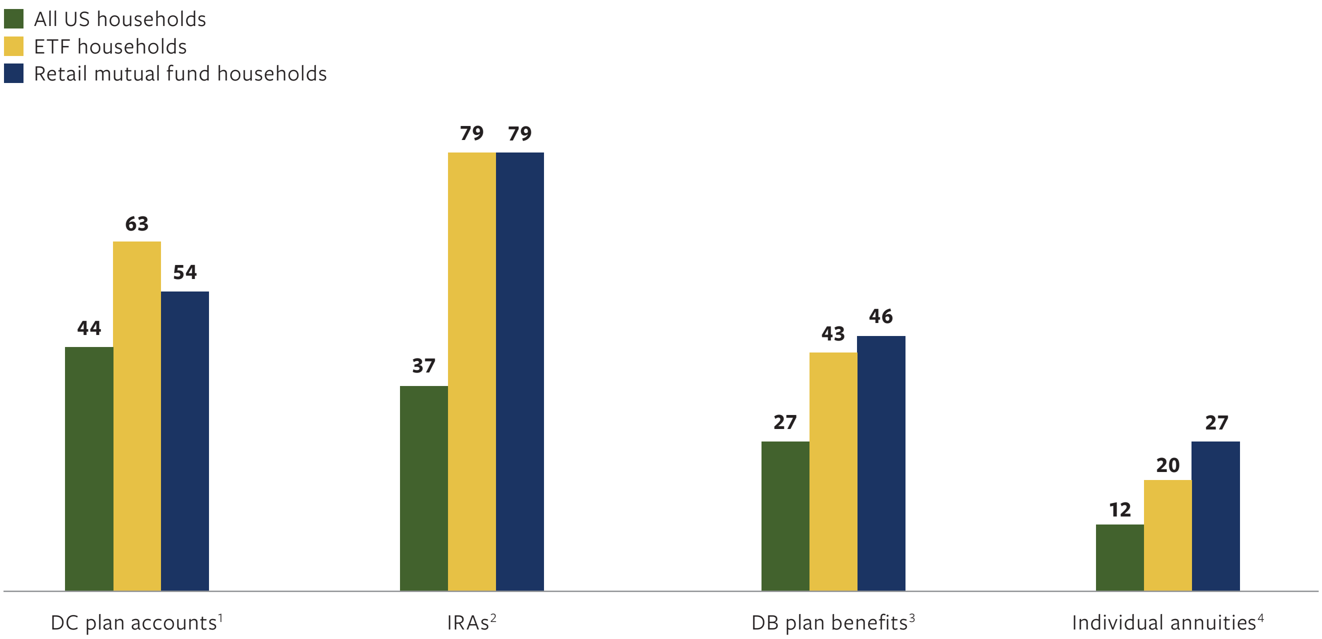
Majority of ETF Households Have Retirement Accumulations

Given their focus on retirement as a savings and investment goal, it is not surprising that ETF households tend to have retirement accumulations. SBI's MacroMonitor finds that 63 percent of ETF households had defined contribution (DC) plan accounts; 79 percent had IRAs; 43 percent had defined benefit (DB) plan benefits; and 20 percent had individual annuities (Exhibit 10). Retail mutual fund households had similar ownership rates for retirement accumulations.

EXHIBIT 10

ETF Households Often Have Retirement Accumulations

Incidence of retirement accumulations, percentage of US households by ownership status



[1] DC plan accounts include 401(k), 403(b), 457, and other DC plans, and the federal Thrift Savings Plan.

[2] IRAs include traditional IRAs, Roth IRAs, SEP-IRAs, and SIMPLE IRAs.

[3] DB plan benefits include households currently receiving or expecting to receive DB plan benefits.

[4] Individual annuities includes fixed-rate annuities, indexed annuities, and variable annuities.

Note: SBI's MacroMonitor Survey was conducted online from June to August 2016.

Source: SBI's MacroMonitor

Decisionmaking by ETF Households

This section provides insights into ETF households' financial decisionmaking processes—analyzing their use of financial strategies, the types of financial services firms they engage with, and their use of financial advice. Again, to understand how ETF households differ from or are similar to other households, two comparison groups are considered: all US households and retail mutual fund households (see Who Are ETF and Retail Mutual Fund Households? on page 7).

