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Retail investors in US equities hits low

By Deborah Brewster in New York

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Individual ownership of US stocks has fallen to a record low, underscoring the increasing importance of institutional investors in domestic equity markets, according to a report to be released today.

Retail investors owned 34 per cent of all shares and 24 per cent of stock in the top 1,000 companies at the end of 2006, the last year for which figures are available, said the Conference Board, an industry group. Both numbers are record lows.

By contrast, individual investors owned 94 per cent of all stocks in 1950 and 63 per cent of all shares in 1980, the group's 2008 Institutional Investment Report said.

Institutions – defined as pension funds, investment companies, insurance companies, banks and foundations – held 76 per cent of the shares in the biggest 1,000 companies, up from 61 per cent in 2000, the report said. The 66 per cent share of all stocks held by institutions was up from 63 per cent two years before.

Carolyn Brancato, a co-author of the report, said the rise of institutional ownership meant shareholders were becoming more vocal, organised and activist.

“A lot of retail investors were unlikely to vote their shares against management, but the institutions are more powerful voices and they are speaking up,” she said. “In the last 15 years, big funds like Calpers and TIAA-Cref have become dominant in corporate governance issues and are more likely to get into issues of company strategy and remuneration.”

Institutional investors controlled about \$27,000bn worth of assets at the end of 2007, up 11 per cent from two years ago, the report said.

Pension funds are the biggest holders of equities, accounting for 28.5 per cent of ownership, followed by mutual funds, with 26.3 per cent.

Pension funds representing state and local government workers have grown especially rapidly, lifting their share of equities from only 2.9 per cent in 1980 to 10 per cent. The rising holdings of pension funds came after some experts predicted a global shift by such funds into fixed-income investments.

Ms Brancato said pension funds were moving further into more aggressive investments such as hedge funds, as they tried to lift returns to meet their liabilities.

Overall, mutual funds have been the fastest-growing institutional investors, accounting for 26 per cent of assets, compared with only 2.3 per cent in 1980.