Financial Industry Regulatory Authority

June 21, 2011

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549-1090

Re: File Number 4-629; Release No. 34-64306
Comment Request on Existing Private and Public Efforts to Educate Investors

Dear Ms. Murphy:

The staff of the Financial Industry Regulatory Authority (FINRA) submits this letter in response to the Securities and Exchange Commission's request for comment to inform the study required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) regarding the most effective existing private and public efforts to educate investors. Dodd-Frank requires the Commission to conduct a study of financial literacy among retail investors that addresses their existing level of financial literacy, as well as methods to improve the timing, content and format of disclosure to investors with respect to financial intermediaries, investment products and investment services, among other subjects.

Who We Are

FINRA is the largest independent regulator for all securities firms doing business with the public in the United States. We oversee approximately 4,600 brokerage firms, 164,000 branch offices and 632,000 registered securities representatives, and we touch virtually every aspect of the securities business—from registering and educating industry participants to examining securities firms; writing rules and enforcing those rules and the federal securities laws; informing and educating the investing public; providing trade reporting and other industry utilities and administering the largest dispute resolution forum for investors and registered firms.[1]

Investor Education at FINRA

FINRA believes that investor education is a critical component of investor protection and that we are uniquely positioned to provide valuable educational information and tools to retail investors. FINRA sponsors numerous investor forums and outreach programs, and our website is a rich source of investor education material, including investor alerts, unbiased primers on investing and interactive financial planning tools available for the investing public to use at their convenience and free of charge.

In addition, in 2003, FINRA created the FINRA Investor Education Foundation (FINRA Foundation), currently the largest foundation in the United States dedicated to investor education. The FINRA Foundation seeks to provide underserved Americans with the

[1] FINRA has approximately 3,000 employees and operates from Washington, DC, and New York, NY, with 20 regional offices around the country. The comments provided in this letter are solely those of the staff of FINRA. They have not been reviewed or endorsed by the Board of Governors of FINRA or the Board of Directors of the FINRA Investor Education Foundation. For ease of reference, this letter may refer to "we," "FINRA" or "FINRA staff" interchangeably. These terms only refer to FINRA staff.

knowledge, skills and tools necessary for financial success throughout life. To date, the FINRA Foundation has approved approximately $63 million in financial education and investor protection initiatives through a combination of educational and research grants, as well as targeted projects managed directly by the FINRA Foundation.

We provide a detailed description of investor education programs managed directly by FINRA and the FINRA Foundation in Attachment A. In addition, we highlight—and describe more fully in Attachment B—the outcomes achieved by FINRA Foundation grantees. Through grants and targeted programs, FINRA and the FINRA Foundation are reaching millions of Americans at all stages of life. Nonetheless, much remains to be done, as the financial needs of Americans are affected by economic forces outside their control. What they know—or just as importantly, what they don't know—can make the difference between financial well being and hardship.

State of Financial Capability in the United States

A cogent discussion of investor education programs must be anchored by a clear understanding of what Americans know about dealing with personal finances and the financial challenges of life. In 2009, the FINRA Foundation undertook a project to measure the financial capability of American adults and examine in detail how they save, invest and plan for their financial future.

The National Financial Capability Study, the first of its kind in the United States, was developed in consultation with the U.S. Department of the Treasury and the President's Advisory Council on Financial Literacy. Three linked surveys comprise the study. Nearly 1,500 respondents participated in the first component, the National Survey, with the results released in late 2009. Results for the other two components, the State-by-State Survey and the Military Survey, were released in 2010.[2] Thousands of Americans participated in the state-by-state survey.[3]

The state-by-state online survey echoed several of the findings of the smaller-scale national telephone survey and painted an eye-opening picture. When it comes to planning for foreseeable life events, like retirement or a child's college education, the majority of Americans indicated that they were not preparing adequately. And even when they were taking steps to plan, they were not doing so in the most effective manner. For instance, of the 31 percent of respondents with financial dependent children reporting setting aside money for their children's college education, only a small group used a tax-advantaged account (*i.e.*, 529 plan, Coverdell

[2] An executive summary the National Survey, as well as a longer survey report, is available on the FINRA Foundation website, *www.finrafoundation.org/capability*. The survey data are available to the public and to researchers. The survey instruments were designed by a multi-disciplinary team including academic and institutional researchers. The National Survey was administered to respondents by telephone between May and July 2009. The primary sample of 1,200 respondents was constructed to be representative of the general adult U.S. population. Certain segments of the population were oversampled to ensure a sufficient number for analysis, bringing the respondent total to 1,488. For the State-by-State Survey, approximately 25,000 adults (about 500 per state, plus the District of Columbia) were surveyed online between June and October 2009. For the Military Survey, 800 servicemembers and spouses completed an online survey between June and July 2009.

[3] The FINRA Foundation created a dynamic interactive Web resource to display the results of the State-by-State Financial Capability Survey. The website, *www.usfinancialcapability.org*, displays a clickable map of the United States and allows the public, policymakers and researchers to delve into and compare the financial capabilities of Americans in every state and across geographic regions.

ESA or savings bond). With respect to retirement planning, 48 percent of respondents with a self-directed, employer-based retirement plan reported that they did not know whether their retirement assets were invested in a life-cycle or target-date fund—and half of that 48 percent further reported that they rarely or never re-balanced their retirement plan.

The survey results relating to knowledge of basic financial principles or sound investment practices also raised concerns:

- While 36 percent of all respondents reported having stocks, bonds or mutual funds outside of their retirement accounts at the time, it was not clear how well Americans understood basic securities market operations. For example, only 28 percent of all respondents understood that when interest rates rise, bond prices are likely to fall.
- Only 53 percent of all respondents understood that the statement "a single company's stock usually provides a safer return than a stock mutual fund" is false. As investors, the majority of survey respondents were not taking recommended steps to protect themselves when dealing with financial professionals.
- Only 46 percent of respondents who had used a financial professional met or talked with multiple professionals before choosing one.
- And only 14 percent checked with a state or federal regulator regarding the background, registration or license of a financial professional. This is despite the fact that only 32 percent agreed with the statement "I would trust financial professionals and accept what they recommend."

These survey results highlight just how important it is to give Americans the information and resources they need to make sound financial decisions. The findings emphasize the need for individuals to take greater charge of their financial well being by forecasting future financial needs, navigating increasingly complex financial markets and managing risk. The state-by-state results, in particular, highlight how many Americans are disadvantaged by their lack of financial capability. They also shed light on how financial decisions and literacy differ by gender, age bracket and region. For securities regulators and those who seek to educate investors, they are a clear signal that creating effective investor education programs is an urgent national need.

Characteristics of Effective Investor Education Programs

The driving principle behind FINRA's and the FINRA Foundation's programs is the belief that investor education is an essential component of investor protection. Investing in today's financial markets has never been more complex. While investment choices are plentiful, too many investors lack the financial knowledge to make the best choices for themselves and their families. Unfortunately, even experienced investors can be victimized by their own overconfidence or by fraud. As a result, effective investor education programs must be designed to teach individuals sound investment principles and, just as important, what steps to take to avoid becoming a victim of fraud.

We believe that effective investor education programs:

- focus on investor protection;
- emphasize behavior change;

- follow social marketing principles;
- incorporate numeracy skills whenever possible;
- can be scaled and replicated nationally; and
- undertake target audience research and undergo neutral evaluation.

Each characteristic is discussed below.

A. Effective investor education programs focus on investor protection.

While it is important for investors to understand key investing concepts—such as risk, diversification and how markets work—it is critical that regulators and other investor advocates incorporate investor protection elements into their programs. To that end, FINRA regularly issues educational materials to alert investors to potential problems and provide "plain-English" explanations of products and processes, along with questions to ask and helpful tools to assess investments and investment professionals.

Through our Investor Protection Campaign, the Foundation collaborates with national and state partners to help all Americans, especially seniors, detect and avoid fraud by understanding and countering persuasion tactics that may lead to financial losses. The campaign builds upon Foundation-funded research unveiled in July 2006 that shattered the stereotypes of senior investment fraud victims, revealing a fraud victim profile that was counterintuitive in many respects. Instead of being isolated, frail, and gullible, fraud victims tended to be married, college-educated males with above-average incomes and above-average levels of financial literacy. The research further identified the sophisticated and highly effective influence tactics that fraudsters use to carry out investment scams. These findings forced both regulators and senior advocates to rethink how best to approach the challenge of equipping older investors with the tools and information they need to thwart fraudsters touting investment scams.

Launched in 2008, the campaign's centerpiece is a 60-minute intensive workshop, "Outsmarting Investment Fraud," which was shown in field testing to reduce responsiveness to fraud appeals by more than 50 percent for individuals meeting the victim profile who attended our workshops. In addition, the campaign also recommends that investors check the background of financial professionals and whether an investment is registered. While these should be automatic steps that every investor takes before investing their hard-earned money, there is still a documented need to emphasize actions that help investors to avoid fraud when educating investors. The Foundation's Investor Protection Campaign is designed to achieve that goal. Additional information is available in Attachment A.I.

B. Effective investor education programs emphasize behavior change.

As evidenced by the National Financial Capability Study, Americans tend to believe that they are better at managing day-to-day financial matters than their actual behavior suggests. Moreover, the Foundation's research in connection with our Investor Protection Campaign found that even known victims of fraud do not self-identify as such.

To address these misperceptions, investor education programs should help Americans develop the skills to make good personal financial and investment decisions for life. In conjunction with periodic short-term efforts to warn investors about specific scams, investor education programs should deliver materials and tools that emphasize changing behavior. These resources should be readily available to the target audience over the long term, so that the messages are accessible easily and skills can be refreshed.

The programs should allow participants to learn and practice investment skills to facilitate application outside the learning environment. In delivering messages that focus on changing behavior, educators need to get creative in finding ways to deliver education at the sites where the target audience can be found—whether in secondary schools, colleges, workplaces or libraries. They also must be willing to experiment with social media and other delivery mechanisms to reach the audience, wherever it may be.[4]

C. Effective investor education programs follow principles of social marketing.

We believe that social marketing can improve the reach and effectiveness of financial education. Social marketing is the application of commercial marketing technologies to programs designed to influence the voluntary behavior of target audiences to improve their welfare.[5] Because influencing and changing behavior voluntarily are the ultimate goals of social marketing programs, they must be based on deep knowledge of the target customer and also must set clear objectives.

The FINRA Foundation has encouraged the use of social marketing by grantees, national and state securities regulators and other government agencies and non-profit organizations. To enhance understanding and promote the application of social marketing principles in investor education programs, we partnered with the Tuck School of Business (Tuck) at Dartmouth College to convene a series of invitational symposia.

During the first event, in May 2007, FINRA Foundation grantees, non-profits and government representatives—including SEC staff—learned how to segment the market, identify and understand distributor networks, position and communicate value to distributors and end users, and craft an effective marketing plan for their programs. Participants included 55 executive- and management-level staff from 43 organizations and government agencies.

For the second symposium, in May 2008, the Foundation, Tuck and the North American Securities Administrators Association (NASAA) co-sponsored a similar learning experience for NASAA members.

The third event, in June 2010, took a more interdisciplinary approach that focused on social media and the neuroscience of human learning across the lifespan. Participants from 33 non-profit organizations and government agencies seeking to leverage new, more interactive communications tools to help Americans improve their finances heard the latest theories on the

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[4] The Organization for Economic Co-operation and Development published a paper making similar recommendations. See OECD, *Examining Consumer Policy: A Report on Consumer Information Campaigns Concerning Scams,* OECD Digital Economy Papers, No. 103 (OECD Publishing, 2005) (available at http://dx.doi.org/10.1787/231767418167).