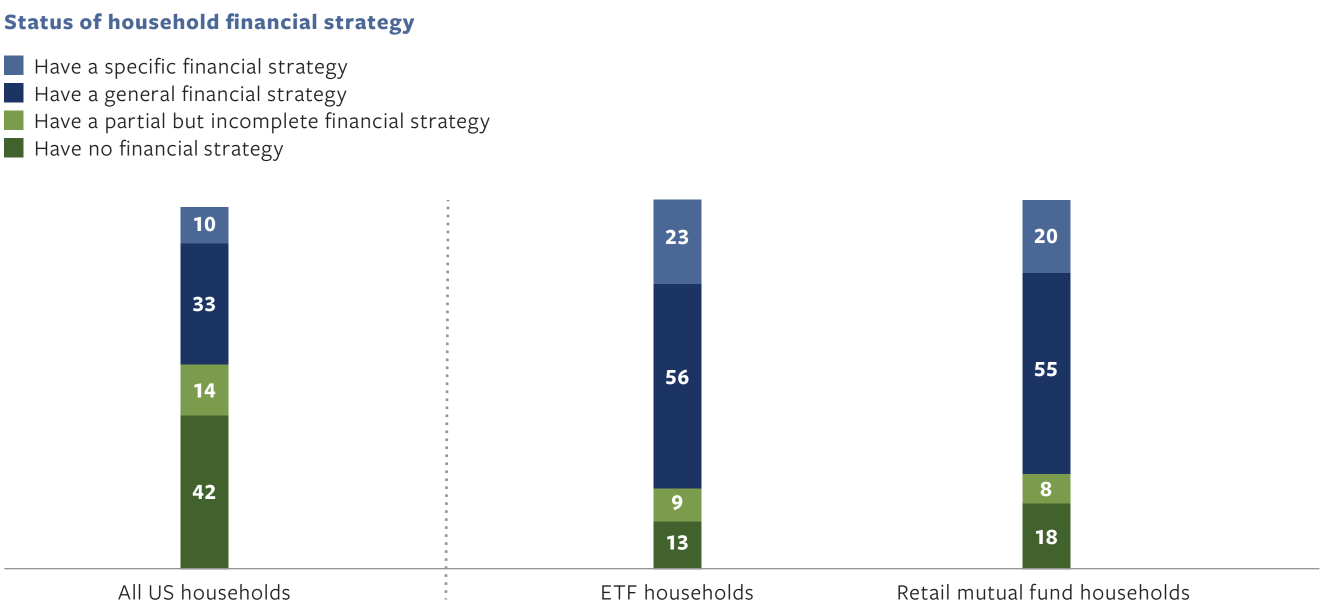
ETF and Retail Mutual Fund Households Tend to Have Financial Strategies

SBI's MacroMonitor asks respondents to report on the status of their household's financial strategy. Perhaps reflecting their ownership of investments, ETF and retail mutual fund households are much more likely to report having a general or specific financial strategy. While 42 percent of all US households report no financial strategy, only 13 percent of ETF households and 18 percent of retail mutual fund households lack financial strategies (Exhibit 11). More than half of ETF and retail mutual fund households have general financial strategies. Twenty-three percent of ETF households have specific financial strategies in place, while 20 percent of retail mutual fund households do.

EXHIBIT 11

Vast Majority of ETF and Retail Mutual Fund Households Have Financial Strategies

Percentage of US households by ownership status



Note: SBI's MacroMonitor Survey was conducted online from June to August 2016. Components do not add to 100 percent because of rounding.
Source: SBI's MacroMonitor

Households Rely on a Full Range of Financial Services Firms

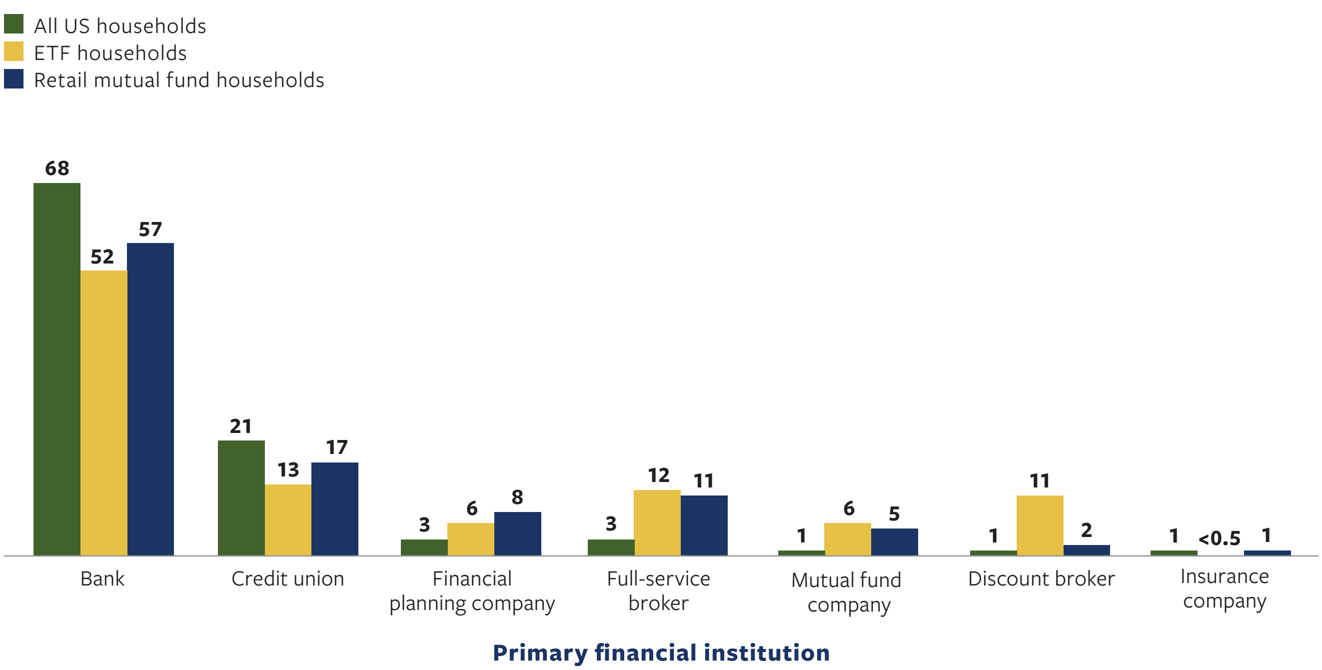
A majority of US households consider banks to be their primary financial institution. SBI's MacroMonitor reveals that 68 percent of all US households, 52 percent of ETF households, and 57 percent of retail mutual fund households indicated banks are their primary financial institution (Exhibit 12). In addition, 21 percent of all US households, 13 percent of ETF households, and 17 percent of retail mutual fund households consider credit unions to be their primary financial institution. The remaining households reported a variety of financial services firms as their primary financial institution.

