MEMORANDUM

To: File Nos. S7-07-18, S7-08-18, S7-09-18

From: Rick Fleming, Investor Advocate, Office of the Investor Advocate

Re: Investor Testing Regarding Standards of Conduct for Investment Professionals

Date: October 12, 2018

Enclosed is a research report prepared by the RAND Corporation and the SEC's Office of the Investor Advocate. The research described in this report was undertaken prior to, and is separate from, the Commission's release of the proposed standards of conduct rulemaking package. However, because the research provides data that may be relevant for the Commission's consideration in the rulemaking, we are submitting it to the public comment file.

Investor testing regarding the Commission's proposed Form CRS Relationship Summary is expected to be made available in the comment file in the near future.

OFFICE OF THE
INVESTOR ADVOCATE

TITLE: The Retail Market for Investment Advice

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1. Introduction

Background

Investors generally are responsible for the choices they make when selecting investments. Given the complexity of many of those investments, however, investors often rely on the advice of financial professionals when making investment decisions. In theory, these financial professionals play distinct roles: *Brokers* conduct transactions in securities on behalf of others; *dealers* buy and sell securities for their own accounts; and *investment adviser*s advise others on securities. In doing their jobs, broker-dealers ("BDs") and investment advisers ("IAs") are subject to different federal regulations. The Securities Exchange Act of 1934 governs the operation of BDs and the Investment Advisers Act of 1940 governs IAs.

However, in practice, trends in the financial services market since the early 1990s have blurred the boundaries between these financial professionals (sometimes referred to collectively herein as "advisors," to encompass both BDs and IAs). Firms are constantly evolving and bundling diverse products and services in response to market demands and the regulatory environment. This overlapping of boundaries has important implications, because the current regulations entail different standards of conduct.

Indeed, this blurring of boundaries between financial professionals has been an important policy issue for many years. The Securities and Exchange Commission (the "SEC") attempted to clarify the boundaries between BDs and IAs in a 1999 proposed rule that was later modified and became the 2005 rule entitled "Certain Broker-Dealers Deemed Not To Be Investment Advisers." However, the rule was challenged and eventually overturned.

Subsequently, Section 913 of the Dodd-Frank Act required the SEC to conduct a study analyzing the obligations of brokers, dealers, and IAs. Pursuant to that mandate, on January 21, 2011, SEC staff issued its Study on Investment Advisers and Broker-Dealers. The policy debate continued over the next few years.

On June 1, 2017, SEC Chairman Jay Clayton issued a request for information from retail investors who work with IAs and BDs (and other interested parties) about the standards of conduct for these two types of financial professionals. In his statement, Chairman Clayton noted that the SEC "has been reviewing this area for some time"; he also noted that, given recent developments, "an updated assessment of the current regulatory framework, the current state of the market for retail investment advice, and market trends is important to the Commission's ability" to "evaluate the range of potential regulatory actions."

On April 18, 2018, the SEC voted to propose a package of rules and interpretations intended to improve the quality and transparency of relationships that retail investors have with IAs and BDs, while preserving access to different types of advice relationships and investment products.

Objective and Approach

The RAND Corporation, together with the SEC's Office of the Investor Advocate ("OIAD"), is conducting new research to determine how well investors understand the retail market for investment advice and to identify and test actionable policy innovations. The intent of the research is to help the SEC in its policymaking with respect to the financial professional standards of conduct. This report presents the results of that research, which helps to assess initial conditions and documents new information regarding investor interactions with financial professionals. The findings are based on newly collected data from focus groups and surveys. These qualitative and quantitative data help us understand current investor views on financial advice. The report identifies specific social, economic, and cognitive barriers to understanding the differences in investment advice providers, including the associated costs and services offered. These barriers may impede investors from obtaining investment advice through optimal account relationships based on their preferences, which are also measured and discussed herein.

The research described in this report was undertaken prior to, and is separate from, the Commission's release of the proposed standards of conduct rulemaking package, which is noted earlier. Additional research is ongoing, including investor testing of certain aspects of the current rulemaking proposals. In later research, we anticipate building on this foundation with further testing specifically related to the current rulemaking proposals.

Organization of This Report

As discussed earlier, this phase of the research project collects both qualitative and quantitative information and data obtained through a literature review, focus groups, and a survey.

Chapter 2 presents the results of a literature review that documents the state of investor knowledge about BDs and IAs. It focuses explicitly on the research literature concerning two main topic areas: (1) What leads investors to seek and use investment advice?; and (2) Do investors understand the distinctions between different types of financial professionals?

Chapter 3 describes the results of focus groups that we convened as a formative stage of the research on financial advice. We discussed investors' experiences with IAs and BDs and explored their understanding and expectations of the products and services they offer in order to help shape the survey phase of our research. The focus groups identified a range of investor experiences with financial professionals, individual differences that might lead investors to have different priorities and perceptions in working with financial professionals, as well as ways in which individuals might tend to approach these topics similarly.

Chapter 4 presents the results of a survey we fielded to households using the RAND American Life Panel ("ALP") with the goal of better understanding the views, attitudes, expectations, and experiences of a broader sample of individuals. The survey focused on the topics of investing experiences and the knowledge and use of different types of financial professionals.

Chapter 5 summarizes the findings from Chapters 2, 3, and 4.

2. Literature Review

In this chapter, we review the existing research literature that addresses two questions:

1. What leads investors to seek and use investment advice?
2. Do investors understand the distinctions between different types of financial professionals?

This review of the current research literature maps the state of knowledge of the qualities and characteristics associated with investors who seek financial advice, and what investors understand about different types of financial professionals. When the results from our literature review are taken together with the results from our focus groups (Chapter 3) and household survey (Chapter 4), we will have a snapshot of investors' knowledge, experience, and awareness about financial advice and those who provide it. We also will identify research gaps and unanswered questions that will help to inform the design of later research tasks.

Identifying Research Papers

To identify recent relevant research, we used Google Scholar to conduct forward-citation searches on three previous literature reviews of research on investment professionals and financial advice:[1]

- *Investor and Industry Perspectives on Investment Advisers and Broker-Dealers* (Hung et al., 2008). This report reviewed the changing industry dynamics of IAs and BDs (*e.g.*, developments in their marketing practices, financial products, and financial services) and investors' understanding of the differences between IAs and BDs in terms of compensation structures, services, and standards of care.
- *Study on Investment Advisers and Broker-Dealers* (SEC, 2011). This report reviewed the regulatory landscape and research on retail investor perceptions and confusion about the obligations and standards of conduct of different financial service providers. The SEC staff conducted this study to fulfill the requirements set forth in Section 913 of the Dodd-Frank Act to evaluate the effectiveness of current legal and regulatory standards of care for brokers, dealers, IAs, and associated persons who provide personalized investment advice to retail customers and whether the current legal protections needed to be improved.[2]

[1] Forward-citation searches identify research articles citing a given article; that is, the search will identify more-recent scholarship covering the same topics.

[2] Section 913 of the Dodd-Frank Act instructed the SEC to conduct a study to evaluate—(1) the effectiveness of existing legal or regulatory standards of care for brokers, dealers, investment advisers, persons associated with brokers or dealers, and persons associated with investment advisers for providing personalized investment advice and recommendations about securities to retail customers imposed by the Commission and a national securities association, and other Federal and State legal or regulatory standards; and (2) whether there are legal or regulatory

- *Impacts of Conflicts of Interest in the Financial Services Industry* (Burke et al., 2015). This report reviewed research on biases in analyst reports and audits and the effects of advisory compensation schemes, conflicts of interest ("COIs"), and disclosure of COIs on the behaviors and financial outcomes of investors and advisors—i.e., financial professionals generally.

We also conducted separate forward-citation searches for each paper cited in these literature reviews related to our topics of interest, as well as articles from a list of important studies provided to RAND by the SEC staff.

We sought to update insights from these literature reviews with more-recent research findings; therefore, we narrowed our search to empirical studies published after 2010.[3] In addition to peer-reviewed publications, we included relevant working papers in our search so that we could include the newest research findings. We included research papers that analyze investment professionals and financial advice in foreign jurisdictions, although they could have different regulatory environments.

Question 1: What Leads Investors to Seek and Use Investment Advice?

The Role of Financial Literacy in Seeking Financial Advice

A substantial amount of research has focused on the relationship between investors' financial literacy and their likelihood of seeking financial advice. The weight of the evidence suggests that financial literacy is positively associated with seeking financial advice across multiple domains—including investing, saving, and debt management—with the corollary that those most in need of financial advice also might be the least likely to seek it out or obtain it.

Collins (2012) found support for the idea that financial advice tends to complement rather than substitute for financial capability and literacy. Using results from the 2009 FINRA Financial Capability Survey, he investigated factors that indicate who might be likely to use advice across a range of financial topics. He found that income, education, and financial literacy are positively associated with seeking financial advice on investing, insurance, and taxes, but that these positive financial attributes are not associated with seeking advice on loans and debt. Additionally, the less educated, less wealthy, and less financially literate—those for whom financial advice might be most useful—are less likely to seek it.

Using data from FINRA's 2012 National Financial Capability Survey, Alyousif and Kalenkoski (2017) performed multivariate and multinomial regressions of various demographic,

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gaps, shortcomings, or overlaps in legal or regulatory standards in the protection of retail customers relating to the standards of care for brokers, dealers, investment advisers, persons associated with brokers or dealers, and persons associated with investment advisers for providing personalized investment advice about securities to retail customers that should be addressed by rule or statute.

[3] Excepting any pre-2010 studies on the list provided by the SEC staff that were not included in the previous literature reviews.

attitudinal, and financial knowledge factors on key indicators of financial capability to better understand what drives individuals to seek financial advice related to saving and investing, debt counseling, mortgages and loans, insurance, and tax planning. They also investigated how the likelihood of seeking advice on these topics varied by age, gender, race, education, marital status, number of dependents, income, risk tolerance, self-assessed financial knowledge, financial literacy, and financial fragility. They found that higher levels of financial fragility were associated with lower demand for financial advice on saving and investing, tax planning, and insurance, but that fragility was associated with higher demand for debt counseling.

There is potentially relevant research on this topic outside the United States as well. For example, Bachmann and Hens (2015) evaluated individuals' abilities to avoid investment mistakes driven by behavioral biases, and they also analyzed the relationship between investment competence and the propensity to seek or rely on professional advice. Using an online survey given to a representative sample of Swiss households, they evaluated an individual's ability to avoid common behavioral biases.[4] They found that higher levels of investment competence are associated with a greater likelihood of seeking financial advice, even after controlling for various socioeconomic and demographic factors.

Bucher-Koenen and Koenen (2015) used the results of a representative panel survey of German households to explore the relationship between financial literacy and financial advice. The survey contained choice information for state-subsidized private pension plans that were introduced in 2001 as a reform to the German social security system. Because financial advisors played a critical role in helping individuals choose among the available private pensions, this presented a natural choice experiment to understand the role of financial advice and financial literacy in individual decisionmaking. They found that more-literate consumers were more likely to consult independent financial advisors, were more likely to review and consider more potential private pension options, and were less likely to choose the default option—all choices that can result in substantial monetary savings through lower fees.

Calcagno, Giofré, and Urzì-Brancati (2017) looked at the relationship between self-assessed and test-based measures of financial literacy, an individual's trust in their advisor, and the degree to which they delegate responsibility for financial decisions to their advisors. The study sample consisted of 1,676 respondents to the 2007 Unicredit Investors Survey ("UCS") who had an account at one of Italy's largest banks. The survey measured self-reported financial knowledge; self-assessed and test-based measures of financial literacy, including an investor's awareness that advisors are incentivized to give biased advice; the frequency of meetings with an advisor as a proxy for the extent to which investors exerted control over their advisors' decisions; and whether an investor sought a second opinion on their advisor's recommendations. They found that, among the large percentage of investors who seek financial advice but retain control over

[4] These biases are availability bias, representativeness bias, probability matching bias, probability weighting bias, and the investment mistakes included under-diversification and the disposition effect.

their investment decisions, those with higher self-assessed financial literacy were more likely to use some disciplining mechanism to control their advisor, by either seeking second opinions or meeting more frequently. Additionally, they found that individuals with higher objectively measured financial literacy met with their advisors more frequently, and those with the lowest levels of objectively measured financial literacy were more likely to seek second opinions.

Calcagno and Monticone (2015) looked at 1,581 customers at one of Italy's largest banks who had account balances of at least 10,000 euros in 2006. They found that investors with higher financial literacy were more likely to consult advisors and were less likely to delegate portfolio choices, even after controlling for wealth, age, experience, self-confidence in financial ability, education, trust, and quality of advice. The authors concluded that the availability of financial advice might not substitute for a lack of financial literacy, because those with low financial literacy do not seek out or listen to advice. They proposed that this disparity could arise from strategic interaction whereby advisors have incentives to give better advice to more-sophisticated investors.

However, there is some contradictory evidence on the positive association between advice-seeking and financial literacy. For example, von Gaudecker (2015) found that the relationship between financial literacy and the decision to seek advice was small and nonsignificant. Von Gaudecker assessed financial literacy among 381 respondents to the CentERPanel—a detailed survey of financial assets administered to a representative sample of Dutch households—based on measures of financial numeracy and self-rated financial knowledge.[5] The CentERPanel data also included information on respondents' demographics, assets, and sources of financial advice (*e.g.*, friends, family, professionals).

Karabulut (2013) examined the relationship between financial literacy and advice-seeking using administrative data on the trades and portfolio positions of 3,032 clients at a German bank between January 2003 and October 2005 (a total of 100,056 investor-month observations). Karabulut used the proportion of advised versus self-directed trades as a proxy measure for financial advice. The study found that less–financially literate clients were more likely to receive financial advice but advised clients had lower absolute and risk-adjusted returns than self-directed clients, even before deducting fees.

Finally, in hypothetical choice experiments, Hung and Yoong (2013) found no association between financial literacy and using unsolicited financial advice; however, they found that those who requested financial advice tended to be *less* financially literate and that requesting advice was associated with improved performance on the portfolio diversification task, suggesting that individuals are more likely to implement advice when they are motivated to seek it out.

Overall, financial literacy is positively associated with seeking financial advice across multiple domains, including investing, saving, debt, and other topics. Interestingly, although

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[5] The initial sample included 1,604 households that completed the survey in 2005 and 2006. After excluding observations with incomplete data, the sample was reduced to 381 households.

financial literacy is positively related to *seeking* advice, there is a less consistent relationship between financial literacy and *following* financial advice. While some researchers have found that financial literacy is positively related to following financial advice (Stolper, 2017), others have found the opposite relationship (Calcagno and Monticone, 2015).[6]

Trust

Recent literature also has examined the role of trust in using investment advice. For example, Calcagno, Giofré, and Urzì-Brancati (2017) analyzed responses to the 2007 UCS to investigate the relationship between self-assessed and test-based measures of financial literacy (including awareness that advisors are incentivized to give biased advice), an individual's trust in their advisor, and the degree to which they delegate responsibility for financial decisions to their advisors. They found that investors with high trust in their financial advisors were most likely to delegate all of their investment decisions to their advisors, regardless of the investor's level of financial education. Kostovetsky (2016) used a difference-in-differences approach to analyze publicly available information on mutual funds between 1995 and 2011. The author found that the rate at which investors remove money from the fund increased by approximately seven percent in the year after management changes, despite limited effects on fund performance, suggesting that trust between money managers and investors might play an important role in the investment behaviors of many clients.

Burke and Hung (2015) used three waves of RAND ALP survey data from 2007, 2009, and 2011 to measure respondents' levels of financial trust, financial literacy, risk preferences, and propensity to seek financial advice. They found that trust in the financial system and the act of seeking financial advice were positively associated. The authors also found that older, more educated, wealthier white men were more likely to trust the financial system and were more likely to own stocks or stock mutual funds, and that trusting individuals were also significantly more likely to seek financial advice.

If trust is an important factor in investors' relationships with financial advisors, then it is useful to identify which factors foster or inhibit trust. Agnew et al. (2018) conducted a survey-based experiment in Australia in which they randomly varied advisor credentials, age, gender, and the quality of advice. The authors found that advisors lacking credentials were rated as less trustworthy and that the respondents were less likely to follow their recommendations. Although participants rated advisors who gave bad advice on a simple topic poorly, bad advice on complex topics had less influence on advisor ratings. Additionally, in a series of interviews and questionnaires of Italian financial advisors and bank customers, Monti et al. (2014) found that non-expert retail investors had high trust in their advisors. Decisions about how much to delegate

[6] Stolper looked at the degree to which advised clients actually carry out the recommended investment advice in their accounts and Calcagno and Monticone looked at the degree to which investors are willing to delegate investment decisions.

investment decisions to advisors were well-described by a simple heuristic that relied substantially on how effectively their advisors communicated.[7] On the investor side, Pauls, Stolper, and Walter's (2016) analysis of survey data from the German Panel on Household Finance ("PHF") found that households with above-average wealth and lower financial literacy were significantly more likely to trust their advisors. Using an instrumental variables approach to estimate a household's likelihood to trust financial advice from advisors at community banks compared with large banks, they looked at ratings of both trust in people in general and trust in one's advisor. Their analysis showed that, although general trust levels did not vary significantly between respondents who use community banks versus large banks, clients at community banks were 19 percent more likely to follow their advisors' recommendations.

Unsolicited Advice

For financial advice to have an effect, it must be (1) provided to the individual, and (2) followed by the individual. With respect to both of these requirements, studies suggest that individuals heavily discount unsolicited advice and are less likely to follow it.[8] For example, Bhattacharya et al. (2012) offered 8,195 randomly selected clients of a large German brokerage firm the choice to receive unbiased advice to improve portfolio diversification and found that less than five percent of those offered advice chose to receive it; moreover, of that five percent who opted to receive advice, only 30 percent followed it to any degree. Additionally, Hung and Yoong (2013) presented a nationally representative sample of 618 401(k) plan participants with a hypothetical portfolio diversification task and randomly assigned them to receive no investment advice, receive unsolicited investment advice, or have the opportunity to request investment advice if desired. They found no average effect on investment behavior for participants who received unsolicited advice.

Summary

Existing research on investors' use of providers of financial advice has identified two important factors: investors' financial literacy and feelings of trust in their advisor. Specifically, research consistently shows that investors who are more financially literate are more likely to seek out investment advice, suggesting that financial advice might not be a sufficient substitute for low financial literacy. Once an investor is working with a financial professional, the likelihood of following the investment advice is higher when the advisor is seen as more trustworthy; in turn, trust is affected by advisors' communication style, credentials, and other

[7] Investors were asked to answer the questions "How well do you understand your advisor?" "Does your advisor clarify information that was previously unclear?" and "Are you satisfied with your advisor's explanations?" using a Likert scale.

[8] See Hung and Yoong (2013), who cite Bonaccio and Dalal (2006); Yaniv (2004a); Yaniv (2004b); Yaniv and Kleinberger (2000); and Gibbons, Sniezek, and Dalal (2003).

factors. Given these findings, further studies to determine whether investors who do not use professional advisors are less financially literate and have more-negative perceptions of advisors might be useful. Recent research has not focused on other factors that could affect the likelihood of using advice, including perceived costs of advice. We explore these and other relationships in Chapter 4.

Question 2: Do Investors Understand the Distinctions Between Different Types of Financial Professionals?

After deciding to seek investment services, investors must then decide what type of investment professional to use. Unfortunately, there are no known studies examining whether investors search for a specific type of professional when looking for investment services. Existing work suggests that few investors are knowledgeable about the technical differences between investment professionals. Specifically, the literature review by Hung and colleagues (2008) found that many investors have a poor understanding of the differences between IAs and BDs and their differing standards of conduct. For example, many did not know that IAs and BDs offered different levels of investor protection. Using focus groups and a national survey, Hung et al. found that investors reported being confused and uncertain about the differences between financial planners, financial consultants, IAs, and brokers. Data collected from focus group participants and survey respondents suggested that they do not understand differences in duties, titles, employment, and services offered between BDs and IAs.[9] For example, 42 percent of survey respondents and 49 percent of focus group participants incorrectly thought that both BDs and IAs were required to act in the clients' best interests. Fifty-eight percent of survey respondents and 70 percent of focus group participants incorrectly believed that BDs were required to disclose COIs.[10]

Consistent with this confusion, the SEC's (2011) literature review highlighted a 2010 national opinion survey on U.S. investors and fiduciary standards conducted by ORC/Infogroup for the Consumer Federation of America (the "CFA Survey"). This telephone survey was conducted among a sample of 2,012 adults and weighted by age, gender, region, and race to achieve better representativeness of the U.S. adult population.[11] The results of the CFA Survey showed that among the sample's 1,319 self-identified investors, two out of three reported incorrectly believing that stockbrokers have a fiduciary duty (CFA, 2010). Furthermore, the majority of investors reported that financial advice is the primary service offered by stockbrokers

[9] The survey sampled 1,000 respondents from the RAND ALP and achieved a 65.4-percent response rate. The six focus groups consisted of ten to 12 participants representing experienced and inexperienced investors in Fort Wayne, Indiana, and Alexandria, Virginia.

[10] See also TD Ameritrade Institutional (2006); Siegel and Gale, LLC, and Gelb Consulting Group, Inc. (2005); and Hung et al. (2008, Chapter Three).

[11] The sample included 1,007 men and 1,005 women.

(35 percent) or that “advice and assistance in conducting transactions are equally important services offered by brokers” (27 percent), which are both incorrect. At the same time, less than one third of investors reported—correctly—that stockbrokers primarily buy and sell investment products on behalf of customers and that advice and assistance is only incidental to their brokerage activities (29 percent). Together, these findings suggest that investors might be unlikely to find the investment professional of their choice because they do not accurately identify the regulatory regimes that govern the roles of these different advisors and do not have homogenous views about their primary services.

Summary

Research suggests that retail investors do not understand the differing roles and legal obligations required of financial service professionals, including IAs, BDs, and other financial professionals. We further explore knowledge and perceptions of financial service professionals in our subsequent research in both the focus groups and survey.

Summary of Literature Review Findings

In this review, we sought to update the SEC’s and RAND’s previous literature reviews, focusing on recent empirical evidence around two primary questions:

1. What leads investors to seek and use investment advice?
2. Do investors understand the distinctions between different types of financial professionals?

In response to our first question, we found that financial literacy and trust are two important factors that affect the use of investment advice. In response to the second question, we found no known research on whether investors search for specific types of financial professionals. This could be because of widespread difficulties understanding the differences between different financial professionals, including IAs and BDs; however, there are relatively few studies in this area, and further research is needed on investors’ knowledge and misconceptions about the differences between investment professionals.

3. Focus Groups

To help inform the development of the quantitative survey (which is discussed in Chapter 4), we conducted a series of focus-group discussions. Focus groups typically are not a reliable data collection method on their own, but used appropriately, they can complement other qualitative and quantitative research methodologies by informing survey development or providing the context and rationale that could underlie quantitative data. Focus groups provide insights related to the reasoning and experiences behind individuals' preferences and behaviors and allow us to have an interactive discussion to better understand similarity and variation among individuals. Focus groups can be appropriate as a formative approach when a new topic is being explored, when ideas are being generated, and when discussion might help elucidate divergent viewpoints. But focus groups are not appropriate for obtaining in-depth descriptions of personal experiences or for testing hypotheses that have already been developed.

As a *caveat*, participants in our focus groups are neither nationally representative nor randomly selected; thus, the data are anecdotal and must be interpreted qualitatively. We must exercise caution when interpreting the findings, because focus group results are often driven by group dynamics. For example, some participants might be more vocal than others and sway the discussion, or groups might differ in the amount of time that they spend on different topics. As a consequence, focus groups, although informative, do not provide conclusions that are statistically significant or generalizable on their own. Yet focus groups remain a valuable complement to this project's nationally representative quantitative survey which is discussed in Chapter 4.

We first describe our methodology below, including our sample, for conducting the focus groups and then describe our focus group findings by topic and type of investor.

Focus-Group Methods

We conducted four focus groups consisting of six to 10 participants each; there were 35 participants in total. The focus groups took place in Baltimore, Maryland, in January 2018. The groups were stratified based on participants' use of a financial professional and investing experience level (see Table 3.1) so that we had variation across the focus groups. Importantly, though, the small number of focus groups precludes inferring that differences in comments by group are strongly related to these dimensions. Group 1 consisted of participants who had never used a professional, Groups 2 and 3 consisted of participants who were currently using a professional, and Group 4 consisted of participants who were not currently using a professional but who had used one in the past. Groups 1 and 4 each had mixed levels of investing experience, and Groups 2 and 3 differed based on investing experience level identified during recruitment: less experienced for Group 2 and more experienced for Group 3. Participants were characterized as more experienced investors if they held investments outside of retirement accounts and were characterized as less experienced investors if they did not. Focus group stratification is summarized in Table 3.1 below.

Table 3.1. Focus Group Stratification

Focus Group	Use of Financial Professional	Investing Experience Level	Participants	Pre-survey Respondents
Group 1	Never used professional	Mixed	10	9
Group 2	Currently use professional	Less experienced	6	6
Group 3	Currently use professional	More experienced	10	10
Group 4	Previously used professional	Mixed	9	9

To recruit our participants, we employed an independent market research firm that maintains a database of approximately 50,000 individuals who reside in the Baltimore metropolitan area. The market research firm used a standardized script we developed to invite investors by telephone to participate in a focus group. (See Appendix 1 for script and eligibility criteria). Eleven individuals were recruited to participate in each group, with the expectation that some individuals would drop out. Upon arriving, participants completed a pre-survey about their investment experience and experience with financial professionals to provide descriptive information on the sample and to pilot several elements of the survey.[12] (See Appendices 2 and 3 for the full pre-survey).

Within the focus group discussions, we asked a range of questions covering perceptions of investment products and related fees, financial services, standards of conduct for financial professionals, compensation of financial professionals, and types of financial professionals. The guide was adapted for relevance to each group; for example, groups with experience using financial professionals were asked about that experience, and the group without experience using financial professionals was asked about their perceptions of these professionals more generally. (See Appendices 4–6 for the full focus group discussion guides).

Two researchers from RAND co-led each group, raising each topic for discussion, probing for additional detail, and probing for counterpoints among other group members. The group discussions were audio-recorded, and the recordings were transcribed.

Participants

Using participant responses to the recruiting script, we can describe our sample. The 35 participants in the four focus groups ranged in age from 26 to 70, with an average age of 47. Among these participants, 18 were female. Our total sample included 22 white participants, 12 African-American participants, and one participant of another background. Twenty-three held a

[12]One participant did not submit a pre-survey.

bachelor's degree, 23 were the sole financial decisionmaker in the household, and 17 held investments in retirement accounts only. Table 3.2 summarizes our sample.

Table 3.2. Sample Characteristics, By Focus Group

Characteristic	Group 1: no financial advice experience (N=10)	Group 2: current financial advice experience (N=6)	Group 3: current financial advice experience (N=10)	Group 4: past financial advice experience (N=9)	Overall (N=35)
Age (mean)	45	50	49	46	47
Male	4	3	6	5	18
White	6	5	6	5	22
Bachelor's Degree or More	8	2	7	6	23
Sole Financial Decisionmaker	5	6	7	5	23
Held investments through retirement accounts only	6	6	0	5	17

NOTE: Age cells correspond to mean in years; all other cells provide number of participants indicating each response during recruitment.

Participants were asked in the pre-survey about the types of investment accounts their household owns, the types of assets their household holds, and their understanding of services provided by financial professionals. (See Appendix 2 for the full pre-survey). Table 3.3 summarizes these financial characteristics by focus group. Note that one participant in Group 1 did not submit a pre-survey, so the total number of respondents to the pre-survey is 34. Given the intentionally small number of participants in each focus group, as well as the recruitment process, we did not conduct statistical tests of the differences in characteristics across the groups.

In our sample, 29 participants report that their households hold employer-sponsored retirement accounts, 14 report that they hold other retirement accounts, seven report that they hold college savings accounts, and 13 report that they hold other types of investment accounts. From the national survey that we also fielded (described in Chapter 4), we find that almost 80 percent of investors have employer-sponsored retirement accounts, 46 percent of investors have other retirement accounts, 12 percent have college savings plans, and 35 percent have other investment accounts.

Table 3.3. Pre-Survey Financial Characteristics, by Focus Group

	Group 1: no financial advice experience (N=9)	Group 2: current financial advice experience (N=6)	Group 3: current financial advice experience (N=10)	Group 4: past financial advice experience (N=9)	Overall (N=34)
Type of Account Owned by Household					
Employer-sponsored retirement account (*e.g.*, 401(k), 403(b), SEP-IRA, or Thrift Savings Plan)	7	6	9	7	29
Other retirement investment account (*e.g.*, Traditional IRA or Roth IRA)	4	2	3	5	14
529 Plan (college savings plan)	3	1	0	3	7
Investment account not listed above (*e.g.*, brokerage or advisory account)	2	1	6	4	13
Type of Asset Held by Household					
Investment Funds (*e.g.*, Mutual Funds or ETFs)	5	6	6	6	23
Individual Stocks	4	3	8	7	22
Bonds	3	0	4	7	14
Derivatives, such as Options or Securities Futures	0	0	0	1	1
Annuities	1	1	5	2	9

NOTE: All cells provide number of pre-survey respondents indicating each response. One participant in Group 1 did not submit a pre-survey.

Topical Analysis

We aggregated focus group comments and pre-survey responses across the groups based on the following topics: investment products and fees, financial services, acting in a client's best interest, compensation of financial professionals, and type of financial professional. In the sections that follow, we present examples of comments that arose in the focus group discussions, note hypotheses generated by these comments, and describe any implications of this information for the survey design.

Investment Products and Fees

We asked participants about how they chose their investments and about their awareness of fees associated with the investment products and services. Focus group comments on these topics illustrated the variation represented across the sample, to inform our interpretation of comments on more targeted topics of interest. Participants described their choices as affected by factors such as:

- Their own research on, or awareness of, factors such as interest rates, tax implications of an investment option, and general strategies for investing;
- Receiving a personal recommendation, *e.g.*, from a colleague, from a relative (who in some cases might use a financial professional or be one);
- Having a menu of options from their employer;
- Selecting a product through a bank or program they already use;
- Receiving a recommendation from their financial professional (if applicable).

In describing their awareness of fees associated with their investments, some participants reported that maintenance fees on investment products are difficult to understand and monitor, while others reported that information on fees is not hard to find (*e.g.*, on regular reports, online) or that their professional discusses fees ahead of time. Some participants indicated that it is difficult to have a good basis for judging the reasonableness of fees, while others indicated that product fees seem reasonable based on personal research or trust that one's employer had done such research. One participant commented that fees can be as important as interest rates in choosing products and should be watched out for.

Financial Services

When asked about topics on which they value guidance from financial professionals, participants across the groups mentioned a variety of topics, including specific investment products, meeting personal short- and long-term goals, retirement planning, estate planning, tax planning, large expenses such as a house or children's college, expert insight on relevant markets or economic events, and risk tolerance. The breadth of these topics suggests that financial goals might vary across individuals. Survey work in this area is therefore challenging, because a survey intended to focus on IAs or BDs might need to articulate the role of such financial professionals to respondents.

To inform the development of our survey questions, we also asked the groups about their reasons for not using professional financial services or for switching professionals. The two groups that did not currently use a financial professional mentioned the following factors:

- Being unable or unwilling to pay the fees;
- Being able to obtain information or advice from other sources on their own (*e.g.*, online research, family member);
- Being unsure how they would go about working with a professional;
- Being suspicious of professionals trying to sell products without attending to clients' personal plans and goals;
- Feeling that they would not reach their goals according to the plan that they set up or that they were losing money instead of gaining money;
- Feeling that they did not have enough money to merit using a professional to manage it (in some cases because of divorce);
- Feeling that the professional managed the money without making recommendations or communicating how it was being allocated;

- Not having enough time to meet with a professional or not making it a priority to find a new professional after a previous one became unavailable.

These two groups were also asked if they would consider using a financial professional. Some participants commented that they had considered doing so as recently as that year, while others said they would not consider using one. Some participants indicated that if they had received a good recommendation, they would consider using a professional.

In the groups that currently were using a professional, some participants had switched professionals in the past. When asked why, one described having lost money with an investment company and having disliked the company's philosophy of "you'll get it back eventually," because the individual was getting older. Several participants mentioned lack of communication generally from the professional as an issue, with one subsequently switching from an investment adviser at a large firm to one at a smaller firm. Finally, one participant noted that after a divorce, the participant no longer worked with a professional given that the participant's ex-spouse had had primary contact with the couple's professional. Our inclusion of survey questions about changes in the use of professionals was prompted by these focus group comments.

Acting in a Client's Best Interest

We explored both how much participants would value a financial professional who acts in a client's best interest, and how they would judge whether the financial professional was doing so. Although it is unknown how these self-reported statements translate to actual behavior, they suggest variation in perspectives that might provide some context for variation in actual behavior.

Interpretations of Acting in a Client's Best Interest

In preparation for asking about this topic on our survey, we explored how participants would judge whether a financial professional was acting in a client's best interest by providing them with a printed handout listing the following eight activities that could be carried out by a financial professional:

1. Continuously monitor my account;
2. Help me choose the lowest-cost products, all other things being equal;
3. Recommend securities that are merely adequate for me based on some of my personal circumstances, even if there are other investments that would be better for me;
4. Disclose payments that he/she receives that might influence him/her to advise me to buy one product over another that might be a better choice for me;
5. Avoid taking higher compensation for selling me one product when a similar but less costly product is available;
6. Avoid selling me any investment that might cause me to lose money;
7. Only get paid if I make money on the investments that were recommended to me;

8. Take into account my personal financial situation, goals, and personal characteristics before recommending investments that are in my best interest.

For each activity, the group was asked if a financial professional who is acting in their best interest would carry out the activity. We also discussed these topics to see whether participants generally understood the phrasing before implementing the survey. The groups typically expected that a financial professional who is acting in a client's best interest would monitor the account, help the client choose the lowest-cost products, disclose payments they receive, avoid taking higher compensation for selling one product over another when a similar but less costly product is available, and consider the client's personal situation.

The groups expressed a range of views and comments about how a financial professional should monitor a client's account. There seemed to be a perception that continuous monitoring of a client's account is consistent with acting in the client's best interest or is indicative of a higher quality of service. For example, some participants commented that a professional who is acting in the client's best interest should be expected to continuously monitor the account or that a professional who does so is providing a higher quality of service because such a professional appears to have more of a vested interest in the client and is more accountable. Other participants commented that monitoring might not need to be constant or that they prefer to do their own monitoring. Another set of comments related to the idea that monitoring might be costly and that advice from a professional who is required to monitor is not of higher "quality" but is an additional service. Several participants commented that monitoring must be paired with appropriate communication. This discussion informed our phrasing of this item in the survey.

Some participants did not initially notice the phrase "all other things being equal" in the second activity, but when their attention was drawn to it, they generally seemed to understand how it affected the question's meaning.

Many participants believed that a financial professional who is acting in the client's best interest should avoid taking higher compensation for selling a certain product over another similar but less costly product. However, one participant felt there was an exception: If the product being sold also yields a higher profit, it would still be in the client's best interest. This comment suggests that when asking investors about their perceptions, it might be important to establish whether respondents should assume that product characteristics are otherwise identical (*e.g.*, "all other things being equal," as above). Another participant felt that taking higher compensation for selling a certain product over another similar but less costly product is a reasonable behavior that allows the professional to look out for themselves as well. This discussion provides some insight into why some individuals might feel less strongly about the issue of avoiding higher compensation.