[5] Alan R. Andreasen, *Marketing Social Change,* San Francisco: Jossey-Bass, 1995. Social marketing can identify initiatives that may be used to influence the behavior of people (downstream social marketing) and government, media, businesses, legislators and community leaders among others (upstream social marketing).

dynamics of self-education and the co-production of learning that characterize new media. They also considered strategies for optimizing product design and delivery, and for managing the institutional changes necessary to use social media effectively.

One product of these symposia is our social marketing toolkit, prepared by Dartmouth Professor Punam Keller. The toolkit, available at no cost on the Foundation's website, includes templates and resources on communications, evaluation, distribution strategies and partnership development.[6] The FINRA Foundation hopes that the organizations involved in investor education initiatives will strive to create programs that result in behavior changes that lead to permanent improvements in the financial well being of Americans.

D. *Effective investor education programs should incorporate numeracy skills whenever possible.*

Because many financial decisions require knowledge of math, the Foundation-funded National Financial Capability Study asked respondents to rate their math knowledge in addition to their financial knowledge. The survey data revealed a sharp disconnect between self-reported financial knowledge and math skills on the one hand and responses to the financial literacy questions and questions designed to test math skills (also referred to as numeracy). For example, only 52 percent respondents who gave themselves top marks when asked to assess their math skills were able to do two calculations involving interest rates and inflation.

At a minimum, we believe that Americans should, by the time they graduate high school, have an understanding of basic financial concepts such as interest compounding, how to save and how credit works. That is why we have partnered with the Consumer Federation of America and Channel One on a teen financial literacy program (described more fully in Attachment A.III) and have allocated grant resources to a wide array of programs dedicated to youth (described more fully in Attachment B).

E. *Effective investor education programs should be scalable and replicable nationally.*

The nation's economic strength depends on a financially literate populace. We believe that providing unbiased, quality resources helps individuals take control of their financial well being. The FINRA Foundation is focused not only on creating these resources, but also on delivering the information to every community, neighborhood and classroom across the country. We utilize traditional methods of print, online and video instruction, and are continuously in search of new and innovative ways to engage, instruct and encourage.

The Foundation actively seeks to extend its reach through strategic partnerships. Through our community-based grantmaking partnerships with the American Library Association and United Way Worldwide, we have developed relationships with trusted community organizations. *Smart investing@your library®*, for example, currently reaches millions of library patrons across the country, and has served as a template and resource for libraries that do not receive grant funding. We also have provided tools for workplace representatives, funded programs to reach college students and low-income households, and partnered with public broadcasters.

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[6] The social marketing toolkit may be downloaded at *www.finrafoundation.org/resources/tools/*.

Most importantly, the Foundation has fostered the development of educational resources that can be leveraged by interested parties across the country. The programs, educational products and other resources created by grantees or for the Foundation's targeted programs are available to the public at large for use in their homes or by local organizations wishing to reach broader groups in their communities. These resources are found on the Foundation's website, *www.finrafoundation.org*. In addition, we will be happy to forward samples to the Commission staff.

F. Effective investor education programs undertake target audience research and undergo neutral evaluation.

Grounding any public outreach campaign in research is a critical component of a successful social marketing strategy. The FINRA Foundation funds research projects to better understand investor behavior, to inform investor education policies and initiatives at the national level and to assess what works with different target audiences. As described more fully in Attachment B, Foundation-funded researchers have examined a broad range of issues affecting the investing public, including gender and ethnic differences in investing, psychological biases that prevent wise investment decisions, how best to deliver investment information, whether employer-provided education helps workers plan for retirement, and the effectiveness of various approaches to improve the financial well being of different segments of the American public.

With respect to evaluation, the FINRA Foundation incorporates program evaluation into our grant agreements. We also subject our targeted projects and grant partnerships to rigorous evaluation. For example, partners in our Teen Financial Literacy Project (described in detail in Attachment A.III) collect and analyze data each year to evaluate program impact and recall using both a treatment group (students exposed to the messages) and a control group (students who are not). Our Military Financial Protection Campaign (described in Attachment A.II) has been evaluated by a third-party evaluator.

The curriculum at the core of our Investor Protection Campaign has been field-tested twice using treatment and control groups—first to determine the extent to which our workshops reduced susceptibility to fraudulent sales pitches, and then to assess both impact and persistence over time. In addition, a research team from the University of Wisconsin-Madison fielded a survey in April to libraries that have enabled and/or plan to enable financial literacy services for patrons. ALA and the Foundation will use this information to guide the future development of *Smart investing@your library*.

As you will see in Attachment B, the Foundation has also funded research that has evaluated third-party programs, including the Stock Market Game and employer-provided workplace financial education programs for pre-retirees.

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We hope these comments and the attachments prove helpful to the Commission as it conducts its study regarding financial literacy among investors. We appreciate the opportunity to discuss the programs administered by FINRA and the FINRA Foundation, and will be happy to provide additional information and samples of the investor education resources discussed above. Please contact Gerri Walsh at (202) 728-8348 if you have any questions.

Very truly yours,

Marcia E. Asquith

Marcia E. Asquith
Senior Vice President and
Corporate Secretary

Attachment A: FINRA and FINRA Investor Education Foundation Directed Programs
Attachment B: FINRA Investor Education Foundation Grant Programs

Attachment A: FINRA & FINRA Investor Education Foundation Directed Programs

The FINRA Investor Education Foundation provides grant funding to help non-profit organizations ensure that reliable financial and investor education is available to all who need it, when they need it—at the workplace, online or wherever works best. Our grants also allow researchers to explore investor behavior and develop practical ways to help Americans make good financial decisions.

But grantmaking is only one part of the FINRA Foundation's core activity. Through directed programming, the Foundation educates and protects targeted segments of the investor community, including seniors, military servicemembers and teens. In addition to the Foundation's efforts, FINRA itself engages in a wide array of investor education activities. These and other FINRA and Foundation-led initiatives are described in greater detail below.

I. Investor Protection Campaign

Launched in 2008, this research-based, social change investor protection campaign is intended to help older investors understand how they might be susceptible to investment fraud and to replace risky investment behaviors with fraud detection and prevention behaviors. The campaign is currently underway in Alabama, Colorado, Florida, Maine, North Carolina, Vermont, Washington and West Virginia. In each state, the Foundation has partnered with the state securities regulator, state AARP office and various other government, non-profit and grassroots organizations. National partners include the U.S. Securities and Exchange Commission (SEC), AARP and BetterInvesting. The Foundation and its partners are conducting investor events, training a volunteer corps, distributing educational literature and a documentary, placing advertorials, conducting radio media tours and otherwise sharing the campaign's fraud prevention messages on a community level.

Field-Tested Campaign

The impetus for this campaign arose from FINRA Foundation-funded research in 2006 (2006 Research) that shattered the stereotypes of senior investment fraud victims. The 2006 Research found that senior investment fraud victims tend to be married, college-educated males, aged 55 to 65, who score higher on financial literacy tests than non-victims. In addition, it showed that the influence or persuasion tactics used by fraudsters are sophisticated, highly effective and customized to match the victim's psychological profile. The key findings from the 2006 Research clearly established that victims are less able to spot persuasion tactics than the general population, and that there are particular tactics used more frequently in investment fraud pitches than in other types of financial fraud.

In response, the Foundation piloted and later expanded a campaign designed to reduce the incidence of investment fraud among investors ages 55 and older. To better understand the audience and their susceptibility to investment fraud, the Foundation conducted additional research that reinforced the 2006 Research findings that indicate a large majority of the target audience do not believe they are vulnerable to investment fraud. With this in mind, the Foundation designed and implemented a pilot "social norm" campaign in 2008 (2008 Campaign Pilot) that focused on understanding risk, recognizing persuasion and knowing prevention strategies. The slogan used in the campaign is: "Before you invest, ask and check."

The 2008 Campaign Pilot included development and testing of an investment fraud prevention curriculum, *Outsmarting Investment Fraud*. The curriculum is divided into three primary sections:

1. **Understanding investment fraud risk factors.** Research suggests that the vast majority of investors do not perceive themselves as personally vulnerable to investment fraud. The learning objective for this section is to help participants recognize the behaviors they may engage in that raise their risk of becoming a victim.

2. **Learning to spot persuasion.** The learning objective for this section is for participants to recognize the most common persuasion tactics used in investment fraud. The presentation details the five most frequently used tactics, and teaches the red flag rules associated with each.

3. **How to prevent investment fraud.** The learning objective for this section is for participants to know the most powerful fraud prevention strategies. The presentation outlines three simple steps investors can to take to prevent investment fraud, with a focus on asking questions and verifying information.

The full 60-minute, interactive curriculum was field tested in April 2008 and March 2009 in order to gauge the curriculum's effectiveness in increasing resistance to investment fraud. Results of the field tests demonstrate that the *Outsmarting Investment* Fraud curriculum reduced responsiveness to a fraud appeal by more than 50 percent.

The curriculum is available in several formats to accommodate varying time allotments, audience sizes and levels of access to technology. The program may be presented in either 30 or 60 minutes, with or without video. For presenters without access to audio/visual resources, a hard-copy flip chart is available.

Based largely on the *Outsmarting Investment Fraud* curriculum, the Foundation also produced "*Trick$ of the Trade: Outsmarting Investment Fraud,*" an hour-long documentary on preventing investment fraud. Utilizing compelling stories of victims and perpetrators, the documentary uncovers the persuasion tactics that con artists use to defraud their victims and the basic tools investors can use to defend against fraud. Like the curriculum, the documentary focuses on risk, persuasion and prevention.

Both the *Outsmarting Investment Fraud* curriculum and documentary are part of a toolkit that the Foundation provides to government agencies, civic organizations and volunteers interested in educating investors about investment fraud. The toolkit contains a step-by-step guide to implement the program and materials needed to communicate the campaign message and conduct curriculum-based activities and outreach. Additional toolkit elements include the brochure *Fighting Fraud 101* (available in English and Spanish), fact sheets and other recommended investor protection resources. Most of these materials can be co-branded with campaign-partner organizations.

Campaign Reach

The *Outsmarting Investment Fraud* curriculum has now been presented at least 225 times to more than 14,000 consumers since its launch in 2008. Over 100,000 copies of the *Fighting Fraud 101* brochure and more than 45,000 DVDs of the *Trick$ of the Trade* documentary have been distributed to investors. In September 2010, the documentary was released through American Public Television and has aired over 715 times on more than 160 public television stations covering 30 states. Designated Market Area (DMA) household estimates of these markets show the documentary has the potential to reach nearly 56 million households (48 percent of the U.S. television market), of which 47 million households are in our primary target demographic (ages 50 and up). The Foundation has also created a website devoted to the Investor Protection Campaign, *www.SaveandInvest.org*, which allows users to review the campaign's educational information at their convenience, access tools and use other resources to learn how to avoid becoming a victim of investment fraud.[1]

Next Steps

In 2011, the Foundation will engage additional state and national partners to continue protecting older investors nationwide. In addition, the Foundation will continue to support research that will lead to enhanced investor protection and fraud prevention efforts. To this end, the Foundation has partnered with the Stanford Center on Longevity to launch the Research Center on the Prevention of Financial Fraud. The primary objective of the Research Center is to become a credible source for knowing, understanding and directing research that results in a better understanding of the sources of financial fraud and the methods to prevent it. The partnership will seek to increase awareness of the issues and to catalyze practical research that will drive changes in fraud prevention programs and policies.