ETF households reported the highest reliance on brokers, perhaps reflecting their need to access market exchanges to purchase and sell their ETF shares. Twenty-three percent of ETF households reported that brokers were their primary financial institution, split about evenly between full-service brokers (12 percent) and discount brokers (11 percent) (Exhibit 12). Six percent of ETF households reported that mutual fund companies were their primary financial institution, which may reflect the joint offering of ETFs and mutual funds by a single financial services firm. Retail mutual fund households were less likely to report primary reliance on discount brokers (2 percent), but similar levels of primary reliance on full-service brokers (11 percent) and mutual fund companies (5 percent).

EXHIBIT 12

ETF Households Are More Likely to Use a Discount Broker Than Retail Mutual Fund Households

Percentage of US households by ownership status and primary financial institution



Note: SBI's MacroMonitor Survey was conducted online from June to August 2016. Components do not add to 100 percent because of rounding

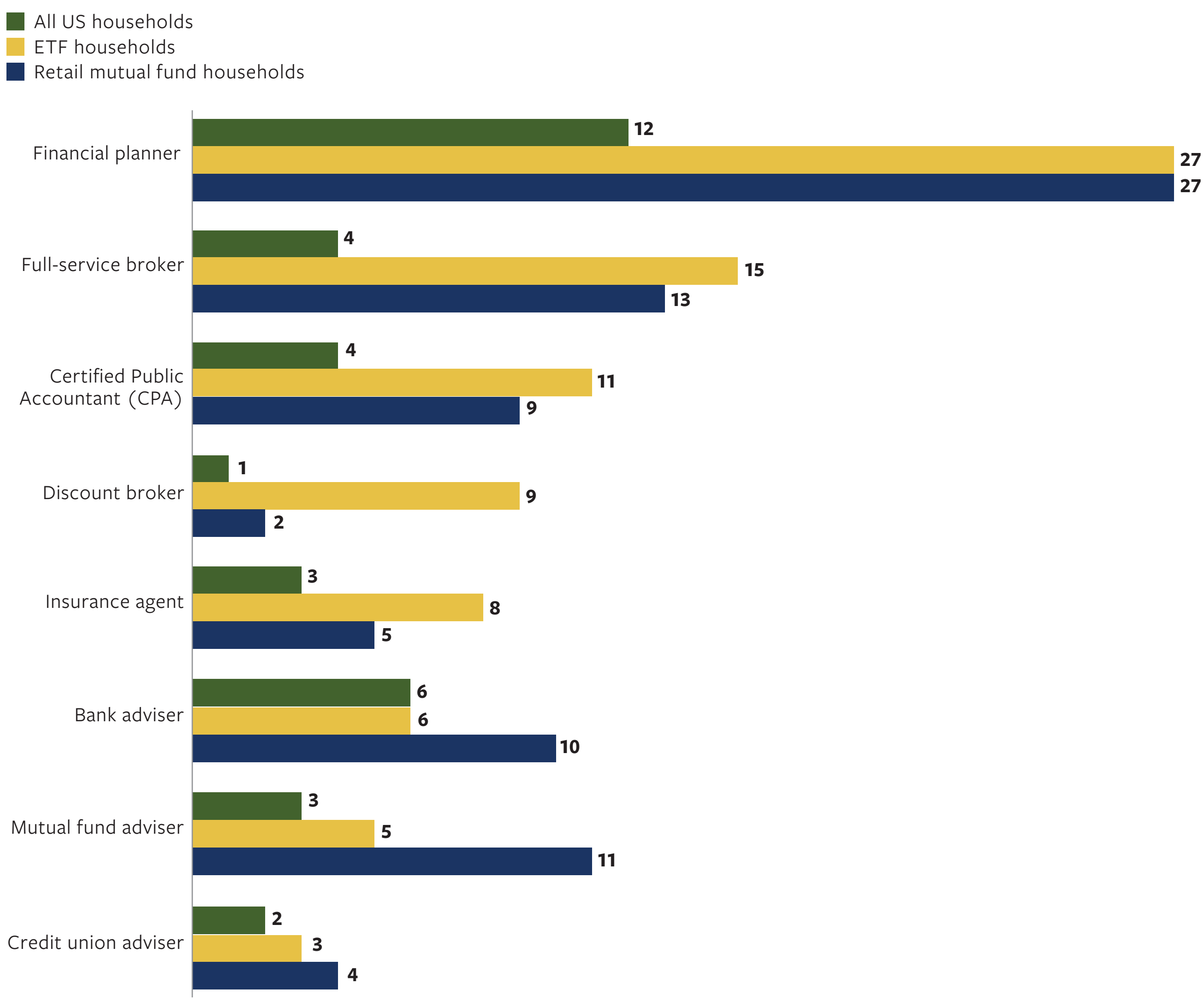
Source: SBI's MacroMonitor

When asked about the type of professional consulted for advice recently, financial planners are the type most commonly cited. SBI's MacroMonitor finds that more than one-quarter (27 percent) of ETF and retail mutual fund households and nearly one-eighth (12 percent) of all US households had recently obtained advice from a financial planner (Exhibit 13). Both ETF households (15 percent) and retail mutual fund households (13 percent) had recently obtained advice from full-service brokers. While 9 percent of ETF households reported recently receiving advice from discount brokers, only 2 percent of retail mutual fund households had. Rather, 11 percent of retail mutual fund households had recently received advice from a mutual fund company adviser, compared with only 5 percent of ETF households.