Although some participants did expect that a financial professional acting in a client's best interest would avoid selling the client any investment that might cause the client to lose money, others observed that the risk of losing money comes with any investment.

We also asked participants how the range of products offered by a professional affects their evaluation of the professional. Some participants felt that offering a range of products leads a professional to have higher-quality advice and said that they would be willing to pay more for such a professional, although others did not. There was some variation in how participants interpreted a "range of products," with one participant noting that their evaluation of this characteristic would depend on whether the range of products is by company or product type.

Prioritization of Acting in a Client's Best Interest

Participants generally believed that acting in the client's best interest affects a professional's advice and stated that they would be willing to pay more for a professional who is required to act in their best interest, because such a professional's advice would be more trustworthy. The range of other comments about personal prioritization of a requirement to act in a client's best interest included the following:

- The participant would not seek advice from a professional who is not required to act in his/her best interest;
- As an individual with less understanding of investing, the participant would be willing to pay more to make sure his/her best interest is taken into account;
- Although the participant would trust advice less without the requirement, he/she would not rule out advice that came without the requirement;
- If the participant received advice from a professional not required to act in his/her best interest, he/she would complement it with his/her own research and other opinions or would assess previous results and client success rates from the professional;
- There might be limited circumstances in which the participant would still obtain information from such a professional that he/she could research on his/her own, particularly if the alternative is no advice;
- If a family member or friend provided him/her with a good recommendation of a professional, he/she might be able to trust that the professional would act in his/her best interest even if not required to.

Some of these comments suggested the hypothesis that some investors prefer not to fully outsource their decisions to professionals. In the research literature, this issue has sometimes been discussed in terms of whether investors follow the advice of their financial professionals. Some participants also commented more generally on the concept of a professional being required to act in a client's interest, with comments including the following:

- There should be a defined boundary between the professionals who act in a client's best interest and those who do not;
- One can never assume that a financial professional is acting in one's best interest;
- One should be able to assume that a professional is looking out for one's best interest, as one would with a doctor or lawyer;
- Paying more for a professional required to act in their best interest is similar to tipping a waiter based on quality of service;

- The requirement to act in the client's best interest seems more important for an IA than for a BD, whom respondents view as a tool for carrying out actions rather than a resource for determining a course of action.

Compensation of Financial Professionals

As mentioned in Chapter 2, although there has been policy interest in compensation schemes, questions remain about the impact of these schemes on clients. We asked questions in the focus groups about compensation and COIs. The groups mentioned different compensation schemes in broad terms, including compensation based on selling a certain product, compensation based on how much a client invests, and salary-based compensation.

When asked if their financial professionals had ever disclosed conflicts of interest to them, some participants seemed unconcerned with conflicts or took it as a good sign if their professional had not disclosed a conflict to them. Others were suspicious of professionals pushing clients toward products that give professionals a commission, although these participants did not spontaneously use the term "conflict of interest." In all three groups that had experience using a financial professional, when asked, participants reported that their professional had not disclosed any conflicts. However, it is not clear whether these responses reflect an actual absence of conflicts, an omission by financial professionals to disclose conflicts, or a failure of participants to recognize the disclosure of conflicts when disclosed.

Participants seemed to understand questions about compensation models at a high level even if they were unaware of how their advisor was compensated, giving us confidence in asking questions in a broader survey. For example, when asked about their awareness of different compensation models, some participants described compensation based on a fee, based on commission, or based on a salary. Some used other language, describing compensation based on percentage of funds managed or based on selling certain products. Participants generally preferred that a professional be compensated by the client alone, believing that such advice would be of higher quality. However, they varied in whether they would rule out going to a professional who received compensation from other sources. Several participants made comments such as the following:

- The important element to the participant would be to have the external compensation disclosed to them in a transparent and "up front" way, to feel comfortable with the professional, and to be able to have their questions about the compensation answered by the professional;
- If a product is high quality, the participant would not have an issue with the professional's compensation form.

When asked if they would pay more for a professional who receives compensation only from the client, some participants acknowledged that if a professional is forgoing external payment, he or she would likely need to offset this loss by charging the client more.

Type of Financial Professional

Using pre-survey responses and focus group comments, we gathered insight into how to ask participants about their knowledge of IAs and BDs.

Understanding of Characteristics by Type of Financial Professional

In the pre-survey, we asked participants about their understanding of the marketplace for services provided by different types of financial professionals, particularly IAs and BDs. Participants were presented with a series of eight statements and asked whether the statement applies to IAs, BDs, both, or neither, with an additional "don't know" response option. See Table 3.4 for the complete list of statements and a summary of participant responses.

Table 3.4. Understanding of Characteristics, by Type of Financial Professional

	Response Option				
Item	**BD**	**IA**	**Both**	**Neither**	**Don't Know**
1. Must continuously monitor the client's account	9	11	6	3	5
2. Will help the client choose the lowest cost products, all other things being equal	3	16	9	3	3
3. Is allowed to recommend an investment that is adequate for the client based upon the client's personal circumstances, but not necessarily the best investment option	10	11	9	0	4
4. Must disclose payments that he/she receives that might influence him/her to advise the client to buy one product over another product that might be a better choice for the client	4	3	23	0	4
5. Must avoid taking higher compensation for selling the client one product instead of a similar product	7	4	8	10	5
6. Must avoid selling the client any investment that might cause him/her to lose money	3	5	9	13	4
7. Can only get paid if the client makes money on the investments that were recommended to the client	6	4	4	14	6
8. Must take into account the client's personal financial situation, goals and personal characteristics before recommending investments to the client	2	15	12	2	3

NOTE: Cells provide the number of all pre-survey respondents (N=34) indicating the given response option to each item (non-response coded as "don't know"). One participant in Group 1 did not submit a pre-survey.

It should be noted that the "correct" answers to some of the above statements are not definitive. For example, we understand that an IA generally provides ongoing monitoring of an account in order to satisfy a fiduciary duty, but a BD might have a contractual obligation to provide monitoring. However, these answers help us understand what investors expect from their financial professionals, and they can help us evaluate whether investors understand the differences between IAs and BDs.

Registration Status of Financial Professional

As a proof of concept in anticipation of the survey, we assessed the reported and actual registration status of participants' professionals for the two groups that currently use a financial professional. We aimed to assess whether participants were willing to report this information and whether the questions made sense to them, as well as the difficulty of identifying actual registration status. For these two groups, participants were asked in the pre-survey about their own financial professional and if their professional is a BD or an IA or both. A large majority of respondents (11 out of 16) reported that their financial professional is an IA, as shown in Table 3.5.

We asked participants in these two groups to provide the individual and firm names of their financial professional so that we could look up the professionals' actual registration using the SEC's Investment Adviser Public Disclosure website.[13] Twelve of the 16 respondents in these two groups provided the name of a specific individual professional they use, and all provided the name of a firm they use. We located the official registration information for the named professionals and firms. Overall, only one respondent unambiguously provided the actual type of their professional's current overall registration status (who had a current dual registration). However, it is unknown, for example, whether the six respondents who reported that their dually registered professional is an IA might in fact have worked with the professional only as an IA, unaware of the extent of their professional's actual registration status.

Table 3.5. Reported Financial Professional Type Versus Actual Registration Status

Reported Advisor Type	**Total**	**Individual Professional Registration Status**					**Firm Registration Status**				
		BD	IA	Dually Registered	Not Found	Refused/ DK	BD	IA	Dually Registered	Not Found	Refused/ DK
BD	1	0	0	0	0	1	0	0	1	0	0
IA	11	0	0	6	2	3	0	0	11	0	0
Both	2	1[14]	0	1	0	0	0	0	2	0	0
Don't Know	2	0	1[15]	1	0	0	0	1	1	0	0
Total	16	1	1	8	2	4	0	1	15	0	0

NOTE: Registration checked using https://www.adviserinfo.sec.gov

Type of Professional

These pre-survey results suggest low awareness of IAs' and BDs' classifications, particularly where a professional is dually registered. To further explore participant understanding, we provided participants with a printed handout describing these two terms. (See Appendix 7.) We first asked participants whether they had any difficulty with the language in the descriptions, and

[13] https://www.adviserinfo.sec.gov. Commission registration status of an investment adviser is applicable to the entity, *i.e.*, the investment advisory firm, rather than the individual investment adviser representative. In other words, it is the investment advisory firm typically that would be registered with the Commission, not the individual adviser representative employed by the firm.

[14] This individual financial professional is currently registered as a broker, but had been dually registered in the past.

[15] This individual financial professional is currently registered as an investment adviser, but had been dually registered in the past.

planned to use their feedback to edit the descriptions for the survey as necessary. Some participants indicated that they were aware of the two categories; however, regardless of their awareness, some participants were unable to distinguish between the two definitions offered or indicated that the two roles sounded similar.

We found that, even with the explanations of the differences between IAs and BDs, participants evaluated the two types of financial professionals differently. Although some participants demonstrated a basic understanding of IAs and BDs, other participants appear not to have understood the distinctions. We realized that we needed to find new ways to define and ask about the two types of professionals. Examples of participant comments include the following:

- An IA might be a good fit for an individual who is not an expert in investing, who needs help structuring their portfolio to meet their goals, or who has little knowledge of the market, but a BD might be a good fit if an individual already knows the investments they want;
- The BD role is more clear-cut and the IA role is potentially "predatory" based on how the professionals are paid;
- A lack of clarity, and cause for concern, is introduced by the fact that a professional could be both a BD and an IA, and when the roles are intertwined, IAs might be able to direct clients toward a product that is more lucrative to the professional;
- IAs are the safer option, given that these professionals are "not just getting a commission from selling" products;
- A broker carries out what a client asks, while an IA knows the client more closely, looks out for the client's "best interest," and researches options in which the client expresses interest;
- It is valuable to have someone who is capable of both the BD and IA roles, to give the client an overall view of their portfolio and integrate different matters;
- IAs seem to do more and focus on the "big picture," while BDs seem to act on an as-needed basis;
- BDs try to push products on the client and do not care about the client, while IAs steer a client away from things that might negatively affect their financial situation;
- IAs answer to a "higher authority" and are expected "to look out for me more than them."

This discussion underscored the difficulty of the topic for some investors and the need for more effective ways of communicating to investors the differences between IAs and BDs. Some comments also suggest that the possibility of a professional being both a BD and an IA might serve as a barrier to understanding the roles of professionals.

Conclusions

Four focus groups drawn from a diverse pool of investors provided insights which informed hypotheses and item development for our survey. Comments from the groups suggested that asking respondents about reasons for changes in their use of financial professionals might be a rich source of information about investor experience with professionals. Some comments suggested that some investors prefer to complement professional advice with their own research and decision-making. It is unknown how prevalent this preference might be.

In discussions about a professional acting in a client's best interest, participants varied in whether they felt they should be able to assume that a professional is looking out for their best interest. Comments also suggested that some individuals might value having a clear distinction between professionals who do and do not act in a client's best interest. In discussing expectations for standards of conduct, the groups typically expected that a financial professional who is acting in a client's best interest would continuously monitor the account, help the client to choose the lowest cost products (all other things being equal), disclose payments they receive that might influence their advice, avoid taking higher compensation for selling one product over a similar but less costly product, and take into account the client's personal financial situation, goals, and personal characteristics.

Focus group comments on professionals' form of compensation suggested that although many participants prefer that a professional be compensated by the client alone, some might not rule out using a professional who is receiving other compensation, for example if the compensation is openly disclosed and they are comfortable with the professional. Some comments suggested the possibility of studying how different types of individuals believe that different compensation models affect a professional's advice and what the quantitative implications of this are.

The formative focus group discussions and pre-surveys showed that participant understanding of types of financial services and financial professionals was low. However, they also generated a number of predictions to test in future research. In addition, they helped to demonstrate feasibility of our planned survey approach: participants were willing to discuss their experiences, preferences, and views regarding investments and financial advice, and they were willing to share information so that we could confirm registration status of financial professionals.

4. Survey

Background

In consultation with staff of the SEC's Division of Trading and Markets ("TM"), the Division of Investment Management ("IM"), and the Division of Economic and Risk Analysis ("DERA") (collectively the "rulemaking divisions")—who provided technical assistance—OIAD and RAND developed and fielded a survey of U.S. adults using the RAND ALP.

This section documents new facts regarding the prevalence and use of advice, investor experiences, expectations, and points of confusion. At the time that this survey was developed, the rulemaking divisions were still considering key elements of the ongoing rulemaking process. As a result, this survey represents the initial phase in an investor testing program. It is important to recognize that this phase occurred *prior to* the Commission's release of the proposed best interest regulatory package and was designed before key elements of the rule proposal were established. More specifically, the purpose of the survey at this stage of the research was to develop a better understanding of the views, attitudes, expectations, and experiences of a broad sample of individuals. The survey focused on the topics of investing generally and investor understanding of different types of financial professionals.

Research Questions

We fielded the survey through RAND's nationally-representative ALP to collect information on the experiences and attitudes of the U.S. adult population with regard to investing and investment advice. Specifically, we had two primary goals for this survey: (1) provide nationally-representative statistics concerning self-reported assets and accounts owned by U.S. households, and (2) address the following research questions:

1. **Who invests, and how do they invest?** Do the demographic and socioeconomic characteristics of individuals whose households invest differ from those that do not invest? What types of accounts and assets do such investors hold? What is the range of account balances and how often do investors transact in each of these types of accounts?
2. **What characterizes use of financial advice?** What services do households receive when they get advice? Do individuals whose households use financial professionals vary in terms of demographic characteristics from those who do not? What are the dynamics of using advice, that is, do households change their use of financial professionals over time?
3. **Do investors understand the distinctions between different types of financial professionals, and can they successfully navigate the marketplace for financial advice?** We explore this question by assessing, for a subset of respondents, whether perceptions about their professionals' registration statuses were accurate. Additionally, we explored whether individuals are aware of the services and requirements associated with different types of financial professionals.

4. **What are investors' experiences with financial advice? How much do they pay? What are their perceptions and experiences? What are their patterns of usage?**
5. **What are investors' experiences with, and perceptions of, financial conflicts of interest?** There has been significant research and policy interest in the effects of financial conflicts of interests on investor and advisor behavior (see Chapter 2). There is, however, a dearth of research concentrating on investors' experiences and perceptions of these conflicts. As such, we survey investors to explore these topics.
6. **What conduct would investors expect from a financial professional who is required to act in their "best interest"?** Prior research suggests that investors lack awareness of the differing standards of conduct for investment advisers and broker-dealers. If the Commission were to require broker-dealers to act in the "best interest" of customers, what expectations would investors have with respect to their broker-dealer/financial professional?

In this chapter, we describe the ALP survey platform and design of the questionnaire we used for this survey. We then discuss the sample design, response rates, and survey weights before presenting the results of the survey.

ALP Survey Platform

The ALP is a nationally-representative probability-based panel of approximately 3,400 active, regularly interviewed respondents aged 18 and older who answer surveys online. The ALP, through these surveys provides a picture of the U.S. adult population. For further details, see Pollard and Baird (2017). Full details of the panel composition are provided in the appendix. Probability-based surveys of this type offer key advantages over other methods, such as quota sampling; in particular, they allow researchers to reliably construct population estimates and margins of error–statistics which are elusive in quota sampling approaches.

Most ALP panelists have their own Internet access; those who do not have been provided a computer or an Internet subscription by the ALP. Socioeconomic and demographic information is available and periodically updated for every panel member (*e.g.*, age, race/ethnicity, education, marital status, household size, household income, and employment status). Over 450 surveys have been conducted using the ALP on a variety of topics, including financial decision-making, saving, and investing. One advantage of the ALP is that results can be linked to past surveys using the same respondents. In particular, Hung et al. (2008) fielded a survey on the ALP in 2007 on investment behavior and preferences, experience with financial service providers, and perceptions of the different types of financial service providers; where applicable, we provide limited comparisons of results from the 2018 survey with these prior results.

Survey Questionnaire

Respondents were screened to determine their suitability for answering this survey; in particular, only respondents who were "primarily responsible for making financial plans and decisions, including investment decisions," either solely or along with other adults in the household, were asked to complete the survey.

To minimize respondent burden and increase accurate reporting, the survey was designed with a target length of 18 minutes. The survey deployed a number of modules that solicited data relevant to the research project and that OIAD considered relevant to the rulemaking process. These modules covered the following topics:

- Household assets and account type holdings, along with account values and frequency of transactions.
- Individual knowledge and use of the marketplace for financial advice including services, characteristics, and duties of IAs, BDs, and other types of financial professionals, with some questions repeated from the 2007 survey.
- Household experiences working with financial professionals. For current advisees, we attempted to ascertain whether their professional is an IA or BD (investor type) by triangulating self-reported responses, questions about services, and verifiable information. We asked all respondents about their current and past use of professionals, as well as the number of professionals they used and the rationale for any changes. Respondents who do not currently receive advice from a financial professional were asked to report the likelihood of their seeking advice from a financial professional in the future, as well as their opinions about financial advice.

A few guiding principles led the survey development process:

- Be mindful of and ***minimize linguistic barriers***;
- ***Route respondents appropriately*** based on experiences; and
- ***Identify verifiable data***.

From the outset, we believed that linguistic barriers represented real challenges in asking households about investing and professional financial advice experiences. Some terms have different connotations to different individuals. For example, the term "suitable" is a legal term of art that might differ somewhat from the vernacular usage; or a generic term like "advice" might mean different things to different people in different contexts. To mitigate this problem, we attempted to triangulate an accurate answer by asking questions in numerous ways and by being specific about what we meant by terms like "advice," using lessons learned from the focus groups.

Because it was believed that there is a wide variety of individual experiences in the population with respect to investing and financial advice, the survey relied considerably on survey routing. Routing allowed us to ask different questions to respondents with different experiences—those who are not investors, those who invest without a professional's help, those who invest with a professional's help, and so forth. As such, it allowed us to reduce the burden on respondents by asking only questions that are relevant to the particular group, which improves respondent experience and in turn improves data quality. At the same time it allowed us to collect information on a broader range of topics including the extensive (use any advice) and intensive (how much advice) margins of advice usage, barriers to usage of advice, as well as past experiences that might have altered respondents' use of advice.

Finally, we verified information when possible. For example, one important issue in the current context is accurately identifying the legal registration status of the investor's financial professional—for this study, we refer to this registration status as the *investor's type*. We expected that many respondents would be unaware of technical differences in registration status, making it difficult for them to accurately self-report investor type. As such, while we asked respondents to self-report in a number of ways, respondents were asked to provide verifiable information that would allow us to independently ascertain the investor's type using the Investment Adviser Public Disclosure Database.[16]

Potential concerns about respondent willingness to truthfully respond to questions in this survey were reduced, because participants were ALP panelists that have experience with surveys of this type. In addition, our focus group research did not reveal significant reservations about discussing these topics. Nevertheless, we note some specific instances where misreporting seems possible, which would in some instances bias population estimates either up or down. This misreporting is likely due to the complexity of the topic as well as the practical limitations stemming from deployment of an online survey. For example, it is entirely possible that, despite the examples provided to the respondents in the questionnaire, certain financial assets are too exotic for most people to provide accurate reports on their ownership. Overcoming this challenge would require a significant increase in data collection efforts, such as an in-person household survey or supplementary analysis of administrative data to verify respondents' reports.

Sample Design and Weights

Sample Design

The sample available for our survey consists of adult individuals identified as the primary respondent in 3,395 households deemed to be active ALP members as of February 2018. This sample was then partitioned into two groups for survey interview recruitment. One group consists of the 441 respondents to the 2007 survey who were deemed to be active panel members as of February 2018. The second group consists of 2,494 randomly selected individuals from the remaining 2,954 active panel members. The 441 past respondents provided a partial longitudinal structure to the dataset that allowed us to more fully examine changes in understanding of relevant themes over the past decade.

The results presented here largely use sample weights. The process of constructing the weights to account for the sample design is described in detail in the Technical Appendix. The

[16] https://www.adviserinfo.sec.gov/IAPD/IAPDSearch.aspx

constructed weights are intended to provide reasonable approximations of values for the U.S. adult population and the various subpopulations of interest to the current study.

Of those who were invited to the survey, 1,816 survey respondents were eligible and completed the survey, for an overall response rate of 61.9 percent. Five sampled individuals logged into the survey but did not respond to the eligibility screening question. Two hundred eighty were not eligible because they indicated that some other member of the household "is primarily responsible for making financial plans and decisions, including investment decisions." One hundred thirteen of the remaining 1,929 (5.8 percent) eligible respondents did not complete the questionnaire. The final sample of 1,816 respondents includes 308 active panel members who completed the 2007 survey and 1,508 who did not.[17] The median reported completion time was just under 17 minutes.[18]

As the sampling unit for the ALP is the individual rather than the household, there are some language challenges in the foregoing. Some of our statements are about the individual (*e.g.* "X% of individuals are female"), but at times a more relevant statement is to be made about the household (*e.g.* "Y% of households own mutual funds"). Technically speaking, statements about households are really about individuals living in households. For example, a classification of investor literally does not mean "investors…," but rather "individuals who report that their households hold investments…." Because our screener excludes individuals that do not have personal knowledge of household finances from the survey, the practical relevance is mostly limited. There are some places where the desired discussion is "X% of bond-owners are female," yet the correct statement based on the survey is literally "X% of respondents who report that their households own bonds are female." Although we endeavor to be precise in language, in many places the technically precise statements about relevant populations are a bit excessive so for brevity, this language might be abridged to simply "bond-owners."

Demographics

Respondent demographics for the sample are described below in Table 4.1. The ALP sample is older and more highly educated than the U.S. population as a whole. Thus, the age and education distribution in the analysis sample changes notably when weights are applied in order to better match up the sample distribution to the population distribution. For comparison, the shaded column in the middle of the Table 4.1 reports Current Population Survey estimates of the U.S. adult population distribution. The age difference between the weighted and unweighted distributions arises in part because we oversample the respondents to the 2007 survey, who were already adults at that time and are described in the final three columns of Table 4.1. In 2011 and

[17] Thus, the effective response rate is 69.8% (308 out of 441) for those who completed the 2007 survey and is 60.5% (1508 out of 2494) for those who did not.

[18] This is full completion time, bearing in mind that such times are only indicative on online surveys due to the fact that respondents administer at their own pace.

2012, the ALP recruited a “Vulnerable Population Recruitment Cohort” of panel members drawn from vulnerable groups and minorities (See Pollard and Baird, 2017). This cohort, which now constitutes about one-third of the active ALP sample, tends to be younger and have lower educational attainment than the remainder of the ALP sample.[19]

In the remainder of the analysis, except where noted,[20] we focus on weighted distributions. In results not shown, each weighted analysis was also performed without weighting the data.

Table 4.1. Respondent Demographics

Attribute	Eligible Respondents from Probability Sample Who Completed 2018 Survey (N=1,816)			*Current Population Survey (CPS) Estimates*[21]	Subset Who Completed 2007 Survey (N=308)		
	N	Unweighted	Weighted		N	Unweighted	Weighted
Gender							
Male	819	45%	49%	***48%***	145	47%	43%
Female	997	55%	51%	***52%***	163	53%	57%
Age							
30 or Younger	72	4%	15%	***23%***	2	1%	3%
31–40	232	13%	21%	***17%***	14	5%	8%
41–50	258	14%	15%	***16%***	27	9%	13%
51–60	448	25%	20%	***17%***	85	28%	24%
61 or older	806	44%	29%	***26%***	180	58%	52%
Household Income							
Less than $25,000	329	18%	21%	***21%***	28	9%	9%

[19] It is important to understand that weighting of survey responses is statistical in nature, not normative. It is related to the respondent’s probability of being selected into the panel, responding to an invitation, etc. (see appendix) and is conducted for the purposes of providing valid approximations to a given population or subpopulations. These weights do not ascribe normative notions of “importance,” but rather help us to make reasonable statements about populations and subpopulations of interest. Thus, it is not that one observation has a higher weight than another because it is “more important,” but rather because the chances of completing the survey are different.

[20] For example, unweighted statistics are presented for the analysis below of “investor types” regarding the registration status of individual financial professionals whose names were reported by respondents, where 30 percent of respondents chose not to report a name when asked. Additional caution should be exercised when attempting to use the weights to extrapolate results to the general population in the presence of high rates of item nonresponse.

[21] CPS estimates derived from Table 1: Educational Attainment of the Population 18 Years and Over, by Age, Sex, Race, and Hispanic Origin: 2017 (available at https://www.census.gov/data/tables/2017/demo/education-attainment/cps-detailed-tables.html) for gender, age, and educational attainment, and from HINC-01. Selected Characteristics of Households, by Total Money Income in 2016 (available at https://www.census.gov/data/tables/time-series/demo/income-poverty/cps-hinc/hinc-01.html) for household income.

$25,000–$49,999	431	24%	23%	***22%***	73	24%	22%
$50,000–$74,999	385	21%	20%	***17%***	67	22%	20%
$75,000–$99,999	204	11%	10%	***12%***	46	15%	20%
$100,000 or more	465	26%	26%	***28%***	94	31%	29%
Educational Attainment							
HS Degree or Less	259	14%	38%	***40%***	29	9%	28%
Some College	627	35%	28%	***29%***	100	32%	34%
Bachelor's Degree or More	930	51%	34%	***31%***	179	58%	38%

Survey Results

In the following sections, we organize the discussion of results around each of the six research questions we outlined: Who invests, and how do investors invest? What characterizes use of financial advice? Can investors navigate the marketplace for advice and what are their experiences? What are investors' experiences with, and perceptions of, financial conflicts of interest? What conduct would investors expect from a financial professional who is required to act in their best interest?

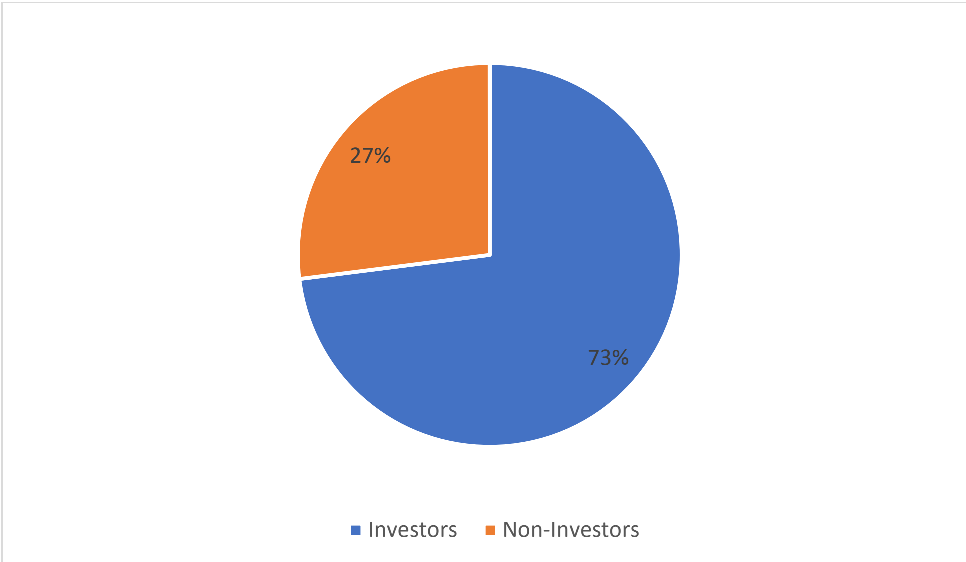
Investment Accounts and Asset Holdings

Who Invests?

Our first research question was "who invests?" We defined "investors" as any respondents who identified their household as owning at least one type of investment account (*e.g.* an employer-sponsored retirement account, a non-employer sponsored retirement account such as an IRA, a college savings investment account, or some other type of investment account such as a brokerage or advisory account), or owning at least one type of investment asset (*e.g.* mutual funds, exchange-traded funds or other funds; individual stocks; individual bonds; derivatives; and annuities). According to our weighted estimates, about 73 percent of adults live in a household that invests.[22]

[22] To simplify the presentation in this chapter, estimates of standard errors are reported in the Technical Appendix. The great majority of estimates presented in this chapter are percentages, in which case each standard error estimate for unweighted statistics could be calculated using a simple, well-known formula based on the information provided in each table. Standard error estimation is less straightforward for the weighted statistics, but we can say that these standard errors for weighted statistics will tend to be larger than estimates using the usual formula. For example, we estimate a standard error of 1.7 percentage points on the 73% share of adults who live in a household that invests

Figure 4.1. Investors vs. Non-investors



NOTE: Weighted percentages presented. N=1816.

Table 4.2 summarizes the characteristics of investors and non-investors.[23] Characteristics of each subgroup, either investor or non-investor, are presented in columns. The first column presents the characteristics of non-investors and the second column presents characteristics of investors. For example, 60.7 percent of respondents who are not investors are female and 47.5 percent of respondents who are investors are female. As such, the rows in the table do not sum to 100 percent.

As discussed, survey respondents answered questions related to their household's investments, but demographic characteristics describe individual respondents. As such, statements made about "non-investors" apply to respondents who report that their households do not hold investments. The demographic breakdowns in this section allow us to examine subpopulations of interests, such as investors or advice-users, to better understand the composition of that group.

(Figure 4.1). In contrast, the usual formula for a 73% share with 1816 respondents generates an estimated standard error of just 1.0 percentage points—that is, √(73%×27%)/1816= 1.0%. While the proportional difference between 1.7 and 1.0 is relatively large, the standard errors are both relatively small in magnitude because of the large sample size. See the Technical Appendix for more discussion.

[23] Unless otherwise noted, all results in this chapter are weighted results to approximate the population characteristics for the adult US population.

Table 4.2. Demographic and Socioeconomic Background - Investors vs. Non-Investors

	Non-investor	investor
Female(%)	60.7%	47.5%
Average Age	48.2	49.6
Median Age	46	51
Age 25-54(%)	60.3%	57.3%
65+(%)	20.9%	20.6%
Income: <$25,000(%)	53.8%	8.3%
$25,000–$49,999(%)	29.2%	21.1%
$50,000–$74,999(%)	10.9%	23.7%
$75,000–$99,999(%)	2.3%	12.1%
$100,000 or more(%)	3.9%	34.8%
HS Degree or Less(%)	55.2%	31.2%
Some College (%)	30.6%	27.1%
Bachelor's Degree or More (%)	14.2%	41.7%
Employed (%)	41.2%	71.0%
Retired (%)	18.5%	18.4%
Number of household members	2.37	2.24
N	426	1390
N (weighted)	472	1278

NOTE: weighted statistics presented.

Respondents who report that their households are non-investors are more likely to be female, have lower family incomes and educational attainment, live in slightly larger families, and have an age distribution that skews younger, as compared with individuals living in investing households. Specifically, 60.7 percent are female, their median age is 46, and their average age is 48.2. Slightly over sixty percent are in the prime working age group (25-54 years old), and 20.9 percent are age 65 or older. Eighty-three percent have family incomes of less than $50,000, with almost 54 percent reporting a family income of less than $25,000. Only 6 percent report a family income of over $75,000. Fifty-five percent have achieved a high school education or less, while only 14 percent have a bachelor's degree or more. Only 41 percent of respondents who report that their households are non-investors were employed at the time the survey was fielded, with about 18.5 percent retired.

Respondents who report that their household holds investments are 52.5 percent male. The median age of these respondents is 51, and the average age is 49.6. Fifty-seven percent are in the prime working age group (25-54 years old), and 20.6 percent are age 65 or older—similar to respondents in non-investing households. More than a third (34.8 percent) have family incomes over $100,000, with only 8 percent reporting family incomes less than $25,000; overall, the income distribution for the investor group is skewed substantially higher than for the non-investor group. Over two-thirds have at least some college education, with 42 percent having completed at least a bachelor's degree. Seventy-one percent of the investor group was employed at the time of the survey and 18.4 percent were retired.

The definition of "investor" here is rather specific,[24] so it is perhaps not surprising to see such stark divisions between these two groups. The next subsection takes a deeper look at the individuals that own particular account types and assets, as well as their account balances and trading activity.

What Types of Accounts Do Investors Hold?

Respondents were asked whether their household owned at least one of the following account types: employer-sponsored retirement accounts such as a 401(k) or 403(b), other retirement accounts such as a Traditional IRA or Roth IRA, college savings plans (529 Plans) and other investment accounts including brokerage or advisory accounts.[25] For each account type that they identified, respondents were asked about balance levels and transaction behavior in their *primary* account of this type. They were also asked about the specific types of assets such as mutual funds, exchange-traded funds or other investment funds, individual stocks, individual bonds, derivatives, such as options or securities futures, and annuities held in ***any*** accounts of that type . Table 4.3 shows the percentage of investors who report that their household holds each of the categories of accounts, as well as the types of assets that are held within those types of accounts.

[24] In particular, an "investor" is a respondent that positively affirmed ownership of one of the specified account types or assets.

[25] Self-reported data have certain limitations. For example, it is unclear why, as shown in Table 4.3, respondents who reported holding a 529 plan account identified derivatives among the assets held in such type of account.

Table 4.3. Household Accounts and Asset Holdings

Type of Account	% of Investors Who Hold This Type of Account	% of Accounts That Hold the Following Assets	
401(k)	79.3%	funds	58.6%
		stock	36.4%
		bonds	21.2%
IRA	46.3%	funds	68.7%
		stock	43.4%
		bonds	22.0%
529	11.8%	funds	56.1%
		stock	28.8%
		bonds	14.4%
Other (incl. brokerage and advisory accounts	34.8%	funds	62.6%
		stock	57.1%
		bonds	22.0%
Outside an account	16.5%	funds	2.5%
		stock	6.8%
		bonds	4.1%

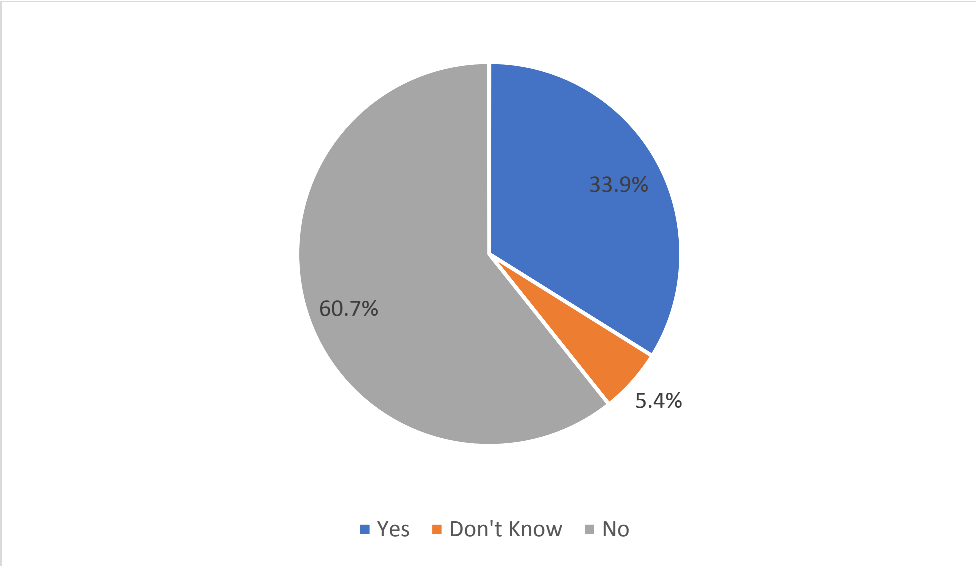
NOTE: Investors are respondents who identified their household as owning at least one type of investment account or owning at least one type of investment asset. Weighted percentages presented. N=1390. Missings (i.e., skips) are excluded from the calculations.