[1] In addition to providing this fraud prevention program to older investors, we have expanded the reach of the program to the military and professional football players. Modified versions of the program have been used as part of our Military Financial Education Program and in partnerships with the National Football League (NFL) and Black Coaches & Administrators (BCA).

II. Military Financial Education Project: Helping Servicemembers Manage their Money with Confidence

The Foundation's Military Financial Education Project delivers free, unbiased financial education tools and training to servicemembers, their spouses and on-base financial educators through a variety of programs and public awareness initiatives. The project's primary goal is to help military servicemembers manage their money with confidence. It was launched in 2006 using fine money levied against firms for misleading sales practices targeting military personnel. The Foundation designed the project based on research with military officers and enlisted personnel that showed many members of the military could benefit from additional financial education. In coordination with the Department of Defense (DoD) and military leaders throughout the United States and overseas, the Foundation has developed a multi-faceted program that features public awareness activities, on-base educational forums, training for military spouses, programs for military financial educators, and online and printed educational tools and resources for servicemembers and their families.

Project Scope and Reach

Since 2006, the Military Financial Education Project's most significant achievements have included:

- Reaching more than 28,000 members of the military community face-to-face at 131 Military Financial Education Forums at installations worldwide and at sea in the Persian Gulf—covering topics ranging from credit and debt management to saving and investing for retirement.

- Helping "warriors in transition" by distributing nearly 17,000 copies of a guide on saving and investing disability benefits and hosting forums at military medical facilities, such as the Dwight David Eisenhower Army Medical Center and the National Naval Medical Center.

- Awarding fellowships to nearly 1,000 military spouses for the Accredited Financial Counselor™ certificate, offering the chance to earn a career-enhancing credential while providing financial counseling to the military community. Participants have logged over 256,000 practicum hours in their communities.

- Distributing more than 680,000 copies of *Money and Mobility*, a guide for managing money during PCS moves and deployments developed in collaboration with the National Endowment for Financial Education® and the National Military Family Association.

- Providing no-cost access to online credit management tools to help over 75,000 servicemembers and spouses understand and improve their credit scores through the Department of Defense's network of military financial educators and counselors serving the military community.

- Launching and maintaining a comprehensive website—*www.SaveAndInvest.org*—that provides tools and information on a range of financial topics, including *Moneytopia*, an immersive e-learning game.

- Providing resources and expertise to BBB Military Line in the development of financial education workshops for military servicemembers on investing for retirement and avoiding scams.

- Delivering distinct and new continuing professional development programs to more than 370 military financial educators registrants in partnership with the Association for Financial Counseling and Planning Education.

- Implementing a Youth Financial Literacy Initiative to provide financial education materials to the 194 Department of Defense Educational Activity Schools that serve more than 84,000 students worldwide.

The Foundation has also released research on financial knowledge and behaviors within the military community, including the Military Financial Capability Survey, which measures for the first time the overall financial capability of servicemembers and their families. In addition, the project provides resources, expertise and funding to key partners, including Military Saves, and delivers ongoing professional development programs to military financial educators.

2009 Evaluation

The FINRA Foundation commissioned a study by the Institute for Socio-Financial Studies (ISFS) to assess the performance and effectiveness of the Military Financial Education Campaign. ISFS examined the descriptive measures the Foundation and its partners have developed, reviewed the financial education literature and employed a variety of research methods to assess the impact of the Foundation's diverse Military Program activities.

ISFS met with Foundation executives and staff, DoD, Foundation partners and thought leaders in the field of financial education. ISFS attended Foundation forums and other presentations at Navy, Army, Marine Corps and Air Force installations and locations. It talked to servicemembers who attended presentations and forums as well as installation Personal Financial Managers, FINRA Foundation Military Spouse Fellows and other military financial educators. In the course of its yearlong evaluation, ISFS also reviewed electronic and printed documents, including websites, evaluations, contracts, advertising, reports, news articles and presentations.

ISFS concluded that the Foundation's model of research, partner-based educational programs and outreach efforts has been successful, and that it will continue to deliver high-quality financial information and tools to support the DoD and the services in their efforts to help servicemembers and their families improve their personal financial capabilities.

Next Steps

Currently in its sixth year, the Military Financial Education Project remains a top priority for the Foundation. During 2011, the Foundation will continue implementing a three-pronged model comprising research, partnerships and outreach to deliver high-quality financial education information and tools. It intends to build on the *Military Financial Capability Survey* to explore why servicemembers incur high levels of debt and which interventions can help. A new partnership with the National Guard will expand the target audience. Improved resources, such as a redesigned website, will continue to offer information and tools to serve the needs of the country's military community.

III. Generation Money: Improving the Financial Literacy of America's Teens

The Foundation, in collaboration with the Consumer Federation of America and Channel One, launched Generation Money in January 2009 to help teach secondary school students about the power of interest compounding and other essential financial literacy concepts that students must understand as they begin to grow into their own financial responsibilities. The program reaches 5.8 million students in 270,000 classrooms across the United States in grades 7 through 12. Instructional materials are also provided for teachers and parents.

Program Components, Scope and Message

The Generation Money program uses an integrated multimedia approach that includes the following components:

- Broadcast news segments
- On-demand video
- Public service announcements
- Classroom materials for display and instruction
- Web-based learning resources for students and teachers
- Sweepstakes to drive student interest

Classroom posters and public service announcements featuring a pair of animated twins—Taylor and Tyler—show students the benefits of saving and budgeting and the problems that come with too much credit card debt. The first poster developed for use in classrooms presents a visual representation of interest compounding. Extensive testing with students and teachers was conducted to finalize the design and content. Approximately 100,000 copies have been distributed to date.

The second poster helps students understand the relationships among installment amount, the time it takes to repay a debt and the total interest paid. The second poster, also tested with students and teachers, has also been distributed to educators in the full network of Channel One's 7,938 middle and high schools. Approximately 42,000 copies of the second poster have been distributed to classrooms.

The first of three animated public service announcements (PSAs) created for the program is tied to the first instructional poster on interest compounding. The PSA compares the financial fate of Tyler, a saver and Taylor, a spender — showing how saving and spending behaviors have major consequences over the long term. In the second PSA, Taylor and Tyler are recently matriculated at State University and learn the ins and outs of credit and debt management. The most recent PSA features the twins and the consequences of their personal financial decisions as they face the purchase of their first automobile with markedly different levels of financial savvy. Audience research conducted on behalf of Channel One suggests that the students had reacted favorably to the message on the long-term consequences of saving and spending.

News segments broadcast by Channel One introduce students to everyday money matters through stories that are relevant to them. Channel One News is the highest-rated teen television program and has co-produced the segments with NBC News and CBS News. Broadcasts normally air during "homeroom periods" at the public, private and parochial schools in Channel One's nationwide network. For each feature-length segment, educators in participating schools receive a brief discussion guide, which allows the concepts introduced by the segment to be integrated into structured classroom conversations or related homework assignments. Following the initial broadcasts, the segments are repackaged for use by teachers and others.

The Generation Money website, *www.channelone.com/generationmoney,* provides access to the Taylor and Tyler animations, the Channel One news segments and classroom discussion guides to accompany them. The site also includes interactive learning games, financial quizzes, a series of lesson plans on the mathematics of personal finance, articles on other financial topics (such as the Rule of 72) and tools to calculate savings. A sweepstakes, designed to drive student interest and introduce them to the Rule of 72 and other concepts, has been conducted three times to date. Over 15,700 students have participated.

Evaluation

Survey research conducted before, during and following the program during the 2009–2010 academic year suggests that the educational campaign is achieving success. During that period, Generation Money aired features and short-topic segments on generational differences in saving for college, the role of inflation in the U.S. economy, federal vs. private student loans, teens and investing, the national debt, and changes to the Free Application for Federal Student Aid (FAFSA). The surveys showed that students responded favorably to all of the features, especially the segment on generational differences in saving for college. Student viewers also felt that the topics addressed by the features were important and that Channel One/CBS News covered the topics well.

Following the campaign, approximately 56 percent of surveyed students recalled the specifics of the PSA messages, a rate that compares favorably to other campaigns running on the Channel One Network. Over 80 percent of students indicated that the PSAs did a good job, or better, explaining the importance of saving with compound interest, the usefulness of following a budget and the cost of using a credit card. After the PSA campaign, students were more likely to understand that borrowers are obliged to pay back more than the amount borrowed because of interest obligations, more likely to understand that saving with compound interest yields increased wealth, and measurably better able to define compound interest.

Channel One is undertaking an independent evaluation of the Generation Money program. A third-party research company is hosting online surveys and recruiting nationally representative samples of teens to measure project impact. The evaluation research is examining both the treatment group (students in Channel One schools) and control group (students in non-Channel One schools). The Foundation expects results of the analysis later in 2011.

IV. Retirement Made Simpler Partnership

Retirement Made Simpler (RMS) is a coalition of respected advocacy, regulatory and policy organizations, including AARP, the Retirement Security Project (RSP) and FINRA. The organizations are working together to address the concern that Americans are not saving enough for retirement. In November 2007, the coalition launched an ongoing campaign created specifically to educate and support employers who want to help their employees save more for retirement, by providing companies with the tools and information to help automate their 401(k) plans.

A dedicated website, *www.RetirementMadeSimpler.org*, offers employers information about automatic defined contribution retirement plans, why they work, best practices on how to implement features such as automatic enrollment and automatic escalation, and real-world experience from other companies that already have made the switch. RMS has created toolkits to facilitate the rollout of automated 401(k) and 403(b) plans. Companies contemplating this action are encouraged to follow a few simple steps to set up an effective plan:

- Determine the goals of the company's plan.
- Evaluate the elements of an automatic plan.
- Consider a default contribution rate.
- Select a default investment fund.

Research-Based Initiative

The coalition has devoted its collective resources to this campaign because research shows that automatic 401(k) plans work. They are a simple and effective way to enhance retirement savings. Companies that use them commonly see participation rates soar to between 85 and 95 percent, especially among workers with the lowest participation rates.

With a traditional 401(k) plan, many employees fail to start saving because they do not know how to allocate investments or understand the choices. Saving for retirement seems so daunting that many people procrastinate or avoid thinking about it, but the inertia that keeps people out of traditional 401(k) plans is used, in automatic plans, to help them save. When an employer takes the initiative to automate enrollment and set default investment options and savings levels, employees benefit. Employees start saving earlier, save more over time and feel good about themselves and their company.

RMS commissioned two studies to examine experiences with automatic 401(k) plans. The first, conducted in 2007 by Harris Interactive, found that 98 percent of U.S. adults enrolled in an automatic 401(k) plan were satisfied or very satisfied with their company's decision to offer this savings vehicle. In addition, of those who were automatically enrolled, only 7 percent opted out of the plan. The study also found that 95 percent of adults in automatic 401(k) plans agree that automatic enrollment has made saving for retirement easy, and 85 percent agree that it has helped them start saving for retirement earlier than they had planned.

The second study was conducted in 2010 by the Center for State and Local Government Excellence on South Dakota's Supplemental Retirement Plan (SRP). It found that instituting automatic enrollment programs results in a staggering leap in participation rates. The study followed several dozen government units in the first eight months of the automatic enrollment program. Ninety-one percent of new, eligible employees are participating in the SRP in units that adopted automatic enrollment, versus 1 percent of new hires in units without automatic enrollment. The study was featured in Plan Sponsor and other leading industry and academic publications.