EXHIBIT 13

ETF and Retail Mutual Fund Households Rely on a Range of Financial Professionals for Advice

Percentage of US households by ownership status by type of professional used for advice recently



Note: SBI's MacroMonitor Survey was conducted online from June to August 2016.

Source: SBI's MacroMonitor

ETF Households Are More Self-Reliant and More Confident About Investing

ETF households are more likely to say they have used online resources to learn about financial products than other households. SBI's MacroMonitor finds that 32 percent of ETF households had used the internet to gather information about financial products or services or financial decisions in the past 12 months, and 25 percent had used financial institutions' websites (Exhibit 14). ETF households also were more likely to do research reading newspapers (19 percent), financial newsletters (23 percent), magazines (19 percent), or books (15 percent).

EXHIBIT 14

ETF Households Are More Likely to Rely on Online Sources of Information About Financial Products Than Other Households

Percentage of US households by ownership status and source of information consulted for financial products

	All US households	ETF households	Retail mutual fund households
Internet	13	32	21
TV	5	12	8
Radio	3	10	6
Newspapers	7	19	17
Financial newsletters	7	23	19
Magazines	7	19	15
Books	5	15	9
Financial institutions			
Brochures, written materials	5	11	13
Websites	9	25	20
Representatives	9	20	21
Seminars	2	7	3
People at work	3	7	6
Friends, relatives, associates	11	16	18

Note: The question asks which sources of information were consulted for financial products or services or financial decisions in the 12 months prior to the survey. SBI's MacroMonitor Survey was conducted online from June to August 2016. Multiple responses are included.

Source: SBI's MacroMonitor

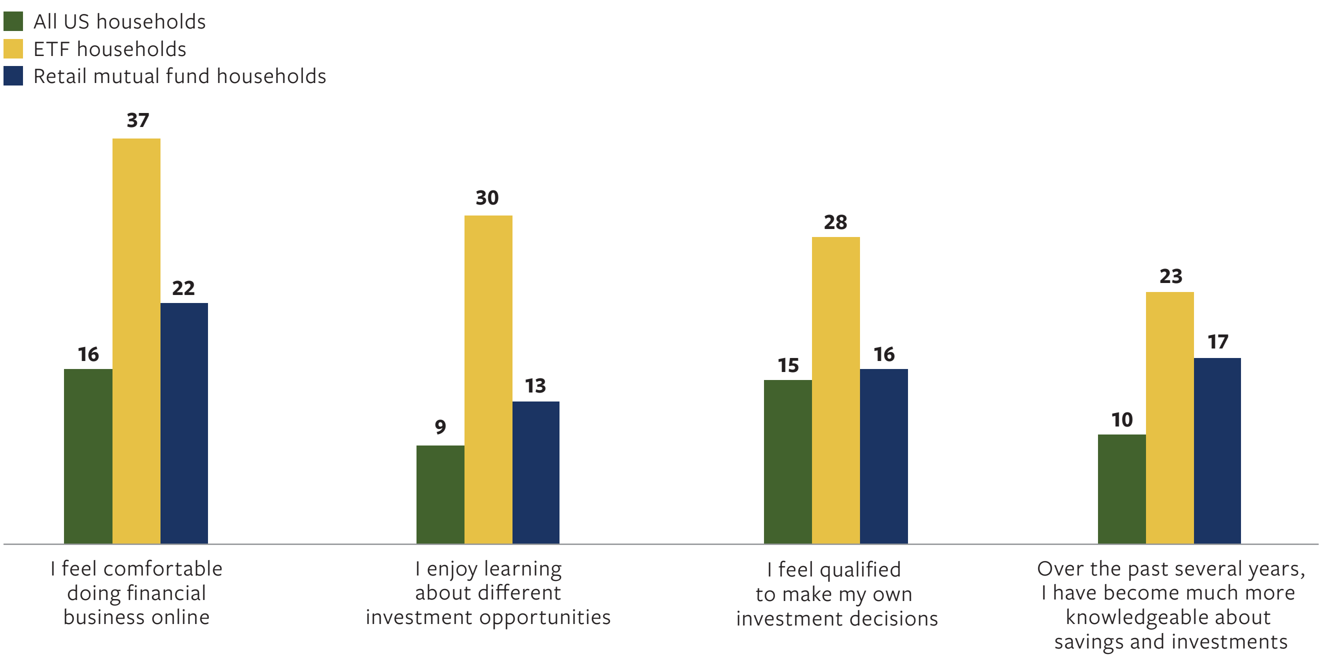
ETF households' comfort with online resources comes through in their responses to other survey questions. For example, nearly one-quarter of ETF households mostly agreed that the internet is a good tool for financial information, compared with a little more than one-tenth of retail mutual fund households or all US households more generally.[11] Thirty-seven percent of ETF households mostly agreed that they feel comfortable doing financial business online, compared with 22 percent of retail mutual fund households (Exhibit 15).

ETF households are more confident about making investment decisions than other households. Thirty percent of ETF households responding to SBI's MacroMonitor mostly agreed that they enjoyed learning about different investment opportunities, compared with only 13 percent of retail mutual fund households (Exhibit 15). Twenty-eight percent of ETF households mostly agreed that they feel qualified to make their own investment decisions, compared with 16 percent of retail mutual fund households. Perhaps reflecting their research activities around investing, 23 percent of ETF households mostly agreed that they have become more knowledgeable about savings and investments over the past several years.

