

INVESTOR KNOWLEDGE OF STOCKBROKERS AND FINANCIAL PLANNERS

Prepared for

Zero Alpha Group and
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Prepared by

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Methodology

This report is based on the findings of two similar telephone surveys conducted in 2007 and 2004.

The 2007 survey was conducted in two waves of CARAVAN among a sample of 2,052 adults (1,010 men and 1,042 women) age 18 and over, living in private households, in the continental United States. Interviewing was completed during the period of April 12-16, 2007. The majority of the questions are asked only of the 1,073 adults who describe themselves as investors.

The 2004 survey was conducted in two waves of CARAVAN among a sample of 2,069 adults (993 men and 1,075 women) age 18 and over, living in private households in the continental United States. Interviewing was completed during the period October 14-18, 2004. The majority of the questions were asked only of the 1,044 adults who described themselves as investors.

Both sets of completed interviews were weighted by four variables: age, sex, geographic region, and race, to ensure reliable and accurate representation of the total adult population.

The margin of error at a 95% confidence level is plus or minus three percentage points for the sample of investors. Smaller sub-groups will have larger error margins.

Executive Summary

- Fewer than one third of U.S. investors (30 percent) correctly understand that the "primary service" provided by stockbrokers is the buying and selling of stocks, mutual funds, bonds, etc., not investment advice.
- Although stockbrokers are legally salespeople, the majority of investors (54 percent) look to stockbrokers for more than transactional assistance, with 29 percent saying that financial advice is the "primary" service offered by stockbrokers and 25 percent saying advice and transaction assistance are equally important services provided by stockbrokers.
- Nine out of 10 investors (92 percent) believe that the same investor protection rules should apply to both stockbrokers and financial planners when they offer the same kind of investment advice services.
- Nearly nine out of 10 investors (86 percent) think a stockbroker should be required to disclose prior to an investor purchasing an investment product (such as a mutual fund) any incentives or other forms of compensation (such as cash payments, vacations, etc.) that the broker is receiving to push the same investment product on his or her customers.

Executive Summary

- Over half of investors (54 percent) say they would be much less (31 percent) or somewhat less (24 percent) likely to use a stockbroker providing investment advice if that individual is subject to weaker investor protection rules than a financial planner.
- Many Americans are investors. Half of all adults (54%), including 63 percent of those with household incomes ranging from \$25,000 up to \$50,000 a year - now classify themselves as investors.
- On questions of regulation, the views of affluent investors (household incomes of \$75,000 or higher) and educated investors (with college or higher degrees) largely mirror the broader population of U.S. investors.



Detailed Charts

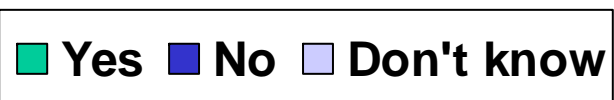
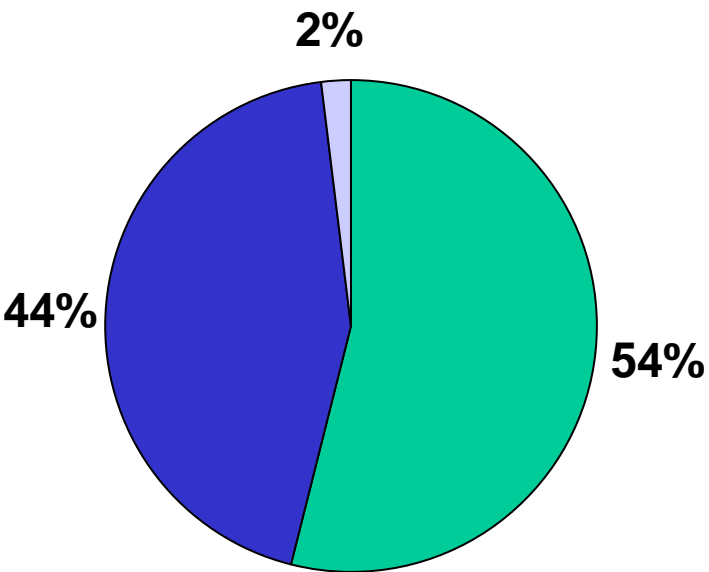
Who Are Investors?