We focus below on retirement accounts that are not employer-sponsored (*e.g.*, IRAs) and other types of brokerage and advisory accounts in which investors could be expected to choose an investment professional or select their own investments. In contrast, investors tend to be less involved in the selection of the investment professionals and investment options associated with accounts in employer-sponsored retirement plans and college savings plans.

Retirement Accounts that are not Employer-Sponsored

The class of retirement accounts that are not employer-sponsored covers most classes of Individual Retirement Accounts (IRAs).[26] Overall, a third of respondents (33.9 percent) report that their household has this type of account, 60.7 percent said that they do not have an account of this type, and 5.4 percent were unsure. As reported above in Table 4.3, over 46 percent of households who invest hold an IRA.

Figure 4.2. Self-Reported Ownership of Other Retirement Accounts (Primarily IRAs)



NOTE: Weighted percentages presented. N=1816

Among respondents who reported that their household owned these retirement accounts, 48.5 percent were female, as seen in Table 4.4 below. These respondents were older than the typical respondent of an investing household, with a median age of 56 and an average age of 54; less than half are in the prime working age group (45.5 percent), and 29 percent are age 65 or above. Over two-thirds (67 percent) of respondents whose households owned this type of account were employed at the time of the survey, and 26.5 percent stated that they were retired. Owners[27] of these types of retirement accounts have much higher educational attainment and family income than investors as a whole; for instance,—55.9 percent have a bachelor's degree or higher and 45 percent report an annual household income over $100,000.

[26] Technically, these are known as Individual Retirement Arrangements, but Individual Retirement Accounts is the more common usage.

[27] As noted previously, the correct statement is "respondents who report that their households own this type of account," but here and in the foregoing we abridge to terms such as "owners" and "investors" for brevity.

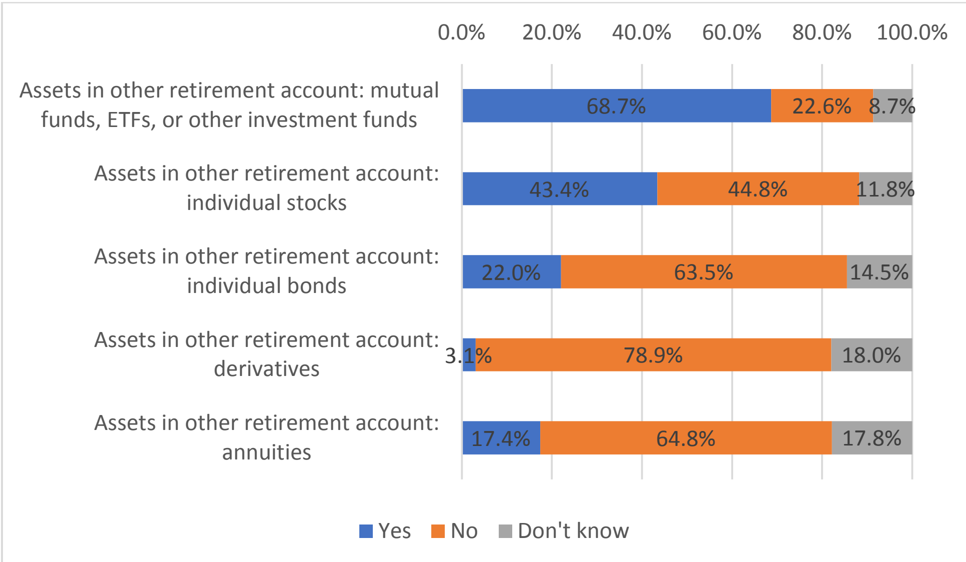
Table 4.4. Demographic and Socioeconomic Background - Investors vs. IRA Owners

	Investor	IRA Owner
Female(%)	47.5%	48.5%
Average Age	49.6	54.2
Median Age	51	56
Age 25-54(%)	57.3%	45.5%
65+(%)	20.6%	29.3%
Income: <$25,000(%)	8.3%	4.4%
$25,000–$49,999(%)	21.1%	14.2%
$50,000–$74,999(%)	23.7%	22.7%
$75,000–$99,999(%)	12.2%	13.5%
$100,000 or more(%)	34.7%	45.1%
HS Degree or Less(%)	31.2%	21.2%
Some College (%)	27.1%	22.9%
Bachelor's Degree or More (%)	41.7%	55.9%
Employed (%)	71.0%	67.4%
Retired (%)	17.7%	26.5%
Number of household members	2.2	1.9
N	1390	802
N (weighted)	1278	592

NOTE: weighted percentages presented.

Over two-thirds of respondents (68.7 percent) report that their households have investments in funds as part of these accounts. Forty-three percent report having individual stocks, while 22 percent report owning individual bonds, 17.4 percent report owning annuities in these accounts, and 3.1 percent report owning derivative investments.

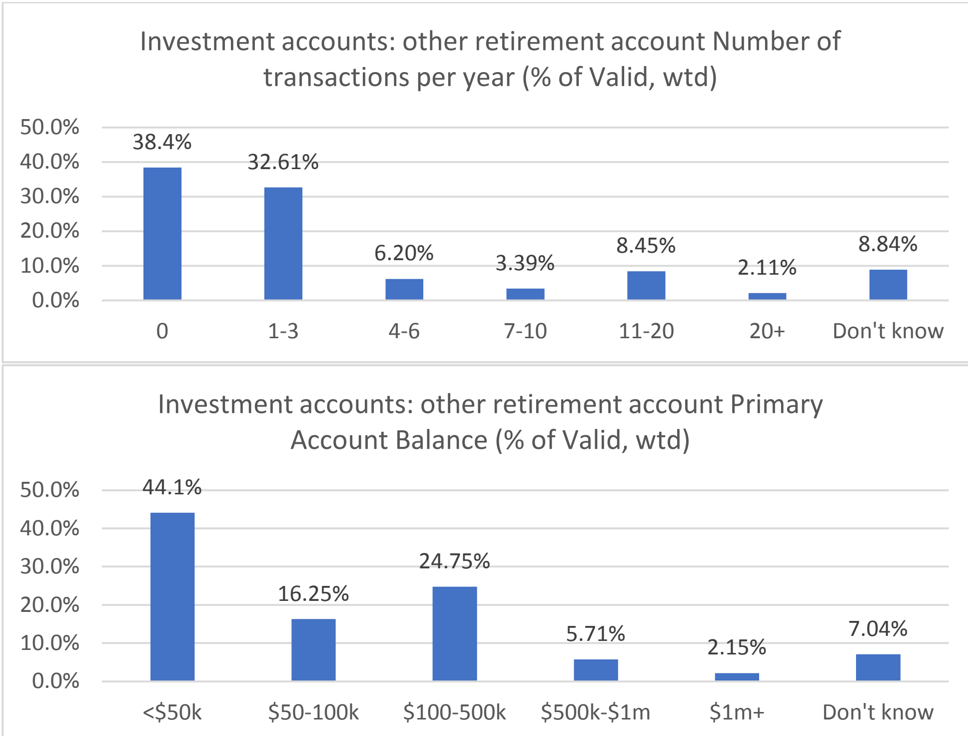
Figure 4.3. Asset Ownership in Other Retirement Accounts, by Asset Type



NOTE: Weighted percentages presented. N=802. Missings (i.e., skips) are excluded from the calculations.

In terms of the household's *primary* account of this type, the plurality of accounts are small in value and make few transactions each year. Account size and number of transactions are similar to what is reported in the appendix for employer-sponsored retirement accounts, although the ownership rates of these retirement accounts are notably much lower than for employer-sponsored accounts. Approximately 44 percent of these accounts have less than $50,000 in assets, while 16 percent have between $50,001 and $100,000, and close to a quarter are in the $100,001-$500,000 range (see Figure 4.4). Only about 8 percent have more than half a million dollars in assets. Seven percent have an unknown asset level. Over 70 percent of these accounts are transacted in less than four times a year, with only about 20 percent transacting more often. Interestingly, the distribution jumps a bit in the category for 11 to 20 transactions per year, possibly suggesting that individuals tend to interact with their accounts on a monthly basis, perhaps via an automatic purchase program to dollar cost average into their investments. Alternatively, this higher average number of transactions could suggest that respondents interpreted "transactions" to include automatic deposits into the account.

Figure 4.4. Other Retirement Accounts Balances and Transactions

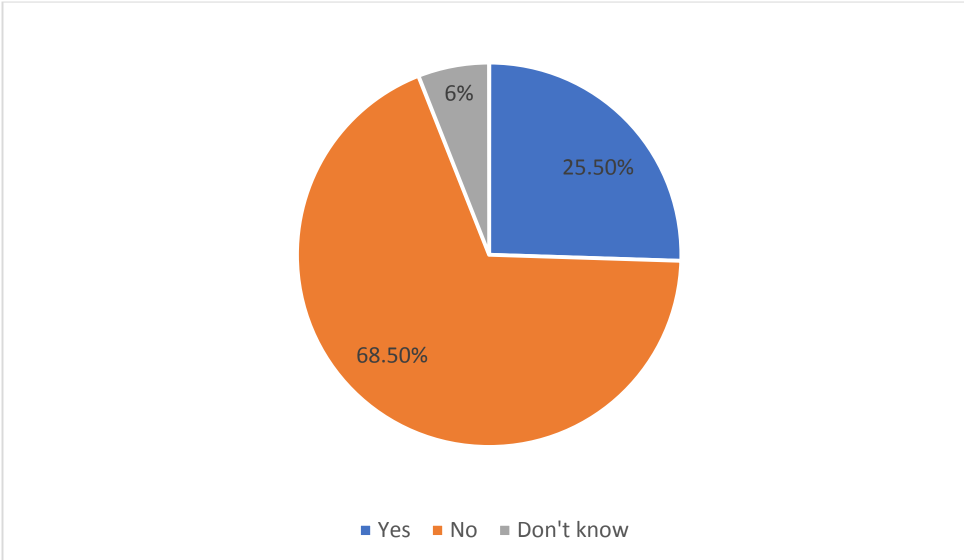


NOTE: Weighted percentages presented. N = 802. Missings (i.e., skips) are excluded from the calculations.

Brokerage and Advisory Accounts

About a quarter (25.5 percent) of individuals report that their household owns an investment account other than a retirement account or college savings plan (Figure 4.5). Almost 35 percent of investing households hold one of these other investment accounts. This category includes brokerage and advisory accounts that are of particular interest in this study.

Figure 4.5. Self-Reported Ownership of Other Investment Accounts (Including Brokerage and Advisory Accounts)



NOTE: Weighted percentages presented. N = 1,816

Fifty-seven percent of individuals reporting household ownership of such accounts are male, as seen in Table 4.5 below. The age distribution of ownership is older than for investors as a whole and is broadly more similar to those owning non-employer sponsored retirement accounts (appendix). The average age is almost 55 years old with a median of 58 years old. One third (33.4 percent) of these account owners are 65 and over, while only 43 percent are of prime working age (25-54). Fifty-eight percent were employed at the time of the survey, while almost 30 percent were retired. Owners of this account type are more educated and have higher incomes than investors as a whole, with 56.5 percent having a bachelor's degree or higher, and 47 percent with over $100,000 in family income.

Table 4.5. Demographic and Socioeconomic Background—Investors versus Other Investment Account Owners

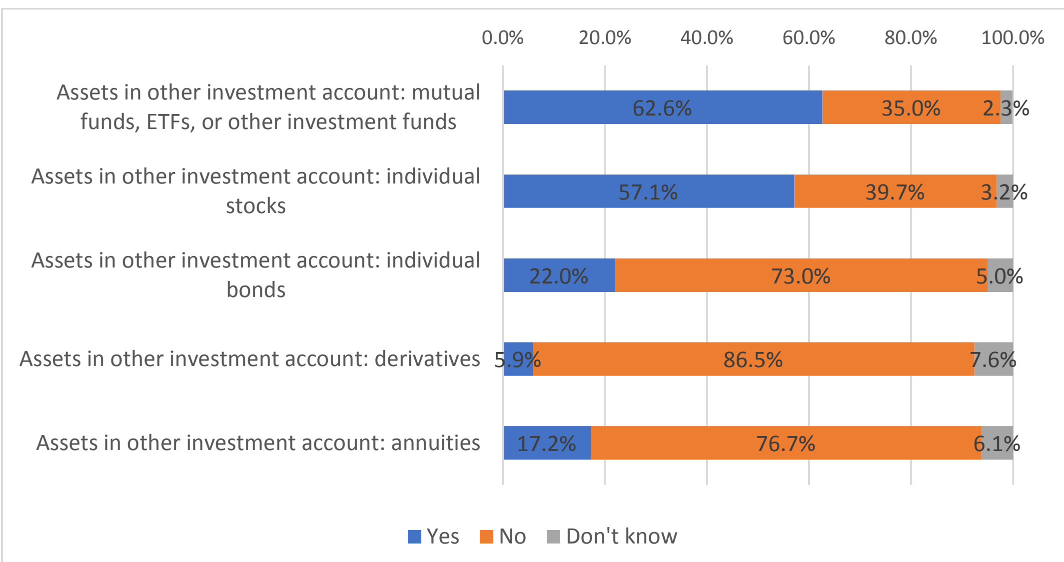
	Investor	Other Owner
Female(%)	47.5%	42.9%
Average Age	49.6	54.9
Median Age	51	58
Age 25-54(%)	57.3%	42.8%
65+(%)	20.6%	33.4%
Income: <$25,000(%)	8.3%	6.3%
$25,000–$49,999(%)	21.1%	14.4%
$50,000–$74,999(%)	23.7%	19.2%
$75,000–$99,999(%)	12.2%	13.4%

$100,000 or more(%)	34.7%	46.7%
HS Degree or Less(%)	31.2%	21.2%
Some College (%)	27.1%	22.2%
Bachelor's Degree or More (%)	41.7%	56.6%
Employed (%)	71.0%	58.3%
Retired (%)	17.7%	29.2%
Number of household members	2.2	1.8
N	1390	599
N (weighted)	1278	445

NOTE: weighted percentages presented.

Nearly two-thirds of individuals (62.6 percent) report having some fund investments in these accounts, but 57.1 percent report owning at least one individual stock in an account of this type and 22 percent report owning individual bonds. Further, 17.2 percent report owning annuities, while 6.9 percent report owning derivatives, such as options or securities futures.[28]

Figure 4.6. Assets Held in Other Investment Accounts (Including Brokerage and Advisory Accounts)



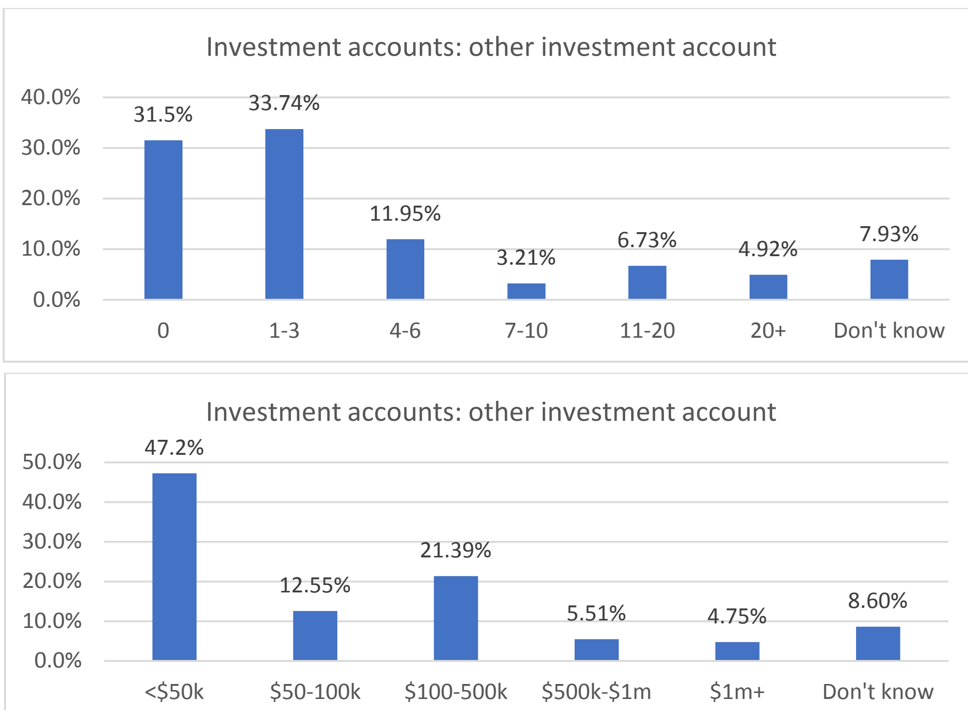
NOTE: Weighted percentages presented. N = 599. Missings (i.e., skips) are excluded from the calculations.

[28] As with IRAs, reporting the asset holdings of these account types is likely to be more accurate than for employer-sponsored accounts given that most of these accounts are the result of more active investment choices by individuals. Notably, the proportion of "don't know" responses is lower than the proportions for accounts in employer-sponsored and college savings accounts.

Considering the investor's primary account of this type, interestingly, there appears to be a similar distribution of account balances as retirement accounts. As seen in Figure 4.7, 47.2 percent of these accounts reportedly hold less than $50,000 of assets. Twelve and a half percent reportedly have between $50,001 and $100,000, while 21.4 percent have between $100,001 and $500,000. Only about 10 percent of accounts have more than $500,000, and 8.6 percent of account owners do not know how much they hold in these accounts.

In these accounts, most investors transact infrequently, with 31.5 percent reporting no annual transactions while a third (33.74 percent) report three or fewer transactions per year. However, a significant portion of the responses indicate higher numbers of transactions. Nearly 12 percent report 4-6 transactions per year, 3.2 percent report 7-11 transactions per year, and almost 12 percent report more than ten transactions annually (Figure 4.7). Approximately 8 percent do not know how often transactions are made in this account.[29]

Figure 4.7. Other Investment Accounts (Including Brokerage and Advisory Accounts) Balances and Transactions

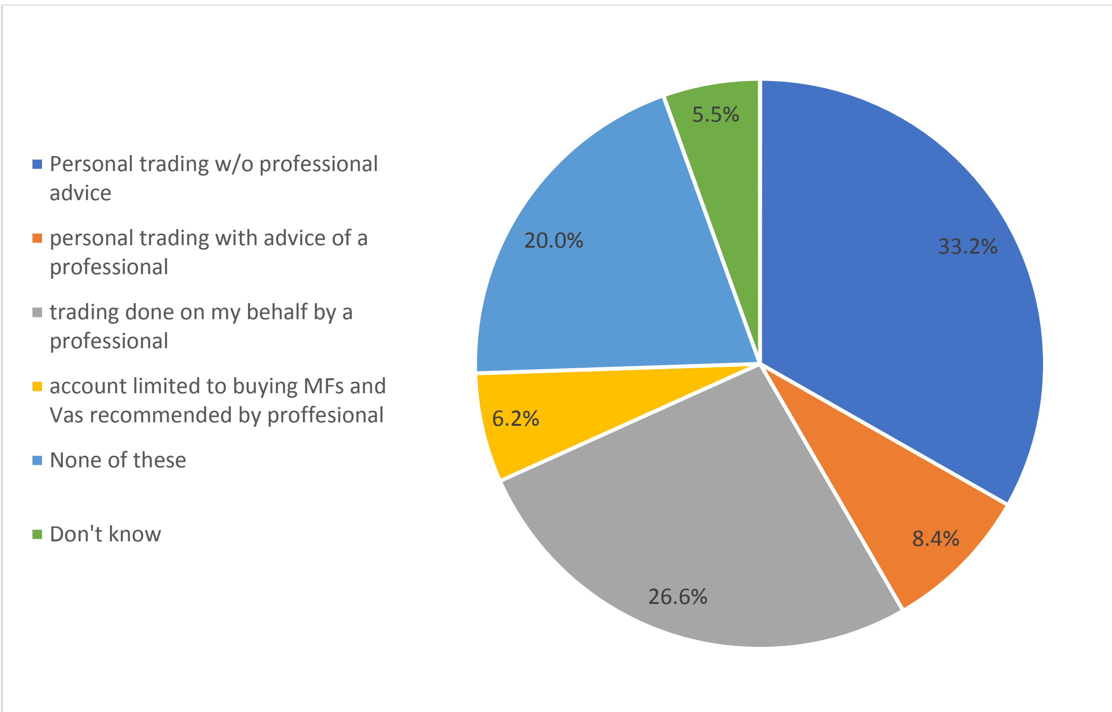


NOTE: Weighted percentages presented. N=599. Missings (i.e., skips) are excluded from the calculations.

[29] It is possible that some individuals responded "don't know" because of uncertainty in the breakpoints. For example, they might have known they made about 10-12 transactions but could not remember precisely. In this example, they may have preferred to respond "don't know" instead providing a category with what seemed an undue level of precision.

Respondents that hold at least one of these “other investment accounts” were asked for the exact nature of the primary account of this type, and whether they used a financial professional for advice on the account. Figure 4.8 plots the distribution of these accounts by type.[30] One third of respondents (33.2 percent) indicate that their account is a self-directed or “Do-It-Yourself” (DIY) investment account, with no financial advice provided. About a quarter of respondents (26.6 percent) indicate their account is managed by an investment professional. Less than 10 percent (8.4 percent) indicate that they do their own trading with advice from a financial professional.

Figure 4.8. Types of Other Investment Accounts



NOTE: Weighted percentages presented. N = 599. Missings (i.e., skips) are excluded from the calculations.

[30] Actual response options are abridged for brevity. Original options: 1. It's an account where I do personal trading without the advice of a professional; 2. It's an account where I do personal trading with the advice of a professional; 3. It's an account where trading is done on my behalf by a professional; 4. It's an account where I am limited to purchasing mutual funds and variable annuities recommended to me by a financial professional; 5. None of these describe my investment account; 99. Don't know

Financial Advice

What Types of Financial Advice Do Individuals Receive?

Our second set of research questions focused on understanding investors' use of financial advice and the various issues associated with obtaining informed advice. As noted previously, studying this issue is challenging because respondents might face linguistic barriers that could limit their ability to accurately classify their experiences with financial advice. To help mitigate this problem, we asked respondents about advice in multiple ways. In many instances, we also took a "bottom up" approach—*i.e.*, asking them about their experiences in particular situations rather than asking them about advice *per se*—because of concerns about how respondents might interpret terms such as "advice."

We asked respondents whether they currently receive particular forms of financial advice or have done so in the past. We identified a set of situations in which respondents might have received financial advice, recognizing this set is necessarily incomplete and could not cover the full range of situations in which professional advice is used. Our set included recommendations about investment strategies, recommendations about specific financial investment products, recommendations about what types of investment accounts to open, household financial planning, financial planning for retirement, and financial planning for educational expenses.[31] Overall, about half (50.1 percent) of the weighted sample indicated that they had obtained the advice of a professional in at least one of the settings, either currently or in the past, while among self-identified investors (as defined above), 61.1 percent reported using a professional for at least one of these services.

Table 4.6 shows the proportion of "investors" (i.e., respondents who report that their households have an investment account or investment assets) who report obtaining financial advice in different situations. Overall, obtaining financial advice is not prevalent.

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[31] The specific formulations were:

"Recommendations about investment strategies in general (for example, a recommendation on how much to hold in stocks and how much to hold in bonds)

Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)

Recommendations about what types of investment accounts to open, or whether to change or roll over assets from one type of investment account to another

Household financial planning (such as budgeting, or managing credit card debt)

Financial planning for retirement

Financial planning for educational expenses"

Table 4.6. Financial Advice Services: Investors Only (Currently Using the Service, Past User of the Service, Never Used the Service)

INVESTORS	Currently	No, but in past	Never
Recommendations about investment strategies	31.47%	17.48%	51.05%
Recommendations about specific financial investment products	31.10%	15.82%	53.08%
Recommendations about what types of investment accounts to open	32.64%	15.75%	51.61%
Household financial planning	13.01%	11.88%	75.11%
Financial planning for retirement	34.24%	15.37%	50.39%
Financial planning for educational expenses	13.14%	10.40%	76.45%

NOTE: Investors are respondents who identified their household as owning at least one type of investment account or owning at least one type of investment asset. Weighted percentages presented. N = 1,390. Missings (i.e., skips) are excluded from the calculations

Just 36.6 percent of the full sample of respondents reported that they currently consult a financial professional for at least one of the six services listed in Table 4.6. About one third of the sample reports currently receiving some kind of investment "recommendation" services (*i.e.*, 593 respondents currently receive recommendations about investment strategies, about specific financial investment products, or about what types of investment accounts to open). These respondents were asked how they generally received advice, as some individuals might seek services from different professionals at different times. Over three quarters of these 593 respondents (unweighted) reported working with one particular individual (76.4 percent). Some respondents reported working with multiple individuals at a single firm (10.6 percent), while a small number (6.7 percent) of respondents reported working with multiple individuals at different firms. Finally, about three percent of these respondents report using "automated recommendations from a website or app" in response to a question posed to capture data regarding the use of "robo advisors."

Who Obtains Financial Advice?

Individuals who obtain financial advice might differ from those who do not. Table 4.7 summarizes the demographic and socioeconomic profile of various groups of respondents based on their household's use of financial professionals. In particular, the columns are for: 1) all investors (for comparative purposes and identical to what was presented in previous tables); 2) investors who have never used financial professionals for any of the six situations (investment strategies, products, accounts, financial planning, retirement, and educational expenses); 3) current users of financial professionals for any of the six recommendation and planning services and 4) past users of financial professionals for any of the six services.

Respondents whose household currently uses a financial professional (column 3) are on average older than investors whose household has never used one (column 2), with a nine-year difference in median age between the two groups. Respondents whose household currently uses a financial professional are also more likely to be retired (20 percent) than those who have not (11.5 percent). The current-users group has higher overall income than investors who have never used a professional, with 38 percent having over $100,000 in annual income, but the distribution also has more mass in the under-$25,000 income bracket. Education completion levels for the current-users group are lower than for those who have never used a financial professional, with similar college completion rates but a higher proportion in the high-school-or-less education bucket (35 percent versus 27 percent).[32] Explanations that might account for these differences are beyond the scope of the present study.

Table 4.7. Demographic Characteristics of Financial Advice Users

	investor	investor, never FP	Current FP	Only Past FP (any)
Female(%)	47.5%	46.8%	46.6%	52.5%
Average Age	49.6	46.1	50.7	55.9
Median Age	51	44	53	56
Age 25-54(%)	57.3%	67.3%	51.7%	44.0%
65+(%)	20.6%	14.1%	23.9%	31.9%
Income: <$25,000(%)	8.3%	4.8%	13.7%	17.5%
$25,000–$49,999(%)	21.1%	23.1%	18.3%	27.4%
$50,000–$74,999(%)	23.7%	27.7%	19.3%	21.6%
$75,000–$99,999(%)	12.2%	13.7%	10.6%	9.5%
$100,000 or more(%)	34.7%	30.8%	38.0%	24.1%
HS Degree or Less(%)	31.2%	27.2%	35.3%	35.2%
Some College (%)	27.1%	31.2%	24.7%	28.0%
Bachelor's Degree or More (%)	41.7%	41.6%	40.0%	36.8%
Employed (%)	71.0%	80.1%	64.8%	52.7%
Retired (%)	17.7%	11.5%	19.9%	27.6%
Number of household members	2.2	2.4	2.0	2.3
N	1390	478	664	358
N (weighted)	1278	498	600	276

NOTES: Weighted statistics presented. By column (1) all investors; (2) investor, never used advice; (3) investor, current advice user. Advice-user defined as user of any one of the six advice categories (Recommendations about

[32] Results for investors who have ever used a financial professional are not substantively different from those who currently use a financial professional. Investors who have ever used a financial professional are on average older than those who have never used one (column 2), with a median age of 54, ten years older than the median age of those who have never used one. Older investors have more lifetime experience to have tried a professional, with about a quarter (24.7 percent) of the ever-used group aged 65 and older, and only half (50.9 percent) in prime working age years (aged 25-54). The ever-used group has higher income, with 37 percent having over $100,000 in annual income. Although college completion rates are about the same in both groups, the ever-used group actually has a bigger proportion in the high-school-or-less category, whereas the never-used group has a higher proportion completing some college.

investment strategies, Recommendations about specific financial investment products, Recommendations about what types of investment accounts to open, Household financial planning, Financial planning for retirement, Financial planning for educational expenses)

Dynamics of Advice Utilization: Learning and Transition?

One open question is whether households consistently use financial advice, or whether they change in their use of financial professionals over time. This subsection provides some brief, incomplete insights regarding this question.

There are 308 respondents to our current survey who had also participated in the 2007 survey. Table 4.8 compares their reported advice usage in 2007 to their reported advice usage in the current survey. Due to the unique characteristics of these participants (for one, they were ALP participants in both surveys),[33] results from this analysis do not reflect changes in the overall U.S. population between 2007 and 2018. That said, the results might be helpful in understanding the overall patterns related to changes in advice utilization. Put another way, they might be helpful in understanding the transition dynamics over this 10 year period.[34]

Table 4.8 shows that the choice to use planning and financial advice for strategies, products, or accounts is relatively fixed over time. Respondents whose households did not use a financial professional for “advising, management, and/or planning” in 2007 largely do not use one for any of the six listed advice and planning services in 2018 (65 percent remained without a financial professional), whereas respondents whose households used a financial professional in 2007 largely use one in 2018 (69 percent still used a financial professional). As such, only about a third of respondents in each group changed in their use of a financial professional.

Table 4.8. Current Advice Status (columns) by 2007 Survey Results (rows) (unweighted)

			2018	
			No Advice	**Advice**
2007	**No Advice**	177	115	62
	Advice	129	38	91

NOTE: For 2018 survey, Advice-user in this table defined as user of any one of the six advice categories (Recommendations about investment strategies, Recommendations about specific financial investment products, Recommendations about what types of investment accounts to open, Household financial planning, Financial planning for retirement, Financial planning for educational expenses). For 2007 survey, Advice-user in this table defined as user of “professional service providers for … advising, management, and/or planning”

[33] Also, one could argue that receipt of the 2007 survey essentially raised their awareness of these issues and put them on a different personal finance path than they would have otherwise been on.

[34] Questions such as knowledge and advice utilization create an interest in population statistics in both 2007 and 2018. However, due to, among other things, changes in the survey instrument and ALP recruitment, population-level comparisons between these two cross-sectional snapshots were not deemed viable.

An alternative way to explore changes in the use of financial professional services comes from the 2018 survey, in which all respondents were asked to choose which of the following statements best described their experience:

- I have used multiple financial professionals at the same time in the past, but now I only use one.
- I have used one or more financial professional(s) for advice in the past, but now I don't use any.
- I have never used a financial professional.
- I used to use one financial professional, but now I use multiple financial professionals.
- I have always used multiple financial professionals.
- I have generally only used one financial professional at a time.

The intention behind fielding this question was to get a better sense of transitions in advice-usage. As shown in Table 4.9, most answers did not suggest much change between different types of financial professionals: 30 percent reported never having used a financial professional, 27 percent reported generally using only one professional at a time, 3 percent reported always using multiple professionals, and 19 percent reported none of the above. Thus, three quarters of responses do not suggest a change in status that might be suggestive of dissatisfaction with one type of professional or another.[35] Fifteen percent used one or more professionals in the past but do not currently use one.[36]

Table 4.9. Experience with Professional Financial Advice

Statement	Percentage of Respondents (unweighted)
I have never used a financial professional	30%
I have generally only used one financial professional at a time	27%
I have always used multiple financial professionals	3%
I have used multiple financial professionals at the same time in the past, but now I only use one	5%
I have used one or more financial professional(s) for advice in the past, but now I don't use any	15%
I used to use one financial professional, but now I use multiple financial professionals	2%

[35] This is not to say that such status changes do not exist, simply that the data in this survey does not tell us much about them.

[36] Open ended responses are available, but initial coding has not been informative about general patterns.

None of the above	19%

NOTE: N = 1,816. Two respondents did not select a statement.

Do Investors Know the Type of Financial Professional they Use?

Our next research question was whether investors seek out specific types of financial professionals. An important issue in this project is to explore whether investors can accurately report the types of financial professionals they use for investment recommendations, an issue we describe as "investor typing."[37] Such identification helps us match survey responses with the standards of conduct under which a professional operates, and which might help to align the relevant regulatory concept with investor experience. This issue of investor typing is not trivial, as the meaning of certain words in a legal or regulatory context might not correspond to the way those words are used or understood in everyday speech. . Investors might not understand the subtle differences that exist among different types of professionals, or the implications of those differences.

Bearing these concerns in mind, the survey instrument attempted to verify the type of financial professional that investors use by asking respondents to identify the type of professional they use for investment recommendations, and then asking them for specific information about their professional that would be used to identify the actual legal registration status of the individual professional and of the firm where he or she works. As such, the survey provides an independent verification of investor typing and information about investors' propensity to accurately identify their type of financial professional and provides a basis for further study. Of course, our ability to precisely align responses with standards of conduct remains problematic. In particular, dual registration professionals might operate as an IA or as a BD in different capacities with different clients, and this limits the ability of survey data to fully address this issue for such registrations. For Client 1 they might operate solely as a BD, while for Client 2 they might operate solely as an IA, and then for Client 3 they might operate as both.

Self-reported identification of financial professional type (**self-reported financial professional type**) was obtained by providing the following descriptions of BDs and IAs. Respondents who reported that they receive recommendations about investment strategies, about specific financial investment products, or about the types of investment accounts to open were asked to determine which professional (or firm, if no specific individual) they believe they work with: a broker, an IA,[38] both a broker and an IA (i.e., a dual registrant), (a bank, if no specific individual,) or another type of professional (or firm, if no specific individual).

A broker is an individual or firm that charges a fee or commission for buying or selling securities (like stocks, bonds, or mutual funds) for investors.

[37] This is "investor typing" rather than "advisor typing" because the unit of analysis in the survey data is an individual respondent located in a household – the survey does not have a sample comprised of advisors.

[38] As in much of the survey, we randomized the order of IA and BD to avoid response order effects.

There are different kinds of brokerage accounts you can choose. You can choose an account where you research an investment yourself and just place orders with the broker, or you can choose an account where the broker makes recommendations to you. With both types of brokerage accounts, you approve each order to buy and sell investments in your account, and you are charged a fee each time you buy or sell an investment. This fee is not based on the value of assets in your account.

A broker may give you some advice to help you decide what to buy or sell, but the broker does not typically monitor the performance of your account or offer investment advice on a regular basis.

An investment adviser is an individual or firm that is in the business of giving advice about securities to clients. The adviser typically monitors your account and offers advice on a regular basis. The advice may include recommendations about specific investments to buy or sell, or it may be more general advice such as how to properly balance your portfolio between stocks and bonds.