EXHIBIT 15

ETF Households Are More Confident About Making Investment Decisions

Percentage of US households by ownership status



Note: This exhibit reports the percentage of households that "mostly agree." The other responses were "somewhat agree," "somewhat disagree," and "mostly disagree." SBI's MacroMonitor Survey was conducted online from June to August 2016.

Source: SBI's MacroMonitor

ETF Households Are More Aware of Robo-Advisers

SBI's MacroMonitor surveyed all households with four questions related to robo-advisers. The first question simply asks the survey respondents whether they are aware of the concept of robo-advisers. Awareness of robo-advisers is still in its infancy, although ETF households are more aware and more likely to be using robo-advisers than other households. Nineteen percent of ETF households, 7 percent of retail mutual fund households, and 5 percent of all US households indicated they were aware of the concept (Exhibit 16).

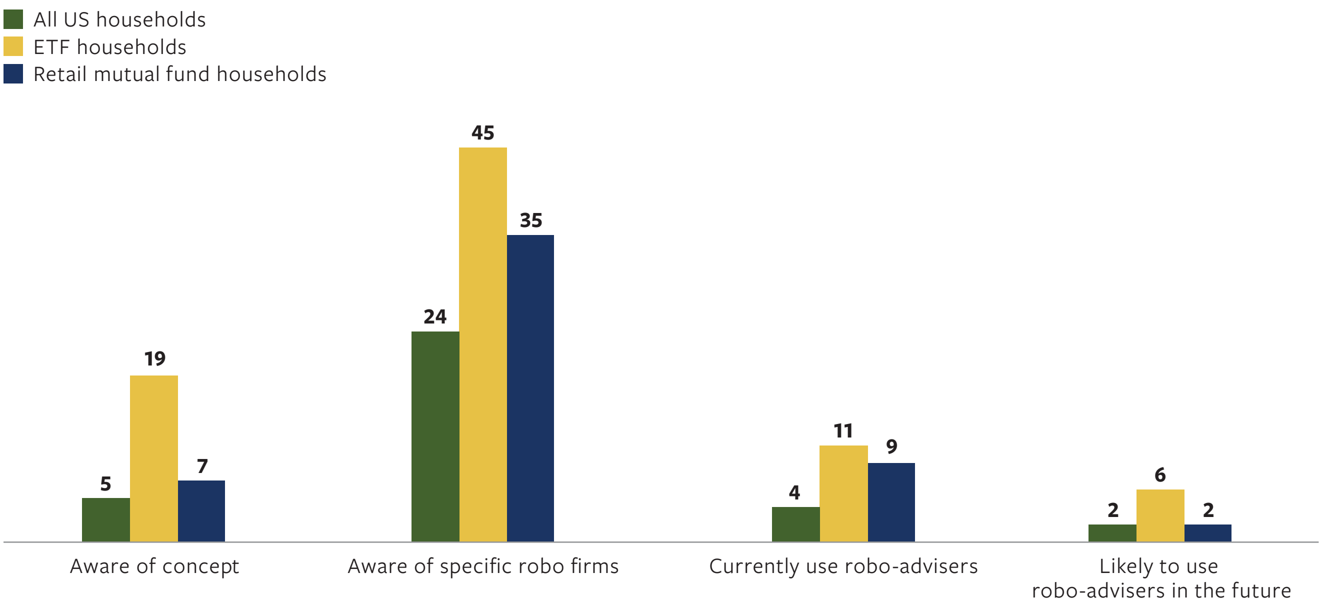
Knowledge of robo-adviser firm names is higher than knowledge of the robo-adviser concept, suggesting that familiarity of well-known financial institutions may artificially inflate awareness of robo-advisers. The second question, which was given to all households regardless of their awareness of the concept of robo-advisers, asked whether the respondent had heard of specific robo-adviser firms, listing several. Forty-five percent of ETF households, 35 percent of retail mutual fund households, and 24 percent of all US households were aware of specific robo-adviser firms (Exhibit 16).

Use of robo-advisers was relatively low, but similar between ETF households and retail mutual fund households. About one in 10 ETF or retail mutual fund households indicated they currently use robo-advisers (Exhibit 16). When asked about the likelihood of using robo-advisers in the future, only 6 percent of ETF households indicated they would, compared with only 2 percent of retail mutual fund households or all US households.

EXHIBIT 16

ETF Households Are More Aware of Robo-Advisers

Percentage of US households by ownership status and robo-advice awareness



Note: Survey respondents were asked each of these questions regardless of how they answered the other questions. SBI's MacroMonitor Survey was conducted online from June to August 2016.

Source: SBI's MacroMonitor

Risk Taking and Investing by ETF Households

This section analyzes ETF households' attitudes on investment risk and their views toward equity investing. It also reports on the wide range of investments these households hold. Again, to understand how ETF households differ from or are similar to other households, two comparison groups are considered: all US households and retail mutual fund households (see Who Are ETF and Retail Mutual Fund Households? on page 7).