- When employer sponsored plans are considered, more than one-half (54%) of all American adults say they are investors in the sense of making decisions where their savings are placed. In the 2004 survey, 50% identified themselves as investors.
- In the 2007 survey:
 - Men are slightly more likely than women to describe themselves as investors (56% vs. 51%).
 - Not surprisingly only 22% of those age 18-24 describe themselves as investors. But Americans start investing early because 57% of those age 25-34 describe themselves as investors. The rate of investing is stable over the remaining age groups, peaking at 61% for those age 55-64.
 - The act of investing is tied to household income and respondent education. Those who live in households with incomes of less than \$25,000 (24%) or who have less than a high school education (19%) are far less likely to describe themselves as investors than are those who live in households with \$75,000 or more in income (79%) or have a college degree (77%).

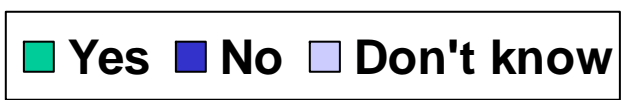
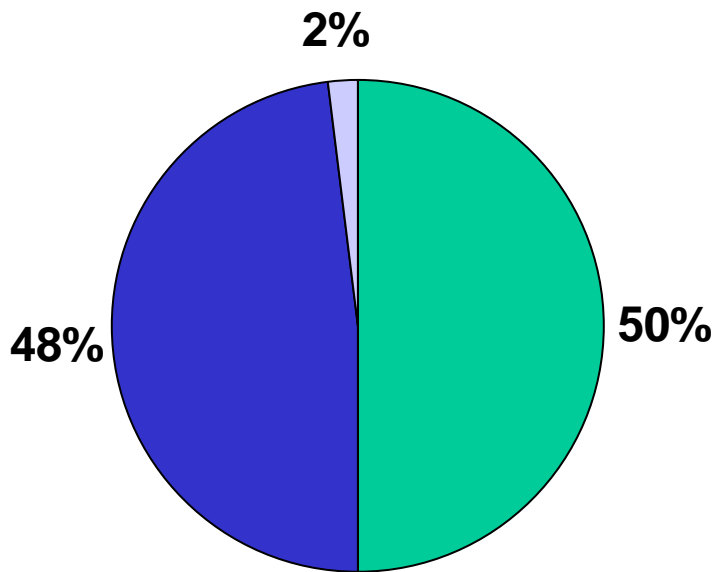
Who Are Investors?

E1: Are you an investor? By an investor I mean do you make decisions about where your savings are placed? This could mean you own bank certificates of deposit, stocks, bonds or mutual funds either directly or through retirement plans such as 401(k)'s, IRAs, Roth IRAs or similar plans.

2007



2004



Base = Total respondents, N=2,052 in 2007 and 2,069 in 2004.