RMS Reach and Next Steps
The RMS website receives an average of approximately 2,000 unique visitors a month. A newsletter is sent every month to an opt-in email list exceeding 4,000 subscribers. Over 1,500 users have downloaded the full RMS Automatic 401(k) Toolkit, and more than 5,000 hard copies have been mailed to mid-sized companies since it was published in 2008. More than 2,500 users have received or downloaded the Automatic 403(b) Toolkit, published in 2010.

FINRA plans to continue to partner with the RMS collation to promote the use of automated 401(k) plans to help the American public achieve a safe and secure retirement.

V. FINRA Investor Education

FINRA believes an essential component of investor protection is investor education. To that end, we provide free, unbiased resources and tools to help investors evaluate investment products and professionals, and better understand the markets and the principles of investing.

Investor Information
The information we make available to investors includes the following:

- **FINRA Investor Alerts** provide information investors need to protect their money and avoid scams and other investment problems. A recent focus of our Investor Alerts has been complex investment products, such as structured notes with principle protection, reverse convertibles and leverage and inverse ETFs. Many of these Investor Alerts are jointly issued with other agencies, such as the SEC and Municipal Securities Rulemaking Board.

- We also offer **detailed information about major investment topics**, including saving for college, choosing investments, 401(k) investing and bond investing.

- As a complement to our online offerings at *www.finra.org/Investors*, FINRA develops **investor podcasts** on a range of important financial issues. Since June 2008, we have tallied more than 80,000 downloads of 51 podcasts.

- We distribute an array of **print material**. Among our most popular print resources is *Job Dislocation: Managing the Financial Impact of Unexpected Job Loss.* More than 700,000 copies of this brochure have been distributed through state securities and workforce agencies, public libraries nationwide and The Better Business Bureau® Serving Metropolitan New York.

Educational Tools
We also offer a number of tools designed to help investors make smarter investment decisions and avoid fraud:

- **FINRA BrokerCheck®** provides investors with valuable information on the professional background of current and former FINRA-registered firms and brokers. We believe that using BrokerCheck is an essential first step in selecting an investment professional, and a resource investors should use periodically to keep tabs on their broker and firm. In 2010, more than 17.2 million records were viewed for the nearly 1.35 million current and former securities brokers listed on BrokerCheck.

- **FINRA's Fund Analyzer** allows investors to compare the impact of fees and expenses on the performance of more than 23,000 mutual funds, exchange-traded funds and exchange-traded notes, and to look up applicable fees and available discounts for these for these investments. Investors can research one fund at a time or compare the costs of as many as three funds or classes of a single fund. Between January 2010 and April 2011, the Fund Analyzer received 433,074 visits.

- **FINRA's Market Data Center** offers a comprehensive, content-rich, free online information resource for retail investors that includes detailed market data on equities, options, mutual funds and a wide range of bonds, including corporate, municipal, Treasury and agency bonds. The Market Data Center also provides familiar equities indices, as well as FINRA-Bloomberg Active U.S. Corporate Bond Indices for investment-grade and high-yield bonds. Between January 2010 and April 2011, the Market Data Center received 349,349 visits.

- **FINRA's Professional Designations Database** helps investors decode the strings of letters that sometimes follow an investment professional's name and determine which professional is suitable for their particular needs. Between January 2010 and April 2011, the Professional Designations Database received 64,493 visits.

- Other tools for investors include our **Risk Meter,** which allows investors to determine if they share characteristics and behavior traits that have been shown to make some investors vulnerable to investment fraud; our **Scam Meter,** which assesses whether an investment opportunity is too good to be true; and our **Required Minimum Distribution Calculator**, which helps investors determine how much they are required to withdraw from a traditional 401(k) or IRA.

Early Retirement Scam Prevention Project
FINRA launched two online and print resources to help companies and their older workers protect themselves from early retirement scams. One brochure—*Help Your Employees Achieve Their Retirement Dream: Tips for Spotting Early Retirement Scams*, was designed for human resources professionals. The other, *Early Retirement Seminars 101: Smart Tips for Spotting Retirement Scams*, was targeted at employees. FINRA has distributed more than 10,000 copies of the brochures through direct mail campaigns targeting companies and employees in industries considered potential targets of such scams, including telecom and transportation companies.

- FINRA partnered with the International Foundation of Employee Benefit Plans (IFEBP) and the Society of Human Resources Professionals to reach the target audience. FINRA also partnered with the Coalition of Black Trade Unionists (CBTU) to mail the Early Retirement brochure to CBTU members nationwide. The publication was co-branded with IFEBP, which makes the materials available on its online bookstore.
- FINRA is currently partnering with the SEC and the Office of Personnel Management to produce a co-branded federal version of these resources, which will be widely distributed to federal human resources directors and federal employees.

VI. Other Directed Programs

A. National Financial Capability Survey

- In 2009, the FINRA Foundation released the results of a survey that measured the financial capabilities of American adults and revealed in detail how Americans save, borrow and plan for their financial future. The National Financial Capability Survey, the first of its kind in the United States, was developed in consultation with the U.S. Department of the Treasury and the President's Advisory Council on Financial Literacy.

- The survey found that:
  - the majority of Americans do not have a "rainy day" fund for unanticipated financial emergencies and are not adequately preparing for their children's college education and their own retirement;
  - more than 1 in 5 survey respondents use high-cost, alternative borrowing methods, such as payday loans or pawn shops; and
  - fewer than half (46 percent) of those surveyed correctly answered two basic questions about how interest rates and inflation work.

- These results highlighted the importance of giving people the information and resources they need to make sound financial decisions.

B. The Institute for College Access and Success: Report on PrivateStudent Loans

- Private student loans are one of the riskiest ways to pay for college. They typically have uncapped, variable interest rates and cost the most for those who can least afford them, while federal student loans have fixed interest rates that are not affected by the borrower's income or credit score.

- Private student lenders are not required to provide the important borrower options and protections that come with federal loans, such as unemployment deferments, income-based repayment, public service loan forgiveness and cancellation if the borrower dies, is severely disabled, or is defrauded by his or her school.

- The Foundation partnered with The Project on Student Debt, an initiative of The Institute for College Access and Success (TICAS) to find out the reasons why so many students and families end up with risky private student loans instead of safer federal student loans. A recently completed research report, *Decision Points: How Colleges Can Help Students and Families Make Better Decisions about Private Loans,* identifies current institutional policies and practices, discusses those that operate to the benefit of the students, points out those that miss the opportunity to provide helpful guidance and recommends improvements to the financial aid process to benefit students even more.

Attachment B: FINRA Investor Education Foundation Grant Programs

Since the FINRA Foundation's inception in December 2003, it has approved approximately $63 million in financial education and investor protection initiatives through a combination of 157 grants and several targeted projects managed by the Foundation itself. The Foundation offers four grant programs: *Smart investing@your library®*; Financial Education in Your Community; the Investor Advocacy Clinic Grant Program; and the General Grant Program (which includes both educational and research grants). These programs, and selected general grant program projects, are described below.

I. *Smart investing@your library®*: Empowering Library Patrons to Make Smart Financial Decisions

The *Smart investing@your library®* grant program is administered jointly by the Foundation and the American Library Association (ALA). The program is designed to support community-level financial education and assistance to library patrons by offering access to effective, unbiased financial education resources. Public libraries and public library networks across the country use the grants to avail themselves of a variety of technologies and to implement outreach strategies to bring free, quality financial and investor education opportunities within easy reach of diverse groups of library patrons. The libraries partner with an array of organizations, including schools, universities and local and state agencies, to expand the impact of the services and resources enabled by the grants. Through the program, libraries empower patrons to make smart financial decisions, both for long-term investing and day-to-day money matters.

During the first four years (2007–2010) of *Smart investing@your library®*, the FINRA Foundation awarded grants totaling more than $4.7 million to 58 public libraries and library networks. The program currently encompasses a combined service area population of nearly 25 million across the country. The libraries serve urban, suburban and rural communities in equal measure. They have used grant funds to establish online and in-person programs, partner with community organizations, augment library collections, train staff and engage in promotional efforts to offer effective financial education resources.

Partnership Support and Program Resources

The Foundation and ALA offer continuing support to the libraries that starts with a training seminar featuring social media and social marketing, outcomes-based evaluation techniques, and the financial education resources created by the FINRA Foundation and other grantees. The Foundation and ALA also offer communications guidance, ongoing individual coaching and consultation and guidance on building local partnerships throughout the project life, which typically ranges from 12 to 24 months. A dedicated website encourages grantees, grant applicants or any library interested in starting a financial literacy program to borrow and share resources and strategies. The resources available at *www.smartinvesting.ala.org* include valuable information to facilitate development of investor education programs, a discussion of lessons learned and downloadable tools.

Initial Evaluation

In 2010, ALA conducted a program evaluation of the 2007 initial round of 13 grants, collecting data from the library grantees (and a limited number of subsequent grantees) through surveys and reports. The evaluation supports the four key findings listed below, and illustrates the value and effectiveness of *Smart investing@your library®*.

Key Findings:

- Financial education resources created by the FINRA Foundation and other grantees, including the FINRA Foundation's investor education modules, hold significant value for library staff and patrons.

- *Smart investing@your library®* grantees are achieving a high level of program sustainability and expanding audiences.

- Libraries are creating and sharing replicable service models and building their capacity to make reliable, unbiased investor education and protection resources and services available to those who need help.

- Publicity and partnerships created by participating libraries are raising public awareness about financial education at the national, state and local levels.

Continuing Evaluation and Next Steps
The Foundation believes the evaluation of the initial round of grants suggests that the *Smart investing@your library®* program is achieving its purpose of supporting community-level investor education and assistance to library patrons by offering access to effective, unbiased financial education resources. The libraries participating in the program have become leaders in financial education, developed a solid collection of print and online resources, and forged a strong network of local and regional expertise and partnerships that will allow them to continue serving library patrons for the long term. The Foundation and ALA will continue evaluating the program as subsequent rounds of grantees complete their projects.[2] Additional grants will be awarded in 2011.

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[2] A recent study, conducted by members of a research team at the University of Wisconsin-Madison School of Library and Information Studies, was designed to increase knowledge about the financial literacy programming/services offered through libraries surveyed in the ALA/FINRA Smartinvesting@your library® program and the ALA/Federal Reserve Money Smart Week@YourLibrary®program. The study examined what motivated libraries to offer financial education programs, the topics covered, the audiences reached and the librarian training involved. See Smith Eschenfelder, Brynes & Fesemyer, forthcoming. *Public Libraries as Financial Literacy Providers*. University of Wisconsin-Madison, Financial Literacy Research Center Working Paper.

II. Financial Education in Your Community

The Financial Education in Your Community grant program is administered jointly by United Way Worldwide and the FINRA Foundation. Two-year grants are competitively awarded to local United Ways and other non-profit community groups that undertake projects to help identify best practices for providing working individuals and families with the information they need to take action toward increasing their financial stability. These local organizations have a unique ability to provide low- and middle-income Americans with the information and support they need to make sound financial decisions and save for their long-term financial security. The projects leverage strategic partnerships and successful existing programs and target a diverse group of clients from areas of the country that have been hit hard by the economy.

Nearly $3.3 million have been awarded to 27 organizations through this program over the last two years. In addition to funding, the Foundation provides unbiased financial education materials and ongoing technical assistance.

III. Investor Advocacy Clinic Grant Program

In 2009, the FINRA Foundation launched the Investor Advocacy Clinic Grant Program to help fill the gap in legal representation for investors with small claims who do not have the financial resources to obtain legal representation. Under this program, the Foundation awards start-up grants of $250,000 to law schools that are well-positioned to launch and maintain clinics.