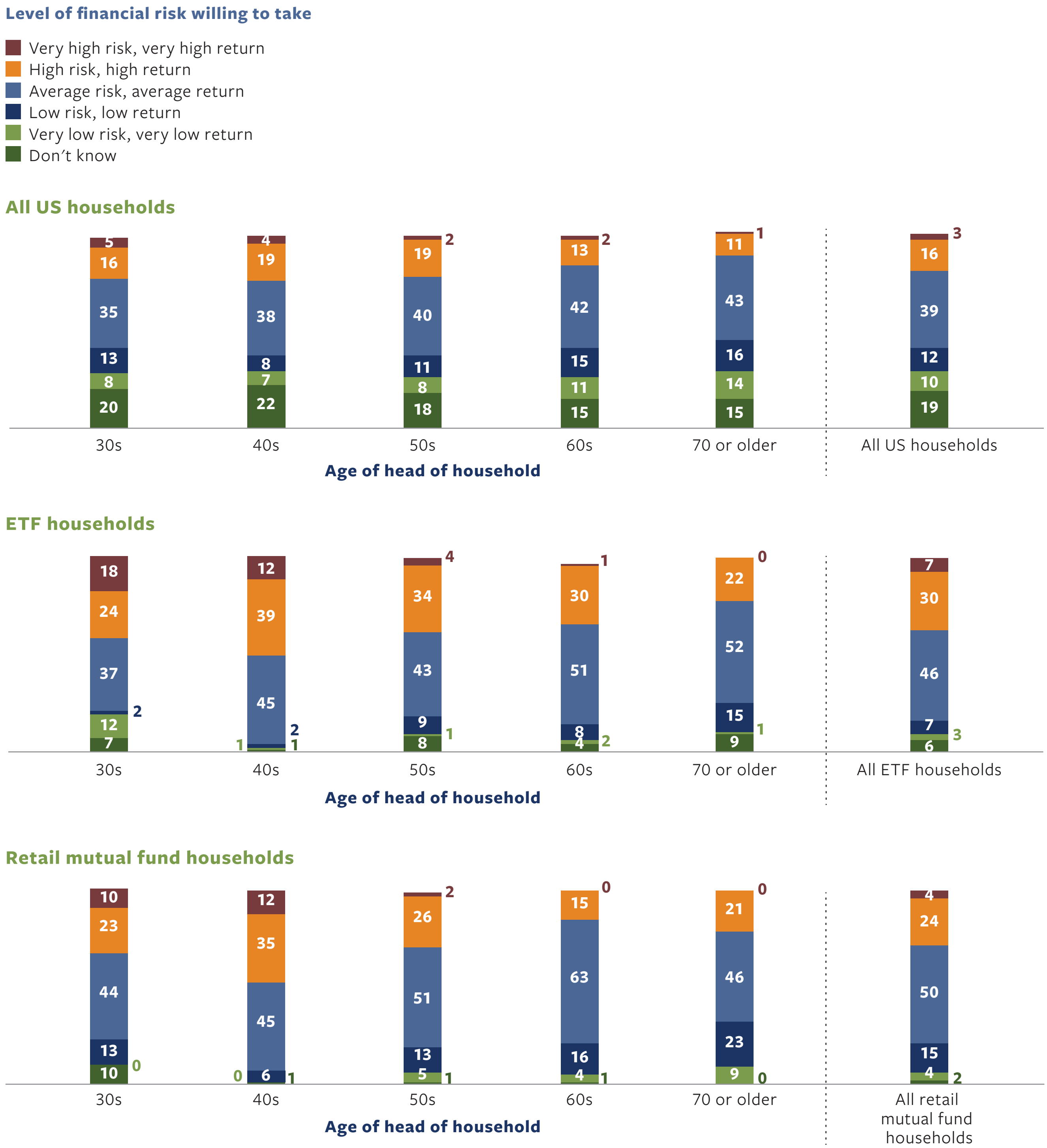
ETF Households Are More Willing to Take Financial Risk

ETF households are more willing to take financial risk than retail mutual fund households or all US households. SBI's MacroMonitor finds that 83 percent of ETF households are willing to take at least average risk for commensurate return, compared with 78 percent of retail mutual fund households and 58 percent of all US households (Exhibit 17). ETF households were more willing to take high or very high risks compared with other households. Thirty-seven percent of ETF households were willing take high or very high investment risk, compared with 28 percent of retail mutual fund households, and 19 percent of all US households.

EXHIBIT 17

ETF Households Are More Willing to Take Financial Risks Than Retail Mutual Fund Households

Percentage of US households by ownership status and age of head of household



Note: SBI's MacroMonitor Survey was conducted online from June to August 2016. Components may not add to 100 percent because of rounding.