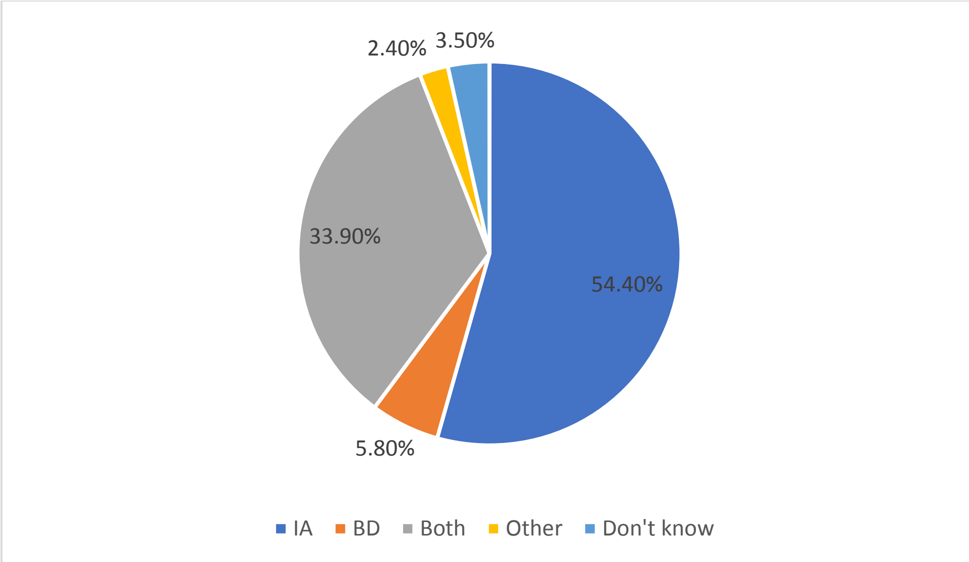
There are two different kinds of advisory accounts you can choose: an account where the adviser gives you recommendations and you make the final decision before securities are bought or sold, or an account where you give the adviser the discretion to buy or sell investments on your behalf without seeking prior approval. In either type of account, an adviser will charge you an on-going fee that is usually based on a percentage of the value of assets in your account.

Sometimes, an investor may want a **one-time service** from an adviser, such as a written financial plan, and an adviser may charge a one-time fee for that type of service.

A financial professional can be both a broker and an investment adviser, and a firm can be both a brokerage firm and an investment advisory firm.

Figure 4.9 depicts self-identified responses of investor type for the 501 respondents who reported working with a specific individual. The majority (54.4 percent) report that their primary financial professional is an IA, with only a small proportion (5.8 percent) reporting that the professional is a BD. About one-third of these respondents (33.9 percent) reported that their individual financial professional is both an IA and BD, while about another six percent indicated “don’t know” or “other”.

Figure 4.9. Self-Reported Financial Professional Type (Type of Individual Financial Professional that is Primary Provider of Investment Recommendations)



NOTE: Weighted percentages presented. N = 501.

We attempted to verify the type of financial professional that investors use by later asking respondents to provide us with the name, title, and firm of their individual financial professionals who provide investment recommendations (reported herein as ***verified financial professional type***). We checked the reported financial professional's registration status against the Investment Adviser Public Disclosure ("IAPD") database.[39] We also made additional efforts to identify this information, such as searching firm websites, where the short-answer responses were not able to be fully corroborated because of misspellings, use of nicknames, or multiple listings for individuals with similar names.

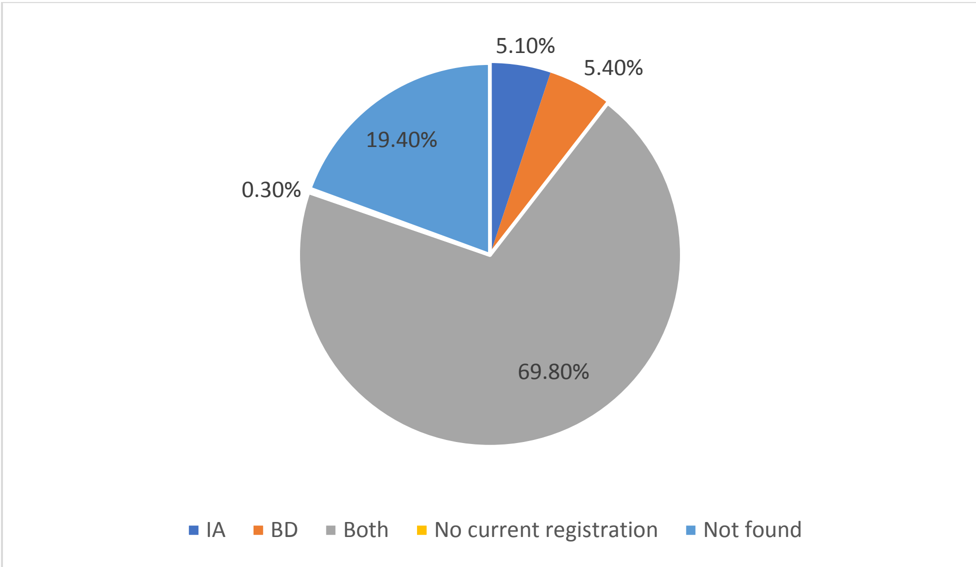
Information on *verified financial professional types*, which we corroborated using self-reports of the professional and firm name and the IAPD database, allow us to assess the accuracy of the self-reported data on individual financial professionals. Potentially informative reports of names were given by about 70 percent of respondents who reported working with an individual financial professional (351 out of 501). Figure 4.10 details our findings on registration status for these 351 individuals. Caution is warranted because the numbers are relatively small in most cells.

About 70 percent of named individual professionals were found in the IAPD database to be dually registered, while nearly 20 percent were not found in the database. The remainder were almost evenly split between BD (5.4 percent) and IA (5.1 percent), including several individuals who had previously been dually registered but where one such registration was not current.

[39] Available at https://www.adviserinfo.sec.gov/IAPD/default.aspx.

Seven classified as IA were found to have no current broker registration, and one classified as BD was found to have no current IA registration. One named professional was found in the database, but the registration was not current (classified as “No Current Registration”).[40]

Figure 4.10. Verified (True) Financial Professional Type Based on Confirmation of Official Registration Status of Professional



NOTE: Figure is based on 351 individuals who reported working with an individual financial professional. Of those, 283 were found in the database and were able to be classified. Unweighted percentages presented.

To assess whether respondents accurately identified the type of financial professional they use, it is useful to compare self-reported financial professional type with verified financial professional type. As shown in Table 4.10, when the self-reported type is BD or IA, the verified type is 10 times more likely to be dually registered than to be a BD only or an IA only. When the self-reported type is, instead, both BD and IA, the verified type is more than 20 times more likely to be dually registered than to be either BD or IA.

[40] Note that of the 492 who reported a job title for their individual professional, 192 referred to a document for the title (unweighted). Of the 561 who reported a firm name, 127 referred to a document to get the name (unweighted).

Table 4.10. Current Registration Type of Individual Financial Professionals by Reported Type

			Actual Registration Status (verified financial professional type)						
		N	Broker	IA	Dual	No Current Registration	Named Advisor Not Found	Advisor Name Not Reported	(Row) TOTAL
Self-Reported Financial Professional Type	Broker	24	4%	0%	42%	0%	33%	21%	100%
	Investment Adviser	273	5%	5%	50%	0%	12%	27%	100%
	Dual	163	2%	2%	52%	0%	11%	34%	100%
	Other or Don't Know	41	2%	5%	37%	0%	20%	37%	100%

NOTE: Percentages are row percentages (Unweighted), percentage of self-reported type in each true type.

Note that details are provided in Table 4.10 for all individual financial professionals, including those not found in the database and those for whom informative names were not provided. Table 4.11 looks at the same data in a slightly different way that might help to clarify the relationship between self-reported and verified financial professional types. For each individual for whom the true registration status of the financial professional could be verified (rows), their self-reported financial professional type is displayed. As with Table 4.10, the sample size here is somewhat small and must be interpreted cautiously. Nevertheless, this table gives a slightly different picture of the ability to self-classify. Of the individuals who, according to the registration database, were using an IA, about three quarters (72 percent) reported using an IA; there were some who mistakenly believed their professional was dually registered; and the rest reported they did not know the type. Financial professionals who were actually dual registrants—accounting for 87 percent of verified financial professional types identified—were often reported by survey respondents to be IAs (56 percent of dually registered professionals were reported by the respective investor to be an IA).

Table 4.11. Self-Reported Financial Professional Type by Verified Financial Professional Type

			Self-Reported Financial Professional Type					
		N	Broker	IA	Dual	Other	Don't Know	(Row) TOTAL
Verified Financial Professional Type	Broker	19	5%	74%	16%	0%	5%	100%
	Investment Adviser	18	0%	72%	17%	0%	11%	100%
	Dual	245	4%	56%	34%	3%	3%	100%

	No Current Registration	1	0%	100%	0%	0%	0%	100%
	Named Advisor Not Found	68	12%	50%	26%	7%	4%	100%
	Advisor Name Not Reported	150	3%	50%	37%	5%	5%	100%

The tables raise a few potential issues. First, most verified types do not match self-reported type. Second, a fair number of names could not be found in the registration database. This mismatch between the respondents' reported names and the registration database could be the result of confusion on the part of the respondents or some form of typographic error. However, of the 69 respondents for which the professional was not found or did not have a current registration, 27 (39 percent) reported that they referred to a "document, correspondence or webpage" to find the name of the individual, thus making typographic errors less likely. Third, dual registration might create some ambiguity in our results, since individuals might receive different types of services or might receive services commensurate with only one type of professional registration. Therefore, while the professional might be dually registered, the respondent might have reported only on the professional services that are applicable to his or her specific account. Understanding the nature of the potential confusion related to dual registration was beyond the scope of our present study but would require account-level data showing an advisory account or brokerage account in addition to data about the professional who provides services to the respondent.

Marketplace for Professional Financial Advice: Informational Search Costs and Matching Frictions

To the extent that there is a substantive difference between different types of professionals in terms of the services and advice they tend to offer, as well as differences in fees and costs, it would be helpful for households seeking professional advice to be able to discern which types of professionals would meet their needs. Although important differences will likely exist among professionals of the same type, the search costs associated with this process would be lower if investors understood the options offered by different types of professionals, including the standards of conduct under which they operate. Conversely, these search costs would be higher if investors could not distinguish among different types of professionals, potentially leading those investors to employ a professional representing a suboptimal fit. For example, investors might end up paying for services that they do not need, paying higher fees and costs than necessary, or relying on advice based on a mistaken assumption about a professional's legal obligation and standard of conduct.[41]

This section explores respondents' understanding of the marketplace for advice. All respondents were presented with a series of descriptive statements regarding services that financial professionals might perform and forms of compensation that financial professionals typically receive and were asked to identify which types of professionals perform the specified service or typically receive the compensation specified. The response options included: IAs; BDs; financial advisors or financial consultants; financial planners; and none of the above. The six descriptive statements are shown in Table 4.12 below with percentages under each type of professional denoting the weighted percentage of respondents associating that type of professional with the corresponding descriptive statement. The rows do not add up to 100 percent because respondents could associate more than one type of professional with each descriptive statement.

Table 4.12. Knowledge of the Roles of Financial Professionals

Does the financial professional do the following? (choose all that apply)	IA	BDs	Financial Advisors or Financial Consultants	Financial Planners	None of These
Executes stock or fund transactions on the client's behalf	26%	58%	26%	17%	18%
Recommends specific investments	68%	25%	53%	35%	15%
Provides retirement planning	29%	7%	58%	71%	15%
Provides general financial planning	27%	7%	63%	68%	13%
Typically receives commission on purchases or trades the client makes	32%	76%	25%	16%	14%
Is typically paid based on the amount of assets that the client holds	36%	43%	34%	21%	21%

NOTES: N = 1,816. Weighted percentages presented

Respondents' knowledge of the marketplace for advisory services appears to be incomplete. For each descriptive statement, 13 to 21 percent of respondents incorrectly indicated "none of the above." The last two descriptive statements on compensation generally align with BDs and IAs, respectively, therefore we can ascribe each statement to one or the other (as highlighted in green). Notably, only 36 percent of respondents report that IAs are typically paid based on assets,

[41] This discussion goes beyond financial literacy measurement, which typically does not address knowledge of different types of professional financial advice. But note that while financial literacy would seem to help with the search and matching problem, Fernandes et al. (2014) and Hathaway and Khatiwada (2008) studied broadscale financial literacy interventions in experimental work and found limited evidence of effectiveness.

which is correct, while a higher percentage (43 percent) believe that is the case for BDs.[42] Seventy-six percent correctly answered that BDs typically receive commissions, but 32 percent believe that is true for IAs. Fifty-eight percent indicated that BDs execute transactions on clients' behalf, which is correct, but 42 percent did not know this.

Twenty-six percent indicated that IAs execute transactions on a client's behalf, which is technically incorrect. Although an IA's client might not have any reason to know that the IA might instruct a broker to execute a transaction, the context of this section is marketplace awareness and thus search-and-matching frictions. An investor who works with an IA because he or she is unaware that BDs can execute transactions, and who seeks a professional solely to execute transactions on their behalf, might not necessarily be matched with the most appropriate type of financial professional. Of course, respondent knowledge alone does not help us to document the full economic consequences of such information asymmetries.

These knowledge questions were also fielded in the 2007 survey. Table 4.13 reports the percentage checking each box among the 308 respondents who participated in both of our surveys. The number on the left in each cell is the percentage from the 2007 survey, and the number on the right is the percentage from the 2018 survey.

Table 4.13. Knowledge of the Roles of Financial Professionals: Subset Who Completed 2007 Survey (2007 / 2018 percentages)

Does the financial professional do the following? (choose all that apply)	IAs	BDs	Financial Advisors or Financial Consultants	Financial Planners	None of These
Executes stock or fund transactions on the client's behalf	31 / 32	87 / 57	33 / 37	26 / 22	5 / 13
Recommends specific investments	84 / 72	52 / 32	72 / 60	51 / 51	1 / 7
Provides retirement planning	50 / 36	15 / 11	83 / 69	92 / 84	2 / 6
Provides general financial planning	49 / 36	17 / 14	78 / 75	87 / 80	1 / 4
Typically receives commission on purchases or trades the client makes	51 / 40	96 / 86	38 / 32	30 / 27	1 / 8
Is typically paid based on the amount of assets that the client holds	51 / 42	40 / 44	49 / 41	35 / 26	12 / 15

NOTE: Subset of respondents who completed both 2007 and 2018 surveys (n = 308). Weighted percentages presented

Contrary to our prior expectation, this subsample of respondents seemed less informed about the marketplace for professional financial advice in 2018 than they were in 2007. A much larger share of respondents stated "none of these" to the descriptive statements in the 2018 survey. In 2007, these respondents were more likely to correctly report that BDs typically charge commissions on transactions and much more likely to correctly report that IAs typically are paid based on the amount of assets that their client holds. Between 2007 and 2018, there was a

[42] It is worth noting that a BD would effectively be paid based on the amount of assets held if the client were to only hold mutual funds with a load or service fee paid to the BD.

marked decline in the rate at which these respondents correctly distinguished typical differences between IAs and BDs. For example, in 2007, the proportion of respondents associating "executing stock or fund transactions" with BDs was 56 percentage points higher than the proportion associating this activity with IAs,[43] whereas in 2018 the difference was only 25 percentage points.

Compared with the full sample, it is possible that individuals who are actual users of these services or these types of financial professionals might have a better understanding of the class of financial professionals that they use. In other words, those who use a BD should know more about BDs, and those who use an IA should know more about IAs. In Table 4.14, samples are restricted accordingly. The first three columns aggregate IA-related responses first across all respondents, then only among those who reported using an IA, and then only those who reported using an IA and where this could be independently verified. Columns 4-6 follow a similar logic for BD-related responses. Although these results are indicative, the sample size reduces appreciably for each more narrowly defined subgroup. Overall, these subsamples demonstrate some peculiar patterns, with knowledge of the marketplace seemingly better for self-reported or verified types in certain cases, and worse in other cases.

Table 4.14. Knowledge, by Investor Type

Does the financial professional do the following? (choose all that apply)	All, IA (n=1816)	Self-reported IA-type, IA (n=272)	Registered IA-type, IA (n=18)	All, BD (n=1816)	Self-reported BD-type, BD (n=24)	Registered BD-type, BD (n=19)
Executes stock or fund transactions on the client's behalf	26%	42%	52%	58%	93%	57%
Recommends specific investments	68%	75%	92%	25%	43%	10%
Provides retirement planning	29%	43%	36%	7%	31%	4%
Provides general financial planning	27%	44%	28%	7%	30%	4%
Typically receives commission on purchases or trades the client makes	32%	42%	60%	76%	37%	97%
Is typically paid based on the amount of assets that the client holds	36%	52%	35%	43%	75%	54%

NOTE: weighted percentages presented. Missings (i.e., skips) are excluded from calculations. Column(1) provides the percent of all respondents that believe an IA provides this service; Column (2) provides the percent of all individuals who self-reported as IA-users that believe an IA provides this service; Column(3) provides the percent of all individuals for whom the registration of their financial professional was confirmed to be an IA that believe an IA provides this service; column (4)) provides the percent of all respondents that believe a BD provides this service; Column (5) provides the percent of all individuals who self-reported as BD-users that believe a BD provides this service; Column(6) provides the percent of all individuals for whom the registration of their financial professional was confirmed to be a BD that believe a BD provides this service.

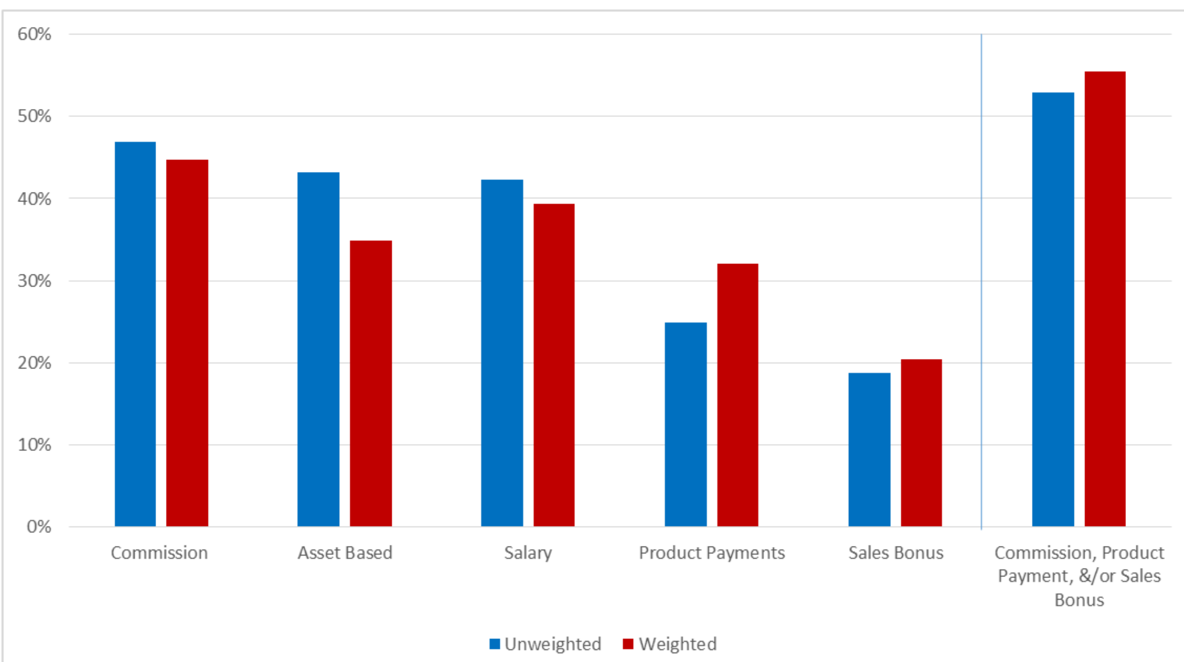
[43] In first row, first number in second column less the first number in the first column.

Financial Professional Compensation

Another aspect of financial professional differentiation, in addition to the services provided, is the type of compensation received. Survey respondents who reported that they receive recommendations about investment strategies, about specific financial investment products, or about what types of investment accounts to open were asked about compensation that their financial professional receives. Figure 4.11 details the percentage of respondents who report each type of compensation believed to be received by their financial professional or advisory firm. Reported categories are not mutually exclusive, so the columns do not add up to 100 percent.

Weighted estimates suggest that almost half of investors who receive investment advice believe their financial professional or advisory firm receives commissions[44]. About a third believe the professional receives payments from the product companies (*e.g.* payments from a mutual fund company). About 20 percent believe that their professional gets paid a sales bonus. Taken together, more than half of the respondents believe that their professional receives a commission, product payment, and/or sales bonus (the final set of columns). If accurate, this awareness could help investors to recognize conflicts of interest; however, further study is necessary to better understand decisionmaking.

Figure 4.11. Types of Compensation Received by Individual Financial Professionals or Firms



NOTE: n = 574.

[44] Once again, the respondent was asked about the advisory firm if he or she did not report working with a specific individual at the firm.

Table 4.15 breaks down the last column of the graph above on “Commission, Product Payments and/or Sales Bonus” for respondents for whom we could verify registration status of their individual financial professional. The numbers are provided as raw counts with the sum of the first row the total number that are verified to be served by a BD. Caution is again warranted due to the very small numbers of verified BD and IA types (less than 20 in each of these rows). Nevertheless, most BD clients indicated that their financial professional receives commissions, product payments and/or sales bonuses, while almost a quarter of these respondents do not know whether their BD receives such compensation. For verified IA clients, over one-third reported that their IA receives such compensation, while over 60 percent of IA clients reported that their financial professional does not receive such compensation or they don’t know. Just over half of respondents report that their dually registered professional accepts a commission, product payment, or sales bonus.

Table 4.15. Investors Reporting that Financial Professional Receives Compensation from Commission, Product Payments or Sales Bonuses, by Financial Professional’s Registration Status (Investor Type)

Individual Financial Professional True Registration	Report of compensation from commission, product payments, or sales bonuses		
	Yes	No	Don't Know
BD	14	0	5
IA	7	8	3
Dual	126	44	75

NOTE: Only includes respondents with individual financial professional with known current registration. Unweighted frequencies displayed. Response indicated as yes if respondent answered “yes” to any one of the three questions on whether their financial professional receives commission, product payments, or sales bonuses; no if respondent answered “no” to all three; and DK if respondent did not report “yes” to any of the three or said “don’t know” to at least one of the three.

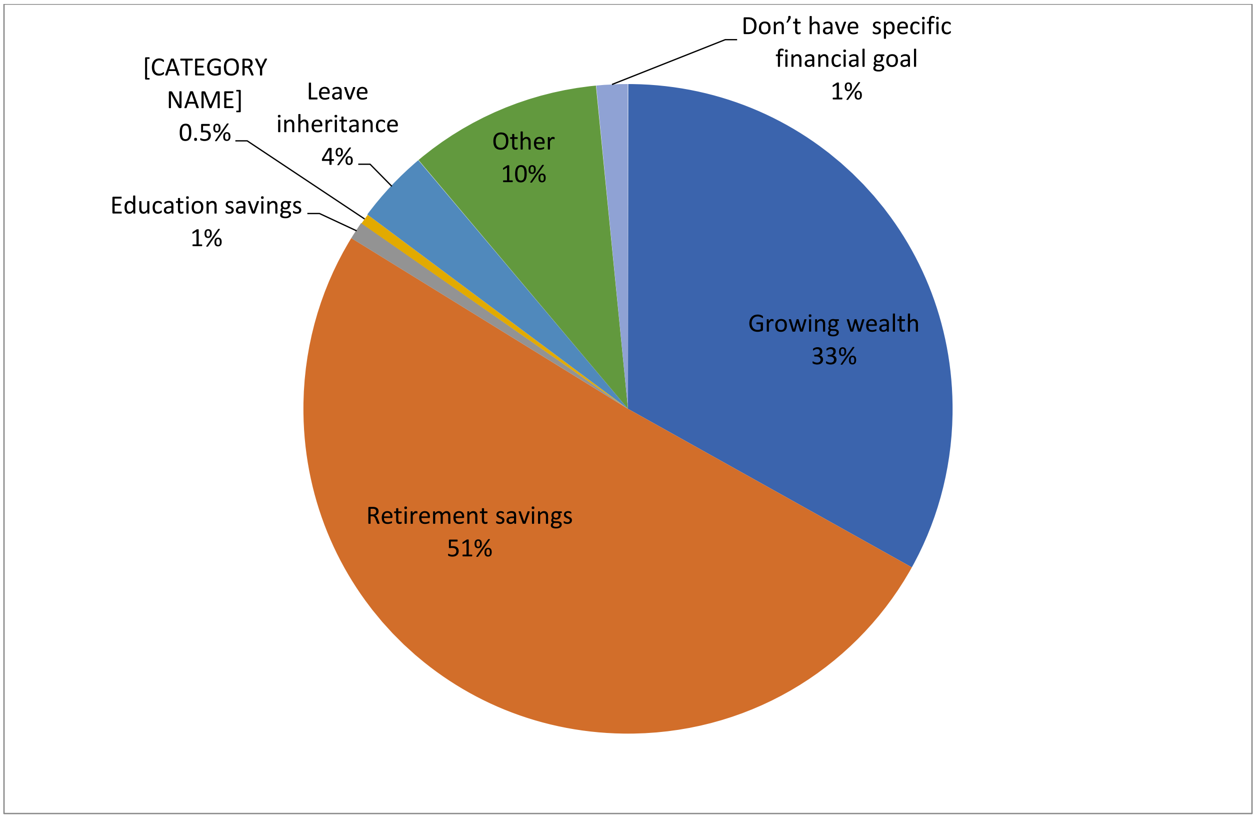
Overall, these results suggest that there might be frictions in the marketplace for professional financial guidance.

Experiences with Receiving Financial Advice

Financial Goals of Advice-Seekers

Respondents who indicated that they worked with a financial professional were asked about their primary investment goal. Response options included growing wealth, saving for retirement, saving for education, saving for a major purchase, leaving an inheritance, other, and “don’t have a specific goal.” Figure 4.12 plots the distribution of the 574 unweighted responses obtained. More than half of the respondents who had reported using a financial professional indicated retirement saving as their primary goal, with another third indicating that growing their wealth was their primary goal. Few other response options were selected.

Figure 4.12. Financial Goals



NOTE: N = 574, unweighted percentages presented.

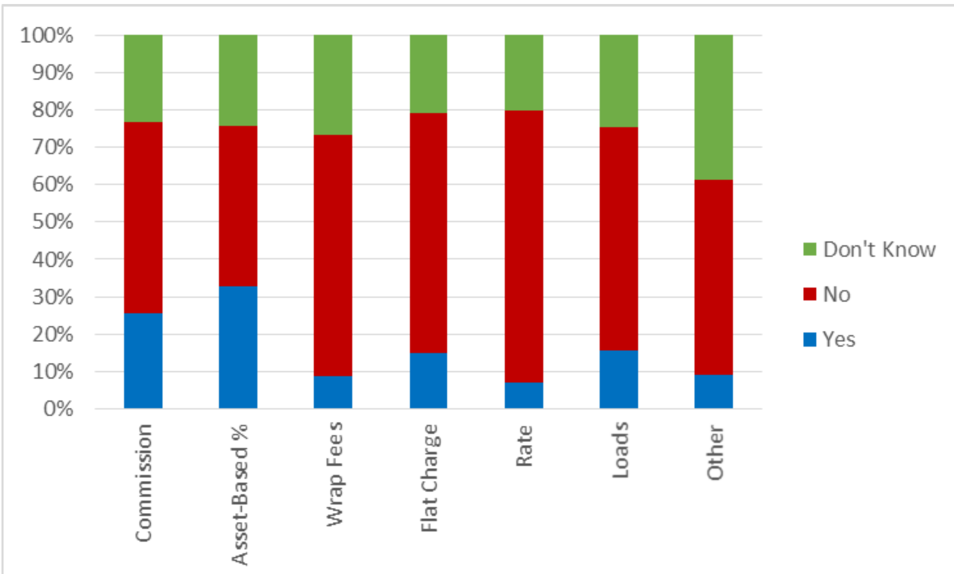
Fees for Advice

Respondents who reported receiving recommendations from individuals or firms, as opposed to receiving “automated recommendations from a website or app,” were asked about the types and amount of fees they pay to the individual or to the firm for investment recommendations.

Figure 4.13 shows the percentage of respondents who reportedly pay each type of fee. Respondents could select multiple options, so the sum of all columns exceeds 100 percent. Unweighted estimates suggest that under a quarter of investors pay a commission to the financial professional and a similar, if slightly larger, share pay a percentage of assets. About 15 percent report a flat charge, and about 7 percent report a rate, such as an hourly, monthly or annual rate. Loads are reported by 15 percent, but these are generally fund company loads that the financial professional might pass through to the client rather than loads that the financial professional charges. Nine percent report being charged wrap fees.

Figure 4.13 also provides a look at the challenges related to study of this issue. For each type of advice fee, in most categories about a quarter of respondents (between 21 percent and 27 percent for the specified categories, excluding "other") stated that they did not know if they paid that type of fee or not. In the case of commissions and asset-based fees, these "don't know" responses are narrowly exceeded by the number of "yes" responses. However, for all other categories, the "don't know" responses are provided as many as three times more frequently than the "yes" responses. In the case of the "other" fee type category, nearly 40 percent of respondents reported "don't know."[45] On net, the high frequency of "don't know" responses suggests a high degree of uncertainty about the types and levels of fees paid.

Figure 4.13. Types of Fees Paid to Individual Financial Professionals or Firms

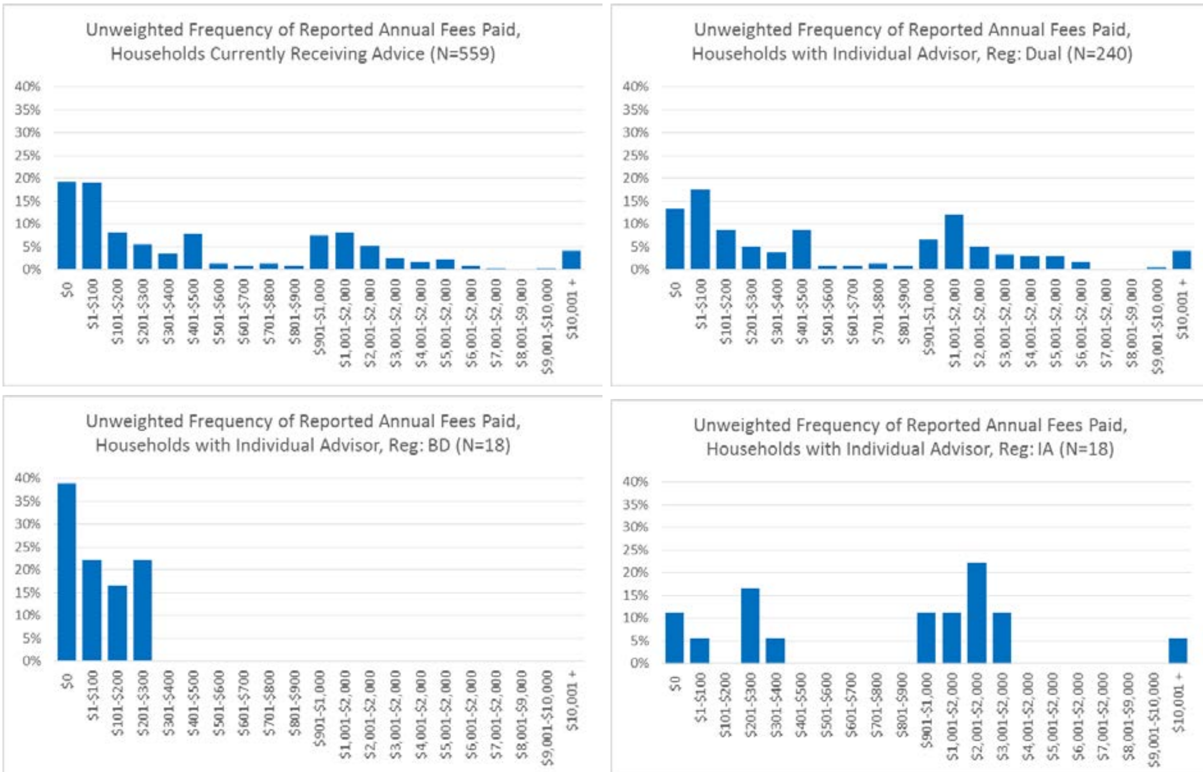


NOTE: Respondents currently receiving advice from specific individuals or firms (N = 574). Unweighted percentages presented. Missings (i.e., skips) are excluded from the calculations.

Respondents currently receiving advice were asked to report how much they "pay [in fees] per year, on average." The weighted median response was $200. More than 20 percent reported paying nothing, almost 80 percent reported paying an amount of no more than $1,000, 90 percent reported paying no more than $3,000, and about 5 percent reported paying more than $10,000. In Figure 4.14, the frequency distribution of fees by reported amount are provided for all fee respondents and then broken down by true registration type: Dual, BD, IA. Extreme caution is warranted for the data on BD and IA types, however, because we have very few observations (only 18 observations in each group). Further, these survey responses are self-reported and as noted for Figure 4.13, there is considerable uncertainty in investor's knowledge about the fees they pay professionals for services; these figures provide a view of perception, but it is unclear if respondents are reporting accurately.

[45] About 150 respondents skipped the question, but high skip rates on "other" categories is not unusual.

Figure 4.14. Frequency of Reported Fees by True Registration Type of Financial Professional



NOTE: Unweighted percentages presented.

Preferences Related to Standards of Conduct

To provide data in anticipation of potential Commission rulemaking regarding the standards of conduct applicable to investment advisers and broker-dealers, we attempted to understand the importance investors place on certain services, such as ongoing account monitoring and the range of products from which to choose. We also attempted to understand the level of potential concern about fee arrangements that could pose conflicts of interest.

More specifically, all survey respondents were provided the following information and asked how important it would be for them in choosing a financial professional that the professional receive all of their compensation directly from them (*i.e.*, the client):

> "*Some financial professionals receive compensation from the sponsor of an investment product (e.g., a mutual fund) for selling you the product, in addition to receiving a commission directly from you. This may lower your upfront costs, but it also may create an incentive for the financial professional to sell you products that are not the best choices for you – for example, the products may be more expensive to you in the long run. Other financial professionals receive compensation only from you, and their compensation does not depend on the investments you choose to purchase. If you were seeking investment recommendations from a financial professional, how important would it be to you that your financial professional receives all of his/her compensation from you directly?*"

Given this explanation, slightly more than half of the respondents (51 percent) said that it was either important or extremely important that the financial professional receive all compensation from the customer, while 28 percent indicated it was neither important nor unimportant. Responses are summarized in Table 4.16.

Respondents were also asked about the importance of having a professional who would monitor their account and who has the ability to offer a range of products.[46] Three-quarters of respondents indicated that it is important or extremely important that a professional monitor their account on an ongoing basis, and 70 percent of respondents indicated that it is important or extremely important that a professional offer a range of products.

