



**Focus Group Testing
Plain English Documents**

Transcripts

April 2008

Prepared for:

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(Explanation of group purpose, confidentiality information, OMB info, etc., by moderator. Moderator comments are indicated by bold font.)

I do have a disclosure statement that I wanted to read you before we start and this is from the SEC. (Moderator reads the disclosure). And actually you'll see in the materials that some information has been redacted. So I did want to mention that before we start. Any other questions?

Let's go around the table and if you could please introduce yourselves, first name only. And tell us if you've ever been in a focus group before. Why don't we start over here.

My name is (name redacted) and I was in one focus group about ten or fifteen years ago.

My name is (name redacted) and I've not been in a focus group before today.

My name is (name redacted) and I've been in a number of focus groups.

(name redacted) and I've never been in a focus group.

And I'm (name redacted) and I have been in one, about ten years ago.

I'm (name redacted) and I've been in one about ten years ago.

But not the same one!

Not the same one!

I'm (name redacted), I've been in several but none related to investing.

My name is (name redacted) and this is my first one.

(name redacted), I've been in one and strangely enough it was probably sponsored by Schwab. They used offshore services, whether we find them less trustworthy or not.

Interesting. Let me begin by asking some questions related to deciding about the investments that you make. Once again go around the table but we'll start over here. In approximately how many companies do you own stock, outside of a 401K or an employer-sponsored retirement program?

Five mutual funds.

I don't own any mutual funds, it's all stocks.

In about how many companies do you own stocks?

Right now it's only two. It could change next week, it could be three.

Just myself, not my wife because we invest somewhat separately. I only own one.

How about you, (name redacted)?

I own two company stocks directly and probably about eight different mutual funds.

Three mutual funds, zero stock.

Three stock.

(name redacted)?

I have two companies; in one company I have both common and preferred.

Just one.

One stock and maybe ten mutual funds.

I'm sorry I didn't hear your question, but I also own mutual funds. About three.

Okay. What types of information do you look for when you do investment research about stocks or mutual funds or both?

I ask my wife.

Morningstar.

Yeah, I use Morningstar as well.

And (name redacted), do you know where your wife gets her information?

Her profession is as doing information research and all sorts of bibliographic and sociological and so she's very thorough about checking Morningstar and all the rest of them. And then I go through it with her and do my own venturing.

I'm also a member of the American Association of Independent Investors, AAIL, they have regular mutual fund surveys for purchase.

And do you get written materials from them?

Written material from them and online.

So you can go to their website and get information?

Usually that and an annual volume that comes with mutual funds and that's one place where I begin my research.

Sort of like "Consumer Reports" for investments? Okay. Any other sources of information about making investment decisions?

I just have a few friends. One who used to be a (inaudible) who is knowledgeable about those things.

Word-of-mouth.

One more thing. In the last 12 years or so I've belonged to this neighborhood investment club that functions like a mutual fund and we own 21 stocks, about 15 people there.

And you have meetings too and talk about it, or?

Yeah, about 8 or 10 a year.

(name redacted)?

I don't know whether it's been said before, "Coopers" to look at the companies. And particularly look at the risk and the social values of the company.

I also have a friend who is a technical writer for mutual funds organizations – Platinum and Fidelity and so on. And through him I get very good information, what I consider not 'tips', but good, solid information on which I base some of my investments and he never does.

(Moderator), I also do have a professional investment advisor I work with. He makes recommendations.

The club that we belong to is kind of based on the old days when the average person had insights that would be useful.

So, it sounds like we've heard of a variety of sources of investment information. I think (name redacted) touched on the fact that she looks for risk and social values. What types of information from these sources are you seeking?

The bottom line of the company.

Long-term strategies for me, because of my age.

Morningstar has a bunch of print ratings, I look at some of them but not all. The risk and the overall Star rating and the earnings for the last year or five years. Occasionally there's some

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special circumstance for different information, so based on my own hunches like going into a recession I would prefer companies that were rated high for bear markets. But mostly from Morningstar and Value Line I get my information.

Anything else?

I use Schwab and Fidelity Services to see what their take is.

And when you look at those sources, are you looking for a particular kind of information about companies or mutual funds?