Understanding of the Roles of Stockbrokers, Investment Advisors

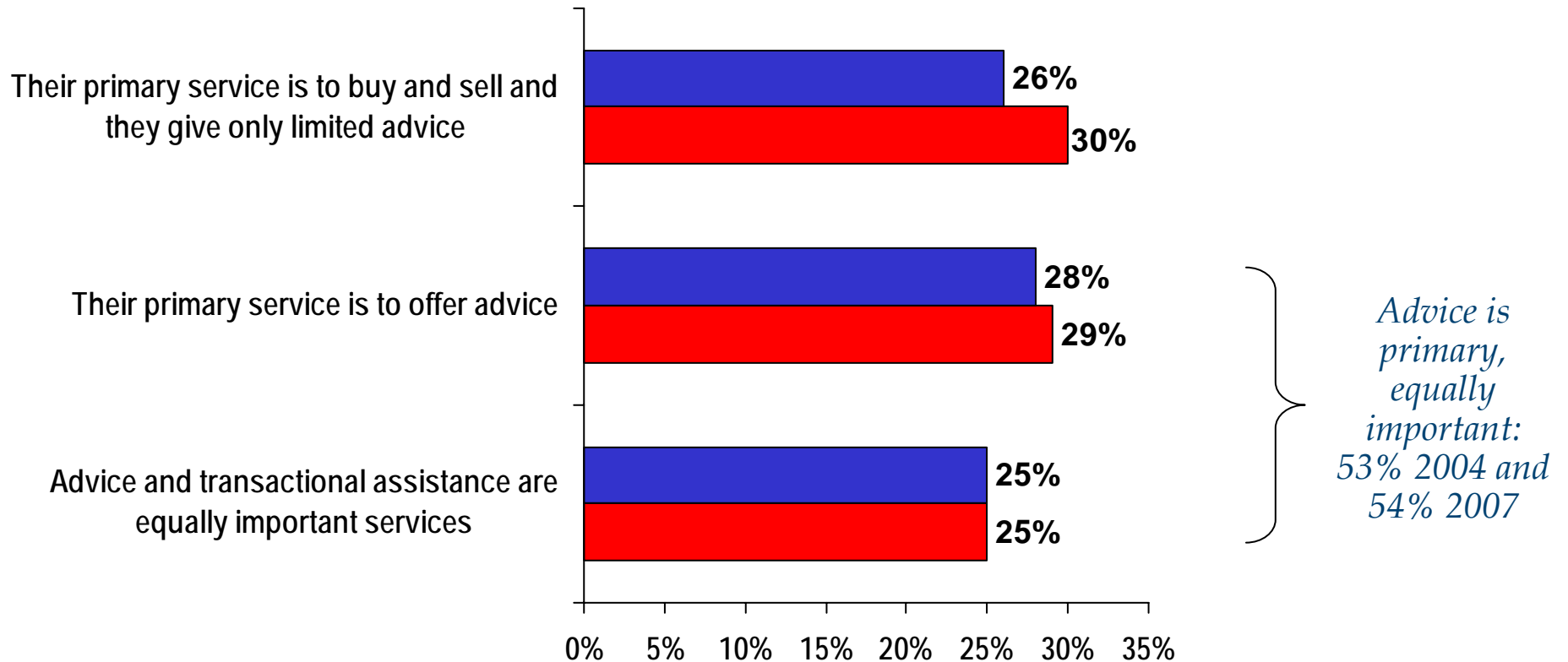
- Stockbrokers are legally salespeople, and the majority of investors in both surveys (54% in 2007 and 53% in 2004) look to stockbrokers for more than transactional assistance, with 29% (2007) and 28% (2004) saying that financial advice is the "primary" service offered by stockbrokers and 25% (both surveys) saying advice and transaction assistance are equally important services provided by stockbrokers. Only 30% in 2007 and 26% in 2004 correctly understand that the "primary service" provided by stockbrokers is the buying and selling of stocks, mutual funds, bonds, etc., not investment advice.
 - In the 2007 survey, younger respondents age 18-24 were more likely to think that stockbrokers give advice than were those age 65 and over. Eighty percent of those age 18-24 chose one of the "advice" answers compared to only 45% of those age 65 and over.

Understanding of the Roles of Stockbrokers, Investment Advisors

E2: Now I'm going to ask you some questions related to what investor protections should apply when stockbrokers give investment advice. Brokers argue that investors understand the difference between brokerage accounts and advisory accounts and that the rules that apply to brokerage accounts, including an obligation to know the customer's financial situation and make suitable recommendations based on that knowledge, offer adequate protections. Others argue that when brokers offer broad investment advisory services, such as financial planning, they should have to obey the rules that apply to investment advisers, including an obligation to put their clients' interests ahead of their own and to tell their clients up-front about any conflicts of interest.

Based on your knowledge of stockbrokers, such as Merrill Lynch, Morgan Stanley, and Edward D. Jones, which ONE of the following statements do you believe BEST describes the services they provide to their customers?