For each of the data points in Table 4.16, some caution is warranted. For example, in the focus group setting, participants did not seem to fully understand that compensation could create incentives that substantially affect the quality of advice and specific investment products recommended, so investors might tend to underestimate the importance of those potential conflicts of interest. On the other hand, there might also be real-world economic tradeoffs between obtaining un-conflicted advice and the financial cost of obtaining such advice, with un-conflicted advice being more expensive for investors. As another example, respondents might find ongoing monitoring to be important, but they might not be aware that this service could come at a cost. This kind of trade-off is not explicit in these questions and might not be readily apparent to respondents. Due to these issues, more research on these topics is needed.

Table 4.16. Preferences Over Features of Financial Professionals

How important would it be to you that your financial professional…	Not Important At All				Extremely Important
Receives all of their compensation from you directly	15%	7%	28%	21%	30%
Provides ongoing monitoring of your account	5%	3%	17%	20%	55%
Offers recommendations on a broad range of investment products	5%	5%	21%	24%	46%

NOTE: N = 1,816, weighted percentages. Missings (i.e., skips) are excluded from the calculations.

[46] The full question text reads: *Some financial professionals are required to monitor your account on an on-going basis so that your investments continue to meet your needs as conditions change. Other financial professionals are not required to monitor your investments after completing the sale. if you hired a financial professional to help you with your investments, how important would it be to you that your financial professional provides on-going monitoring of your account?*

And: *Some financial professionals have the ability to provide recommendations for a broad range of investment products. Other financial professionals may be limited to making recommendations to investments created by their own firms or a limited range of products that are approved by their firms. If you hired a financial professional to help you with your investments, how important would it be to you that your financial professional offers recommendations on a broad range of investment products?*

Beliefs and Expectations Among Respondents Without an Advisor

To understand the market for professional financial advice, it is also important to measure the opinions of individuals who do not use advice. Individuals who do not use advice might choose to do so for a number of reasons. From a policy perspective, identifying the influence of potential barriers to the use of advice is important because different barriers suggest different regulatory initiatives. For instance, if search frictions arise from market complexity and confusion about different standards of conduct, regulatory initiatives might choose to focus on clarifying marketplace structure for potential investors. In addition, if individuals tend to choose advisors before choosing specific investment products, reducing barriers could increase financial market participation itself.

Due to the nature of the underlying data,[47] this section cannot provide a full analysis of these issues. Nevertheless, it provides some important insights that lay qualitative groundwork for further research in this area. Non-users of advice were presented with a series of statements about financial advice and financial professionals to measure the perceived value of advice, trust in financial professionals and aspects of market search.[48] Response options were presented on a five-point Likert scale ranging from "1 Strongly disagree" to "5 Strongly agree." In Figure 4.14, "agree" and "strongly agree" are grouped together, and "disagree" or "strongly disagree" are grouped together for ease of comparison. The remainder answered "neither agree nor disagree." For example, Figure 4.15 shows weighted estimates that suggest the majority of respondents not currently receiving advice agreed they did not (currently) have enough money to make professional investment advice worthwhile.

To measure the perceived value of professional advice, the survey contained a series of eight statements asking whether financial professionals provide value. A majority agreed that financial professionals help investors feel secure, but far fewer agreed that advice has any bearing on the investor's portfolio performance, with a large proportion of neutral responses for statements about the effects of professional advice on "investment performance" and "investment returns." Neutral responses can sometimes be an alternative version of a "don't know" response. These eight statements are sorted in the figure according to the percentage agreed.

The next four statements related to trust in financial professionals. Trust in financial professionals does not appear particularly high, with higher fractions reporting neutrality or disagreement with the statements. Agreement on all trust statements was less likely than agreement with any of the "value" statements. Neutral responses were more common though, with the exception that many disagreed (and very few agreed) with the statement "it is easy to find a trustworthy financial professional."

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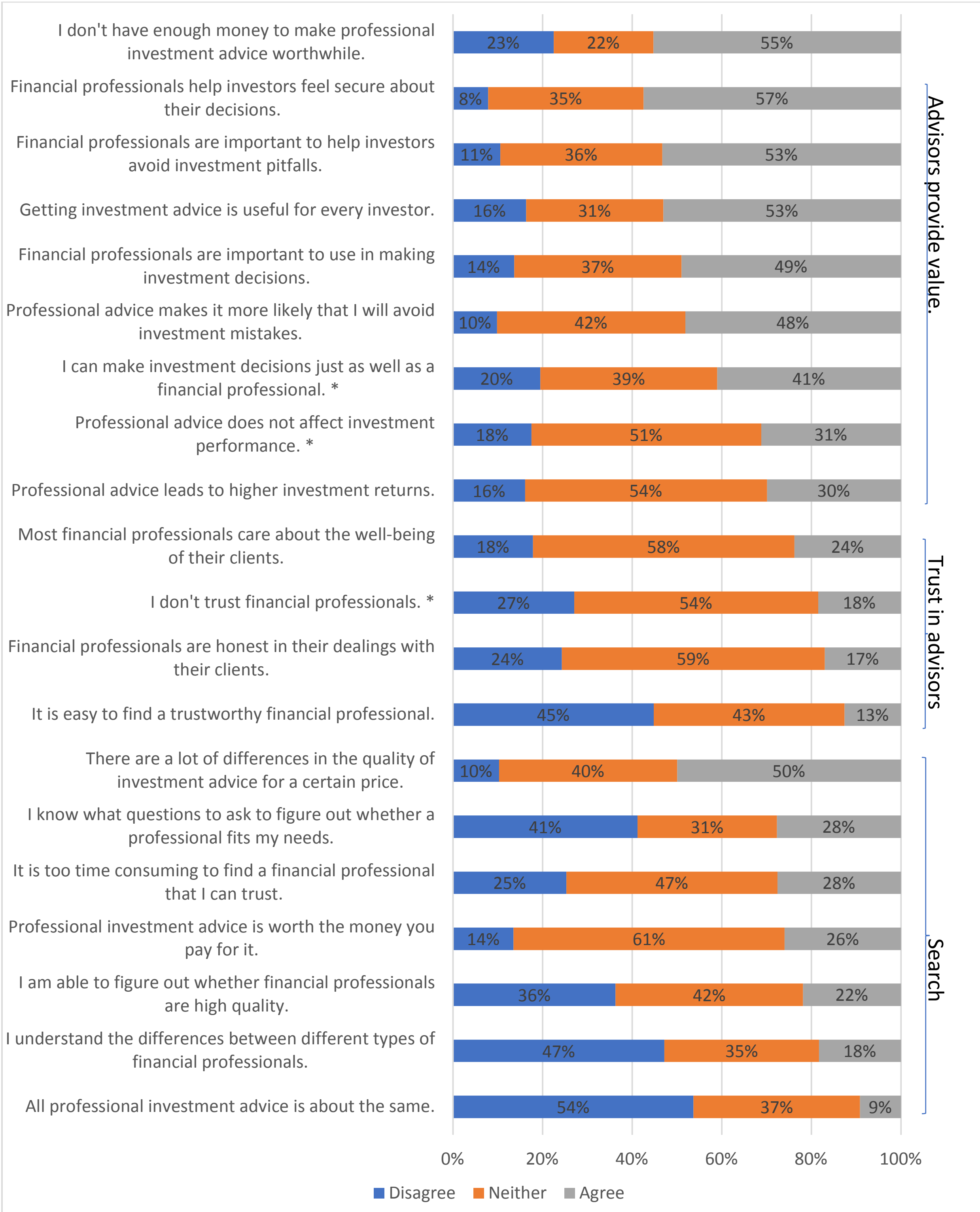
[47] Among other things, our data does not allow us to quantify the economic value of different forms of financial advice, which is crucial to the current regulatory undertaking.

[48] These questions were only fielded to nonusers due to space considerations on the survey, although not all of the questions are relevant for all respondents in any case.

The final seven statements related to experiences, perceptions and costs related to search for professional advice. A majority agreed that quality varies, even for a certain price. A majority were neutral on whether advice is worth the money. In the last question, over half of the sample disagreed with the statement that all investment advice is about the same. Yet, in the penultimate question, almost half of non-advice users indicated that they did not know the difference between different types of financial professionals, again suggestive of some form of search friction that inhibits matching.

Figure 4.15. Beliefs Among Those Not Currently Receiving Financial Advice



NOTE: Coding reversed so that agreement with statement aligns with concept on right side. Respondents are those who do not receive investment recommendations from a firm or individual (n = 1,238). Missings (i.e., skips) are excluded from the calculations.

Best Interest Standard

To provide the Commission with data regarding the expectations of individual investors regarding a "best interest" standard of conduct for broker-dealers, this survey asked what duties individual investors would assume they are owed if a financial professional is required to act in their "best interest." This line of questioning largely captures the varying perceptions that respondents have regarding the term "best interest" as a standard of conduct. The full text of the question lead and sub-prompts was as follows:

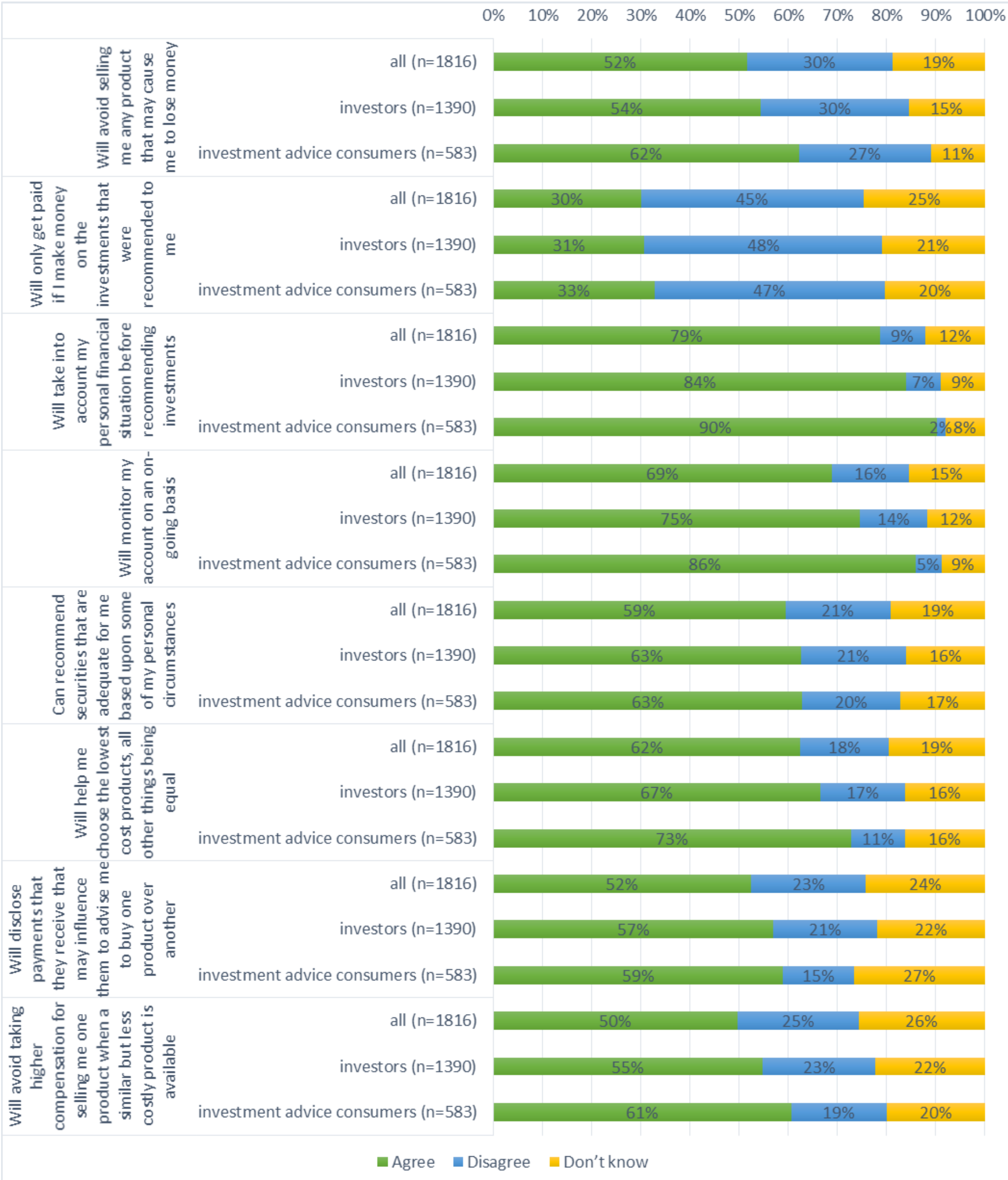
> *We are interested in your perceptions of financial service professionals. The next set of questions will ask you about the types of services that these professionals may offer. If you are not familiar with these professionals, please answer as best you can. What do you think it means if a financial professional is required to act in your "best interest"? Does it mean that the financial professional:*
>
> *Will monitor my account on an on-going basis.*
>
> *Will help me choose the lowest cost products, all other things being equal.*
>
> *Can recommend securities that are adequate for me based upon some of my personal circumstances, even if there are other investments that would be better for me.*
>
> *Will disclose payments that he/she receives that may influence him/her to advise me to buy one product over another that might be a better choice for me.*
>
> *Will avoid taking higher compensation for selling me one product when a similar but less costly product is available.*
>
> *Will avoid selling me any investment that may cause me to lose money.*
>
> *Will only get paid if I make money on the investments that were recommended to me.*
>
> *Will take into account my personal financial situation, goals, and personal characteristics before recommending investments that are in my best interest.*

Respondents were asked to answer "yes" or "no" to each of the sub-prompts. Results are summarized in Figure 4.16 and generally suggest a variety of expectations of a professional acting with a "best interest" requirement.

We posed these questions to all respondents. It might be reasonable to suppose that the level of knowledge suggested by the results reflects the fact that this is a general population survey in which many respondents have limited experience with investing. To consider how the level of knowledge holds up on more specialized groups—groups for which the meaning of any such standard might be more relevant than for the population at large—subgroup analysis was conducted using sample restrictions to report responses exclusively for: "investors" (have at least one of the assets or account types discussed earlier); and investors who currently use a professional for one of the three advice services considered earlier (*i.e.*, an owner of at least one of the assets or account types discussed earlier that is a *current* user of a financial professional for “Recommendations about investment strategies,” “Recommendations about specific financial investment products,” or “Recommendations about what types of investment accounts to open”). For brevity, this last group is discussed as “consumers” of the services of a professional operating under a “best interest” standard. Interestingly, in general, each of these groups tends to have progressively higher expectations than the full-sample respondents in relation to the “best interest” term.

Many respondents had difficulty understanding the basic relational aspects of financial advice and the responsibility for taking risk in any form, with 30 percent indicating that the professional would get paid only if the investor made money on the investment and another quarter of respondents (24.7 percent) indicating that they did not know. Over 50 percent either stated “yes,” affirmatively, (51.5 percent) or stated that they did not know (18.8 percent) in response to the question of whether a professional required to act in a client’s best interest would avoid selling them any product that would cause them to lose money. Results for the two more specialized groups were largely in line with the full sample results, with similar percentages responding “yes,” “no,” and “don’t know” about advisors only getting paid if the client makes money for “investors,” “users,” and “consumers” as found for the full sample. These groups seem to feel more strongly about the question regarding the professional selling any product that might cause them to lose money, with consumers having close to two-thirds responding “yes” to the question (62.2 percent).

Figure 4.16. Best Interest Standard



NOTES: Weighted percentages presented. Investment advice consumers are investors who report receiving recommendations on investment strategies, products and/or accounts. Missings (i.e., skips) are excluded from calculations

Nearly four out of every five respondents (78.8 percent) report the expectation that the professional would take into account an investor's personal financial situation; only 9.1 percent responded "no" to this question. That proportion rose across subgroups to 90.3 percent for "consumers." More than two-thirds of respondents (68.9 percent) would expect the professional to monitor the account on an ongoing basis, with that expectation rising across the subgroups to 86 percent for "consumers."

About three-fifths of respondents (59.4 percent) believed that such professionals "can recommend securities that are adequate…based upon some of my personal circumstances, even if there are other investments that would be better for [the investor]."[49] Approximately 62 percent report the expectation that a best-interest professional would help an investor choose the lowest-cost products, if all else were equal. Such an expectation for the lowest-cost products rises across the subgroups of interest, with 78.8 percent of our "consumers" subgroup reporting the expectation that the professional would help them choose the lowest-cost investment option if all else were equal. Finally, respondents were asked about some specific perceptions related to conflicts of interest and a best-interest standard professional. Slightly more than half of respondents expect the professional to disclose any payments that are received that might influence them to advise an investor to choose one product over an alternative that might be a better fit. This disclosure preference rate rises slightly across the subgroups of interest. At the same time, about half (49.7 percent) believe the professional acting in their best interest should avoid taking higher compensation for selling "one product when a similar but less costly one is available," a rate that climbs another ten percentage points across the subgroup types to 60.6 percent for the "consumers" group.[50] A cross-tabulation of these two questions summarized in Table 4.17 provides more insight. A plurality of respondents (40 percent) expect this type of professional to avoid conflicts of interest and to disclose them. About 15 percent do not expect either avoidance of conflicts or disclosure. About 40 percent responded that they do not know about at least one of the options, possibly reflecting a lack of understanding of the issue, or possibly indicating that they believe the issue is much more complex than can be boiled down into a binary response. About an eighth (12.6 percent) seemed to expect such professionals either to disclose or to avoid, but not do both.

In sum, further study might be needed to ascertain more precisely what people understand when they are told a financial professional must act in their best interest, but there is some suggestive data pointing to a variety of expectations.

[49] From focus group research and the sum of all responses in this section, it remains a bit unclear exactly how respondents understood the term "better," and further research might be required to parse respondent answers on this question.

[50] More research might be required to fully understand how this latter question is understood by respondents as the phrase "similar products" could suggest to respondents that the cost differences are not very big and net out as far as the overall decision factors go, even though the question technically asks them about very similar products that could have large differences in price.

Table 4.17. Cross Tabulation of Responses to Best Interest Means Financial Professional will Disclose Conflicts of Interest and Best Interest Means Financial Professional will Avoid Certain Payments

		Avoid		
		Yes	**No**	**Don't Know**
Disclose	**Yes**	39.97%	7.52%	4.97%
	No	5.05%	14.51%	3.84%
	Don't Know	4.65%	2.67%	16.81%

NOTE: weighted percentages presented. N = 1,816.

Summary

This chapter recounts the methodology and results of a survey that was designed to measure the views, attitudes, expectations, and experiences of U.S. adults with respect to investing and financial professionals. The survey was designed by OIAD and RAND in consultation with staff of TM, IM, and DERA who provided technical assistance. The survey was fielded through RAND's ALP, a nationally-representative, probability-based panel of respondents who answer surveys online. In total, 1,816 individuals answered the survey, reporting information about their household's investments and use of financial professionals.

At the time that this survey was developed, the rulemaking divisions were still considering key elements of the ongoing rulemaking process. As a result, this survey represents the initial phase in an investor testing program. The purpose of this phase of the testing is to better understand the experiences of investors and establish the groundwork for further testing. It is important to note that this phase occurred *prior to* the Commission's release of the proposed best interest regulatory package. The overall purpose of this survey at this stage of the research was to provide a view of the usage of financial advice and some background on current investor experiences. The first goal for this survey was to provide nationally-representative statistics concerning self-reported assets and accounts owned by U.S. households. The second goal was to address the following six research questions, presented here with summary results.

1. **Who invests, and how do investors invest?** The survey results indicated that 73 percent of U.S. adults live in a household that owns an investment account or at least one type of investment asset. These households are most likely to have 401(k) accounts (79 percent), followed by IRAs (46 percent) and other investment accounts (including brokerage and advisory accounts; 35 percent). In all cases, these accounts are most likely to hold mutual funds or exchange traded funds, followed by directly held stocks. Overall, households with investments tend to have higher income than those without investments.
2. **What characterizes use of financial advice?** Overall, less than half of investors reportedly used financial professional advice at any point. When asked about their current use of advice, investors were most likely to report receiving financial planning for retirement (34 percent), followed by advice about types of investment accounts,

investment strategies, and financial investment products (approximately 31 percent for each). Respondents appear to be consistent in their use of financial advice over time, as more than half characterize themselves as "never" using a financial professional (30 percent) or only using one professional (27 percent). Moreover, among those respondents who had previously participated in in a 2007 survey on the topic, about two-thirds retained their usage status on the current survey (i.e. they remained a non-user or a user). Only 22 percent of all respondents to the current survey explicitly mentioned a change in the way they have used financial professionals over time (either reducing or increasing their usage).

3. **Do investors understand the distinctions between different types of financial professionals, and can they successfully navigate the marketplace for financial advice?** The survey allowed us to assess, for a subset of respondents who report using advice, the accuracy of their perceptions about their professional's registration status, as determined by comparing survey reports of registration status to the reported professional's verified registration status in the Investment Adviser Public Disclosure (IAPD) database. The majority of survey respondents with a financial advisor reported working with a professional registered as an IA (54 percent), while about one-third (34 percent) reported working with a professional who was registered as both an IA and a BD, just 6 percent reported working with a BD, and another 6 percent reported "don't know" or provided some other classification. In contrast, about nine out of every ten reported professionals who were found in the IAPD database (89 percent) were found to be dually registered. Putting the two data sources together, among the respondents who reported working with an IA, a BD, or both, and who also reported the name of a professional whose status could be verified in the IAPD database, just over one-third of the statuses matched up completely (as opposed to a partial match, *e.g.*, being reported as IA but verified as dually registered). Among these complete matches, 86 percent were dual registrants. The survey also asked all respondents to identify the services and compensation schemes associated with different types of professionals. These results showed varying knowledge across different concepts; for instance, 76 percent of respondents correctly reported that BDs receive commission on investment trades, but only 36 percent correctly reported that IAs are paid based on their clients' assets. Together these results suggest some degree of confusion, or at least ambiguity, in the marketplace for investment advice and, consequently, potentially significant matching and search frictions for investors.
4. **What are investors' experiences with financial advice?** Over half of financial professional users report retirement savings as the primary goal for which they seek investment advice. Respondents who do not currently use professional help have mixed views of financial professionals, with only about 30 percent reporting that professional advice leads to higher investment returns, only 17 percent reporting that financial

professionals are honest, and only about 13 percent reporting they believe it is easy to find a trustworthy professional.

5. **What are investors' experiences with, and perceptions of, financial conflicts of interest?** There has been significant research on and policy interest in the effects of financial conflicts of interests on investor and advisor behavior (see Chapter 2). There is, however, a dearth of research concentrating on investors' experiences and perceptions of these conflicts. The survey results showed that more than half of investors believe their financial professional receives commissions, payments from product companies, or sales bonuses. However, it is unclear whether investors understand the implications of these payments, as the survey did not directly assess it.
6. **What conduct would investors expect from a financial professional who is required to act in their "best interest"?** The survey asked respondents to report the services and duties that they associated with the term "best interest," to obtain an understanding of respondents' expectations of a professional who had this requirement. Specifically, 79 percent believed this professional would take into account the investor's "personal financial situation," 69 percent believed they would monitor the account on an ongoing basis, and 52 percent believed they would avoid selling products that would cause the investor to lose money.

Overall, these results provide some of the first rigorous quantitative research available on investors' and non-investors' perceptions of financial advice and financial professionals. In later research, we anticipate building upon this foundation with further testing specifically related to the SEC's current rulemaking proposals addressing standards of conduct.

5. Summary

In a collaborative research partnership with OIAD, the RAND Corporation is conducting new research to determine how well investors understand the retail market for investment advice. Here, we present findings from an assessment of initial conditions. In this phase of research, we collected both qualitative and quantitative data to gain a better understanding of current investor views and experiences related to financial advice.[51] In later research, we anticipate building on this foundation with further testing specifically related to the current rulemaking proposals. The results from this phase of research derive from three sets of qualitative and quantitative findings: (1) a literature review, (2) focus groups, and (3) a survey.

Literature Review Results

In this review, we sought to update the SEC's and RAND's previous literature reviews, focusing on recent empirical evidence around two primary questions:

1. What leads investors to seek and use investment advice?
2. Do investors understand the distinctions between different types of financial professionals?

Existing research on investors' use of providers of financial advice has identified two important factors related to these questions: investors' financial literacy and feelings of trust in their advisors. Specifically, research consistently shows that investors who are more financially literate are more likely to seek out investment advice and that unsolicited advice is less likely to be followed. Together these imply that the availability of financial advice might not act as a sufficient substitute for low financial literacy. Once investors are working with a financial professional, the likelihood of those investors following the investment advice is higher when the advisor is seen as more trustworthy; in turn, trust is affected by advisors' communication style, credentials, and other factors. Given these findings, there might be value in pursuing further studies that examine whether investors who do not use professional advisors are less financially literate and have more-negative perceptions of advisors. Recent research has not focused on other factors that could affect the likelihood of using advice, including perceived costs of advice.

Research also suggests that retail investors do not understand the differing roles and legal obligations required of financial service professionals, including IAs and BDs. We further explored knowledge and perceptions of financial professionals in both the focus groups and survey.

[51] Not all of the quantitative data yield statistically significant differences.

Focus Group Results

We convened four focus groups in January 2018. The groups were stratified based on participants' use of a financial professional and investing experience level. The focus groups were used as a formative stage of this research endeavor to help identify concepts for further testing.

In discussions about a professional acting in a client's best interest, participants varied with respect to whether they felt that they should be able to assume that a professional is looking out for their best interest. Their comments also suggested that some individuals might value having a clear distinction between professionals who do and do not act in a client's best interest. In discussing expectations for standards of conduct, the groups typically expected that a financial professional who is acting in a client's best interest would continuously monitor the account; help the client to choose the lowest-cost products (all other things being equal); disclose payments they receive that might influence their advice; avoid taking higher compensation for selling one product over a similar but less costly product; and take into account the client's personal financial situation, goals, and personal characteristics.

Focus group participants' comments on professionals' compensation suggested that, although many participants prefer that a professional be compensated by the client alone, some might not rule out using a professional who is receiving other compensation (for example, if the compensation is openly disclosed and the client is comfortable with the professional). Some participants suggested the possibility of studying how different types of individuals believe that different compensation models affect a professional's advice and what the quantitative implications of this are.

The formative focus group discussions and pre-surveys showed that participants' understanding of the types of financial services and professionals was low. However, they also generated several predictions to test in future research and helped to demonstrate the feasibility of our planned survey approach: Participants were willing to discuss their experiences, preferences, and views regarding investments and financial advice, and they were willing to share information so that we could confirm the registration status of financial professionals.

Survey Results

We designed and administered a national survey to measure the views, attitudes, expectations, and experiences of U.S. adults with respect to investing and financial professionals. The survey was completed by a total of 1,816 individuals recruited from the RAND ALP, a nationally representative, probability-based panel of respondents.

The survey results indicated that about three of every four U.S. adults live in a household that owns an investment account or at least one type of investment asset. These households were most likely to have 401(k) accounts, followed by IRAs and other investment accounts, including brokerage and advisory accounts. In all cases, these accounts were most likely to hold mutual funds or exchange-traded funds, followed by directly held stocks. Overall, households with investments tended to have higher incomes than those without investments.

Fewer than half of investors reportedly used professional financial advice at any point. Respondents appear to be consistent in their use of financial advice over time; more than half characterized themselves as “never” using a financial professional or only using one professional. Fewer than one out of every four respondents explicitly mentioned a change in the way they have used financial professionals over time either by reducing or increasing their usage.

For a subset of respondents who reported using advice, the survey also allowed us to assess the accuracy of perceptions about their professional’s registration status. We checked their survey responses about registration status against the reported professional’s verified registration status in IAPD database. Among the respondents who reported working with an IA, a BD, or both, and who also reported the name of a professional whose status could be verified in the IAPD database, slightly more than one third of the statuses matched up. Among these matches, 86 percent of the professionals were dual registrants.

The survey also asked all respondents to identify the services and compensation schemes associated with different types of professionals. These results showed varying knowledge across different concepts. Together, these results suggest some degree of confusion, or at least ambiguity, in the marketplace for investment advice and, consequently, potentially significant matching and search frictions for investors.

There has been significant research on and policy interest in the effects of financial COIs on investor and advisor behavior. There is, however, a dearth of research on investors’ experiences and perceptions of these conflicts. The survey results showed that more than half of investors believe their financial professionals receive commissions, payments from product companies, or sales bonuses. However, it is unclear whether investors understand the implications of such payments, because the survey did not directly assess this understanding.

The survey asked all respondents, regardless of their investment experience, to report on the services and duties that they associated with the term “best interest,” obtaining respondents’ expectations of a professional who met this requirement. Specifically, nearly eight of every ten believed this professional would take into account the investor’s “personal financial situation,” seven of ten believed they would monitor the account on an ongoing basis, and more than half believed they would avoid selling products that would cause the investor to lose money.

Overall, these results provide some of the first rigorous quantitative research available on investors’ and non-investors’ perceptions of financial advice and professionals. In later research, we anticipate building on this foundation with further testing specifically related to the rulemaking proposals.

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Appendix 1. Focus Group Recruitment Script

RAND Recruitment Screener: Investment Advice Focus Group

PARTICIPANT NAME: ____

ADDRESS: ____

PHONE NUMBER(S): DAY: ______________________ EVENING: ____________________

RECRUITED FOR: DATE: _____________________ TIME: ________________________

REMINDER PHONE CALL? DATE: _______________

EXPERIENCED: YES / NO **GENDER:** M / F

AGE: 18-45 / 46 OR OLDER **RACE:** WHITE, NON-HISPANIC / OTHER

EDUCATION: UP TO BACHELOR'S/ MORE THAN BACHELOR'S

Recruitment Goals and Quotas:

- Recruit for 4 Focus Groups. Each group will require 10-12 participants.
- Focus group is expected to last no longer than 2 hours.
- **LOCATION:** TBD
- **DATES:** TBD
- **CRITERIA FOR GROUPS:**
- Respondents should not have participated in a focus group within the last 6 months.
  - **4 groups defined as following:**
    1. **No Financial Professional Experience**
    2. **Currently work with a financial professional (and have investments in retirement accounts only)**
    3. **Currently work with a financial professional (and have investments in non-retirement accounts)**
    4. **Worked with a financial professional in the past**
  - **Overall, focus groups should meet the following:**
    - Education: at least 1/4 with no bachelor's, but no more than ¾ with no bachelor's
  - **Each group should meet the following:**
    - Gender: at least 1/3 women, but no more than 2/3
    - Race: at least 1/3 white, non-Hispanic, but no more than 4/5
    - Age: at least 1/3 aged 45 or younger, but no more than 2/3

INTRO WHEN PERSON ANSWERS THE PHONE:

Hello, my name is _____________ from __________________, a local research firm here in _____________. We are working with the RAND Corporation[52] on a project about the financial services industry. I'm calling today about a project that we are doing to find out how representatives of the financial services industry interact with individuals in providing information regarding potential investments.

If you are interested in helping with the project and you meet its requirements, we will invite you to come to a focus group discussion at {*LOCATION*}. Your opinions will help us to understand how representatives from the financial services industry interact with individual investors and what individual investors understand about the roles and responsibilities of various financial representatives. It would take about two hours of your time, and we would pay you $XX for participating. May I ask you a few questions to see if you qualify to participate?

> *If needed, explain further:* Since we need to include people who are a mix of different backgrounds and experiences, there are some requirements that I have to check on for all of the people that we bring in to participate. I need to ask you a few questions to see if you meet the requirements for participating in the interview.

❐ YES →*Continue*

❐ NO → *Thank & end*

1. Have you participated in a focus group in the last 6 months?

❐ YES →*Ineligible, Thank & end*

❐ NO

2. Do you currently work in the financial services industry? For example, do you work for a company such as an investment advisory firm, an investment management firm, a brokerage firm, or a financial planning firm?

❐ YES →*INELIGIBLE - Thank & end*

❐ NO

[52] *If recruit asks about RAND Corporation, please say the following: RAND is a non-profit research center based in Santa Monica California.

❒ DON'T KNOW

3. Are you involved with your household financial decision making?

❒ YES, solely responsible

❒ YES, shared responsibility along with my spouse/partner

❒ NO, my spouse/partner takes prime responsibility with little involvement from me → *INELIGIBLE - Thank & end*

4. Do you currently have any investments in stocks or in bonds, either directly in stocks or bonds or in investment funds that hold stocks or bonds? Please include any investments held in dedicated retirement accounts, such as an IRA or 401(k) plan, or dedicated college savings accounts, such as 529 Plans, as well as any investments held outside of dedicated retirement or college accounts.

❒ YES → *Go to Question 5*

❒ NO → *INELIGIBLE - Thank & end*

❒ DON'T KNOW → *INELIGIBLE - Thank & end*

5. Are all of these stock and/or mutual fund investments held in dedicated retirement accounts, such as an IRA or 401(k) plan, or are some of them held outside of retirement accounts?

❒ YES, ALL INVESTMENTS HELD IN RETIREMENT ACCOUNTS

❒ NO, SOME INVESTMENTS HELD OUTSIDE OF RETIREMENT ACCOUNTS

❒ DON'T KNOW

6. Do you currently use any financial professionals for services such as:

a. **Recommendations about investment strategies in general (for example, such recommendations as "you should put 60% of your money in stocks and 40% in bonds")?**

b. Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)?

c. Recommendations about what types of investment accounts to open, or whether to change or rollover assets from one type of investment account to another

❒ YES to any → *Invite to **Group 2** if response to 5 is Yes; otherwise, invite to **Group 3***

❒ NO to all → *Go to Question 7*

❒ DON'T KNOW to all→ *Go to Question 7*

7. In the past, have you used any financial professionals for services such as:

a. **Recommendations about investment strategies in general (for example, such recommendations as "you should put 60% of your money in stocks and 40% in bonds")?**

b. Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)?

c. Recommendations about what types of investment accounts to open, or whether to change or rollover assets from one type of investment account to another

❒ YES to any→ *Invite to **Group 4***

❒ NO to all→ *Invite to **Group 1***

❒ DON'T KNOW to all→ *Invite to **Group 1***

8. What is your gender?

❒ FEMALE

❒ MALE

9. What is your age?

____

YEARS

CODE:

❒ IF UNDER AGE 18 → *Ineligible, Thank & end*

IF R REFUSES TO GIVE AGE, ASK RANGE:

❒ Under age 18 --→ *Ineligible, Thank & end*

❒ 18 – 45 --→ *Continue,*

❒ 46 or older --→ *Continue*

10. What is the highest level of school you have completed or the highest degree you have received? *{Do not read options.}*

❒ LESS THAN 1st GRADE

❒ 1st, 2nd, 3rd, or 4th GRADE

❒ 5th OR 6th GRADE

❒ 7th OR 8th GRADE

❒ 9th GRADE

❒ 10th GRADE

❒ 11th GRADE

❒ 12th GRADE NO DIPLOMA

❒ HIGH SCHOOL GRADUATE HIGH SCHOOL DIPLOMA OR THE EQUIVALENT (FOR EXAMPLE: GED)

❒ SOME COLLEGE BUT NO DEGREE

❒ ASSOCIATE DEGREE IN COLLEGE OCCUPATIONAL/VOCATIONAL PROGRAM

❒ ASSOCIATE DEGREE IN COLLEGE ACADEMIC PROGRAM

❒ BACHELOR'S DEGREE (FOR EXAMPLE: BA, AB, BS)

❒ MASTER'S DEGREE (FOR EXAMPLE: MA, MS, MENG, MED, MSW, MBA)

❒ PROFESSIONAL SCHOOL DEGREE (FOR EXAMPLE: MD, DDS, DVM, LLB, JD)

❒ DOCTORATE DEGREE (FOR EXAMPLE: PHD, EDD)

11. Do you consider yourself Hispanic or Latino?

❒ YES

❒ NO

12. Do you consider yourself primarily white or Caucasian, Black or African American, American Indian, or Asian?

❒ WHITE/CAUCASIAN

❒ BLACK/AFRICAN AMERICAN

❒ AMERICAN INDIAN OR ALASKAN NATIVE

❒ ASIAN OR PACIFIC ISLANDER

❒ OTHER

SELECTION CRITERIA:

1. **No Financial Professional Experience**
   - "no" or "Don't know" to Question 7
2. **Currently work with a financial professional and have investments in retirement accounts only**
   - "Yes" to Question 5 AND "yes" to any in Question 6
3. **Currently work with a financial professional and have investments in non-retirement accounts**
   - "No" to Question 5 AND "yes" to any in Question 6
4. **Worked with a financial professional in the past**
   - "Yes" to any in Question 7

INVITATION IF INDIVIDUAL MEETS RECRUITING CRITERIA:

Thank you for answering all of my questions. It looks like you meet the requirements to participate in a session to discuss **investors' expectations and actual experiences with the financial services industry**. We are holding the focus group on (DATE/TIME). Would you like to take part in this research?