It's more companies occasionally – this is for the club now. I get a perspective of how much debt they have and how to compare that to other companies in their industry; what their profit margins are and you know, the story.

With mutual funds, I carefully track the fees and other expenses when looking at the investment. Want to see the tenure of the investment manager and his track record relative to his peers. I also want to see how the sector weighting is looking and in particular how much un-invested capital they have.

So, that would be information you look at differently for a mutual fund investment decision as opposed to a stock decision.

Yes.

I look at "Consumer Reports" in March, too and see their recommended list. All my mutual funds are no-load, so.

All right. And (name redacted)?

I also check to make sure that if I'm doing individual equities that I don't have a number of them already in my mutual funds, my retirement funds. And the same thing – I make sure that the retirement funds don't overlap each other, although that's hard to do anymore. You know, obviously whether they're global or local or that kind of thing.

And (name redacted)?

It just seems to me it makes a lot of difference what your general financial situation is. Mine is – and I'm not asking anybody else for full disclosure, but we bought a house in the South End in the 1960's and so we have a hedge fund. And then I inherited some money awhile ago and that's in indexed mutual funds with Vanguard. And my wife and I have had savings over the years and we play with stocks with that. And it's trivial. The index funds are a little more significant but we always have the house to fall back on. So most of my investments are very risky – so-to-speak. Except for buying Apple at forty-four.

And I'm just the opposite. I'm the 'scardey-cat'.

Even those of us who used to be riskier, are a little more conservative now.

I should say that I'm just the total opposite because mine were all gifts, so I don't even look for information on them, I just have them.

So, the ones you've had for a long time, so you just – okay.

Yes.

I tend to pick some that are four or five star, Morningstar rated. And after I make the decision I don't move them much, you know.

I'm in the same boat as you, (name redacted). I got a gift and I've actually been trying to figure out where to move it 'to' because it's starting to look like not a good investment. And what I look for is something novel or interesting that piques my interest. So, companies that are going to do something good for the world for 150 years, I'm interested in them, just as what they could do for everybody on the planet. So that's what gets me interested when I'm looking for someplace to get this 'gift' moved over to someplace else.

What kind of information sources do you look at?

Newspapers. Newspapers – that's generally it. Magazines. It could be anything. Nothing specific.

So it might not be some of the investment sites that other people were talking about.

No, no.

How do you come to trust them?

Well, let's see. One company I was interested in, Molten Metal, came out of MIT, so luckily I got some information through their news letter or magazine. And I tracked them for a long time because I really thought that they had something going. And unfortunately it did not work out and I had never managed to make the step to buy the stock. So, that was one way. Like Evergreen was another company here in Massachusetts that I think is interesting. So whenever I see something I read about it.

Okay. How about annual reports? Do you ever use annual reports as a source of information about investments? Anybody?

Well, I look at them.

But can you understand them?

My friend writes them and he tells me what goes into writing them, so no, I don't look at them.

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I used to keep them, and now I realize that – you know, they go straight into the recycling bin because it's just too much information to look at and much less absorb.

I look at them to the extent that I apply some mild social screening, there are certain industries or companies that I'm interested in investing in, so I'll give a cursory glance at what companies are being invested in as heavy and if it's something I don't like then I'll think about moving it.

Just imagine reading the Enron Annual Report!

And how useless that would be!

Any of you who might have looked at any annual reports, can you recall if there was anything that you had specifically looked at, looked for, in an annual report and not been able to find?

English.

English. All right. Anything else?

I have to 'accept' myself. I always find Apple's Annual Reports very interesting because they're pretty transparent, it seems. Not so much on the financials but on strategy, overall strategy for the company. Vanguard Mutual Funds Annual Reports are just –

What is it about Apple that sort of piques your interest?

I like the computers!

Okay. But the annual report itself, is there something about –

Well, they talk about how they brought new products onto the market and about their research and what their thinking was in bringing them on and what their promise was and how they performed. They brought the Mini on the market, they thought it was the hot thing – it didn't perform so they dropped it. Now, a lot of people would just keep going after something that's proved to be a dud. For instance, Detroit cars. And Apple doesn't do that, they say, "This is what we thought, this is what it did and here is how we're going to pursue it."