Most Misunderstand the Role of a Broker



Base = Investors: 1,073 in 2007 and 1,044 in 2004.

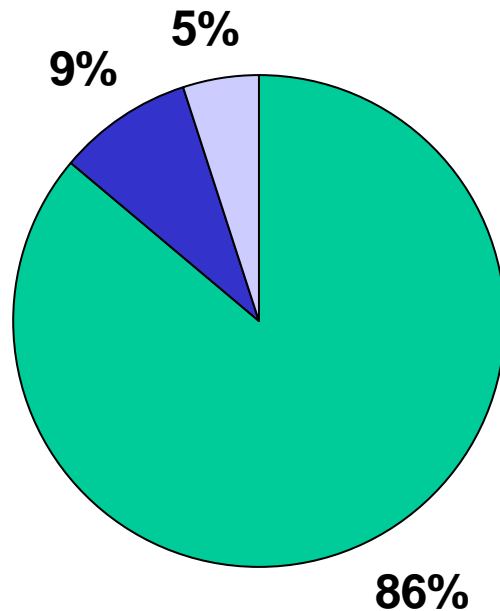
Disclosure of Compensation or Inducements

- About nine out of ten investors (86% in both surveys) think that stockbrokers should be required to disclose the fact that they receive inducements from a mutual fund company to sell their product.
 - Support for making this information public is even stronger among those in households with \$75,000 or more in income (91%) compared to those living in households with less than \$25,000 in income (77%).

Disclosure of Compensation or Inducements

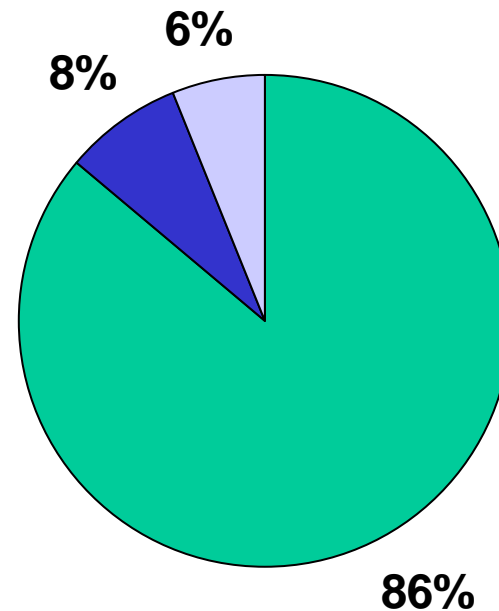
E5: Stockbrokers receive financial incentives from INVESTMENT product sponsors to recommend particular investments to their customers. If, for example, a stockbroker receives cash payments, vacation trips or other forms of compensation from a mutual fund company AS AN INDUCEMENT TO sell a particular mutual fund to his or her clients, should the stockbroker BE REQUIRED TO DISCLOSE THAT FACT TO A CUSTOMER BUYING THE MUTUAL FUND?

2007



Yes No Don't know

2004



Yes No Don't know

Base = Investors: 1,073 in 2007 and 1,044 in 2004.

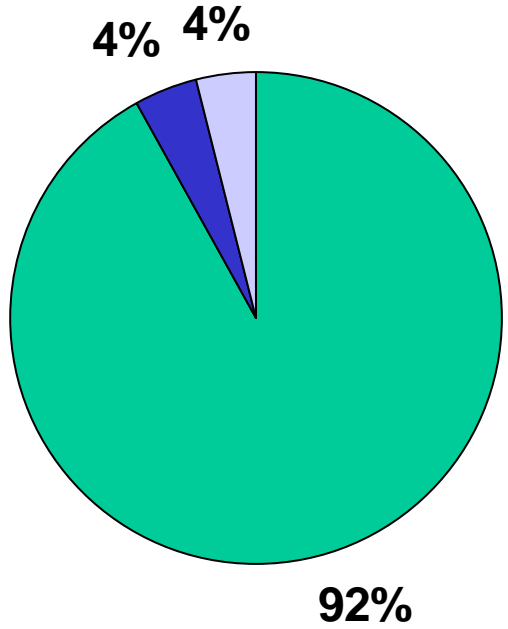
The Same Investor Protection Rules Should be Applied to Brokers and Financial Advisors

- Nearly all investors (92% in 2007 and 91% in 2004) think that if stockbrokers and financial planners provide the same kind of investment advice services, the same investor protection rules should apply to both groups.