❒ YES →*Continue*

❒ NO → *Thank & end*

I will send you a letter with the date, time, and location of the focus group, including directions.

I will call you a few days before the group to confirm the date and time. Again, this should take no more than two hours of your time. You will receive $100 as a thank you for your participation.

For Group 2 and 3 only – Please bring the name of your financial professional and the firm they work with to the session. We would like to check their registration status using a public database. We will NOT contact any financial professionals or firms. We will not use this information in any analyses, reports, or articles. We will be using this information only to check registration status.

Let me just mention three things:

1) If you wear reading glasses, please be sure to bring them, as you will be asked to read some materials;
2) Please be aware that we have a no-smoking policy; and
3) If you care for children please do not bring them with you because there is no child-care available at the facility.

Now, let me just get the spelling of your name, address, and phone number in case we need to get in touch with you. *{Record respondent's information.}*

Name:________________________________Telephone:_________________________

Address:____

City, State:____Zip:___________________

If you have any questions or find that you can't attend, please call us right away at *{insert phone number}* so that we can find a replacement. Thank you for your time and for agreeing to help.

Appendix 2. Focus Group Pre-Survey

1. We would like to know about the types of investment accounts your household owns. Which types of accounts does your household own?

Choose one per row:	Yes	No	Don't know
Employer-sponsored retirement account (for example, 401(k), 403(b), SEP-IRA, or Thrift Savings Plan)			
Other retirement investment account (for example, Traditional IRA or Roth IRA)			
529 Plan (college savings plan)			
Investment account not listed above (for example, brokerage or advisory account)			

2. We would like to know more about the types of assets your household holds and where these assets are held. Please check the boxes that best describe the types of assets you hold and the accounts in which you hold these assets.

	Yes, in a retirement and/or college account	Yes, in an investment account (such as a brokerage or advisory account)	Yes, other (such as paper certificates)	No, I don't	Don't know
Investment Funds (for example, Mutual Funds or ETFs)					

Individual Stocks					
Bonds					
Derivatives, such as Options or Securities Futures					
Annuities					

3. The following statements describe the services provided by financial professionals. For each statement, please indicate with an “X” or a checkmark whether the statement is true for a “broker” (or “stockbroker”), an “investment adviser,” both types of financial professionals, or neither:

	This is true for...				
This type of professional... (check one box in each row)	A Broker	An Investment Adviser	Both	Neither	Don’t know
Must continuously monitor the client's account.					
Will help the client choose the lowest cost products, all other things being equal.					
Is allowed to recommend an investment that is adequate for the client based upon the client’s personal circumstances, but not necessarily the best investment option.					
Must disclose payments that he/she receives that may influence him/her to advise the client to buy one product over another product that might be a better choice for the client.					
Must avoid taking higher compensation for selling the client one product instead of a similar product.					
Must avoid selling the client any investment that may cause him/her to lose money.					
Can only get paid if the client makes money on the investments that were recommended to the client.					
Must take into account the client's personal financial situation, goals and personal characteristics before recommending investments to the client.					

Appendix 3. Focus Group Pre-Survey Addendum (Groups 2 and 3)

4. In the phone call inquiring about your interest in participating in a focus group of investors and their views of financial service professionals, you indicated that you currently work with a financial professional or have worked with one in the past. During the focus group we will talk about the types of products and services they provide, your understanding about fees and compensation and your expectations about the level of service they owe you. In preparation for that discussion, it would be helpful if you could complete a few brief questions and bring this with you to the focus group.

There are two general categories of professional who help investors with investments, broker-dealers and investment advisers, although some representatives may be both. Are you aware of which category your financial professional falls into?

Check one:
_____ Broker Dealer
_____ Investment Adviser
_____ Both Broker Dealer and Investment Adviser
_____ Don't Know
_____ Other ________________________________

Please provide the name of your financial advisor and the firm they work with below (or just the firm if you do not work with one specific person). We would like to confirm whether they are a broker dealer or investment advisor, using a public database. We will NOT contact any financial professionals or firms or contact anyone about those professionals. We will be using this information only to confirm that they are in the category you believe them to be. We will not use their names or firm names in any analyses, reports, or articles.

Financial Professional's Name ____

Financial Professional's Title ____
(from a business card or on any paperwork)

Financial Professional's Firm ____

Appendix 4. Focus Group Guide (Group 1)

INDIVIDUAL INVESTORS WHO HAVE NEVER WORKED WITH A FINANCIAL PROFESSIONAL FOCUS GROUP DISCUSSION GUIDE

<table>
<tr><td>Introduction (2 min)</td><td>Welcome. Thank you for coming to this focus group discussion. I'm {NAME} from RAND (in Washington, DC) and I'll be facilitating our group today. With me are {NAMES}. RAND is a private, non-profit research organization that helps inform policymaking through objective research.

We are holding these discussions so that we will have a better understanding of your experiences investing and working with financial professionals, mainly the types of products and services they provide, your understanding about fees and compensation and your expectations about legal obligations they owe you.

I’d also like to remind you that we are audio taping this discussion. The tapes will be transcribed and we will destroy the tapes as soon as the transcripts are completed.</td></tr>
<tr><td>Ground Rules
(3 min)</td><td>In order to make the best use of your time, I’d like to go over a few ground rules before we begin.
• First, we want to hear from everyone. Please treat this as a discussion; ask questions of each other, and respond to what others are saying, whether you agree or disagree.
• Feel free to ask for clarification if you did not understand a question.
• We would like you to respect each others’ privacy and not repeat what is said here outside this room. However, RAND cannot guarantee what you say during this discussion will be kept confidential, and therefore you should be circumspect in what you say.
• RAND will not include your name in any summary reports.
• Finally, there are no right or wrong answers. Please give us your honest opinions. We’re here to learn from you.

We have quite a few topics to cover, so I may use a “time out” sign if I need to move the discussion to another topic.</td></tr>
<tr><td>Group Introduction
(10 min)</td><td>I’d like to go around the table starting on my right and to have each person tell us just your first name.</td></tr>
<tr><td>Topic</td><td>What type of financial investments (non-real estate) do you (meaning your</td></tr>
</table>

Investment Products and Fees	household) have? (*prompt if necessary:* individual stocks, mutual funds, annuities, bonds, etc.) How long have you been investing? How often do you conduct transactions (buy and sell securities)? In what type of accounts do you hold these investments? *Prompt if necessary*: • Employer sponsored retirement accounts, like 401k • Other retirement accounts, like IRA • Education savings plans, like 529 • Other investment accounts, including brokerage or advisory o *Follow-up if anyone says yes to this*: what type of investment account is it? Does anyone have more than one of each type of account? How many? For those of you who mentioned having an IRA or other investment account like a brokerage or advisory account, please think about your primary account (or largest account). I will first ask you how you selected the particular **institution** that holds that account (like Fidelity or Wells Fargo). Then we'll discuss the factors you considered when choosing the **type of account**. Regarding the institution, how did you select that particular **financial institution**? *Prompt if necessary, but **wait for free response*** • Family or friend recommendation • Recommendation from a financial professional not affiliated with the institution • Recommendation from a financial professional affiliated with the institution • Existing relationship with financial institution • Someone else decided for me (for example, I received it as a gift, or my employer selected it) • Internet search And what factors figured into your decision when selecting the **financial institution**? *Prompt if necessary* • Cost

	• Customer service • Investment options available • I had an existing relationship with the institution • Had additional services that I wanted (for example, a specific type of advice service, a convenient website, ability to connect my account with another type of product) • I believed the quality of advice to be higher • Referral/recommendation from friend or family • Referral/recommendation from a financial professional that is not affiliated with that particular institution Of those factors mentioned, which was the most important? How did you select the **type of account** in which to invest? *Prompt if necessary, but **wait for free response*** • A financial professional that I use that does not work for that financial institution recommended it to me • A financial professional that works for that financial institution recommended it to me • A financial professional that works for a firm that has a relationship with that financial institution recommended it to me • A friend or relative recommended it to me Did you choose the institution first or did you decide on the type of account first and then looked for an institution that offered that account? What about fees? Do you pay fees: • for the account? • or for transactions in your accounts? • Or for the assets in the account? What types of fees do you pay? • ***Wait for open response and write responses on a whiteboard*** • *After open response, ask about these if they haven't been mentioned:* annual fee, flat fee, hourly fee, trade based fee, commission, percentage based on the assets under management, etc. • *follow-up to questions*: o *if "flat fee":* what does that cover? Is there a limit to transactions? And if so, do you know what you pay if you go over? o *if "percentage fee":* what's that percentage based on? (total assets under management, transaction amounts, etc.)? o *if "commission":* is that per trade? Or per product?

<table>
<tr><td></td><td>
How did you learn of these fees?
(prompt if necessary: from your institution? financial professional, your own research etc.)

What sources of information did you use and what were most helpful?
What were least helpful?

Do you think that the fees that you pay are reasonable? High? Low?

How did you determine whether those fees were reasonable, high or low?

How important are the fee amounts in deciding which financial products to purchase?
</td></tr>
<tr><td>Topic
Investment Advice, Services and Compensation</td><td>
Advice
When choosing investment products do you rely on advice from others? Your own independent research? A combination of both? Other?

When you think about investment advice, what do you think that includes?
Wait for open response, then ask about these specifically, if they haven’t been brought up:

Does this include Recommendations about investment strategies in general (for example, “you should put 60% of your money in stocks and 40% in bonds”)
Does this include Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)
Does this include Recommendations about what types of investment accounts to open
Or does this include planning such as household planning, budgeting, planning for educational expenses such as college, or estate planning?
Or does it include tax advising?
Other services?

Did you ever consider receiving any professional advice in determining the type of investment products to invest in, discussed previously? Have you ever looked into financial professionals to consider working with one? Have you ever asked for recommendations from others who do use a financial professional?

What are the reasons why you haven’t used a financial professional? (prompt if necessary: cost, mistrust, time constraints, other sources of information)
</td></tr>
</table>

<table>
<tr><td></td><td>
Would you ever seek out a financial professional in the future? How likely would that be?
Services
If you were to use a financial professional, how would you describe the type of investment advice that you would be most interested in getting from a financial professional?
Wait for open response, then ask about these specifically, if they haven’t been brought up:

Recommendations about investment strategies in general (for example, “you should put 60% of your money in stocks and 40% in bonds”)
Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)?
Recommendations about what types of investment accounts to open, or whether to change or roll over assets from one type of investment account to another?
Or is it part of planning such as household planning, planning for retirement or, planning for educational expenses such as college?
Tax advising?
Other services?

Compensation
Are you familiar with the different ways that a client might pay for the recommendations that they receive from a financial professional? (prompt if necessary: annual fee, fee based on assets under management, commission related to the product purchased, etc.)
Are you familiar with some of the other ways that a financial professional can be compensated (commission on what they sell vs. salary and bonus)?
Do you think how they are compensated affects the advice or services they provide?
</td></tr>
<tr><td>Topic
Type of Financial Professional</td><td>You may or may not be familiar with this already, but there are two general categories of professionals who help investors with investments: broker-dealers and investment advisers.</td></tr>
</table>

	How many of you know that there are these two categories of financial professionals? We have some definitions of these types of professionals, and want to get your feedback on them (*paper handout with same definitions as in survey, and give a few minutes to review*). ***A broker*** *is an individual or firm that charges a fee or commission for buying or selling securities (like stocks, bonds, or mutual funds) for investors.* *There are <u>different kinds of brokerage accounts</u> you can choose. You can choose an account where you research an investment yourself and just place orders with the broker, or you can choose an account where the broker makes recommendations to you. With both types of brokerage accounts, you approve each order to buy and sell investments in your account, and you are charged a fee each time you buy or sell an investment. This fee is not based on the value of assets in your account.* *A broker may give you some advice to help you decide what to buy or sell, but the broker <u>does not typically monitor</u> the performance of your account or offer investment advice on a regular basis.* ***An investment adviser*** *is an individual or firm that is in the business of giving advice about securities to clients. The adviser typically <u>monitors your account</u> and offers advice on a regular basis. The advice may include recommendations about specific investments to buy or sell, or it may be more general advice such as how to properly balance your portfolio between stocks and bonds.* *There are <u>two different kinds of advisory accounts</u> you can choose: an account where the adviser gives you recommendations and you make the final decision before securities are bought or sold, or an account where you give the adviser the discretion to buy or sell investments on your behalf without seeking prior approval. In either type of account, an adviser will charge you an on-going fee that is usually based on a percentage of the value of assets in your account.* *Sometimes, an investor may want a* ***one-time service*** *from an adviser, such as a written financial plan, and an adviser may charge a one-time fee for that type of service.*

	A financial professional can be both a broker and an investment adviser, and a firm can be both a brokerage firm and an investment advisory firm. Are these definitions helpful (or meaningful) to you? Do they help clarify the differences? Or not really? If you've heard of these two categories, does this pretty much match what you thought the differences are? Or is this pretty new information? These statements are based on formal legal definitions. As a practical matter, how much do you think it matters which one you go to?
Topic Standards of Conduct	We're now going to talk about what you think it means if a financial professional is required to act in your "best interest". We're passing out a sheet that list some activities carried out by a financial professional. Please spend a few minutes reading those and then we will discuss them as a group **Moderator – when discussing the activities, probe whether participants believe each activity is merely "adequate" for acting in their best interest or whether the activity is "appropriate".** *What are your thoughts on whether the following activities carried out by a financial professional would constitute as acting in your best interest? Please review the list of activities and we'll discuss as a group.* • *continuously monitor my account.* • *help me choose the lowest cost products, all other things being equal.* • *recommend securities that are merely adequate for me based upon some of my personal circumstances, even if there are other investments that would be better for me.* • *disclose payments that he/she receives that may influence him/her to advise me to buy one product over another that might be a better choice for me.* • *avoid taking higher compensation for selling me one product when a similar but less costly product is available* • *avoid selling me any investment that may cause me to lose money.* • *only get paid if I make money on the investments that were recommended to me.*

	• *take into account my personal financial situation, goals, and personal characteristics before recommending investments that are in my best interest.* Do you think financial professionals look out for their clients' best interest when they make a recommendation? (Probe: Who's interest do they look out for? How might that impact the recommendations that clients receive?) Would you seek financial advice from a professional who isn't **required** to act in your best interest? • in other words, is whether or not he/she is required to act in your best interest a dealbreaker for you? If it would be a dealbreaker, is no advice better than advice from someone who is not required to act in your best interest? • For those of you who would still consider going to a financial professional who isn't required to act in your best interest, what are some features, or characteristics that the financial professional could have that would make you feel comfortable going to someone without such a requirement? • Would you have more trust in a financial professional who is required to act in your best interest, than in a financial professional who isn't required? • How do you think the quality of advice differs? • Would you be willing to pay more to go to a professional **who is required** to act in your best interest? ***Read this verbatim:*** Some financial professionals receive commissions from both the creator of the product and from you for selling certain types of products (e.g. a mutual fund). The out-of-pocket costs may be lower but it may be more expensive in the long run and it may not be a great product for you. Other financial professionals receive their compensation directly from you so are not incentivized to sell you a particular product. • Would you be willing to go to someone who receives compensation from someone other than you? or do you consider that a dealbreaker? • If it would be a dealbreaker, is no advice better than advice that comes from a professional who get outside compensation for advising you? • Would you have more trust in a financial professional who receives their compensation directly from you and no outside compensation? • How do you think the quality of advice differs? • Would you be willing to pay more for a financial professional who receives all of her compensation directly from you?

	Read this verbatim: Some financial professionals are required to monitor your account to ensure your investments continue to meet your needs as conditions change. Other financial professionals have no responsibility after completing the sale. • First, is whether or not the financial professional is required to monitor your account a dealbreaker for you? • If not, how would you monitor your account? • Do you think advice from a financial professional who is required to monitor your account is higher quality than advice from a professional who isn't required to monitor your account? • Would you be willing to pay more for a financial professional that was required to monitor your account on an ongoing basis? ***Read this verbatim:*** Some financial professionals have the ability to provide recommendations for a broad range of investment products. Other financial professionals may be limited to making their recommendations to investments created by their own firms or a limited range of products. • First, is whether or not the financial professional can offer you a broad range of products a dealbreaker for you? • If not, what other criteria would make you still willing to work with the professional that offered a limited set of products? • Do you think advice from a financial professional who can make recommendations on a broad range of products is higher quality than advice from a professional who is limited in making recommendations? • Would you be willing to pay more to go to a financial professional that could offer you a broad range of products?
Thank you *(1 min)*	Is there anything else that you think I should know about your thoughts about financial professionals? That's the end of my questions. Thanks very much for taking part in this discussion today; it was very helpful to us.

Appendix 5. Focus Group Guide (Groups 2 and 3)

INDIVIDUAL INVESTORS WHO HAVE WORKED WITH A FINANCIAL PROFESSIONAL FOCUS GROUP DISCUSSION GUIDE

<table>
<tr><td>Introduction (2 min)</td><td>Welcome. Thank you for coming to this focus group discussion. I'm {NAME} from RAND (in Washington, DC) and I'll be facilitating our group today. With me are {NAMES}. RAND is a private, non-profit research organization that helps inform policymaking through objective research.

We are holding these discussions so that we will have a better understanding of your experiences investing and working with financial professionals, mainly the types of products and services they provide, your understanding about fees and compensation and your expectations about legal obligations they owe you.

I’d also like to remind you that we are audio taping this discussion. The tapes will be transcribed and we will destroy the tapes as soon as the transcripts are completed.</td></tr>
<tr><td>Ground Rules
(3 min)</td><td>In order to make the best use of your time, I’d like to go over a few ground rules before we begin.
• First, we want to hear from everyone. Please treat this as a discussion; ask questions of each other, and respond to what others are saying, whether you agree or disagree.
• Feel free to ask for clarification if you did not understand a question.
• We would like you to respect each others’ privacy and not repeat what is said here outside this room. However, RAND cannot guarantee what you say during this discussion will be kept confidential, and therefore you should be circumspect in what you say.
• RAND will not include your name in any summary reports.
• Finally, there are no right or wrong answers. Please give us your honest opinions. We’re here to learn from you.

We have quite a few topics to cover, so I may use a “time out” sign if I need to move the discussion to another topic.</td></tr>
<tr><td>Group Introduction
(10 min)</td><td>I’d like to go around the table starting on my right and to have each person tell us just your first name.</td></tr>
<tr><td>Topic</td><td>What type of financial investments (non-real estate) do you (meaning your</td></tr>
</table>

Investment Products and Fees	household) have? (*prompt if necessary:* individual stocks, mutual funds, annuities, bonds, etc.) How long have you been investing? How often do you conduct transactions (buy and sell securities)? In what type of accounts do you hold these investments? *Prompt if necessary*: • Employer sponsored retirement accounts, like 401k • Other retirement accounts, like IRA • Education savings plans, like 529 • Other investment accounts, including brokerage or advisory o *Follow-up if anyone says yes to this*: what type of investment account is it? Does anyone have more than one of each type of account? How many? For those of you who mentioned having an IRA or other investment account like a brokerage or advisory account, please think about your primary account (or largest account). I will first ask you how you selected the particular **institution** that holds that account (like Fidelity or Wells Fargo). Then we'll discuss the factors you considered when choosing the **type of account**. Regarding the institution, how did you select that particular **financial institution**? *Prompt if necessary, but **wait for free response*** • Family or friend recommendation • Recommendation from a financial professional not affiliated with the institution • Recommendation from a financial professional affiliated with the institution • Existing relationship with financial institution • Someone else decided for me (for example, I received it as a gift, or my employer selected it) • Internet search And what factors figured into your decision when selecting the **financial institution**? *Prompt if necessary* • Cost

	• Customer service • Investment options available • I had an existing relationship with the institution • Had additional services that I wanted (for example, a specific type of advice service, a convenient website, ability to connect my account with another type of product) • I believed the quality of advice to be higher • Referral/recommendation from friend or family • Referral/recommendation from a financial professional that is not affiliated with that particular institution Of those factors mentioned, which was the most important? How did you select the **type of account** in which to invest? *Prompt if necessary, but **wait for free response*** • A financial professional that I use that does not work for that financial institution recommended it to me • A financial professional that works for that financial institution recommended it to me • A financial professional that works for a firm that has a relationship with that financial institution recommended it to me • A friend or relative recommended it to me Did you choose the institution first or did you decide on the type of account first and then looked for an institution that offered that account? What about fees? Do you pay fees: • for the account? • or for transactions in your accounts? • Or for the assets in the account? What types of fees do you pay? • ***Wait for open response and write responses on a whiteboard*** • *After open response, ask about these if they haven't been mentioned:* annual fee, flat fee, hourly fee, trade based fee, commission, percentage based on the assets under management, etc. • *follow-up to questions*: o *if "flat fee":* what does that cover? Is there a limit to transactions? And if so, do you know what you pay if you go over? o *if "percentage fee":* what's that percentage based on? (total assets under management, transaction amounts, etc.)? o *if "commission":* is that per trade? Or per product?

<table>
<tr><td></td><td>How did you learn of these fees?
(prompt if necessary: from your institution? financial professional, your own research etc.)
What sources of information did you use and what were most helpful?
What were least helpful?
Do you think that the fees that you pay are reasonable? High? Low?

How did you determine whether those fees were reasonable, high or low?

How important are the fee amounts in deciding which financial products to purchase?</td></tr>
<tr><td>Topic
Investment Advice, Services and Compensation</td><td>Advice
When choosing investment products do you rely on advice from your financial professional? Your own independent research? A combination of both? Other?

When you think about investment advice, what do you think that includes?
Wait for open response, then ask about these specifically, if they haven’t been brought up:
Does this include Recommendations about investment strategies in general (for example, “you should put 60% of your money in stocks and 40% in bonds”)
Does this include Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)
Does this include Recommendations about what types of investment accounts to open
Or does this include planning such as household planning, budgeting, planning for educational expenses such as college, or estate planning?
Or does it include tax advising?
Other services?
Did you receive any professional advice in determining the type of investment products to invest in, discussed previously?

What information was important to you in selecting your financial professional? (prompt if necessary: performance, compensation structure, products offered, reputation, type/range of services offered, etc.)?

Do you typically get advice from the same person? Or do you receive advice</td></tr>
</table>

	from different people at the same firm, depending on who is available? How often do you follow the investment recommendations that you receive from your financial professional? What information do you use to decide whether or not to follow a recommendation? What are some reasons that you might not follow a recommendation? **Services** Just a few minutes ago we talked about what investment advice means to you. Now we are going to talk about the type of investment advice you receive. How would you describe the type of investment advice that **you get from your** financial professional? ***Wait for open response****, then ask about these specifically, if they haven't been brought up:* • Recommendations about investment strategies in general (for example, "you should put 60% of your money in stocks and 40% in bonds") • Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)? • Recommendations about what types of investment accounts to open, or whether to change or roll over assets from one type of investment account to another? • Or is it part of planning such as household planning, planning for retirement or, planning for educational expenses such as college? • Tax advising? • Other services? In addition to advice, what kinds of services do you receive from your financial professional? ***Wait for open response****, then ask about these specifically, if they haven't been brought up:* • process transactions that I identify • monitor my investments and alert me if changes need to be made • pick securities for me and make transactions without my input What other services are you aware of that your professional provides? Do you expect any of these additional services, but don't receive them?

	Would additional services cost more? If yes, are you willing to pay for that additional level of service? **Compensation** How do you pay for the recommendations that you receive? (*prompt if necessary: annual fee, fee based on assets under management, commission related to the product purchased, etc.)* Do you know how else your financial professional is compensated (commission on what they sell vs. salary and bonus)? Do you think how they are compensated affects the advice or services they provide?
Topic Type of Financial Professional	In the survey you filled out when you arrived, we referred to two general categories of professionals who help investors with investments: broker-dealers and investment advisers. How many of you know that there are these two categories of financial professionals? How many of you knew which category your financial advisor fell into? We have some definitions of these types of professionals (*paper handout with these definitions, and give a few minutes to review*). ***A broker*** *is an individual or firm that charges a fee or commission for buying or selling securities (like stocks, bonds, or mutual funds) for investors.* *There are <u>different kinds of brokerage accounts</u> you can choose. You can choose an account where you research an investment yourself and just place orders with the broker, or you can choose an account where the broker makes recommendations to you. With both types of brokerage accounts, you approve each order to buy and sell investments in your account, and you are charged a fee each time you buy or sell an investment. This fee is not based on the value of assets in your account.* *A broker may give you some advice to help you decide what to buy or sell, but*

	the broker <u>does not typically monitor</u> the performance of your account or offer investment advice on a regular basis. ***An investment adviser** is an individual or firm that is in the business of giving advice about securities to clients. The adviser typically <u>monitors your account</u> and offers advice on a regular basis. The advice may include recommendations about specific investments to buy or sell, or it may be more general advice such as how to properly balance your portfolio between stocks and bonds.* *There are <u>two different kinds of advisory accounts</u> you can choose: an account where the adviser gives you recommendations and you make the final decision before securities are bought or sold, or an account where you give the adviser the discretion to buy or sell investments on your behalf without seeking prior approval. In either type of account, an adviser will charge you an on-going fee that is usually based on a percentage of the value of assets in your account.* *Sometimes, an investor may want a **one-time service** from an adviser, such as a written financial plan, and an adviser may charge a one-time fee for that type of service.* *A financial professional can be both a broker and an investment adviser, and a firm can be both a brokerage firm and an investment advisory firm.* Are these definitions helpful (or meaningful) to you? Do they help clarify the differences? Or not really? Does this pretty much match what you thought the differences are? Or is this pretty new information? These statements are based on formal legal definitions. As a practical matter, how much do you think it matters which one you go to?
Topic Standards of Conduct	Has your financial professional ever disclosed any conflicts of interest that he or she may have? An example might be disclosing that they will receive compensation or incentive for recommending one product over another. If so, how often and how did those conversations go? How did you react to this information? What questions did you have? To what extent, if at all, did the disclosures ease any concerns you had?

	Do you think learning about conflicts of interest changed the choices you made? How? We're now going to talk about what you think it means if a financial professional is required to act in your "best interest". We're passing out a sheet that list some activities carried out by a financial professional. Please spend a few minutes reading those and then we will discuss them as a group **Moderator – when discussing the activities, probe whether participants believe each activity is merely "adequate" for acting in their best interest or whether the activity is "appropriate".** *What are your thoughts on whether the following activities carried out by a financial professional would constitute as acting in your best interest? Please review the list of activities and we'll discuss as a group.* • *continuously monitor my account.* • *help me choose the lowest cost products, all other things being equal.* • *recommend securities that are merely adequate for me based upon some of my personal circumstances, even if there are other investments that would be better for me.* • *disclose payments that he/she receives that may influence him/her to advise me to buy one product over another that might be a better choice for me.* • *avoid taking higher compensation for selling me one product when a similar but less costly product is available* • *avoid selling me any investment that may cause me to lose money.* • *only get paid if I make money on the investments that were recommended to me.* • *take into account my personal financial situation, goals, and personal characteristics before recommending investments that are in my best interest.* Do you think your financial professional looks out for your best interest when he/she makes a recommendation? (Probe: Who's interest do they look out for? How might that impact the recommendations you receive?) Would you seek financial advice from a professional who isn't **required** to act

	in your best interest? • in other words, is whether or not he/she is required to act in your best interest a dealbreaker for you? If it would be a dealbreaker, is no advice better than advice from someone who is not required to act in your best interest? • For those of you who would still consider going to a financial professional who isn't required to act in your best interest, what are some features, or characteristics that the financial professional could have that would make you feel comfortable going to someone without such a requirement? • Would you have more trust in a financial professional who is required to act in your best interest, than in a financial professional who isn't required? • How do you think the quality of advice differs? • Would you be willing to pay more to go to a professional **who is required** to act in your best interest? • How much more would you be willing to pay: o How many would 10% more per year? o How many would pay 20% more o How many would pay 30% more ***Read this verbatim:*** Some financial professionals receive commissions from both the creator of the product and from you for selling certain types of products (e.g. a mutual fund). The out-of-pocket costs may be lower but it may be more expensive in the long run and it may not be a great product for you. Other financial professionals receive their compensation directly from you so are not incentivized to sell you a particular product. • Would you be willing to go to someone who receives compensation from someone other than you? or do you consider that a dealbreaker? • If it would be a dealbreaker, is no advice better than advice that comes from a professional who get outside compensation for advising you? • Would you have more trust in a financial professional who receives their compensation directly from you and no outside compensation? • How do you think the quality of advice differs? • Would you be willing to pay more for a financial professional who receives all of her compensation directly from you? • How much more would you be willing to pay: o How many would pay 10% more per year? o How many would pay 20% more o How many would pay 30% more ***Read this verbatim:*** Some financial professionals are required to monitor your account to ensure your investments continue to meet your needs as conditions

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Thank you *(1 min)*	Is there anything else that you think I should know about your interactions with financial professionals? That's the end of my questions. Thanks very much for taking part in this discussion today; it was very helpful to us.

Appendix 6. Focus Group Guide (Group 4)

INDIVIDUAL INVESTORS WHO HAVE WORKED WITH A FINANCIAL PROFESSIONAL IN THE PAST FOCUS GROUP DISCUSSION GUIDE

<table>
<tr><td>Introduction (2 min)</td><td>Welcome. Thank you for coming to this focus group discussion. I'm {NAME} from RAND (in Washington, DC) and I'll be facilitating our group today. With me are {NAMES}. RAND is a private, non-profit research organization that helps inform policymaking through objective research.

We are holding these discussions so that we will have a better understanding of your experiences investing and working with financial professionals, mainly the types of products and services they provide, your understanding about fees and compensation and your expectations about legal obligations they owe you.

I'd also like to remind you that we are audio taping this discussion. The tapes will be transcribed and we will destroy the tapes as soon as the transcripts are completed.</td></tr>
<tr><td>Ground Rules
(3 min)</td><td>In order to make the best use of your time, I'd like to go over a few ground rules before we begin.
First, we want to hear from everyone. Please treat this as a discussion; ask questions of each other, and respond to what others are saying, whether you agree or disagree.
Feel free to ask for clarification if you did not understand a question.
We would like you to respect each others' privacy and not repeat what is said here outside this room. However, RAND cannot guarantee what you say during this discussion will be kept confidential, and therefore you should be circumspect in what you say.
RAND will not include your name in any summary reports.
Finally, there are no right or wrong answers. Please give us your honest opinions. We're here to learn from you.
We have quite a few topics to cover, so I may use a "time out" sign if I need to move the discussion to another topic.</td></tr>
<tr><td>Group Introduction
(10 min)</td><td>I'd like to go around the table starting on my right and to have each person tell us just your first name.</td></tr>
<tr><td>Topic
Investment Products</td><td>What type of financial investments (non-real estate) do you (meaning your household) have?</td></tr>
</table>

and Fees	(*prompt if necessary:* individual stocks, mutual funds, annuities, bonds, etc.) How long have you been investing? How often do you conduct transactions (buy and sell securities)? In what type of accounts do you hold these investments? *Prompt if necessary*: • Employer sponsored retirement accounts, like 401k • Other retirement accounts, like IRA • Education savings plans, like 529 • Other investment accounts, including brokerage or advisory o *Follow-up if anyone says yes to this*: what type of investment account is it? Does anyone have more than one of each type of account? How many? For those of you who mentioned having an IRA or other investment account like a brokerage or advisory account, please think about your primary account (or largest account). I will first ask you how you selected the particular **institution** that holds that account (like Fidelity or Wells Fargo). Then we'll discuss the factors you considered when choosing the **type of account**. Regarding the institution, how did you select that particular **financial institution**? *Prompt if necessary, but **wait for free response*** • Family or friend recommendation • Recommendation from a financial professional not affiliated with the institution • Recommendation from a financial professional affiliated with the institution • Existing relationship with financial institution • Someone else decided for me (for example, I received it as a gift, or my employer selected it) • Internet search And what factors figured into your decision when selecting the **financial institution**? *Prompt if necessary* • Cost • Customer service • Investment options available

	• I had an existing relationship with the institution • Had additional services that I wanted (for example, a specific type of advice service, a convenient website, ability to connect my account with another type of product) • I believed the quality of advice to be higher • Referral/recommendation from friend or family • Referral/recommendation from a financial professional that is not affiliated with that particular institution Of those factors mentioned, which was the most important? How did you select the **type of account** in which to invest? *Prompt if necessary, but* ***wait for free response*** • A financial professional that I use that does not work for that financial institution recommended it to me • A financial professional that works for that financial institution recommended it to me • A financial professional that works for a firm that has a relationship with that financial institution recommended it to me • A friend or relative recommended it to me Did you choose the institution first or did you decide on the type of account first and then looked for an institution that offered that account? What about fees? Do you pay fees: • for the account? • or for transactions in your accounts? • Or for the assets in the account? What types of fees do you pay? • ***Wait for open response and write responses on a whiteboard*** • *After open response, ask about these if they haven't been mentioned:* annual fee, flat fee, hourly fee, trade based fee, commission, percentage based on the assets under management, etc. • *follow-up to questions*: o *if "flat fee":* what does that cover? Is there a limit to transactions? And if so, do you know what you pay if you go over? o *if "percentage fee":* what's that percentage based on? (total assets under management, transaction amounts, etc.)? o *if "commission":* is that per trade? Or per product? How did you learn of these fees?

