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

Re: Comment Letter on the Study Regarding Financial Literacy Among Investors, File No. 4-645

Dear Ms. Murphy,

BetterInvesting appreciates the opportunity to comment on the Commission's Study Regarding Financial Literacy Among Investors. The study, which is mandated by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, seeks to identify methods to improve the timing, content, and format of disclosures to investors about financial intermediaries, investment products, and investment services. As the Commission addresses financial industry reforms, we feel that the question of how to improve disclosure so that investors make better-informed decisions is critical.

BetterInvesting was originally founded to help ordinary Americans participate in the growth of the American economy through long-term ownership in the public companies that fueled the growth. BetterInvesting is believed to be the oldest and largest non-profit investor education organization in the nation. In the 1950s, it was expensive for individuals to invest in equities due to high brokerage fees and difficult for them to make rational investment decisions due to the lack of complete and timely financial information. By showing individuals how to pool their resources in investment clubs and by teaching them fundamental investing principles, BetterInvesting enabled millions of individuals to become successful lifetime investors and to enjoy the benefits of America's economic growth. Over a 60-year span, BetterInvesting has provided investment education to more than five million people.

In order to reflect the views of the BetterInvesting community, we conducted a brief survey about improving disclosures to investors. Questions focused on:

- Fees and expenses
- Conflicts of interest
- Timing
- Format

We also asked respondents to provide us with “any suggestions or comments about how the SEC can improve the timing, content or format of information about investment professionals, investment products or investment services to make that information more useful and understandable to investors.” The data were collected through an online survey of 1,063 respondents from March 11 to March 12, 2012.¹ All data in the survey is self-reported by the respondents themselves and is attached as Appendix A to this letter. A summary of the survey data and our comments is provided below.

Fees and Expenses

Over three-quarters (79.9%) of respondents reported that information about the fees and expenses of an investment product were extremely important or very important to their decision to purchase an investment. Additionally, 97.4% of respondents indicated that they would favor a requirement that financial professionals disclose any fees they are earning on products they sell. Many respondents also suggested that information about fees and expenses and how financial professionals are compensated should be summarized in a one-page document. As one respondent noted, “Investors who do not clearly understand the fees they are paying are ... more likely to make poor choices. I believe that fees should be summarized in no more than one page.”

Some respondents also emphasized that all fees should be captured in any summary document and were concerned that this information could be manipulated. This appears to be a fair concern. For example, in the summary prospectus of American Funds’ New Perspective Fund, American Funds discloses that “the fund and the fund’s distributor or its affiliates may pay the intermediary for the sale of fund shares and related services” and suggests that the investor check with their investment professional for more information [emphasis added]. Yet, on page 30 of the New Perspective Fund prospectus, American Funds discloses that it does compensate intermediaries for selling shares of the New Perspective Fund:

American Funds Distributors, at its expense, currently provides additional compensation to investment dealers. These payments may be made, at the discretion of American Funds Distributors, to the top 100 dealers (or their affiliates) that have sold shares of the American Funds.

To be valuable, summary disclosure must provide real, meaningful information that helps improve an investors’ decision-making.

Conflicts of Interest

Nine out of ten respondents (91.4%) thought that information about conflicts of interest are extremely important or very important when choosing a financial professional, and 87.3%

¹ Survey respondents included members of the BetterInvesting community for which BetterInvesting possessed email addresses.

thought that information about conflicts of interest is extremely important or very important when deciding to purchase an investment. Many respondents suggested that information about conflicts of interest should be summarized in a one-page document.

Investors, however, may not always give proper weight to conflict of interest disclosure. In one research study on conflicts of interest disclosure, researchers found that such disclosure (1) did not lead individuals to discount biased advice as much as they should and (2) actually increased the bias of the advice.² To avoid this result, the Commission may want to consider how to design conflict of interest disclosure so investors not only understand how a conflict of interest has influenced an investment professional, but are able to correct for that biased advice.

Timing

Respondents overwhelmingly (97.2%) wanted to receive information about an investment professional or firm before they open an account. Similarly, 95.1% of respondents preferred to receive information about an investment before—not at the time of—making a decision to purchase an investment. A number of respondents commented that they want to know how their investment professional or firm is going to be paid prior to investing. As one of those respondents noted, “It is critical to be informed up front, before making an investment decision, of the commissions an investment professional earns and what their incentives are [and] from which source.” In addition to wanting to receive information before investing, several respondents suggested that the Commission should institute (1) a cooling-off period that would allow an investor to cancel a purchase or (2) a waiting period prior to making an investment purchase.

Format

Respondents also overwhelmingly (94.7%) supported a requirement that large financial documents include a one-page summary of key terms. Respondents had a number of suggestions about what information should be included in the one-page summary. These suggestions included having information on:

- Fees and expenses
- Conflicts of interest
- Incentives to investment professionals and firms to sell an investment
- Ownership interests

² Cain, Daylian M., George Loewenstein, and Don A. Moore, 2005. “The Dirt on Coming Clean: Perverse Effects of Disclosing Conflicts of Interest.” *Journal of Legal Studies*, vol. 34.

In designing summary documents, we would encourage the Commission to not simply focus group test these documents, but to conduct empirical tests to ensure that summary disclosure leads to better investor decision-making.³

Respondents also had a number of suggestions on how to improve the format of disclosure in general. These suggestions included:

- Readable font sizes
- Elimination of footnotes and other forms of “fine print”
- Comparative information and benchmarks
- Consistent format from product to product and company to company

Content

While we did not ask a specific question on the content of disclosure, many respondents provided suggestions about how the Commission can make content more useful and understandable to investors. The most common suggestion was that all disclosure should be in plain English without legal jargon. As one respondent noted, “prospectuses are made so that the average [person doesn’t] understand them—that is evil.” While we applaud the Commission’s efforts to implement the Plain Writing Act of 2010 and its earlier efforts to require that the summary prospectus and certain sections of the prospectus be written in plain English, we would encourage the Commission to consider requiring that all disclosure for all investment products sold to retail investors be in plain English. With an array of increasingly complex investment products on the market, it is critical that retail investors be given information that they can easily read and understand.

A number of respondents suggested that the Commission create an online resource to verify the licensing and background of investment professionals. Given these suggestions, the Office of Investor Education and Advocacy’s Study and Recommendations on Improved Investor Access to Registration Information About Investment Advisers and Broker-Dealers appears to be very timely. We also would urge the Commission to continue to educate investors on the nature of the information available on the Financial Industry Regulatory Authority, Inc.’s BrokerCheck and the Commission’s Investment Adviser Public Disclosure database.

³ An empirical study of the Commission’s summary prospectus found that while the document reduced the amount of time spent on investment decision-making, it did not improve that decision-making. Beshears, John, James J. Choi, David Laibson, and Brigitte C. Madrian 2008. “How Does Simplified Disclosure Affect Individuals’ Mutual Fund Choices.” NBER Working Paper.



We appreciate the Commission's consideration of our comments. Please feel free to contact me if we can provide any additional information to assist the Commission with this important study.

Best Regards,

Roger H. Ganser
Chairman, BetterInvesting Board of Directors

Kathleen Zaracki
CEO, BetterInvesting

Cc: Individual Investor Advocacy Committee:
Robert Brooker, Director, BetterInvesting Board of Directors
John Gannon, Director, BetterInvesting Board of Directors
Allen Holdsworth, Director, BetterInvesting Volunteer Advisory Board
Julie Werner, Director, BetterInvesting Board of Directors