Six law schools have received grants to date. Four schools received the first set of grants in 2009—Florida International University (FL), Howard University (DC), Pepperdine University (CA) and Suffolk University (MA)— and all four clinics are now open to the public. Two additional grants were awarded in 2010 to the Seton Hall (NJ) and University of Miami (FL) law schools. The clinics at these schools will open during the 2011–12 academic year.

In addition to representing clients, the grantees will conduct educational outreach activities through libraries, community associations, senior centers, schools and other organizations.

In 2004, the Foundation funded the first securities arbitration clinic in the Midwest at Northwestern University School of Law. At the time, that clinic was one of fewer than 10 in the country. Northwestern also developed a start-up guidebook for establishing a securities arbitration clinic as part of the grant. In 2006, the Foundation also funded a grant to the Pace Law School Investor Rights Clinic to develop and distribute an educational guide to help small, individual investors understand their legal rights and responsibilities to avoid disputes, or seek resolution through arbitration or mediation. Both of these resources are used as part of the Investor Advocacy Clinic Grant Program.

IV. General Grant Program

Through the General Grant Program, the FINRA Foundation funds research and educational projects that support its mission of providing underserved Americans with the knowledge, skills and tools necessary for financial success throughout life.

A. Educational Grants

1. Investor Education in the Workplace

a) Investor Education for Working Families

- **AFSCME Training and Education Institute, Washington, DC (2007)**
- **National Labor College, Silver Spring, MD (2010)**
- **National Association of Investors Corporation, Madison Heights, MI (2005)**

Through three separate grants, the FINRA Foundation has focused efforts on reaching working families via their labor unions. In the most recent project, the National Labor College (NLC) is partnering with labor unions from multiple industry sectors, as well as apprenticeship programs, to provide access to face-to-face and online investor education to approximately 8.7 million union members. The NLC program builds on and expands a successful Foundation-funded effort undertaken by the American Federation of State, County and Municipal Employees (AFSCME) in 2007 and the 2005 grant to National Association of Investors Corporation (NAIC).

In 2005, the NAIC undertook a project to develop best practices for delivering investment education on a national scale. NAIC worked with a subsidiary of the 3.2 million-member National Education Association (NEA), the largest labor union in the country, to develop a Web-based educational pilot.

Together, they launched an interactive, multimedia learning management system tailored to the union audience. The system included a five-part curriculum: 1) Introduction to Stocks, 2) Introduction to Mutual Funds, 3) Financial Foundation, 4) Getting Started: How to Buy Stocks and 5) Getting Started: How to Analyze Mutual Funds. The program also offered direct access to the BetterInvesting mutual fund and stock selection tools, Standard and Poor's Mutual Fund Reports and other data, and had NEA registered users representing all 50 states and the District of Columbia. NAIC, which changed its name to BetterInvesting, began a partnership with AFSCME, another of the nation's largest labor organizations, to extend the availability of the program to additional union members and their families after the 2005 grant ended.

The AFSCME Training and Education Institute partnered with BetterInvesting to develop a comprehensive investor education program for AFSCME's members. The program uses an online, self-paced investor education curriculum supplemented by DVDs, printed materials and a strong outreach program inclusive of live workshops. Independent evaluation results compiled by faculty at Michigan State University indicated that the workshops yielded significant learning and behavioral benefits for participants, who expressed very positive feedback for the program. The resources created for the program can be accessed at *www.afscme.org/invested.*

Building on that effort, NLC established an interim website for the current project (*www.nlc.edu/educational-programs/investor-education*) and plans to build a more sophisticated, permanent site for the educational resources. NLC established a teaching program and has already conducted 13 sessions for 606 participants through April 2011. The SEC's Office of Investor Education and the AFL-CIO's Office of Investment have assisted with instruction. NLC is also in discussions with 15 unions—including some of the largest unions in the country—to involve them in the project, and launched a union-focused marketing campaign in January 2011. NLC has also initiated evaluation activities with assistance from the Michigan State University focusing on the effectiveness of the online education component.

b) Nurses' Investor Education Project

- **Women's Institute for a Secure Retirement, Washington, DC (2006)**

In partnership with the American Nurses Association (ANA), Women's Institute for a Secure Retirement (WISER) has developed an investor education program for nurses. The project began with a survey of nurses to identify important issues and includes a *Nurse Investor Education Report* with benchmarking to the national nurse workforce.

Several resources have been created for use in training sessions and individually. *The Busy Nurse's Guide to Financial Planning* booklet was created by tailoring and rebranding existing WISER materials. Its companion, *The Busy Nurse's Financial Planning Workbook,* is a collection of existing fact sheets and other handouts that were re-branded and organized into a workbook format. A third piece, *The Nurses Retirement Decision-Making Guide,* is a shorter guidebook focused on key retirement-related financial planning topics.

WISER works with state nurse associations to conduct "train-the-trainer" and financial education workshops. The training program and accompanying trainer's guide have been divided into modules that allow trainers to more easily customize the material to suit the needs and interests of attendees. The modules also facilitate the ability of trainers to conduct short workshops on a single topic for "lunch and learn" type sessions. WISER has hosted several webinars and developed a series of short podcasts to complement the topics highlighted in the *Busy Nurse's Guide to Financial Planning.* In addition, WISER has published *WISERNurse* newsletters and placed retirement and financial planning articles on the *Nurses First* online journal and the *Nursing that Works* trade journal.

Materials created as part of the Nurse Investor Education Project may be accessed directly from WISER's home page at *www.wiserwomen.org*.

2. Investor Education for Underserved Communities

a) Building Native Communities: Investing for the Future

- **First Nations Development Institute, Longmont, CO (2004, 2006, 2010)**
- **Consumer Credit Counseling Service of Montana, Great Falls, MT (2008)**

First Nations Development Institute, in partnership with the U.S. Department of the Interior's Office of the Special Trustee for American Indians (OST), is currently developing new marketing and distribution channels to meet the financial and investor education needs of Native Americans. This project builds upon two previous Foundation grants to First Nations that resulted in the development of print and online versions of a curriculum, *Building Native Communities: Investing for the Future,* and two complementary resources, an *Instructor Guide* and a *Resource Guide*, designed for trainers who provide investor education to Native Americans.

First Nations will use a multi-pronged approach to reach Native Americans. Specifically, in partnership with OST, First Nations will conduct community trainings that provide financial and investor education. First Nations will also develop a distance education program to be delivered via the ELKNet distance learning facilities at OST's National Indian Programs Training Center. Finally, First Nations will work with a marketing firm to design and conduct a national social marketing campaign that emphasizes the importance of saving or investing tribal per capita or trust payments wisely.

During the periods for the first two grants, First Nations distributed its financial education workbook to tribal colleges and a variety of organizations and agencies serving Native American communities nationwide. Another Foundation grantee, the Consumer Credit Counseling Service of Montana, used the First Nations curriculum to deliver investor education on reservations in Montana and Wyoming in partnership with American Indian Business Leaders. First Nations also created an InvestNative Web portal to make the investment education materials and resources available in electronic form for tribal members and trainers desiring to learn more about investing in the Native context.

In addition, First Nations prepared two complementary resources for trainers who provide investment education to Native American communities. The organization also raised awareness of the importance of investor education among tribes through national training events and worked with selected Native American communities to implement the training program as a model for reservations across the country.

The website for InvestNative Online is *www.investnative.org/index.html*, and the *Investing for the Future* curriculum is available at *www.investnative.org/menu.html.*

b) *Investing for Farm Families*

- **eXtension Foundation, Lincoln, NE (2007)**

The eXtension Foundation adapted its award-winning curriculum—*Investing for Your Future*—to serve the investor education needs of farm households in the United States through an interactive, Web-based learning program.

Developed by educators at land-grant universities across the nation, the eight-lesson course helps families plan for a financially stable future. The course was based on detailed research about the investment practices and learning preferences of farm families. Quantitative and qualitative data was gathered during 300 interviews with members of farm households representing 43 states and through two in-depth telephone focus groups.

Farm families can obtain information to make strategic decisions while weaving together farm and personal investments. Participants work at their own pace, with each lesson taking less than an hour. The program includes a variety of topics, including how to increase future financial security, the basics of asset allocation and different investment strategies. In addition, participants learn how to evaluate investment alternatives to agriculture business risks and how to invest for retirement and farm succession planning.

The curriculum is available at *www.extension.org/pages/InvestingforFarmFamilies.*

*c) **Increasing Hispanic Investors through Investment Education***

- **The ASPIRA Association, Inc., Washington, DC (2007, 2009)**

In 2010, ASPIRA launched *ASPIRA y Aprende a Invertir*, a national communications campaign designed to promote the importance of investing among the Latino community. The initiative builds on rich bilingual educational resources that were developed with support from the Foundation to help Latinos make better and more informed financial investments decisions. The three primary campaign messages focus on the importance of investing and wealth creation for the Latino community, investing for the education of its children, and investing for retirement.

The campaign delivers integrated messages via television, radio, print media and the Internet and targets the 25 largest mainland Hispanic markets, representing 75 percent of Hispanic households totaling 34.5 million people. The project also includes Puerto Rico, with a target population of 2.75 million individuals between 20 and 60 years of age. In addition, ASPIRA and the FINRA Foundation are making educational materials available to a significant number of Hispanic-serving community- and faith-based organizations and public libraries. ASPIRA has already distributed copies of the Spanish language *Investments* curriculum to over 200 Latino-serving nonprofit organizations nationwide.

Univision—the leading Spanish-language broadcast television network in the U.S., covering 95 percent of all Hispanic television households in the country—recently signed on as a campaign partner. Univision will focus on investing as part of its national education campaign *"Es el Momento"* ("This is the Time"). The network will create and broadcast additional project PSAs, participate in the creation of national and local talk shows, and place banners and articles on its website.

3. Investor Education for Young Americans

*a) **Investor Education for College Students***

- **University of Tennessee, Knoxville, TN (2008)**

In 2008, the Foundation awarded a grant to the University of Tennessee (UT) to lead an initiative to address the concerns—raised by numerous studies—that today's students are leaving high school and college without adequate preparation for the financial challenges they face as adults. UT collaborated with Extension educators at four other public land grant universities, Kansas State University, the University of Florida, the University of Kentucky and Mississippi State University, to test a multi-pronged approach to help students prepare to deal with financial issues. They reached more than 7,500 students. The universities tested face-to-face and online financial literacy interventions, undertook efforts to engage university administrators on student financial education issues, and identified mechanisms to strengthen the capacity of educators to effectively implement financial and investment education in higher education settings.

Evaluation
The project was independently evaluated by Dr. Jennifer Morrow of the University of Tennessee Institute for Assessment and Evaluation and a team of graduate research assistants. The primary goal was to evaluate the *Love Your Money* online course, which consisted of seven modules, each about an individual college student facing a particular financial issue. The subjects covered included measuring financial health through net worth, finding money to save, the dangers of overdependence on credit, tracking spending, the importance of emergency savings, managing a 401(k) account, and financial fraud. Over the pilot and implementation semesters, the project generated a total of 11,635 face-to-face contacts with students and 17,365 logins to the online course.

Impact on Students
The evaluation measured the impact on students in the following areas:

- **Knowledge increase on financial topics**: Data indicated that taking the online course increased students' financial knowledge.

- **Impact of online course on financial behavior**: Students from all cohort groups generally agreed that the *Love Your Money* online course positively impacted their financial behavior. The course appeared to be most effective at increasing student motivation to save money and improve financial management skills.

- **Helpfulness of online course modules**: Students were also in general agreement that the online modules were helpful, with the module on finding money rated the highest. Modules on debt, tracking spending and the importance of an emergency fund also rated well.