	(*prompt if necessary:* from your institution? financial professional, your own research etc.) • What sources of information did you use and what were most helpful? • What were least helpful? Do you think that the fees that you pay are reasonable? High? Low? How did you determine whether those fees were reasonable, high or low? How important are the fee amounts in deciding which financial products to purchase?
Topic Investment Advice, Services and Compensation	**Advice** When choosing investment products do you currently rely on advice from others? Your own independent research? A combination of both? Other? When you think about investment advice, what do you think that includes? ***Wait for open response****, then ask about these specifically, if they haven't been brought up:* • Does this include Recommendations about investment strategies in general (for example, "you should put 60% of your money in stocks and 40% in bonds") • Does this include Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund) • Does this include Recommendations about what types of investment accounts to open • Or does this include planning such as household planning, budgeting, planning for educational expenses such as college, or estate planning? • Or does it include tax advising? • Other services? What are the reasons why you stopped using a financial professional? (*prompt* if necessary: cost, mistrust, time constraints, did not see the value, other sources of information) Would you ever seek out a financial professional again in the future? How likely would that be? Did you typically get advice from the same person? Or did you receive advice from different people at the same firm, depending on who was available? How often did you follow the investment recommendations that you received from your financial professional?

	Services Just a few minutes ago we talked about what investment advice means to you. Now we are going to talk about the type of investment advice you receive. How would you describe the type of investment advice that **you used to get from your** financial professional? ***Wait for open response****, then ask about these specifically, if they haven't been brought up:* • Recommendations about investment strategies in general (for example, "you should put 60% of your money in stocks and 40% in bonds") • Recommendations about specific financial investment products (for example, a recommendation to buy a specific mutual fund)? • Recommendations about what types of investment accounts to open, or whether to change or roll over assets from one type of investment account to another? • Or is it part of planning such as household planning, planning for retirement or, planning for educational expenses such as college? • Other services? **Compensation** How did you pay for the recommendations that you received? (*prompt if necessary: annual fee, fee based on assets under management, commission related to the product purchased, etc.)* Do you know how else your financial professional was compensated (commission on what they sell vs. salary and bonus)? Do you think how they were compensated affected the advice or services they provided?
Topic Type of Financial Professional	You may or may not be familiar with this already, but there are two general categories of professionals who help investors with investments: broker-dealers and investment advisers. How many of you know that there are these two categories of financial professionals? How many of you knew which category your previous financial advisor fell into?

	We have some definitions of these types of professionals, and want to get your feedback on them (*paper handout with same definitions as in survey, and give a few minutes to review*). ***A broker*** *is an individual or firm that charges a fee or commission for buying or selling securities (like stocks, bonds, or mutual funds) for investors.* *There are <u>different kinds of brokerage accounts</u> you can choose. You can choose an account where you research an investment yourself and just place orders with the broker, or you can choose an account where the broker makes recommendations to you. With both types of brokerage accounts, you approve each order to buy and sell investments in your account, and you are charged a fee each time you buy or sell an investment. This fee is not based on the value of assets in your account.* *A broker may give you some advice to help you decide what to buy or sell, but the broker <u>does not typically monitor</u> the performance of your account or offer investment advice on a regular basis.* ***An investment adviser*** *is an individual or firm that is in the business of giving advice about securities to clients. The adviser typically <u>monitors your account</u> and offers advice on a regular basis. The advice may include recommendations about specific investments to buy or sell, or it may be more general advice such as how to properly balance your portfolio between stocks and bonds.* *There are <u>two different kinds of advisory accounts</u> you can choose: an account where the adviser gives you recommendations and you make the final decision before securities are bought or sold, or an account where you give the adviser the discretion to buy or sell investments on your behalf without seeking prior approval. In either type of account, an adviser will charge you an on-going fee that is usually based on a percentage of the value of assets in your account.* *Sometimes, an investor may want a* ***one-time service*** *from an adviser, such as a written financial plan, and an adviser may charge a one-time fee for that type of service.* *A financial professional can be both a broker and an investment adviser, and a firm can be both a brokerage firm and an investment advisory firm.* Are these definitions helpful (or meaningful) to you? Do they help clarify the

	differences? Or not really? If you've heard of these two categories, does this pretty much match what you thought the differences are? Or is this pretty new information? These statements are based on formal legal definitions. As a practical matter, how much do you think it matters which one you go to?
Topic Standards of Conduct	Did your financial professional ever disclose any conflicts of interest that he or she may have had? An example might be disclosing that they will receive compensation or incentive for recommending one product over another. If so, how often and how did those conversations go? How did you react to this information? What questions did you have? To what extent, if at all, did the disclosures ease any concerns you had? Do you think learning about conflicts of interest changed the choices you made? How? We're now going to talk about what you think it means if a financial professional is required to act in your "best interest". We're passing out a sheet that list some activities carried out by a financial professional. Please spend a few minutes reading those and then we will discuss them as a group **Moderator – when discussing the activities, probe whether participants believe each activity is merely "adequate" for acting in their best interest or whether the activity is "appropriate".** *What are your thoughts on whether the following activities carried out by a financial professional would constitute as acting in your best interest? Please review the list of activities and we'll discuss as a group.* • *continuously monitor my account.* • *help me choose the lowest cost products, all other things being equal.* • *recommend securities that are merely adequate for me based upon some of my personal circumstances, even if there are other investments that would be better for me.* • *disclose payments that he/she receives that may influence him/her to advise me to buy one product over another that might be a better choice for me.* • *avoid taking higher compensation for selling me one product when a*

	similar but less costly product is available • *avoid selling me any investment that may cause me to lose money.* • *only get paid if I make money on the investments that were recommended to me.* • *take into account my personal financial situation, goals, and personal characteristics before recommending investments that are in my best interest.* Do you think your financial professional looked out for your best interest when he/she made a recommendation? (Probe: Who's interest did they look out for? How might that have impacted the recommendations you received?) Would you seek financial advice from a professional who isn't **required** to act in your best interest? • in other words, is whether or not he/she is required to act in your best interest a dealbreaker for you? If it would be a dealbreaker, is no advice better than advice from someone who is not required to act in your best interest? • For those of you who would still consider going to a financial professional who isn't required to act in your best interest, what are some features, or characteristics that the financial professional could have that would make you feel comfortable going to someone without such a requirement? • Would you have more trust in a financial professional who is required to act in your best interest, than in a financial professional who isn't required? • How do you think the quality of advice differs? • Would you be willing to pay more to go to a professional **who is required** to act in your best interest? Some financial professionals receive commissions from both the creator of the product and from you for selling certain types of products (e.g. a mutual fund). The out-of-pocket costs may be lower but it may be more expensive in the long run and it may not be a great product for you. Other financial professionals receive their compensation directly from you so are not incentivized to sell you a particular product. • Would you be willing to go to someone who receives compensation from someone other than you? or do you consider that a dealbreaker? • If it would be a dealbreaker, is no advice better than advice that comes from a professional who get outside compensation for advising you? • Would you have more trust in a financial professional who receives their compensation directly from you and no outside compensation?

<table>
<tr><td></td><td>

How do you think the quality of advice differs?
Would you be willing to pay more for a financial professional who receives all of her compensation directly from you?

Some financial professionals are required to monitor your account to ensure your investments continue to meet your needs as conditions change. Other financial professionals have no responsibility after completing the sale.

First, is whether or not the financial professional is required to monitor your account a dealbreaker for you?
If not, how would you monitor your account?
Do you think advice from a financial professional who is required to monitor your account is higher quality than advice from a professional who isn’t required to monitor your account?
Would you be willing to pay more for a financial professional that was required to monitor your account on an ongoing basis?

Some financial professionals have the ability to provide recommendations for a broad range of investment products. Other financial professionals may be limited to making their recommendations to investments created by their own firms or a limited range of products.

First, is whether or not the financial professional can offer you a broad range of products a dealbreaker for you?
If not, what other criteria would make you still willing to work with the professional that offered a limited set of products?
Do you think advice from a financial professional who can make recommendations on a broad range of products is higher quality than advice from a professional who is limited in making recommendations?
Would you be willing to pay more to go to a financial professional that could offer you a broad range of products?

</td></tr>
<tr><td>Thank you
(1 min)</td><td>
Is there anything else that you think I should know about your interactions with financial professionals?
That’s the end of my questions. Thanks very much for taking part in this discussion today; it was very helpful to us.
</td></tr>
</table>

Appendix 7. Focus Group Handout 1

Definitions

A broker is an individual or firm that charges a fee or commission for buying or selling securities (like stocks, bonds, or mutual funds) for investors.

There are different kinds of brokerage accounts you can choose. You can choose an account where you research an investment yourself and just place orders with the broker, or you can choose an account where the broker makes recommendations to you. With both types of brokerage accounts, you approve each order to buy and sell investments in your account, and you are charged a fee each time you buy or sell an investment. This fee is not based on the value of assets in your account.

A broker may give you some advice to help you decide what to buy or sell, but the broker does not typically monitor the performance of your account or offer investment advice on a regular basis.

An investment adviser is an individual or firm that is in the business of giving advice about securities to clients. The adviser typically monitors your account and offers advice on a regular basis. The advice may include recommendations about specific investments to buy or sell, or it may be more general advice such as how to properly balance your portfolio between stocks and bonds.

There are two different kinds of advisory accounts you can choose: an account where the adviser gives you recommendations and you make the final decision before securities are bought or sold, or an account where you give the adviser the discretion to buy or sell investments on your behalf without seeking prior approval. In either type of account, an adviser will charge you an on-going fee that is usually based on a percentage of the value of assets in your account.

Sometimes, an investor may want a **one-time service** from an adviser, such as a written financial plan, and an adviser may charge a one-time fee for that type of service.

A financial professional can be both a broker and an investment adviser, and a firm can be both a brokerage firm and an investment advisory firm.

Appendix 8. Focus Group Handout 2

What are your thoughts on whether the following activities carried out by a financial professional would constitute as acting in your best interest? *Please review the list of activities and we'll discuss as a group.*

- continuously monitor my account.
- help me choose the lowest cost products, all other things being equal.
- recommend securities that are merely adequate for me based upon some of my personal circumstances, even if there are other investments that would be better for me.
- disclose payments that he/she receives that may influence him/her to advise me to buy one product over another that might be a better choice for me.
- avoid taking higher compensation for selling me one product when a similar but less costly product is available
- avoid selling me any investment that may cause me to lose money.
- only get paid if I make money on the investments that were recommended to me.
- take into account my personal financial situation, goals, and personal characteristics before recommending investments that are in my best interest.

Appendix 9. Reported Factors for Use and Non-Use of Professionals: Example Responses

Factor	**Example Responses**
Characteristics of Professional	
Portfolio return	• Positive: "I am pleased with the performance in all types of markets" • Negative: "I did not make any money by using those financial advisors in the past. I only lost money"
Service quality and personalization	• Positive: "felt it was more personalized experience with someone I could get to know" • Negative: "Realized that the broker didn't necessarily give the best advice for me"
Available service offerings or product offerings	• Positive: "He provides broad services, including overall planning" • Negative: "Some don't sell annuities"
Available service offerings through employer	• Positive: "My company offered their services" • Negative: "I'm not working at the job where one was offered"
Professional acts in best interest of client	• Positive: "I felt this one had my best interests at heart" • Negative: "I felt that they were taking advantage of me and not revealing their actual costs."
Professional's services are recommended	• Positive: "I used one recommended to me by my father" • Negative: "I want a trustworthy person someone has used"
Financial Factors	
Expense of using professional	• "Can't pay what they charge" • "Waste of money"
Available money to invest	• "I do not have money to invest" • "Never had disposable income that warranted hiring a professional"
Logistical Factors	
Change in professional's availability	• "My former planner moved to Australia" • "Moved to a different town"
Proximity, time, convenience, knowing how to start	• "I just have not taken the time to set up an appointment with one" • "Chase because it is close to my home"
Need Factors	
Investing advice is not needed or relevant	• "I guess because I'm retired now" • "Do not care if I make a lot of money. Just want to protect what I have"
Use of other sources of information or manage own finances	• "There are tons of articles and diy financial books and magazines" • "I ask my brother and dad or friends"

Factors Related to Use of One or Multiple Professionals	
Simplicity of having one account or fewer people involved	• “Too many cooks in the kitchen, so to speak. Wanted to streamline and consolidate my investments” • “so that I don’t have to talk to different ppl and get different answers, we want to get a Single POC”
Work with different professionals at same firm	• “they are working as a team” • “different ones come to work”
Diversification or value of having multiple perspectives	• “Getting more than one opinion” • “I didn’t want to have everything in one place but wanted to spread my finances around”
Ownership of multiple accounts	• “I have investments through several firms” • “I have an IRA with one firm and a non retirement account with a second company”
Other	
No experience with professionals	• “I have no experience” • “never had one”
Limited experience with professionals	• “Recently just started using one for the first time” • “many years ago, when open account.”
Non-responsive	• “Don’t know” • “No comment”

Note. The categories of no experience and limited experience with professionals were only applicable to respondents who selected “none of the above” to characterize their experience with professionals.

Technical Appendix

ALP Sample

The RAND American Life Panel ("ALP") is a probability sample–based panel of almost 3,400 active, regularly interviewed respondents, ages 18 and older, linked via the Internet. A team at the RAND Corporation built and maintains the panel. ALP participants were recruited from multiple, representative probability samples of the U.S. population, as well as nonprobability samples. The sample analyzed in the present analysis is restricted to those participants who were recruited via probability sampling methods. In particular, these ALP participants were recruited (1) from samples of respondents to the University of Michigan monthly Survey of Consumers (35% of active ALP participants in February 2018); (2) from participants in the Face-to-Face Recruited Internet Survey Platform panel, a National Science Foundation–funded panel conducted by researchers at Stanford University and Abt SRBI (10%); (3) as part of a supplemental cohort drawn from "vulnerable groups" and minorities, known as the "Vulnerable Population Cohort" (34%); and (4) via random-digit dialing through a subcontract with ORC International (21%). See Pollard and Baird (2017) for more details.

Survey weights

As with all ALP surveys, weights are generated to allow for the generalization of sample statistics to the population it intends to represent—i.e., households in the United States with at least one household member who is age 25 or older. The goal of the weighting is to ensure that the set of survey respondents, when weighted, matches known national benchmarks across a variety of individual-level characteristics (which primarily include demographic-type characteristics). Use of weighted sample statistics to generalize to the intended population of interest implicitly assumes that all differences between the nation as a whole and the panel can be explained using these characteristics and the estimated models of survey response.

Due to unique facets of the present survey, alterations to the standard weighting scheme for ALP surveys were required. Every active panelist who participated in 2007 survey described in Hung et al. (2008) was sampled for the SEC survey, whereas a subset of the remaining active panelists was sampled. Survey weights are required that incorporate this sampling scheme. Final weights for the SEC survey were calculated as the product of three separate weights: 1) Panel weight; 2) Sampling weight; 3) Non-response weight. The derivation of each of these three weights is described below.

Panel weights

To begin, we assign a weight to each active member of the ALP as of February 2018 so that the active ALP is representative of the population of interest. These weights are derived using the standard algorithm for ALP weighting. This procedure is described below.

The benchmark distributions against which RAND ALP is weighted are derived from the Current Population Survey (CPS) Annual Social and Economic Supplement (administered in March of each year). This choice follows common practice in other social science surveys, such as the Health and Retirement Study.

Three weighting methods have been implemented for the ALP: cell-based post stratification, logistic regression, and raking. After experimentation over time, raking was found to give the best results among these different methods. It allows finer categorizations of variables of interest (in particular, age and income) than cell-based post-stratification does, while still matching benchmark distributions of such variables exactly.

The ALP weighting procedure consists of two steps. In the first one, individual demographics from the CPS were mapped onto those available in the ALP and selected weighting variables were recoded into strata (or categories). Such re-categorization, which applies to both CPS and ALP variables, was required particularly when weighting variables were continuous (e.g., income) or took values in a finite, but relatively large set (e.g., age). In the second step, the raking algorithm was implemented and sample weights were generated by searching for the set of weights that best matches the proportions of pre-defined strata in the ALP to those in the CPS. More precisely, the weighting algorithm was performed on the following set of two-way marginals:

- Gender ×Age
  with ten categories: (1) male, 18-32; (2) male, 33-43; (3) male, 44-54; (4) male, 55-64; (5) male, 65+; (6) female, 18-32; (7) female, 33-43; (8) female, 44-54; (9) female, 55-64; (10) female, 65+.
- Gender × Ethnicity
  with six categories: (1) male, non-Hispanic White; (2) male, non-Hispanic African American; (3) male, Hispanic or Other; (4) female, non-Hispanic White; (5) female, non-Hispanic African American; (6) female, Hispanic or Other.
- Gender × Education
  with six categories: (1) male, high school degree or less; (2) male, some college; (3) male, bachelor's degree or more; (4) female, high school degree or less; (5) female, some college; (6) female, bachelor's degree or more.
- Household Income × Number of Household Members
  with eight categories: (1) 1-2 members, <$30,000; (2) 1-2 members, $30,000-$59,999; (3) 1-2 members, $60,000-$99,999; (4) 1-2 members, $100,000+; (5) 3+ members, <$30,000; (6) 3+ members, $30,000-$59,000; (7) 3+ members, $60,000-$99,999; (8) 3+ members, $100,000+.

The above strata were defined such that none of them contains less than 5% of the ALP sample. This rule of thumb is commonly adopted in post-stratification weighting. It aims at preventing very small cell sizes and, therefore, extremely high weights.

Sampling Weights

To find sampling weights, we first determined the probability that each panelist was sampled (i.e., asked to take the SEC survey). At the time of survey administration, the ALP contained 3395 active panelists, of which 441 participated in 2007 survey. Therefore, each of these 441 participants were sampled for the present survey with probability 1. The remaining 2954 panelists were each sampled with probability 0.844 (yielding 2494 sampled panelists that did not participate in the 2007 survey). Each active panelist's sampling weights is set as the inverse of his or her respective sampling probabilities.

Non-response Weights

Not all of the 2935 panelists who were sampled responded to the survey. Among the 2007 survey participants, 374 responded (84.8% response rate); among the 2007 survey non-participants, 1840 (73.8% response rate). Furthermore, those who responded may be systematically different from those who did not. Since we know demographic characteristics (including those outlined above) for all sampled panelists, we can model the probability of response on such characteristics. This effectively determines the manners in which respondents differ from non-respondents.

The characteristics that were consider for use in modeling response propensities are as follows:

- Gender (2 categories)
- Age (Continuous)
- Marital status (five categories)
- Born in US (2 categories)
- Ethnicity (2 categories)
- Race (5 categories)
- Employment Status (seven categories)
- Highest Education (ordinal: 16 levels)
- Household size (Continuous)
- Family income (17 categories)

Using these characteristics, we estimated the probability of response for each sampled panelist. Weighted logistic regression was used (with a binary response indicator as the outcome and the panel weights as the weights). The Akaike information criterion was used to determine which covariates should be included in the response model (to avoid overfitting). It was not deemed necessary to consider interactions among the above variables in this process.

The process was repeated separately for sampled panelists who were participants in the 2007 survey and for those who were not. Gender, born in US, race, and family income were the characteristics that were found to be informative of response probabilities within the model for 2007 survey participants. In the 2007-survey non-participant model, age, employment status, and education were included.

Each sampled panelist's non-response weight is set as the inverse of his or her estimated response probability. Note that this effectively gives more weight to respondents who were found to be less likely to respond.

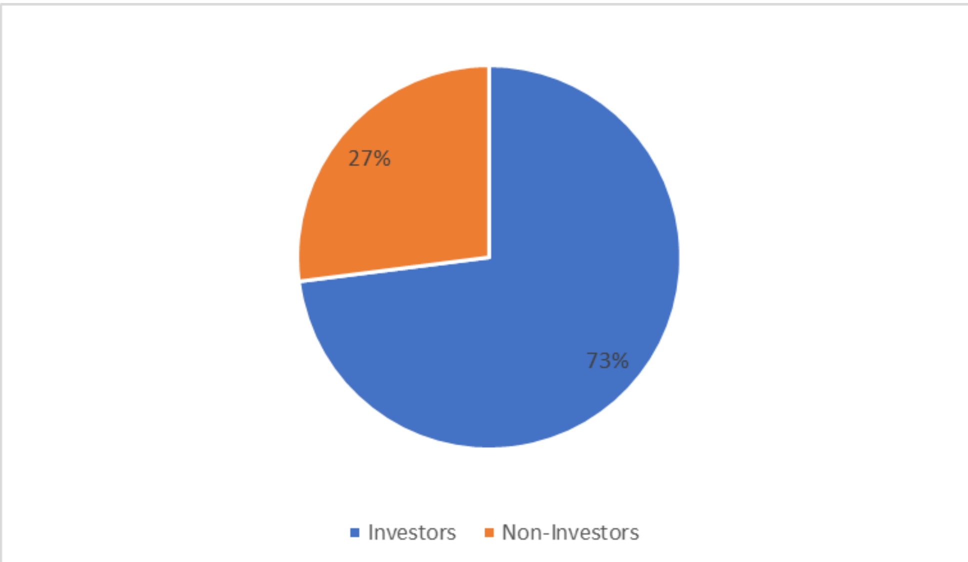
Final Weights

The final weight for each respondent to the present survey is set as the product of the respondent's panel weight, sampling weight, and non-response weight.

Supplemental Tables

The following tables are presented in the order in which the corresponding discussion appears in Chapter 4. Estimates of standard errors are presented for weighted statistics. In additional, details are provide to supplement the discussion of missing data in the analysis of investor types.

Figure 4.2: Investors vs. Non-investors



Note: Weighted percentages presented. N=1816.

- 73.0% investor (*standard error* *assuming inverse-probability weighting*=***1.7%***)
- 27.0% non-investor (*SE*=***1.7%***)

The standard error assuming simple random sampling (SRS) would instead be √(73%×27%)/1816= ***1.0%***.

Discussion: Lu and Gelman ("A Method for Estimating Design-based Sampling Variances for Surveys with Weighting, Poststratification, and Raking," *Journal of Official Statistics*, Vol.19, No.2, 2003. pp. 133–151) analyze variance estimation with survey data that use inverse-probability weighting, poststratification, and raking to correct for sampling design and nonresponse, which is similar to what we face here with ALP data. Lu and Gelman find that assuming SRS leads to *substantially underestimating* the sampling variance, while treating it just as inverse-probability weighting generates estimates that tend to be about 80-100 percent larger than assuming SRS but *slightly overestimates* the true variance.

For the remainder of this appendix, we estimate errors that assume inverse-probability weighting. For Table 4.2 below, we also present a comparison to standard errors on population proportion estimates that assume simple random sampling. There we see that the estimated differential between assuming SRS versus inverse-probability weighting is much larger for groups of respondents that tend to get large weights—e.g., investors with low income or education levels—and tends to be smaller for groups that tend to get smaller weights—e.g., respondents who are over age 65 or retired.

Table 4.2: Demographic and Socioeconomic Background - Investors vs. Non-Investors

	noninvestor		investor	
	Estimate	***std. err.***	**Estimate**	***std. err.***
female(%)	60.7%	*3.6%*	47.5%	*2.3%*
Avg Age	48.2	*1.2*	49.6	*0.8*
Med Age	46	*2.0*	51	*1.4*
65+(%)	20.9%	*2.5%*	20.6%	*1.3%*
Age 25-54(%)	60.3%	*3.4%*	57.3%	*2.2%*
Income: <$25,000(%)	53.8%	*3.6%*	8.3%	*2.0%*
$25,000–$49,999(%)	29.2%	*3.2%*	21.1%	*2.0%*
$50,000–$74,999(%)	10.9%	*2.1%*	23.7%	*1.8%*
$75,000–$99,999(%)	2.3%	*0.9%*	12.1%	*1.4%*
$100,000 or more(%)	3.9%	*1.3%*	34.8%	*2.2%*
HS Degree or Less(%)	55.2%	*3.5%*	31.2%	*2.7%*
Some College (%)	30.6%	*3.1%*	27.1%	*1.8%*
Bachelor's Degree or More (%)	14.2%	*2.2%*	41.7%	*2.2%*
Employed (%)	41.2%	*3.7%*	71.0%	*2.0%*
Retired (%)	18.5%	*2.4%*	18.4%	*1.3%*
Num. HH members	2.37	*0.10*	2.24	*0.08*
N Obs	426		1390	
N Obs (wtd)	472		1278	

Note: weighted statistics presented.

Standard errors assuming Simple Random Sampling (SRS)				
		noninvestor		investor
	SRS SE	*ratio (compare to SE above)*	srs inv	*ratio (compare to SE above)*
female(%)	2.4%	1.52	1.3%	1.72
Avg Age				
Med Age				
65+(%)	2.0%	1.27	1.1%	1.20
Age 25-54(%)	2.4%	1.43	1.3%	1.66
Income: <$25,000(%)	2.4%	1.49	0.7%	2.70
$25,000-$49,999(%)	2.2%	1.45	1.1%	1.83
$50,000-$74,999(%)	1.5%	1.39	1.1%	1.58
$75,000-$99,999(%)	0.7%	1.25	0.9%	1.59
$100,000 or more(%)	0.9%	1.39	1.3%	1.72
HS Degree or Less(%)	2.4%	1.45	1.2%	2.17
Some College (%)	2.2%	1.39	1.2%	1.51
Bachelor's Degree or More (%)	1.7%	1.30	1.3%	1.66
Employed (%)	2.4%	1.55	1.2%	1.64
Retired (%)	1.9%	1.28	1.0%	1.25
Num. HH members				
N Obs	426		1390	
N Obs (wtd)				

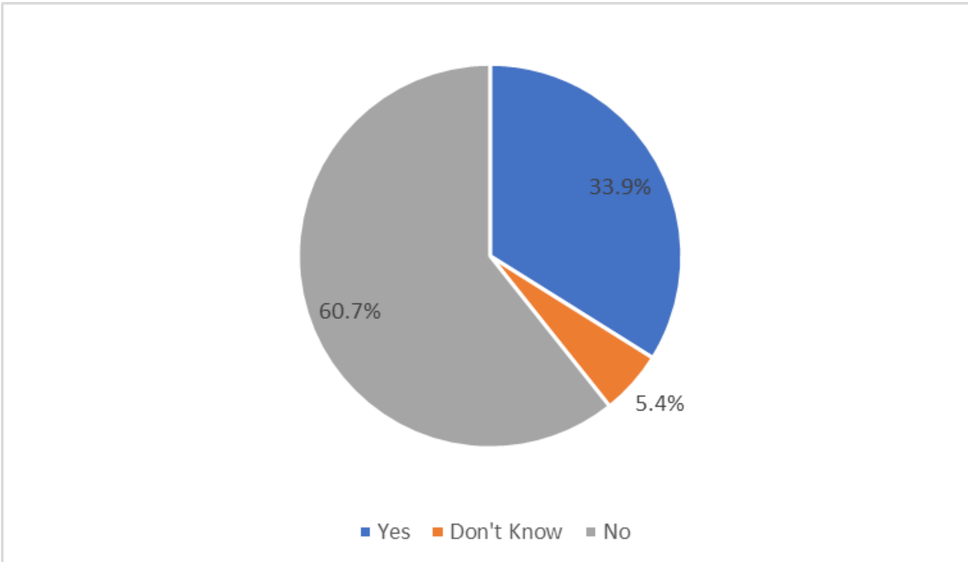
Table 4.3: Household Accounts and Asset Holdings

Type of Account	% of Investors Who Hold This Type of Account	% of Accounts That Hold the Following Assets		
		Asset	Estimate	*std. err.*
401(k)	79.3% *(1.8%)*	funds	58.6%	*2.7%*
		stock	36.4%	*2.7%*
		bonds	21.2%	*2.5%*
		derivatives	6.4%	*2.1%*
		annuities	14.9%	*1.7%*
IRA	46.3% *(2.3%)*	funds	68.7%	*2.8%*
		stock	43.4%	*2.8%*
		bonds	22.0%	*2.2%*
		derivatives	3.1%	*0.8%*
		annuities	17.4%	*2.1%*
529		funds	56.1%	*7.7%*

	11.8% *(1.6%)*	stock	28.8%	*8.6%*
		bonds	14.4%	*4.5%*
		derivatives	15.4%	*8.9%*
		annuities	9.6%	*3.2%*
Other (incl. brokerage and advisory accounts	34.8% *(2.1%)*	funds	62.6%	*3.6%*
		stock	57.1%	*3.5%*
		bonds	22.0%	*2.4%*
		derivatives	5.9%	*5.9%*
		annuities	17.2%	*2.0%*
Outside an account	16.5% *(1.7%)*	funds	2.5%	*0.5%*
		stock	6.8%	*0.9%*
		bonds	4.1%	*0.8%*
		derivatives	1.4%	*0.9%*
		annuities	2.4%	*0.4%*

Note: Investors are respondents who identified their household as owning at least one type of investment account or owning at least one type of investment asset. Weighted percentages presented. N=1390. Missings (i.e., skips) are excluded from the calculations.

Figure 4.2: Self-reported ownership of other retirement accounts (primarily IRAs)



Note: Weighted percentages presented. N=1816

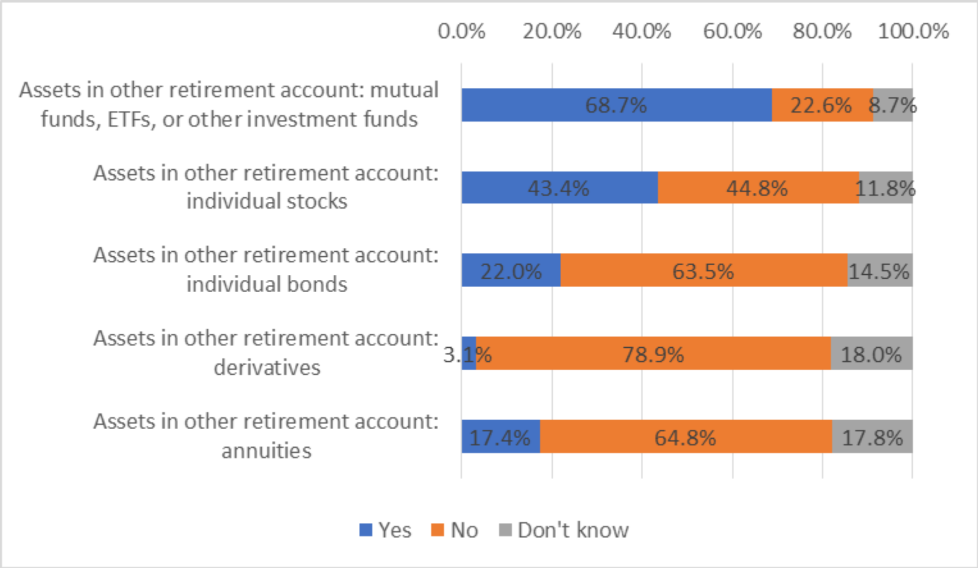
- Yes: 33.9% (1.7%)
- No: 60.7% (1.9%)
- DK: 5.4% (1.0%)

Table 4.4: Demographic and Socioeconomic Background - Investors vs. IRA Owners

	Investor		IRA Owner	
	Estimate	*std. err.*	Estimate	*std. err.*
female(%)	47.5%	*2.3%*	48.5%	*0.3%*
Avg Age	49.6	*0.8*	54.2	*1.0*
Med Age	51	*1.4*	56	*1.3*
65+(%)	20.6%	*1.3%*	29.3%	*2.1%*
Age 25-54(%)	57.3%	*2.2%*	45.5%	*2.9%*
Income: <$25,000(%)	8.3%	*2.0%*	4.4%	*1.0%*
$25,000–$49,999(%)	21.1%	*2.0%*	14.2%	*1.6%*
$50,000–$74,999(%)	23.7%	*1.8%*	22.7%	*2.4%*
$75,000–$99,999(%)	12.2%	*1.4%*	13.5%	*1.9%*
$100,000 or more(%)	34.7%	*2.2%*	45.1%	*2.8%*
HS Degree or Less(%)	31.2%	*2.7%*	21.2%	*3.0%*
Some College (%)	27.1%	*1.8%*	22.9%	*2.1%*
Bachelor's Degree or More (%)	41.7%	*2.2%*	55.9%	*2.9%*
Employed (%)	71.0%	*2.0%*	67.4%	*2.3%*
Retired (%)	18.4%	*1.3%*	27.4%	*2.1%*
Num. HH members	2.2	*0.08*	1.9	*0.08*
N Obs	1390		802	
N Obs (wtd)	1278		592	

Note: weighted percentages presented.

Figure 4.3: Asset ownership in other retirement accounts by asset type



Mutual Funds, ETFs, other Investment Funds

- Yes: 68.7% (2.8%)
- No: 22.6% (2.6%)
- DK: 8.7% (1.6%)

Individual Stocks

- Yes: 43.4% (2.8%)
- No: 44.8% (2.8%)
- DK: 11.8% (2.1%)

Individual Bonds

- Yes: 22.0% (2.2%)
- No: 63.5% (2.7%)
- DK: 14.5% (2.2%)

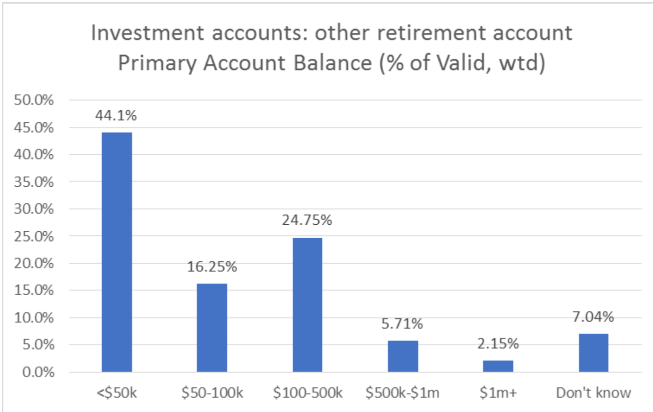
Derivatives

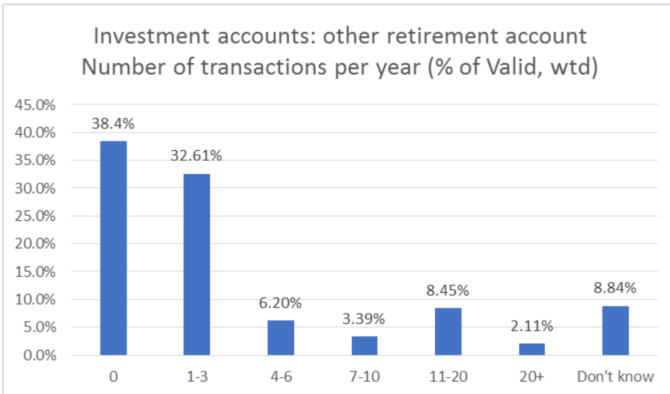
- Yes: 3.1% (0.8%)
- No: 78.9% (2.2%)
- DK: 18.0& (2.1%)

Annuities

- Yes: 17.4% (2.1%)
- No: 64.8% (2.8%)
- DK: 17.8% (2.4%)

Figure 4.4: Other retirement accounts balances and transactions





Note: Weighted percentages presented. N=802. Missings (i.e., skips) are excluded from the calculations.