Source: SBI's MacroMonitor

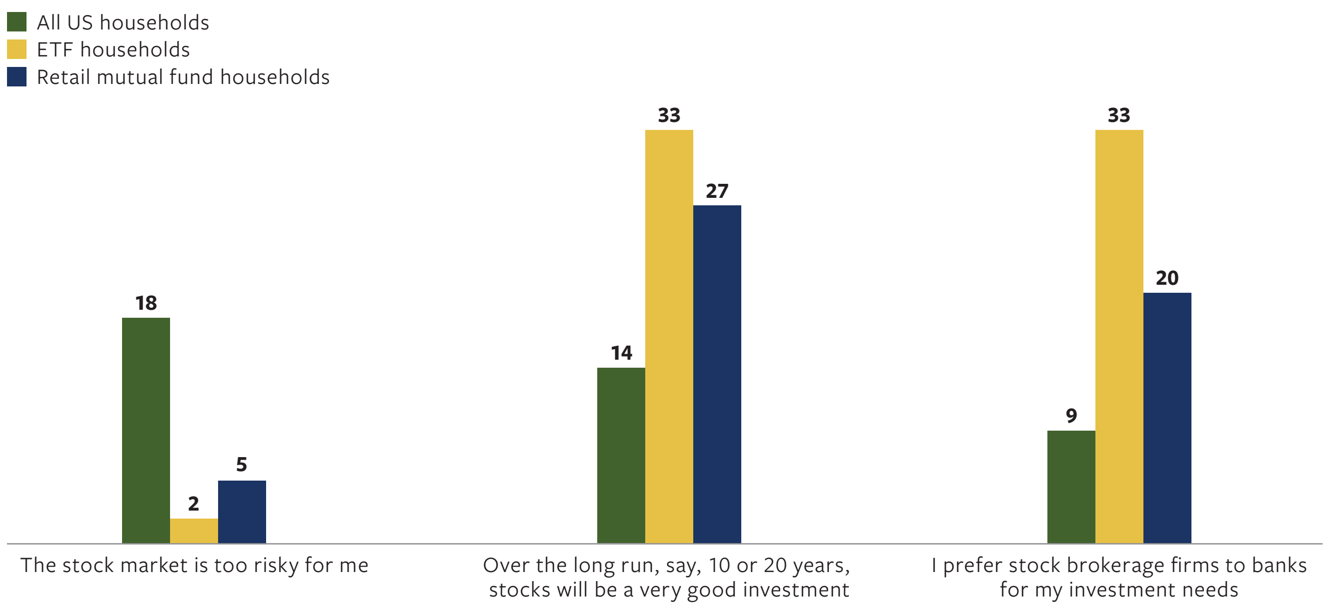
ETF Households Embrace Equity Investing

ETF households are more comfortable with equity investing, in line with their self-reported willingness to take financial risk. Only 2 percent of ETF households mostly agreed with the statement that "the stock market is too risky for me," compared 5 percent of retail mutual fund households, and 18 percent of all US households (Exhibit 18). One-third of ETF households mostly agreed that over the long run, say 10 or 20 years, stocks will be a very good investment, compared with 27 percent of retail mutual fund households and 14 percent of all US households. One-third of ETF households mostly agreed that they prefer stockbrokerage firms to banks for their investment needs, compared with 20 percent of retail mutual fund households and 9 percent of all US households. Stockbrokerage firms enable them access to the range of equity investments they seek.

EXHIBIT 18

ETF Households Have Positive Attitudes Toward Stock Investing

Percentage of US households by ownership status



Note: This exhibit reports the percentage of households that "mostly agree." The other responses were "somewhat agree," "somewhat disagree," and "mostly disagree." SBI's MacroMonitor Survey was conducted online from June to August 2016.

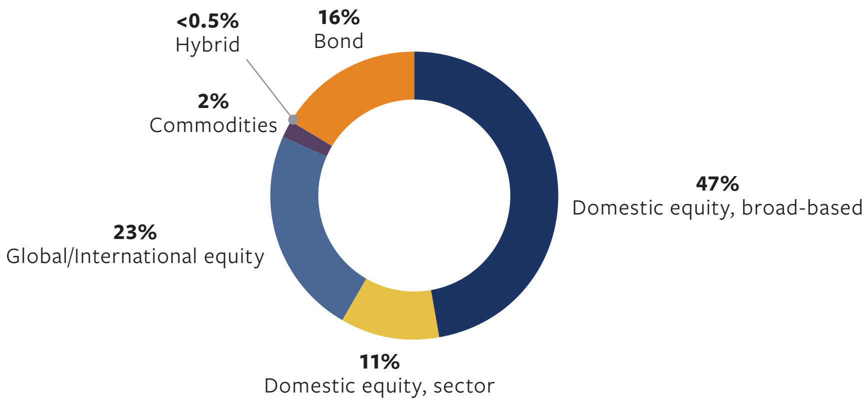
Source: SBI's MacroMonitor

Given the comfort with investment risk and equity investing reported by ETF households, it is not surprising that the majority of ETF assets are invested in equities. At year-end 2017, 81 percent of ETF assets were invested in equity-focused ETFs: 47 percent in broad-based domestic equity, 11 percent in domestic sector equity, and 23 percent in global/international equity (Exhibit 19). Bond ETFs accounted for most of the remainder.

EXHIBIT 19

Bulk of ETF Assets Are Invested in Equities

Percentage of total ETF assets, year-end 2017



Total ETF assets: $3.4 trillion

Note: Index ETFs account for 97 percent of all ETF assets at year-end 2017. Components do not add to 100 percent because of rounding.
Source: Investment Company Institute

US households tend to hold a broad range of savings and investment vehicles. The majority of US households have short-term cash-management accounts: 71 percent of ETF households, 68 percent of retail mutual fund households, and 56 percent of all US households report savings account ownership (Exhibit 20). The majority of all US households also own their home: 79 percent of ETF households, 84 percent of retail mutual fund households, and 64 percent of all US households report home ownership.

ETF households and retail mutual fund households are more likely to report ownership of investment vehicles than all US households. For example, 28 percent of ETF households and 33 percent of retail mutual fund households have money market deposit accounts, compared with 12 percent of all US households (Exhibit 20). Again, reflecting their appetite for equity investing, ownership of publicly traded stocks is highest among ETF households: 59 percent of ETF households reported ownership of publicly traded stocks, compared with 49 percent of retail mutual fund households, and 17 percent of all US households.