- **Motivation and confidence**: To assess for motivation and confidence in terms of financial preparedness, students were asked to rate on the post-test how they felt before their participation in *Love Your Money*. Analyses showed that there was a statistically significant increase in confidence from retrospective to current confidence on cohort groups both in spring 2010 and in fall 2010.

The evaluation also identified best practices to promote financial education on campuses across the country and formulated recommendations for the development of materials for online learning.

Next Steps
The Foundation plans to continue working with the University of Tennessee to build on the learning and momentum generated by the project.

b) Investor Education for Secondary School Students

- **Baruch College (2005)**

Baruch and its partners developed an interactive investment guide designed to help for college-aged students and recent graduates make educated money-management decisions as they launch their careers. The guide was promoted nationally through implementation of a marketing plan involving the Miami University chapter of Pi Sigma Epsilon, the National Association of Colleges and Employers, the Career Services

Association of the City University of New York, the Special Libraries Association Business & Finance Division, and the Library Association of the City University of New York.

The interactive website, DollarsFromSense.com, teaches college students and other young adults about the basics of personal finance and investing through media presentations and true stories, so that they can make prudent financial decisions during the early stages of their working lives and beyond. Subjects include the importance of saving for retirement, the dangers of credit card debt, important financial considerations in accomplishing short- and long-term goals, and the basics of saving and investing.

- **Southern New Hampshire University (2005)**
Southern New Hampshire University (SNHU) developed a series of interactive investment education modules for high school students. The curriculum, created by the University's Center for Financial Studies, covers eight related financial literacy topics: investing in equity mutual funds, bonds and bond funds, asset allocation and security selection, diversification, investing for retirement, personal financial statements, selecting a financial advisor and portfolio and risk management.

Each module includes Web-based resources and student activities, which SNHU tested and refined in partnership with high school teachers and students in Montgomery County, MD. This process helped to streamline the lesson plans and eliminate some technical language from the modules. Participating teachers and students in Montgomery County offered very positive feedback about the content. The modules are available at www.finrafoundation.org/resources/education/learning.

- **National Council for Economic Education (2007)**
The National Council for Economic Education (NCEE) expanded the reach and appeal of one of the most frequently used financial literacy curricula for middle and high school students through development of a companion computer game, *Gen i Revolution*, with 15 interactive segments, a dedicated website and a teacher resource guide. *Learning, Earning and Investing: The Game* includes the following segments:

1) Building Wealth for the Long Term;
2) Investing in Human Capital: Education;
3) Investing in Human Capital: Job Choice;
4) Budgeting;
5) Credit;
6) Why Save? Net Worth;
7) Unbanked;
8) Stocks;
9) Bonds;
10) Mutual Funds;
11) Researching Companies;
12) Determining Stock Prices;
13) The Bubble Bursts;
14) Forecasting; and
15) Be a Financial Planner.

The game also features a comprehensive glossary and relevant interactive tools.

GenI Revolution was piloted by teachers from around the country. CEE then solicited volunteers to offer the game in classrooms and used their feedback to refine the teacher resource guide that accompanies the game. Teachers also received information on how gaming aids classroom instruction and how they can use a special administrative section to monitor student progress, create teams and post messages.

A student learning assessment, which explored the educational effectiveness of the *Gen i Revolution* game, compared pre- and post-testing results from more than 550 students split evenly between a group that used the game and a control group that did not. The assessment concluded that the *Gen i Revolution* is effective as an enhancement in promoting student learning about personal finance and economics when it is used by trained teachers. The pre- and post-testing demonstrated a statistically significant improvement in learning among the game group when compared to the control group.

The *Gen i Revolution* game is free to the public and can complement programs that target teenagers or young adults. It is available at *www.genirevolution.org*.

- **Drexel University, The Math Forum (2009)**
  The Math Forum@Drexel, a leading online provider of mathematics education and teacher professional development, has convened mathematicians, math teachers and financial literacy experts to work together and with students to address financial literacy concepts within the core mathematics curriculum. As part of this effort, the Math Forum created a financial literacy platform on its website, *mathforum.org/fe*. The platform contains a blog, discussion forum, "Dr. Math Financial FAQ," and math tools. The new site is populated with personal finance problems of the week that are aligned to mathematics standards and financial literacy standards.

  The Math Forum also completed the National Numeracy and Financial Literacy Summer Institute for a select group of teachers who designed a six-week online professional development course that was then successfully piloted for other educators. The Math Forum is promoting use of the resources it has developed with educational organizations such as the National Council for Teachers of Mathematics, state education agencies, various teacher centers, financial literacy organizations and school administrators.

4. Investor Education and the Media

a) Investor Education Reporting on Marketplace American Public Media, St. Paul, MN (2005)

American Public Media™ (APM) is the nation's second-largest producer of public radio programs, reaching over 15 million listeners nationwide each week. APM received two FINRA Foundation grants to produce investor education segments tied to timely news events to be aired as part of the Marketplace® suite of programs, composed of *Marketplace®*, *Marketplace Morning Report®* and *Marketplace Money®*. APM also developed interactive Web content and resources to complement the programming. Coverage included discussions on "neuroeconomics," automatic 401(k) enrollment, seniors and "free lunch" seminars and military finances, as well as a multitude of stories on the impact of the subprime lending crisis on the markets. APM archives all *Marketplace* stories and audio in perpetuity.

Over the life of the grants, APM reached more than 9.3 million listeners on 480 stations. Online, *Marketplace* website page impressions increased 16 percent, and podcast downloads increased to an average of 2.5 million per month. In addition, *Marketplace* extended its reach online to be where the audience is—with a mobile website, RSS feeds, a Twitter feed, a Facebook fan page, widgets to customize a user's Google page and a video series on YouTube.

Investing-related stories are consolidated by topic on the *Marketplace* website at marketplace.publicradio.org.

b) *Your Mind and Your Money*
Community Television Foundation of South Florida, Miami, FL (2009)

Behavioral finance, a relatively new field of study, suggests that investors do not always make logical investment decisions. A series of coordinated broadcasts and companion articles exploring behavioral finance and its implications for investors was produced by the *Nightly Business Report* and *Kiplinger's Personal Finance* under the auspices of a FINRA Foundation grant to the Community Television Foundation of South Florida. The year-long series, completed in 2010, includes broadcast segments, one broadcast special, related articles in *Kiplinger's*, Web-based information, podcasts and more.

Investors can learn how their psychological and emotional biases may affect their investment decisions by visiting the project website: *www.pbs.org/nbr/site/features/special/mind_and_money*. The broadcast special may help investors recognize their potential susceptibility to cognitive errors so they can adjust investment decision making accordingly.

C. Research Grants

1. Evaluation Research

a) *Evaluating Employer-Provided Financial Education Programs for Pre-Retirees*
North Carolina State University, Raleigh, NC (2009)

Researchers from North Carolina State University collaborated with nine corporate and institutional partners to evaluate the extent to which workplace education programs improve employees' ability to understand their options relating to timing of retirement, the age at which to begin Social Security and pension benefits, Medicare, annuitization and other matters pertaining to asset management in retirement. The starting point for the project was the finding that older workers nearing retirement are generally not well informed about company and national retirement plans. Their lack of knowledge affects their retirement planning. The policy implication being that developing sound retirement planning and financial literacy programs for workers is very important for their future well being.

The project then examined employer approaches to pre-retirement education to determine the most effective methods of assisting pre-retirees to gain the knowledge needed to make the best retirement decisions. While many companies have developed retirement planning programs for their older workers, there has been little to no research on whether or not these programs are effective at assisting pre-retirees make the best decisions to achieve their retirement goals. The researchers' main objective is to complete a paper on the value and impact of financial education in the workplace for older workers. They also plan to produce a template for helping employers evaluate their pre-retirement programs.

The research results are already being informally discussed at different venues, including the NYSE "Expert Meeting on Workplace Financial Literacy Plan" and meetings of the North Carolina Board of Trustees of the State Retirement Plan and the North Carolina State Board of Education. The researchers stress the importance of financial education in retirement saving and the need for employer-sponsored education programs, especially as they relate to supplementary saving plans and the switch from defined benefit to defined contribution plans. The researchers have also been invited to join a session on "Financial Education and Financial Literacy" at the 2012 American Economic Association Annual Meeting to discuss their paper titled "Economic Implications of Financial Education in the Workplace."

The project website is *www.mgt.ncsu.edu/projects/finra*.

b) *A National Evaluation of the Stock Market Game on Students' Academic Achievement in Mathematics and Investment Knowledge*
Learning Point Associates (2009)

The Stock Market Game, an educational program of the SIFMA Foundation, is one of the most widely used financial literacy programs in the country. Nearly 12 million students in elementary, middle and high schools have participated in the game since 1977. A rigorous national evaluation of the game's effect on students' academic achievement in mathematics and investment knowledge was conducted by Learning Point Associates (which subsequently merged with the American Institutes for Research) with a grant from the FINRA Foundation. The evaluation results, announced in 2009, showed that students who play the game outperform their peers in mathematics and financial literacy.

The FINRA Foundation awarded the grant to provide reliable information to teachers, parents and students on the effectiveness of widely used financial literacy programs. A two-year, scientifically sound and independent evaluation of this nationally popular game provided a vehicle to understand better the effectiveness of financial education. Learning Point Associates used a randomized controlled trial, considered the "gold standard" for evaluation research. The study results showed that playing The Stock Market Game produced substantial achievement gains at the elementary, middle and high school levels.

Learning Point also reported that student achievement increased regardless of how teachers implemented the game. The study revealed that most teachers used familiar, basic teaching practices, suggesting that the game is easy to implement using standard teaching approaches. In addition, teachers reported in a survey that the program influenced their own financial practices. Many teachers indicated that they had set financial goals, analyzed their risk tolerance, read the business section of the newspaper and watched financial programs as a result of teaching the game. The Foundation expects that the findings will help teachers, schools and districts make informed decisions regarding the overall quality and utility of this well known financial literacy program.

2. Fraud Research

a) *Off the Hook Again: Understanding Why the Elderly are Victimized by Economic Fraud Crimes*
WISE Senior Services, Santa Monica, CA (2004)

WISE Senior Services and its research team conducted focus groups and surveys with victims and nonvictims to learn more about why the elderly are frequently victimized by investment fraud. They also surveyed criminal biographies and autobiographies and interviews. In addition, the researchers reviewed and analyzed audiotapes and transcripts of fraudulent scam transactions.

The researchers addressed two broad questions: 1) What kinds of persuasion tactics do con criminals use to defraud consumers?, and 2) How do victims of fraud differ from non-victims of fraud? Their analysis revealed that con criminals customize their pitch to match the psychological profile of the victim and use a complex combination of influence tactics within each pitch. They also found that investment fraud victims demonstrated a better understanding of basic financial literacy than non-victims, were more likely to have experienced a negative life event unrelated to their fraud experience and were more likely to listen to sales pitches from unknown sales persons. In addition, investment fraud victims dramatically underreport fraud.