Primary Account Balance

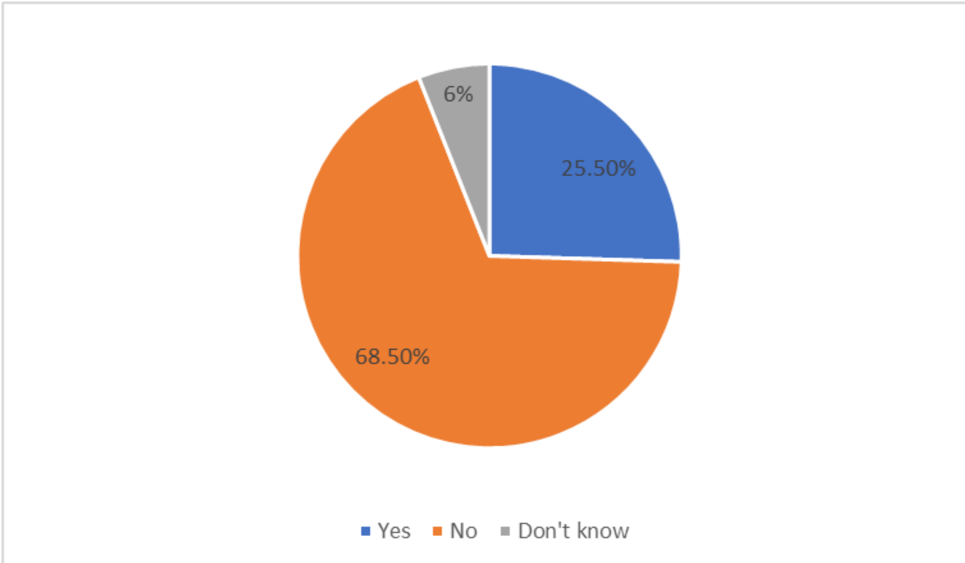
- <$50k: 44.1% (2.8%)
- $50-100k: 16.3% (1.8%)
- $100-500k: 24.8% (2.3%)
- $500k-$1m: 5.7% (0.9%)
- $1m+: 2.2% (0.5%)
- DK: 7.0% (1.6%)

Number of Transactions

- 0: 38.4% (2.7%)
- 1-3: 32.6% (2.6%)
- 4-6: 6.2% (1.0%)
- 7-10: 3.4% (1.1%)
- 11-20: 8.5% (1.5%)
- 20+: 2.1% (0.6%)

DK: 8.8% (1.6%)

Figure 4.5: Self-reported ownership of other investment accounts (including brokerage and advisory accounts)



Note: Weighted percentages presented. N=1816

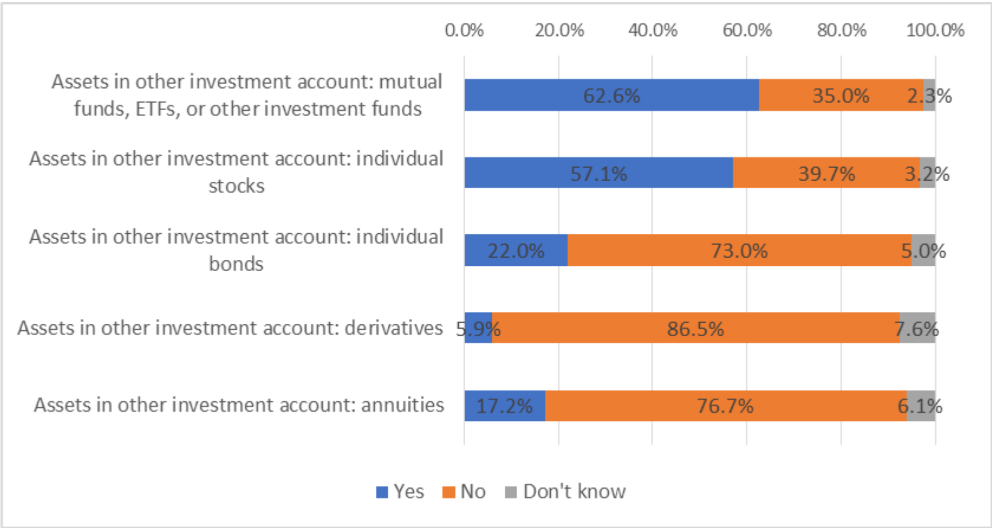
- Yes: 25.5% (1.6%)
- No: 68.5% (1.8%)
- DK: 6.0% (1.0%)

Table 4.5: Demographic and Socioeconomic Background - Investors vs. Other Investment Account Owners

	Investor		Other owner	
	Estimate	*std. err.*	Estimate	*std. err.*
female(%)	47.5%	*0.3%*	42.9%	*3.2%*
Avg Age	49.6	*1.0*	54.9	*1.4*
Med Age	51	*1.3*	58	*1.6*
65+(%)	20.6%	*2.1%*	33.4%	*2.6%*
Age 25-54(%)	57.3%	*2.9%*	42.9%	*3.7%*
Income: <$25,000(%)	8.3%	*1.0%*	6.3%	*1.8%*
$25,000–$49,999(%)	21.1%	*1.6%*	14.4%	*3.1%*
$50,000–$74,999(%)	23.7%	*2.4%*	19.2%	*2.4%*
$75,000–$99,999(%)	12.2%	*1.9%*	13.4%	*2.3%*
$100,000 or more(%)	34.7%	*2.8%*	46.7%	*3.3%*
HS Degree or Less(%)	31.2%	*3.0%*	21.2%	*4.0%*
Some College (%)	27.1%	*2.1%*	22.2%	*2.3%*
Bachelor's Degree or More (%)	41.7%	*2.9%*	56.6%	*3.5%*
Employed (%)	71.0%	*2.3%*	58.3%	*3.4%*
Retired (%)	18.4%	*2.1%*	30.2%	*2.5%*
Num. HH members	2.2	*0.08*	1.8	*0.08*
N Obs	1390		599	
N Obs (wtd)	1278		455	

Note: weighted percentages presented.

Fig 4.6 – Assets held in other investment accounts (including brokerage and advisory accounts)



Note: Weighted percentages presented. N=599. Missings (i.e., skips) are excluded from the calculations.

Mutual Funds, ETFs, other Investment Funds

- Yes: 62.6% (3.6%)
- No: 35.0% (3.6%)
- DK: 2.3% (0.6%)

Individual Stocks

- Yes: 57.1% (3.5%)
- No: 39.7% (3.6%)
- DK: 3.2% (0.9%)

Individual Bonds

- Yes: 22.0% (2.4%)
- No: 73.0% (2.6%)
- DK: 5.0% (1.2%)

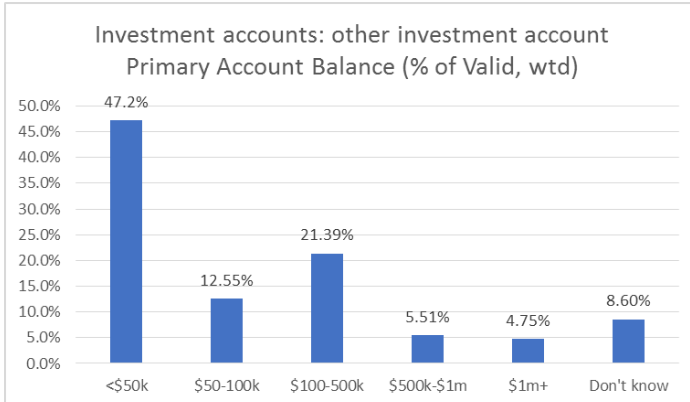
Derivatives

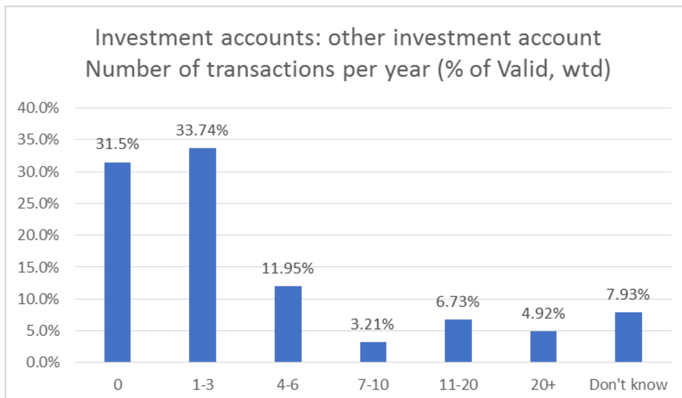
- Yes: 5.9% (1.4%)
- No: 86.5% (2.0%)
- DK: 7.6% (1.4%)

Annuities

- Yes: 17.2% (2.0%)
- No: 76.7% (2.3%)
- DK: 6.1% (1.3%)

Figure 4.7 – Other investment accounts (including Brokerage and Advisory accounts) balances and transactions





Note: Weighted percentages presented. N=599. Missings (i.e., skips) are excluded from the calculations.

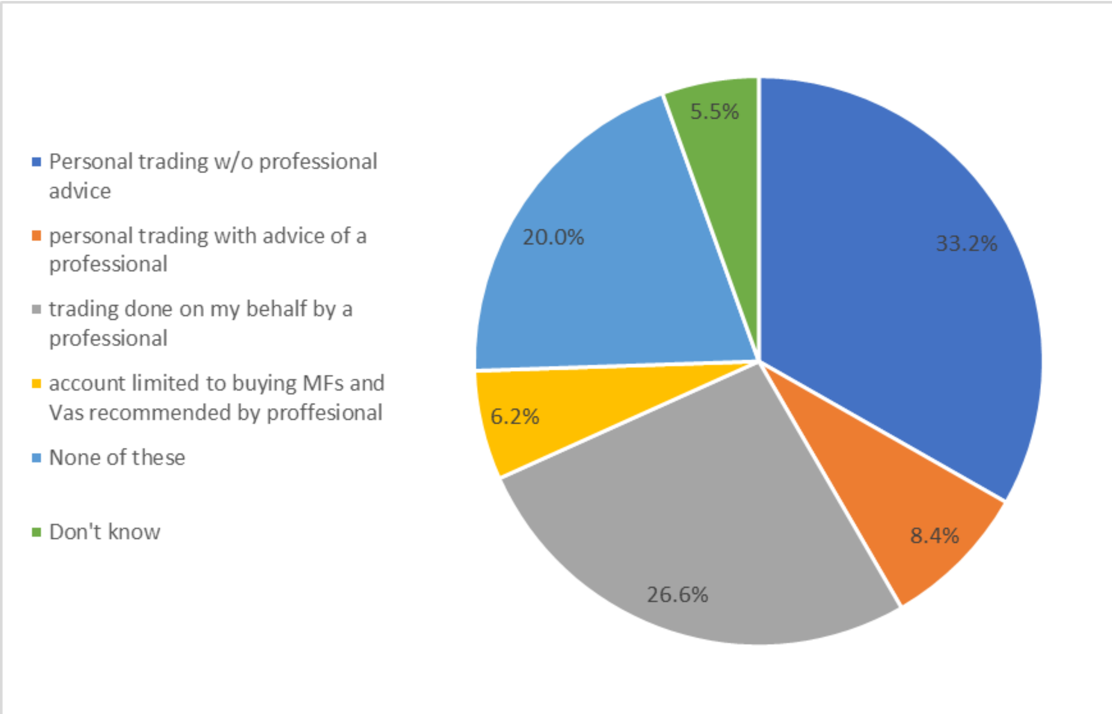
Primary Account Balance

- <$50k: 47.2% (3.4%)
- $50-100k: 12.6% (1.8%)
- $100-500k: 21.4% (2.3%)
- $500k-$1m: 5.5% (0.9%)
- $1m+: 4.8% (0.9%)
- DK: 8.6% (3.2%)

Number of Transactions

- 0: 31.5% (3.1%)
- 1-3: 33.7% (3.0%)
- 4-6: 12.0% (1.9%)
- 7-10: 3.2% (0.7%)
- 11-20: 6.7% (1.2%)
- 20+: 4.9% (1.4%)
- DK: 7.9% (3.1%)

Figure 4.8: Types of Other Investment Accounts



Note: Weighted percentages presented. N=599. Missings (i.e., skips) are excluded from the calculations.

- It's an account where I do personal trading without the advice of a professional: 33.2% (3.0%)
- It's an account where I do personal trading with the advice of a professional: 8.4% (1.7%)
- It's an account where trading is done on my behalf by a professional: 26.6% (2.6%)
- It's an account where I am limited to purchasing mutual funds and variable annuities recommended to me by a financial professional: 6.2% (1.6%)
- None of these describe my investment account: 20.0% (2.8%)
- Don't know: 5.5% (3.1%)

Table 4.6: Financial advice services: Investors only (currently using the service, past user of the service, never used the service).

INVESTORS	Currently		No, but in past		Never	
	Est.	*std err*	Est.	*std err*	Est.	*std err*
Recommendations about investment strategies	31.47%	*2.18%*	17.48%	*1.95%*	51.05%	*2.36%*
Recommendations about specific financial investment products	31.10%	*2.22%*	15.82%	*1.72%*	53.08%	*2.36%*
Recommendations about what types of investment accounts to open	32.64%	*2.32%*	15.75%	*1.58%*	51.61%	*2.36%*
Household financial planning	13.01%	*2.21%*	11.88%	*1.60%*	75.11%	*2.43%*
Financial planning for retirement	34.24%	*2.36%*	15.37%	*1.68%*	50.39%	*2.36%*
Financial planning for educational expenses	13.14%	*2.03%*	10.40%	*1.56%*	76.45%	*2.32%*

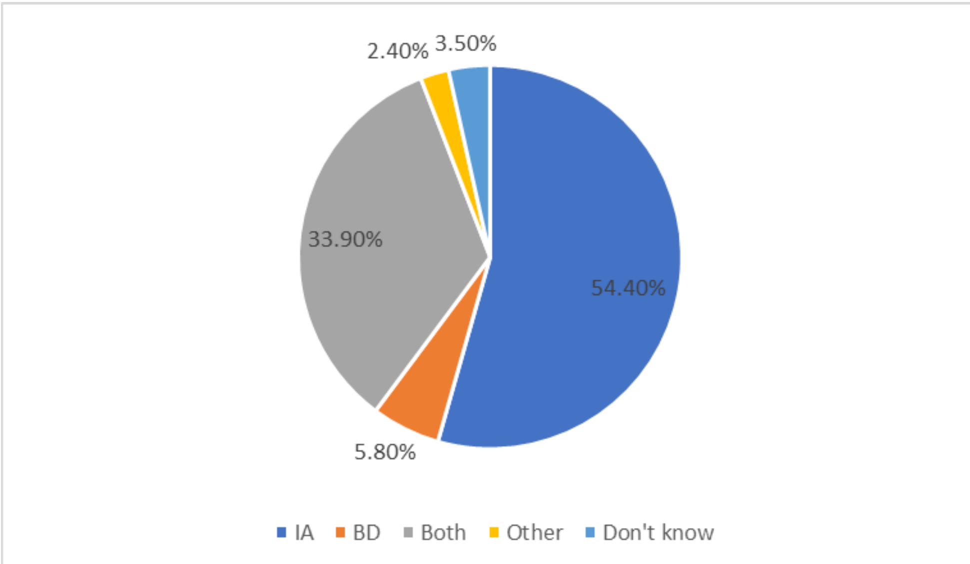
Note: Investors are respondents who identified their household as owning at least one type of investment account and/or owning at least one type of investment asset. Weighted percentages presented. N=1390. Missings (i.e., skips) are excluded from the calculations

Table 4.7: Demographic Characteristics of financial advice users.

	Investor		investor, never FP		Current FP		Only Past FP (any)	
	Estimate	*std. err.*	Estimate	*std. err.*	Estimate	*std. err.*	Estimate	*std. err.*
female(%)	47.5%	*3.2%*	46.8%	*3.5%*	46.6%	*3.7%*	52.5%	*4.0%*
Avg Age	49.6	*1.4*	46.1	*1.1*	50.7	*1.5*	55.9	*1.2*
Med Age	51	*1.6*	44	*2.3*	53	*2.2*	56	*1.6*
65+(%)	20.6%	*2.6%*	14.1%	*2.0%*	23.9%	*2.2%*	31.9%	*3.3%*
Age 25-54(%)	57.3%	*3.7%*	67.3%	*3.0%*	51.7%	*3.7%*	44.0%	*4.1%*
Income: <$25,000(%)	8.3%	*1.8%*	4.8%	*0.9%*	13.7%	*4.0%*	17.5%	*2.8%*
$25,000-$49,999(%)	21.1%	*3.1%*	23.1%	*3.2%*	18.3%	*3.2%*	27.4%	*3.6%*
$50,000-$74,999(%)	23.7%	*2.4%*	27.7%	*3.1%*	19.3%	*2.5%*	21.6%	*3.3%*
$75,000-$99,999(%)	12.2%	*2.3%*	13.7%	*2.7%*	10.6%	*1.7%*	9.5%	*1.9%*
$100,000 or more(%)	34.7%	*3.3%*	30.8%	*3.3%*	38.0%	*3.4%*	24.1%	*3.7%*
HS Degree or Less(%)	31.2%	*4.0%*	27.2%	*3.7%*	35.3%	*4.4%*	35.2%	*4.5%*
Some College (%)	27.1%	*2.3%*	31.2%	*3.0%*	24.7%	*2.6%*	28.0%	*3.0%*
Bachelor’s Degree or More (%)	41.7%	*3.5%*	41.6%	*3.5%*	40.0%	*3.3%*	36.8%	*3.4%*
Employed (%)	71.0%	*3.4%*	80.1%	*2.4%*	64.8%	*3.6%*	52.7%	*3.9%*
Retired (%)	18.4%	*2.5%*	12.2%	*1.9%*	21.3%	*2.1%*	28.4%	*3.2%*
Num. HH members	2.2	*0.08*	2.4	*0.1*	2.0	*0.1*	2.3	*0.2*
N Obs	1390		478		664		358	
N Obs (wtd)	1278		498		600		276	

Notes: Weighted statistics presented. By column (1) all investors; (2) investor, never used advice; (3) investor, current advice user. Advice-user defined as user of any one of the six advice categories (Recommendations about investment strategies, Recommendations about specific financial investment products, Recommendations about what types of investment accounts to open, Household financial planning, Financial planning for retirement, Financial planning for educational expenses)

Fig 4.9 – Self-reported type (type of individual financial professional that is primary provider of investment recommendations).



Note: Weighted percentages presented. N=501.

- IA: 54.4% (4.1%)
- BD: 5.8% (2.6%)
- Both (Dual): 33.9% (4.1%)
- Other: 2.4% (0.7%)
- DK: 3.5% (0.9%)

Investor Type Based on Registration Status of Named Advisor - Estimates that Account for Missing Data on Registration Status

To assess the extent to which missing data may affect potential conclusions regarding verified types, we considered possible assumptions on registration status of the individual professionals whose names were not reported. As detailed in Table 4.11, current registration status data were obtained for 283 named advisors (19 BD, 18 IA, 245 Dual, 1 in database but not currently registered). Another 68 named advisors were not found in the registration database. Another 150 advisors were not named—that is, 30% of the 501 respondents with individual advisors. Here we consider three alternative assumptions on the distribution of advisor types among the 150 professionals whose names were not reported by the survey respondent/client.

Assumption 1: The registration status of unnamed advisors mirrors that of named advisors (i.e., missing completely at random)

Result: The distribution of advisor types reported in Fig. 4.10 applies to full sample of 501 respondents with individual advisors.

BD	5.4%
IA	5.1%
Dual	69.8%
No current registration	0.3%
Not in registration database	19.4%

Assumption 2: The registration status of unnamed advisors is either BD or IA or Dual.

Result: This assumption generates bounds on the proportion that are BD or IA or Dual. The proportion that are BD, IA, or Dual are each interval-identified under this assumption. This interval has a width of 30 percentage points.

	Lower Bound	Upper Bound
BD	3.8%	33.7%
IA	3.6%	33.5%
Dual	48.9%	78.8%
No current registration	0.2%	0.2%
Not in registration database	13.6%	13.6%

Assumption 3: The registration status of unnamed advisors is the self-reported type or, if type is not self-reported, then it is either BD or IA or Dual.

Result: Of the 150 respondents with unnamed advisors, 135 reported that that advisor is BD (5), IA (75), or "Both" (Dual, 55). Thus, *under this assumption*, only 15 observations (or 3% of the 501 respondents) are still missing. This assumption therefore still generates bounds on the proportion that are BD or IA or Dual. The proportion that are BD, IA, or Dual are interval-identified under this assumption, but this interval has a width of just 3 percentage points.

	Lower Bound	Upper Bound
BD	4.8%	7.8%
IA	18.6%	21.6%
Dual	59.9%	62.9%
No current registration	0.2%	0.2%
Not in registration database	13.6%	13.6%

Table 4.12. Knowledge of the Roles of Financial Professionals

- Standard errors are presented below the estimates

Does the financial professional do the following? (choose all that apply)	IA	BDs	Financial Advisors or Financial Consultants	Financial Planners	None of These
Executes stock or fund transactions on the client's behalf	26%	58%	26%	17%	18%
	1.6	*2.0*	*1.5*	*1.5*	*1.6*
Recommends specific investments	68%	25%	53%	35%	15%
	1.9	*1.5*	*2.0*	*1.8*	*1.6*
Provides retirement planning	29%	7%	58%	71%	15%
	1.7	*0.8*	*2.0*	*1.8*	*1.6*
Provides general financial planning	27%	7%	63%	68%	13%
	1.8	*0.8*	*2.0*	*2.0*	*1.5*
Typically receives commission on purchases or trades the client makes	32%	76%	25%	16%	14%
	1.7	*1.8*	*1.5*	*1.3*	*1.5*
Is typically paid based on the amount of assets that the client holds	36%	43%	34%	21%	21%
	1.8	*2.0*	*1.7*	*1.6*	*1.6*

Table 4.13. Knowledge of the Roles of Financial Professionals: Subset Who Completed 2007 Survey (2007 / 2018 percentages)

- Standard errors are presented below the estimates

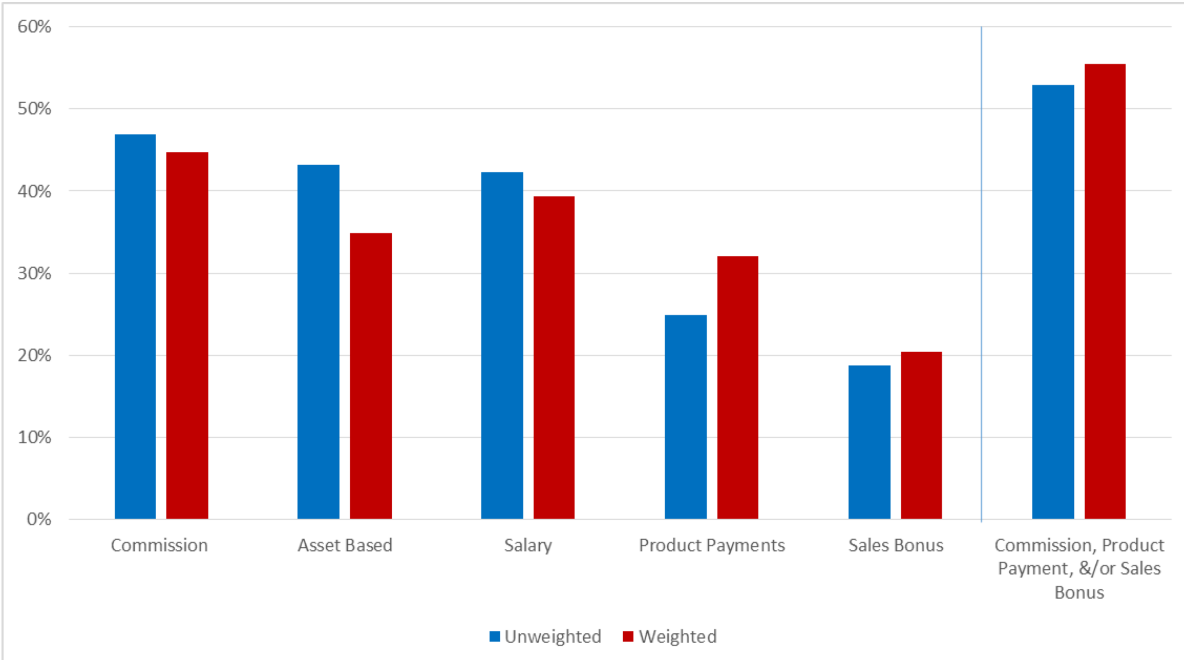
Does the financial professional do the following? (choose all that apply)	IAs	BDs	Financial Advisors or Financial Consultants	Financial Planners	None of These
Executes stock or fund transactions on the client's behalf	31 / 32	87 / 57	33 / 37	26 / 22	5 / 13
	3.9 / 3.6	*3.0 / 4.3*	*4.0 / 3.7*	*4.0 / 3.7*	*2.4 / 3.3*
Recommends specific investments	84 / 72	52 / 32	72 / 60	51 / 51	1 / 7
	3.0 / 4.3	*4.1 / 3.5*	*3.7 / 4.2*	*4.1 / 4.1*	*0.6 / 2.2*
Provides retirement planning	50 / 36	15 / 11	83 / 69	92 / 84	2 / 6
	4.1 / 3.9	*3.6 / 3.2*	*3.0 / 4.1*	*2.2 / 3.0*	*0.7 / 2.1*
Provides general financial planning	49 / 36	17 / 14	78 / 75	87 / 80	1 / 4
	4.1 / 4.1	*3.7 / 4.0*	*3.8 / 3.5*	*3.0 / 3.1*	*0.5 / 1.3*
Typically receives commission on purchases or trades the client makes	51 / 40	96 / 86	38 / 32	30 / 27	1 / 8
	4.0 / 4.2	*2.1 / 3.1*	*4.1 / 4.0*	*4.2 / 4.1*	*0.6 / 2.3*
Is typically paid based on the amount of assets that the client holds	51 / 42	40 / 44	49 / 41	35 / 26	12 / 15
	4.1 / 4.1	*3.9 / 4.2*	*4.1 / 4.0*	*4.0 / 3.7*	*2.7 / 2.6*

Table 4.14. Knowledge by Investor Type

- Standard errors are presented below the estimates

Does the financial professional do the following? (choose all that apply)	All, IA (n=1816)	Self-reported IA-type, IA (n=272)	Registered IA-type, IA (n=18)	All, BD (n=1816)	Self-reported BD-type, BD (n=24)	Registered BD-type, BD (n=19)
Executes stock or fund transactions on the client's behalf	26%	42%	52%	58%	93%	57%
	1.6	*4.6*	*12.8*	*2.0*	*4.5*	*18.7*
Recommends specific investments	68%	75%	92%	25%	43%	10%
	1.9	*4.3*	*5.5*	*1.5*	*21.1*	*5.4*
Provides retirement planning	29%	43%	36%	7%	31%	4%
	1.7	*4.7*	*12.1*	*0.8*	*17.2*	*3.2*
Provides general financial planning	27%	44%	28%	7%	30%	4%
	1.8	*4.7*	*10.6*	*0.8*	*17.0*	*3.2*
Typically receives commission on purchases or trades the client makes	32%	42%	60%	76%	37%	97%
	1.7	*4.7*	*12.4*	*1.8*	*18.2*	*3.2*
Is typically paid based on the amount of assets that the client holds	36%	52%	35%	43%	75%	54%
	1.8	*4.8*	*12.5*	*2.0*	*12.9*	*18.4*

Figure 4.11 Types of Compensation Received by Individual Financial Professionals or Firms



Note: n=574

Weighted Results

	Mean	Std. Err.
Commission	44.7%	3.9%
Asset Based Amount	34.8%	3.3%
Salary	39.3%	3.8%
Product Payments	32.0%	4.1%
Sales Bonus	20.5%	3.1%
Commission, Product Payment, &/or Sales Bonus	55.5%	4.1%

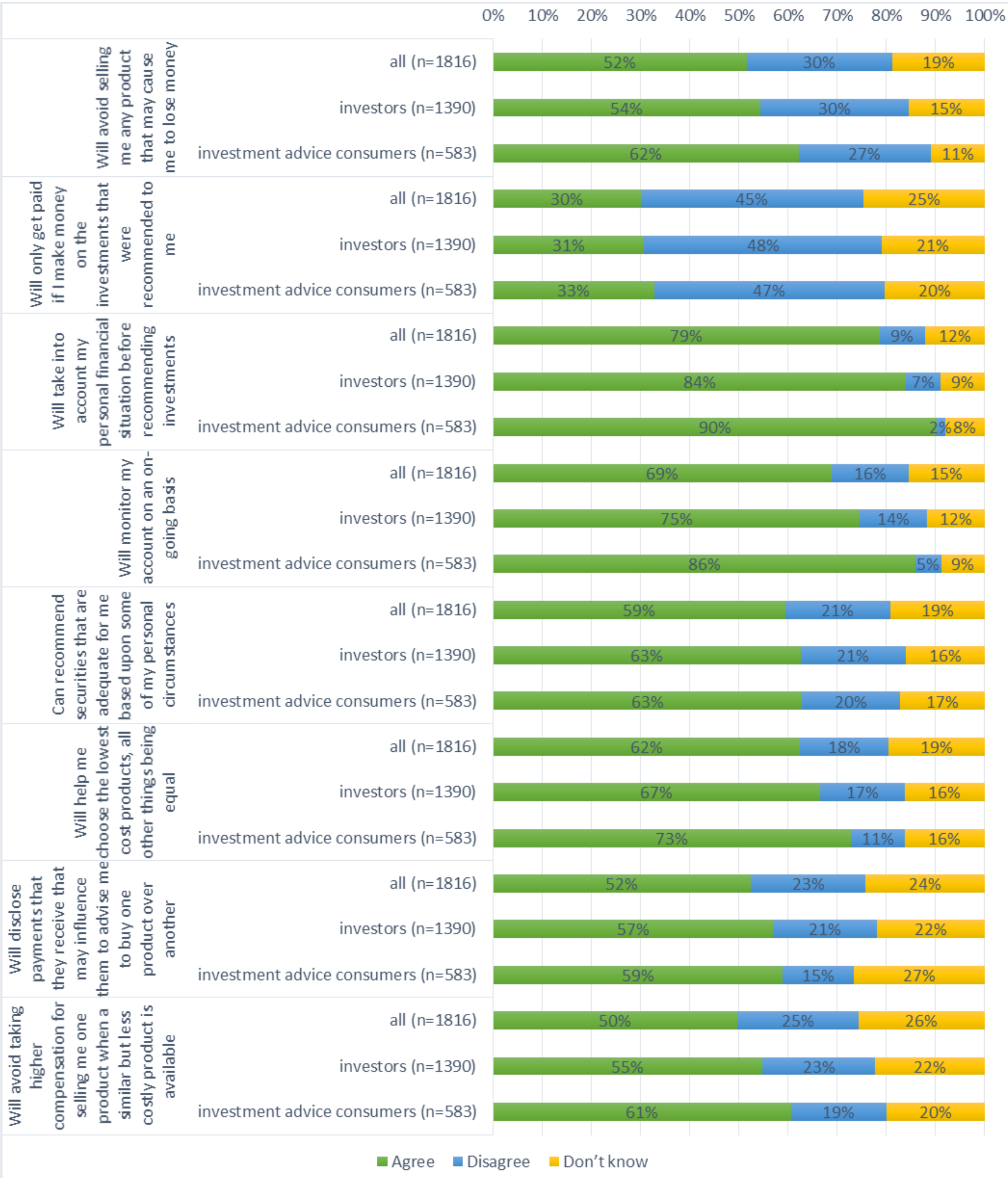
Table 4.16. Preferences Over Features of Financial Professionals

- Standard errors are presented below the estimates

How important would it be to you that your financial professional…	Not Important At All				Extremely Important
Receives all of their compensation from you directly	15%	7%	28%	21%	30%
	1.7%	*0.9%*	*1.7%*	*1.6%*	*1.8%*
Provides on-going monitoring of your account	5%	3%	17%	20%	55%
	1.0%	*0.5%*	*1.5%*	*1.4%*	*2.0%*
Offers recommendations on a broad range of investment products	5%	5%	21%	24%	46%
	1.0%	*1.1%*	*1.5%*	*1.5%*	*2.0%*

Note: N=1816, weighted percentages. Missings (*i.e.*, skips) are excluded from the calculations.

Figure 4.16: Best Interest Standard



Notes: weighted percentages presented. Investment advice consumers are investors who report receiving recommendations on investment strategies, products and/or accounts. Missings (i.e., skips) are excluded from calculations

- Standard errors are in parentheses.

All (N=1816) **Investors (N=1390)** **Advice Cons (N=583)**

- **Will avoid selling me any product that will cause me to lose money…**
  - **Yes** .5155 (.0199) .5428 (.0234) .6224 (.0394)
  - **No** .2962 (.0165) .3036 (.0197) .2675 (.0304)
  - **DK** .1883 (.0177) .1536 (.0199) .11 (.0355)

- **Will only get paid if I make money…**
  - **Yes** .2997 (.0191) .3073 (.0233) .3271 (.0416)
  - **No** .4531 (.0194) .4836 (.0234) .4692 (.0393)
  - **DK** .2473 (.0187) .2091 (.0215) .2037 (.0395)

- **Will take into account my personal financial situation…**
  - **Yes** .7875 (.0179) .8397 (.0199) .9028 (.0364)
  - **No** .0911 (.0111) .0709 (.0124) .0165 (.0055)
  - **DK** .1213 (.0158) .0893 (.017) .0807 (.0366)

- **Will monitor my account on an on-going basis…**
  - **Yes** .6886 (.0198) .7455 (.023) .8597 (.0363)
  - **No** .1574 (.0149) .1375 (.0174) .0527 (.0123)
  - **DK** .154 (.017) .117 (.0188) .0876 (.0359)

- **Can recommend securities that are adequate for me…**
  - **Yes** .5941 (.02) .6255 (.0239) .6288 (.0433)
  - **No** .2146 (.0145) .2141 (.0173) .1997 (.0254)
  - **DK** .1913 (.0193) .1604 (.0228) .1714 (.0472)

- **Will help me choose the lowest cost products…**
  - **Yes** .624 (.019) .6661 (.0217) .7277 (.0344)
  - **No** .1811 (.0139) .1712 (.0162) .1092 (.0186)
  - **DK** .1949 (.0166) .1626 (.018) .163 (.0319)

- **Will disclose payments that they receive that may influence them…**
  - **Yes** .5245 (.0201) .569 (.0242) .5879 (.0438)
  - **No** .234 (.0162) .212 (.018) .1469 (.0214)
  - **DK** .2416 (.02) .219 (.0241) .2651 (.0488)

- **Will avoid taking higher compensation for selling me one product…**
  - **Yes** .4968 (.0199) .5483 (.0235) .6057 (.0407)
  - **No** .247 (.0157) .2294 (.0182) .1949 (.0301)
  - **DK** .2562 (.0184) .2223 (.0211) .1994 (.0374)

TABLE 4.17: Cross tabulation of responses to Best Interest Means Financial Professional will Disclose Conflicts of Interest and Best Interest Means Financial Professional will Avoid Certain Payments

		Avoid		
		Yes	No	Don’t Know
Disclose	Yes	39.97%	7.52%	4.97%
	No	5.05%	14.51%	3.84%
	Don't Kno	4.65%	2.67%	16.81%

Note: weighted percentages presented. N=1816.

- Standard errors are presented here

1.9	0.9	0.7
1.0	1.2	0.9
1.3	0.7	1.7