Should the Same Investor Protection Rules be Applied to Brokers and Financial Advisors?

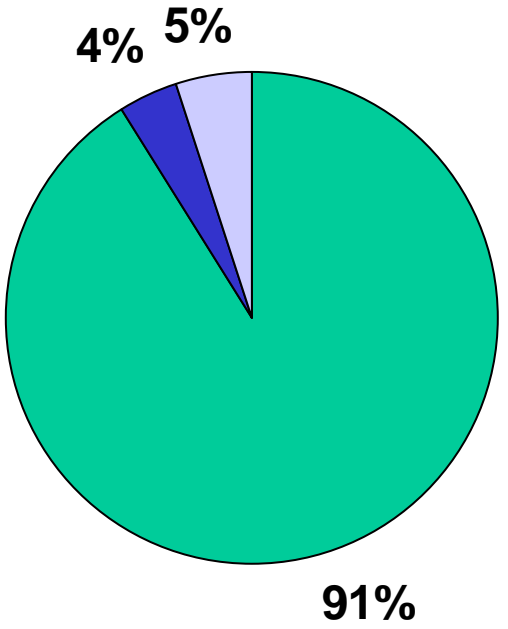
E3 If a stockbroker and a financial planner provide the same kind of investment advice services, do you think they both should have to follow the same investor protection rules?

2007



Yes No Don't know

2004



Yes No Don't know

Base = Investors: 1,073 in 2007 and 1,044 in 2004.