The research then recommended that financial educators: 1) expand efforts to include information about how persuasion tactics work; 2) encourage more reporting of illegal activity to law enforcement; and 3) conduct more research to develop a vulnerability index and test the effects of persuasion education as a deterrent to fraud. The findings advanced the understanding of fraud vulnerability among the elderly and provided a basis for shaping practical marketing messages to increase investment fraud awareness among seniors as reflected in the Investor Protection Campaign. The project was completed in collaboration with AARP.

b) *Using Nonfinancial Measures to Assess the Risk of Fraudulent Financial Reporting*
North Carolina State University, George Mason University and Brigham Young University (2009)

Research funded by the FINRA Foundation revealed that a company's employment growth could help investors determine if a high-flying company is truly on a growth trajectory or over-inflating its revenue numbers. Accounting professors Joseph Brazel of North Carolina State University, Keith L. Jones of George Mason University and Mark F. Zimbelman of Brigham Young University reviewed the public financial records of 220 companies from 1994 through 2002. Half had committed fraud and half had not. Their analysis provided evidence that publicly available nonfinancial measures such as employment, warehouse space and retail outlets, can be used to assess the likelihood of corporate fraud.

The research methodology and findings were published in a research paper, “Using Nonfinancial Measures to Assess Fraud Risk,” in the *Journal of Accounting Research*. The researchers determined that a large difference between revenue growth and growth in non-financial indicators is a “red flag” suggesting fraudulent financial reporting. The findings argue for inclusion of non-financial measures in fraud risk detection models that auditors and others use. For non-fraud companies, financial statement data, such as revenue and assets, are typically highly correlated with nonfinancial measures, such as employee headcount and production space. For fraud companies, however, an abnormal inconsistency exists between revenue growth and operational growth. In short, for fraud organizations, the performance portrayed by their financial statements is not supported by their nonfinancial measures.

In a series of subsequent experimental studies involving auditors and investors, the researchers observed that neither group detected this inconsistency between financial and operational data, even though it was approximately a 25-percent difference. A different result was observed when the subjects were provided with an automated tool. With that resource, both auditors and investors can identify and react appropriately to an abnormal consistency between financial data and the related nonfinancial data. Based on these findings, the researchers partnered with a technology firm to create a prototype Web-based tool that, for a selected company, automates the collection of nonfinancial disclosures in corporate disclosure filings such as SEC 10-K reports. The tool compares these data to related financial information. The success of that effort led the FINRA Foundation to award a second grant to refine the tool and make it widely available to regulators, auditors and investors in early 2012.

3. Investor Behavior Research

a) *Individual Differences in Financial Risk Taking Across the Lifespan*
Stanford University, Stanford, CA (2008)

An interdisciplinary team headquartered at Stanford employed historical, psychological and neural methods to analyze individual differences in financial risk-taking at various stages of the life cycle. The research identified characteristics that predict optimal risk-taking and mistakes. A Web-based tool to be developed based on the findings will help individuals assess their financial risk taking and optimize their financial decisions.

The research findings address two questions: 1) does age influence financial risk-taking?, and 2) do individual differences influence financial risk-taking? On the first question, researchers investigated whether there are age-related differences in financial risk-taking and whether patterns of neural activity can account for these differences. They found that older adults made more "risk-seeking" financial choices during an investment task relative to a model of the optimal investment strategy, contrary to popular stereotypes. Researchers linked these mistakes directly to activation in a region of the brain that has been implicated in assessing reward information over time. These findings were published in the *Journal of Neuroscience* as the cover article on January 27, 2010.

A follow-up complementary project investigated the extent to which decision aids can increase rational choices among older adults. Consistent with the previous neural findings, this study found that expected value information improved the financial risk-taking of older adults. A resulting article was accepted for publication in a special issue of *Social Cognitive and Affective Neuroscience*.

Researchers also examined whether individual differences related to anticipatory affect (*i.e.*, the tendency to experience excitement and/or anxiety) can account for differences in the accumulation of assets and debts, independent of age and cognitive ability. The research shows that affective learning can account for individual differences in assets and debts, even when cognitive and socioeconomic variables do not.

The researchers also created a Web-based tool that will help individuals assess their financial risk-taking and optimize their financial decisions. They have identified a core set of questions and tasks, and translated those into a format that can be administered over the Internet. The reliability of the instrument has been established after extensive testing, and the instrument has been optimized for Web use. It will now be employed to collect data on a larger cross-national sample, in order to identify demographic subgroups at high risk for financial mistakes.

b) Gender Differences in Investment Behavior
Iowa State University, Ames, IA (2004)

Researchers from Iowa State University and The Ohio State University analyzed gender roles in investing behavior through a national survey examining personal, environmental and cultural impact. They identified "teachable moments," key topics and educational strategies and developed a set of recommendations for educators and practitioners with the goal of promoting wise investment behaviors in women.

The survey analysis concluded that women are more likely than men to prefer receiving financial information from personal sources, such as friends and colleagues, and less likely than men to use computer-based investment tools. Women are often more open to financial advisors' counsel than men and more likely than men to "wait it out" when their investments do not produce the expected returns. Divorce, birth of a child, or the death of a family member are events that often prompt women to increase their involvement in financial matters. Women were found to be underrepresented among those pursuing a high-information strategy.

Research findings also showed that women prefer making investment decisions in a social context, unlike men, who are more inclined to make decisions on their own. Women have a lower risk tolerance than men and find investment decisions to be more stressful and challenging. Women are less likely than men to hold diversified portfolios, and they tend to begin investing later in life.

Women are also less likely to invest regularly. They tend to stand by their investment decisions and avoid changes to their portfolios, even though they are less likely than men to be pleased with their investment allocations. In contrast to men, who prefer self-directed learning about investing, women favor learning from an instructor. Researchers noted that women are less likely than men "to have been socialized in financial matters" and are less future-focused than men.

In light of these findings, researchers suggested that investor education programs for women should focus on specific life events (birth of a child, for example) known to increase women's attention to investing. Educational experiences should also reduce apprehension about investing and allow women to gain confidence by addressing manageable goals. Adding a social dimension to educational programs for women such as a group learning opportunity would be helpful. The research team has published articles in the *Journal of Financial Planning* and *Advances in Consumer Finance Research.*

c) Racial/Ethnic Disparities in Risky Asset Ownership
Ohio State University (2005)

Researchers from Ohio State University examined racial and ethnic influences on investment behavior of African-Americans and Hispanics and evaluated existing educational materials in light of the findings.

The researchers determined that stock ownership gaps between whites on the one hand and African-Americans and Hispanics on the other widened between 2001 and 2004, after having narrowed previously. They believe this may have reflected that minority investors were relatively new to the stock market and may have reacted more strongly to the stock market crash of 2000–2001. The Ohio State researchers recommended educating these audiences regarding the need to invest for the long terms to achieve retirement and other financial goals.

The researchers also determined that in 2004, 27 percent of Hispanic households, 33 percent of African-American households and 64 percent of white households held high-return investments. They attributed the disparity in risky asset holdings to differences in demographic and economic characteristics and suggested that education to increase the risk tolerance of these audiences should increase the likelihood of ownership of that type of asset.

The researchers further found that African-Americans and Hispanics have more favorable attitudes toward credit than whites, despite being more credit restrained. Also, African-Americans are more favorably inclined to use credit to cover living expenses than whites and Hispanics. Focus groups revealed that many African-Americans and Hispanics do not feel confident in deciding how best to invest their 401(k) or similar holdings. The focus group participants explained that account statements are confusing and contain unfamiliar terminology. Researchers concluded that while there was a desire by some to invest outside of their employer plans, the participants did not seem clear about how to do so.

Quite a few participants believed they did not have enough money to invest. Hispanics in particular indicated that investing in financial instruments was not needed because they could invest in their future in other ways including social networks, education and home ownership. Hispanics often spoke of a double language barrier: inability to understand English at a level necessary to acquire financial knowledge and reliance on poor translations of financial materials.

The Ohio State researchers wrote two issue briefs summarizing findings for a wide audience. They also published three articles in academic journals (*Financial Counseling and Planning*, *Journal of Consumer Affairs* and the *International Journal of Human Ecology*), as well as numerous conference papers.

d) Pitfalls of Investor Decision-making
Princeton University, Princeton, NJ (2004, 2007)

The Foundation awarded researchers from Princeton's Department of Psychology and Public Affairs two grants to examine psychological biases that play a role in poor investment decisions and the impact of social interactions with financial professionals on investor decision-making.

The researchers first focused on three types of biases that play a role in poor investment decisions: 1) people's blindness to their personal susceptibility to biases, including the "halo effect" and "optimistic overconfidence"; 2) the dangers of fast thinking; and 3) the tendency to see future selves as other people. Interventions to promote wise investing by mitigating these biases were then developed and tested. In experiments concerning the role of unconscious biases, the findings suggest that warning people in advance that they may show a bias in their judgment of other people (*i.e.*, they may be inclined to view people more charitably on a variety of important dimensions if those people are attractive or smart) mitigates their usual tendency to view a well-dressed Ivy League-educated broker as more trustworthy than a casually dressed local college-educated broker. The research also suggests it is possible to counteract people's unconscious biases by having them engage in mental exercises aimed at reversing the effects of those biases. With regard to time spent making investment decisions, the research found that fast-thinking and fast decision-making create a euphoria leading to feelings of power, a heightened sense of energy and inflated self-esteem. It seems that making decisions quickly makes people happy and confident, even while it compromises their ability to exercise good judgment and reason.

The researchers suggested that slowing down the investment decision would remove such emotion and energy, allowing the investor to make more analytical, rational decisions. The initial research yielded several peer-reviewed articles published in premier psychology journals and invitations to present the findings at a number of academic conferences. A report entitled "Overcoming Biases to Promote Wise Investing" explains the primary scientific ideas explored through the project.

For the second grant, the Princeton University researchers are examining the impact of social interactions with financial professionals on investor decision-making. Researchers are studying how financial professionals may exert influence on investors by: 1) using the trappings of status and authority, especially professional designations, to gain investors' trust; 2) eliciting manic exuberance from investors by providing too much information too fast; and 3) placing social pressure on investors. Researchers are also testing the effectiveness of methods to reduce the influence of these biases. Princeton has submitted preliminary reports and continues to test mitigation techniques for addressing these problems.

4. Disclosure Research

A number of FINRA Foundation-funded research grants address the effectiveness of various methods to improve the content and format of investor disclosures. Below is a summary of the research reports, which are available at www.finrafoundation.org.

a) *How Does Simplified Disclosure Affect Individual's Mutual Fund Choices?* **National Bureau of Economic research, Cambridge, MA (2006)**

Many Americans invest in mutual funds, but they may not understand what they are investing in. The SEC requires that mutual fund companies give investors a statutory prospectus in order to educate people about their mutual funds. The prospectuses sometimes run hundreds of pages in length and contain complex financial terms and legal language. Due, in part, to these factors, two-thirds of investors do not read the prospectus before purchasing mutual fund shares.

Motivated by these concerns, the SEC proposed and adopted a new simplified summary of the prospectus.

Mutual funds can now send investors a two-to-four page document, or the "Summary Prospectus," instead of the lengthy statutory prospectus. Like the statutory prospectus, the Summary Prospectus contains key information about the mutual fund's investment objectives, strategies, risks, costs and performance. The SEC hoped that the Summary Prospectus would improve investors' ability to make informed investment decisions and, therefore, lead to increased efficiency and competitiveness of the U.S. capital markets. This research examined whether or not the Summary Prospectus had a positive effect on investor behavior.