EXHIBIT 20

ETF Households Hold a Broad Range of Investments

Percentage of US households holding each type of investment by ownership status

Investment category	All US households	ETF households	Retail mutual fund households
Savings accounts	56	71	68
CDs	10	20	22
Money market deposit accounts	12	28	33
Money market mutual funds	9	25	31
US savings bonds	14	21	25
Corporate and municipal bonds (net)	3	13	11
Stock or bond mutual funds outside retirement accounts	13	41	100
529 plans	6	18	13
IRAs	37	79	79
Publicly traded stock	17	59	49
Individual annuities (net)	12	20	27
Home (primary residence)	64	79	84
Other real estate	15	27	27

Note: SBI's MacroMonitor Survey was conducted online from June to August 2016. Multiple responses are included.
Source: SBI's MacroMonitor

Notes

[1] For additional discussion of the differences between ETFs and mutual funds, see chapter 4 in Investment Company Institute 2018 and ICI's Exchange-Traded Funds Resource Center, available at www.ici.org/etf_resources.

[2] ETFs have been available as an investment product for 25 years in the United States. In 1993, the Securities and Exchange Commission (SEC) approved the first ETF, which was a broad-based domestic equity fund tracking the S&P 500 index. Until 2008, the SEC had only approved ETFs that tracked specified indexes. In early 2008, the SEC granted approval to several fund sponsors to offer fully transparent, actively managed ETFs meeting certain requirements. For additional detail on ETFs, see chapter 4 in Investment Company Institute 2018.

[3] Results from the ICI Annual Mutual Fund Shareholder Tracking Survey are available at www.ici.org/research/investors/ownership.

[4] The ICI Annual Mutual Fund Shareholder Tracking finds a roughly comparable number. In mid-2017, 10.9 million, or 9 percent of, US households held long-term mutual funds (stock, bond, and balanced funds) in taxable accounts. Overall mutual fund ownership, including through retirement plan accounts and IRAs, is much higher at 44.5 percent of, or 56.2 million, US households. See Holden, Schrass, and Bogdan 2017a; and Schrass and Bogdan 2017.

[5] ICI Annual Mutual Fund Shareholder Tracking Survey for mid-2017 finds similar incidence of ETF ownership. In ICI's 2017 survey, about 6 percent of US households indicated they currently owned ETFs (see chapter 4 in Investment Company Institute 2018). For additional results from the ICI Annual Mutual Fund Shareholder Tracking Survey, see Holden, Schrass, and Bogdan 2017a and 2017b.

[6] The survey was conducted using the web-enabled KnowledgePanel®, a probability-based panel designed to be representative of the US population. Initially, participants are chosen scientifically by a random selection of telephone numbers and residential addresses. Persons in selected households are then invited by telephone or by mail to participate in the web-enabled KnowledgePanel®. For those who agree to participate, but do not already have internet access, GfK provides a laptop and ISP connection at no cost. People who already have computers and internet service are permitted to participate using their own equipment. Panelists then receive unique log-in information for accessing surveys online, and are sent emails throughout each month inviting them to participate in research. The Federal Reserve also has used the KnowledgePanel®; for example, see US Federal Reserve Board 2018.

[7] An economic household takes into account those households that share a dwelling unit but do not combine their finances.

[8] All numeric and financial items are gathered using continuous variables. Net worth, total assets, financial assets, investable assets, liquid assets, total debt, real estate equity, and retirement assets are calculated as sums of component parts, which are collected separately.

[9] A household is considered retired:

» if the age of the primary head is 65 or older and neither head of household works 20 hours or more per week; or

» if the primary head is 50 or older and one head of household is retired and the other head of household, if present, does not work 20 hours or more per week; or

» if there is no male head of household present and the female head of household is 50 or older and not working for pay, temporarily laid off, or unemployed and looking for work.

[10] RMD rules are Internal Revenue Code regulations that generally require a person who owns a traditional IRA or 401(k) account to take annual distributions from the IRA or 401(k) account beginning at age 70½. The annual distribution amount is determined by formulas established by the Internal Revenue Service (IRS) and must be calculated each year based on the owner's age (or the ages of the owner and the owner's spouse). The IRS formula is intended to ensure that the entire amount of a traditional IRA or 401(k) account be distributed over the expected life of the individual (or the joint lives of the individual and the individual's spouse). Distributing less than the required amount may result in a tax penalty. Roth IRAs are not subject to RMDs during the account holder's lifetime.

[11] Tabulations from SBI's MacroMonitor find that 23 percent of ETF households "mostly agreed" that "the internet is a good tool for getting financial information," compared with 12 percent of retail mutual fund households and 11 percent of all US households.

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About the MacroMonitor

The MacroMonitor is the largest, continuously fielded, comprehensive research program on US consumers' financial needs. Since 1978, the MacroMonitor has provided reliable, validated, single-source research about US economic households' financial needs, attitudes, behaviors, channel use, demographics, ethnicity, and trends. The MacroMonitor measures all financial areas: transactions, credit, assets, retirement, insurance, information, advice, intermediaries, and institutions. Access to the MacroMonitor deliverables and supporting services are available through subscription and consulting assignment.

The MacroMonitor is produced by Consumer Financial Decisions, part of Strategic Business Insights (SBI). In addition to Consumer Financial Decisions, SBI (an employee-owned spin-off from SRI International) includes SCAN, Explorer, VALS™, Driverless Futures, and other Strategic Consulting Services. For more information please contact us at CFDinfo@sbi-i.com.

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The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

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