Impact on Brokers of Weaker Rules

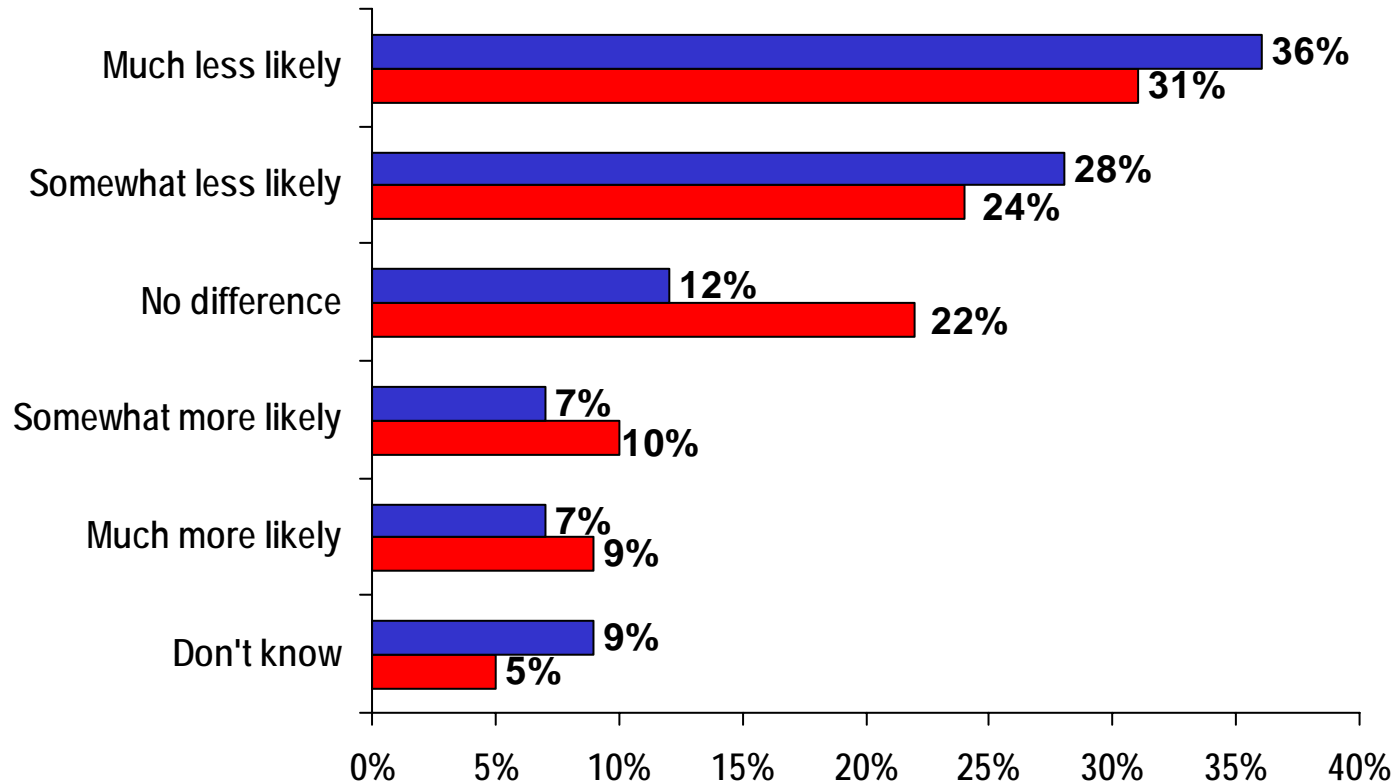
- If stockbrokers were subjected to weaker investor protection rules than financial planners, it could have a negative impact on the brokers. In the 2004 survey 65% of investors said they would be less likely to use a stockbroker providing investment advice if that individual is subject to weaker investor protection rules than a financial planner. In 2007, this percentage declined slightly to 54% but it still represents a majority of investors who say they would be less likely to use the services of a broker if weaker investor protection rules applied.
 - In the 2007 survey, better educated and wealthier investors indicated they were less likely to use stockbrokers subject to weaker rules than those who have lower levels of education or income.

	HH income Less than \$25,000	HH income \$75,000 or more	HS incomplete	College graduate
Much less/somewhat less likely	45%	60%	40%	59%

Impact on Brokers of Weaker Rules

E4: If you learned that a stockbroker providing investment advice services was subject to weaker investor protection rules than a financial planner providing the same services, would you be less or more likely to use that stockbroker? Would you say . . .

Majorities Might Stop Using a Broker



Base = Investors: 1,073 in 2007 and 1,044 in 2004.

■ 2007 ■ 2004



APPENDIX

RELIABILITY OF SURVEY PERCENTAGES

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results.

The table below shows the possible sample variation that applies to percentage results reported herein. The chances are 95 in 100 that a survey result does not vary, plus or minus, by more than the indicated number of percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

Size of Sample on Which Survey Results Are Based	Approximate Sampling Tolerances Applicable to Percentages At or Near These Levels				
	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
1,000 interviews	2%	2%	3%	3%	3%
500 interviews	3%	4%	4%	4%	4%
250 interviews	4%	5%	6%	6%	6%
100 interviews	6%	8%	9%	10%	10%

Additional Sampling Tolerances for Samples of 1,000 Interviews

<u>9% or 91%</u> 2%	<u>8% or 92%</u> 2%	<u>7% or 93%</u> 2%	<u>6% or 94%</u> 1%	<u>5% or 95%</u> 1%
<u>4% or 96%</u> 1%	<u>3% or 97%</u> 1%	<u>2% or 98%</u> 1%	<u>1% or 99%</u> 2%	

SAMPLING TOLERANCES WHEN COMPARING TWO SAMPLES

Tolerances are also involved in the comparison of results from independent parts of the sample. A difference, in other words, must be of at least a certain number of percentage points to be considered statistically significant – that is not due to random chance. The table below is a guide to the sampling tolerances in percentage points applicable to such comparisons, based on a 95% confidence level.