Key Findings
One of the most important findings of this study is the scope of investor confusion regarding sales charges, known as loads. Even when participants had a one-month investment horizon—where minimizing loads was the only sensible strategy—they did not avoid loads. The researchers concluded that participants either don't understand how loads work or don't take them into account. The study found that the Summary Prospectus did not help investors think about loads, and therefore did not help investors make informed investment decisions. The researchers believe that the results demonstrate that the Summary Prospectus does not change, let alone improve, portfolio choices. While the shorter format of the Summary Prospectus does save paper and investors' time, more change is necessary to help investors understand loads.

b) *Can Psychological Aggregation Manipulations Affect Portfolio Risk-Taking?*
National Bureau of Economic Research, Cambridge, MA (2006)

Numerous experimental studies have shown that subjects are more willing to take multiple better-than-fair gambles if only the aggregated outcome of those gambles will be reported to them, rather than each individual gamble outcome separately. Due to the consistency of these experimental results, many have suggested that financial institutions should be able to affect investors' risk taking in their real-world financial portfolios by changing the aggregation of the returns information they give to investors. Greater information aggregation may improve investor welfare if piecemeal information causes investors to become too fixated on small short-term losses, leading to excessive risk aversion. However, these past experiments were conducted in settings that were quite different from a real-world investing environment. The experiments lasted a short amount of time, did not feature real assets, involved small sums of money and mostly used students as participants. This study aims to fill some of this gap between the laboratory and the real world.

Key Findings
Contrary to previous studies, this research demonstrates that in a setting closer to a real-world investment environment, aggregating information does not increase people's willingness to take investment risks. The only treatment that significantly increased risk taking was showing participants a graph of historical returns distributions, but the effect did not vary with the type of graph that was shown.

For financial institutions, the results suggest that changing the level of return disclosure aggregation is unlikely to have an impact on portfolio risk-taking in real-life financial portfolios. However, investors may be unaware of how attractive equity performance has been historically, so educating them about historical asset class performance may increase equity allocations.

c) *Where do Investors Prefer to Find Nonfinancial Information?*
University of Central Florida, Orlando, FL (2006)

Annual reports filed by U.S. companies are becoming increasingly complex. Many reports in the business press over the last decade cite concern that the proliferation of required disclosures that accompany financial reports makes it difficult to decipher a company's performance and factors that drive performance. The researchers conducting this study tracked the information used by more than 300 investors to examine how they cope with this complex information environment. They used those data to provide answers to the following questions:

- How much of the information in an annual report is used by investors in making investment decisions?
- How do investment professionals (*e.g.*, financial analysts) differ from non-professional (retail) investors?
- If investors have a choice about where to find specific types of information (*i.e.*, in the financial statement footnotes or in other sections of the annual report), what do they prefer?

Key Findings
This investigation of information use among professional and non-professional investors shows that, on average, the extent of using specific categories of annual report information varies widely. Further, the researchers find that non-professionals come to the task of predicting future company results with a much smaller set of information than professionals. This suggests that they are at a disadvantage in making investment choices, particularly as they make less use of audited financial statements and the footnotes that explain them.

The results also imply less use of footnotes than other information categories in the annual report. This could imply that investors avoid the footnotes because they are too complex, supporting calls to reduce the extent of required footnote disclosures. However, the investors participating in the study do not show a consensus on which footnotes are most important, providing little guidance to the simplification effort.

d) *The Impact of Information Tagging in the MD&A on Investor Decision Making: Implications for XBRL*
University of Central Florida, Orlando, FL (2006)

This paper investigated professional and nonprofessional investors' use of the Management Discussion and Analysis (MD&A) portion of the corporate annual report. The MD&A is a key component of financial reporting that provides management's view on the company's current and future performance. The researchers investigate alternative structures for the MD&A, comparing the standard format currently used by companies to a "tagged" format that mimics XBRL. This comparison is made in the context of a company that discloses a possible violation of the Foreign Corrupt Practices Act as a material weakness in the Section 404 auditor's report, indicating risk of corporate misconduct and perhaps fraud.

Key Findings
Overall, the researchers found that investors using the tagged format spend less time viewing the risk information and view relatively fewer items than those using the standard format. However, within the tagged format, there is a stronger association between use of information on this source of risk and investors' financial judgments and predictions. This implies that the tagged format facilitates the incorporation of risk information into investors' decision processes, compared to the standard MD&A format in current use. These results have both efficiency and effectiveness implications for moving to XBRL-enabled search strategies.

e) *The Impact of Risk on Investor Decision Processes and Outcomes in the Post-Sox Environment*
University of Central Florida, Orlando, FL (2006)

This paper investigated the linkage between professional and nonprofessional investors' decision processes and predictive judgments, in situations of varying effectiveness of internal control over financial reporting. Participants responded to case materials based on SEC filings of a publicly traded company, on a dedicated website. Process-tracing software collected data on information use, judgments of company risk and reliability of its financial information and estimates of future earnings per share and stock price.

Key Findings
The researchers found that professionals examine information more thoroughly than nonprofessionals and focus more fully on financial statement information. Professional investors used internal control effectiveness information more often than nonprofessionals, but variation in effectiveness was associated with a greater difference in risk judgments for nonprofessionals. The results also demonstrate that investors' risk judgments are strongly associated with information acquisition/use. Professional investors' stock price predictions are affected by use of different information categories than those of nonprofessional investors. Further, the researchers found that professional investors' predictions are better calibrated to their individual risk attitudes.

f) *The Use of Non-Financial Information: What Do Investors Want?*
Boston College Center for Corporate Citizenship, Boston, MA (2005)

Though advocates argue that nonfinancial information forms or should form an important part of investor decision-making, relatively little research has been done to analyze the non-financial information currently available, or to determine how investors value specific types of non-financial information. This study examined both the availability of specific types of nonfinancial data, as well as the extent to which retail and professional investors value non-financial information on key social, environmental and governance factors.

Key Findings
The supply of such information does exist, to varying degrees, in the universe of corporate disclosure. Different industry sectors emphasize different types of information; large corporations—perhaps because of their significant resources, perhaps because of their enhanced reputational risk—supply more information than their smaller counterparts. Corporations report on different types of nonfinancial information across the range of corporate disclosures, from websites and news releases to annual reports and 10-Ks.

The reporting itself, on the other hand, was not necessarily useful—that is, it did not provide data comparable across companies or industry sectors, or provided so little information as to offer the investor little to distinguish a particular company's performance across a range of non-financial metrics. And the non-financial information reported tended to be far more often positive than negative, suggesting it to be spin or at least partial in nature.

On the demand side—from the perspective of investors—the researchers found a similar story. Both retail investors and professional investors acknowledge past use of non-financial information, and expect to use such information more in the future.

While there are some differences, overall the retail and professional investment communities overlap a great deal in their rank ordering of the non-financial types of information examined in this study. Industry cohort information, especially market share and customer satisfaction, were seen as particularly important types of information. Governance information was seen as more useful than social information, with the notable exception of product safety as a key social indicator. Even for the least-used categories of social information, investors acknowledged a substantial level of interest. One notable result: financial analysts—that subset of professional investors—display the least interest of all respondents in all types of non-financial information, in most cases to a significant degree.

For advocates, regulators, corporations and investors, it seems that there is a space for a multi-stakeholder process that helps to coordinate standards for reporting information that is of use to investors. The Global Reporting Initiative—which has brought together a wide range of interested parties to support voluntary standards for corporate social reporting—is one model of how such a process might work. However, it should be noted that the skepticism investors have toward the reliability of (often voluntary) corporate reporting of non-financial information that tends to be overwhelmingly positive and not clearly linked to corporate performance, in combination with a corporate disclosure regulatory regime that neither mandates nor currently sets standards for non-financial reporting, may prove a significant barrier to greater use of this information.

g) *Effects of Visual Primes on Improving Web Disclosure to Investors*
University of Connecticut, Stamford, CT (2005)

This research was initiated in 2005 to examine effects of visual priming of disclosure information that can influence online investors' comprehension and retention of disclosure information by making important disclosure information visually noticeable. Moreover, this research examined how different visual primes affect expert versus novice online investors. Specifically, the study sought answers to the following:

1. Can disclosure information be primed to be salient visually online?
2. Will visual primes enhance investors' comprehension and retention of disclosure information?
3. How effective are different types of visual primes—that is, semantic, categorical, feature and control—of online disclosure information in affecting novice and expert investors' comprehension and retention of disclosure information?

<u>Key Findings</u>

- Semantic priming was the condition that had consistent and positive effects. Overall, semantic priming was the best condition to increase attention of and help process, understand and recall disclosure information, regardless of knowledge level.
- Categorical priming was the most helpful condition for participants to understand and process disclosure information, regardless of knowledge level, while feature priming was the least helpful for understanding and processing of the disclosure information.
- Feature and semantic priming were the most visually attention getting.
- Knowledge level rather than visual priming was the predominant factor for comprehension and recall of the information. That said, semantic priming was the best "leveler" of the knowledge gap.

Finally, the results recommend that an integration of visual primes be considered. For example, feature or semantic priming with categorical priming should be integrated and used to help online investors process, understand and remember disclosure information when making important investment decisions.

h) Consumer Knowledge of Mutual fund Products and Information Services
Consumer Federation of America, Washington, DC (2004)

In September 2005, Opinion Research Corporation conducted a survey of consumer use of mutual fund information sources. The survey included questions on the factors mutual fund investors consider when selecting funds and the information sources on which they rely in making those selections. In addition, both investors and non-investors were asked about the sources they would be likely to consult for information and advice if they were to make a mutual fund purchase in the near future. The entire sample was also asked about their willingness to use the Internet for various mutual fund purchase-related activities.

Key Findings
The survey revealed a gap between how experts recommend investors go about making mutual fund purchase decisions and how investors describe their actual fund selection practices. Significant differences between expert recommendations and actual practices are found in the factors investors consider when selecting a mutual fund, the extent to which they research their fund purchases using available written information sources, and the degree of reliance they place on the recommendations of financial services professionals. This gap may have significant implications for the development of investor education materials, both by identifying areas where educators need to do a better job of conveying their message and by identifying areas where expert recommendations are unrealistic or fail to reflect the environment in which different purchase groups make their fund selections.

i) Exploring Solutions to the Fund Assortment Problem
Rutgers University School of Business, Camden, NJ (2004)

Retirement investment decisions faced by employees are becoming more daunting as employers increase the number of mutual funds they offer in their defined contribution plans such as 401(k) plans. The researchers conducted a series of studies to better understand ordinary investors' responses to retirement plan structures (*e.g.*, with more or fewer funds) and to explore potential solutions to the fund assortment problem.

Key Findings
Naïve Diversification
- Offering very few funds for investment (*e.g.*, three funds) caused many individuals to select all of the available funds for investment, because most wanted to invest in a handful of funds in order to feel adequately diversified.
- Offering more funds for investment (*e.g.*, 21 to 25) caused many investors to simply divvy up their dollars evenly across the chosen funds, rather than think more carefully about risk and return tradeoffs.
- Offering more funds also resulted in other systematic effects, such as more funds being chosen and a marked shift of dollars from bonds to stocks.
- Presenting the funds in clearly defined categories, such as by asset class, helped to significantly alleviate some of the systematic effects of fund assortment size.

Investor Expertise—Investor expertise moderated the tendency to shift assets from bonds to stocks when choosing from a larger fund assortment. Specifically, novice investors were much more likely to exhibit this tendency.

Gender and Decision Aids—Women invest less money and are more risk-averse than are men, in accord with prior research. However, women are also more likely than men to alter their investing patterns when decision aids are present.

Thinking Style

- Investors who tended to consider both the positive and negative consequences of their decisions did not alter their portfolio diversification levels when presented with fund information graphically (*e.g.*, via Morningstar boxes) versus textually.
- Investors who ordinarily do not think about both the upsides and downsides of their decisions, created more diversified portfolios when provided fund information via the Morningstar box visual.

Hope—Preliminary analysis suggests that those with lower levels of hope often respond more positively to the more hopeful message, whereas those with higher levels of hope often respond more positively to the less hopeful message.