Size of Samples Compared	Differences Required for Significance At or Near These Percentage Levels				
	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
1,000 and 1,000	3%	4%	4%	4%	4%
1,000 and 500	3%	4%	5%	5%	5%
1,000 and 250	4%	6%	6%	7%	7%
1,000 and 100	6%	8%	9%	10%	10%
500 and 500	4%	5%	6%	6%	6%
500 and 250	5%	6%	7%	7%	8%
500 and 100	6%	9%	10%	11%	11%
250 and 250	5%	7%	8%	9%	9%
250 and 100	7%	9%	11%	11%	12%
100 and 100	8%	11%	13%	14%	14%

Topline Results of Two Telephone Surveys Conducted April 12-16, 2007, Among 2,052 Adults and October 14-18, 2007 Among 2,069 Adults.

E1 Are you an investor? By an investor I mean do you make decisions about where your savings are placed? This could mean you own bank certificates of deposit, stocks, bonds or mutual funds either directly or through retirement plans such as 401(k)'s, IRAs, Roth IRAs or similar plans.

4/07
N=2,052

10/04
N=2,069

54%

50%

YES → CONTINUE

44%

48%

NO → SKIP TO NEXT SECTION

2%

2%

DON'T KNOW → SKIP TO NEXT SECTION

Now I'm going to ask you some questions related to what investor protections should apply when stockbrokers give investment advice. Brokers argue that investors understand the difference between brokerage accounts and advisory accounts and that the rules that apply to brokerage accounts, including an obligation to know the customer's financial situation and make suitable recommendations based on that knowledge, offer adequate protections. Others argue that when brokers offer broad investment advisory services, such as financial planning, they should have to obey the rules that apply to investment advisers, including an obligation to put their clients' interests ahead of their own and to tell their clients up-front about any conflicts of interest.

E2 Based on your knowledge of stockbrokers, such as Merrill Lynch, Morgan Stanley, and Edward D. Jones, which ONE of the following statements do you believe BEST describes the services they provide to their customers? [READ ENTIRE LIST BEFORE RECORDING ONE ANSWER. ROTATE 01-02]

4/07
N=1,073 Investors

10/04
N=1,044 Investors

30%

26%

Their primary service is to buy and sell stocks, bonds, mutual funds, and other investment products on behalf of their clients, and they give only limited advice that is directly related to those transactions

29%

28%

Their primary service is to offer financial advice to their clients. They then help their clients to implement their recommendations by buying and selling stocks, bonds, mutual funds, and other investment products

25%

25%

Advice and assistance in conducting transactions are equally important services offered by brokers

17%

21%

DON'T KNOW/NONE OF THESE

- E3 If a stockbroker and a financial planner provide the same kind of investment advice services, do you think they both should have to follow the same investor protection rules?

<u>4/07</u>	<u>10/04</u>	
92%	91%	YES
4%	4%	NO
4%	5%	DON'T KNOW

- E4 If you learned that a stockbroker providing investment advice services was subject to weaker investor protection rules than a financial planner providing the same services, would you be less or more likely to use that stockbroker? Would you say . . . [READ LIST. RECORD ONE ANSWER]

<u>4/07</u>	<u>10/04</u>	
31%	36%	Much less likely
24%	28%	Somewhat less likely
22%	12%	No difference
10%	7%	Somewhat more likely
9%	7%	Much more likely
5%	9%	DON'T KNOW

- E5 Stockbrokers receive financial incentives from INVESTMENT product sponsors to recommend particular investments to their customers. If, for example, a stockbroker receives cash payments, vacation trips or other forms of compensation from a mutual fund company AS AN INDUCEMENT TO sell a particular mutual fund to his or her clients, should the stockbroker BE REQUIRED TO DISCLOSE THAT FACT TO A CUSTOMER BUYING THE MUTUAL FUND?

<u>4/07</u>	<u>10/04</u>	
86%	86%	YES
9%	8%	NO
5%	6%	DON'T KNOW