So, they talk about their strategy.

Yes!

It's also a very readable report. It's in 'real font' rather than something you would –

So, large font size, or large enough font size?

Large enough. A lot of white space on the page. It's in color.

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One thing I'd like to see in annual reports – you can find it elsewhere – is the compensation of senior executives. You can dredge that out of the 10K's, but.

You can find it online.

Yes, but since you can, they ought to put it there.

And there are actually some that do put it in.

I want to pass out a copy of an annual report now and ask you to take about ten minutes to look through it and then I have some questions that I want to ask about it. And it's for 'XYZ Company'.

Oh, I own them!

You want us to read it?

Well, look through it. Do what you would do if it came to your house or you had gotten it with the idea of investing in this company.

I have never read one of these and I don't think I want to start.

So, tonight is a first!

Do I have to read it? I mean, I'm not going to understand this frankly.

Okay. And if you can give us some examples of what's not understandable, too, I think that's helpful also.

(Long pause to review materials)

Okay, let's talk about the annual report. How helpful do you think an annual report like this is in making an investment decision?

Well, it would lead me to 'avoid' making an investment decision.

In what respect?

Well, I didn't have much chance to go through it thoroughly. But when they report the loss as an 'impairment' and then failed to analyze what that impairment was, or loss, then I'm suspicious. They said they had a "Write down of the trade name" and that's the end of it. It just shows up as an item. And then they go on to analyze all the good things they did, but not to explain the write down of their trade name.

So, you wanted more information about that.

Oh, and be forthcoming. That's not 'more' information, that's less – that's negative information.

What else?

I thought they had way too much information for a small investor. And it's just like you go to the store and there's a hundred choices for the one item, you're not going to make a decision. It's just too much to make a decision and I don't want to put that much energy into an issue. For small investors, it should be ten pages or less. And also, I think they should bullet specifics 'what they make', exactly. Brand names, exactly what percentage the revenue for everything, what has worked, what hasn't. And you know, always look for sustainability, global warming strategies and that these days, because I think about that. And the context of their strategy for the big economic cycle, you know.

That would be a lot more information but maybe they could do without some of the information they have here and tell you what they really do!

Yeah, exactly!

I mean that's one of the joys of Apple's thing, they say "This iteration of the iPod is doing 'this' and we're looking forward to doing an 8 gigabyte instead of the 4." Well, they're telling you what they're doing. These people aren't telling us any of that.

(name redacted)?

I think the most important things on an annual report are the Profit and Loss Statement and Income Statement and the Auditor's Report. And a lot of the other stuff, which is what 'this' is, which is the story that that company weaves about what's on their report. You can pretty-much look at most of the reports and get the gist of what's going on. And they may explain loss or restructuring or something, but it's still 'their take' on something or what they want the public to know about it. So, I think there's a lot of verbiage in here that's just kind of what they want you to think and you don't know how much of that is true or not.

I didn't believe a lot of what they said and a lot of what they said that I read I found really offensive.

Have you got some examples?

Well, 'this' page and 'this' page and it took them until page 11 to actually say something useful. And they're selling a lot. Page 11 they talk about all the things they sold. And then on the next page they said they believe they're the market leader in lubricant additives. That they just bought something about lubricants in November of 2007. And then later on they talk about the plants that they closed.

And the write down of the trade name!

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Yeah, I saw that. And then the time was about up. So I didn't like what I read and I didn't believe the rest of the propaganda. Well, I don't like reading about closing plants. I didn't like reading about the trade name.

I would think that would be a positive. That would make the firm more efficient and more profitable.

I wondered about their honesty.

I don't see any connection between the high level, "Here's what we do and here's what we're doing. And by the way, here's our big strategy. We realize that these two divisions were not part of our core strategy and yet to be the market leader we needed to pick-up 'this' and 'this'." They tell us all these details about exactly which plants and what dates; they aren't telling us the vision. "Why is this part of the plan? Why did they do this? And what are they going to do in the future?" You get nothing about the high-level direction of the company.

Yeah, not strategy.

The 'fluff' page is upfront. And then you are immediately immersed in tiny print, high detail, that if you start thinking about it – they don't explain things like why their 'Q-4' this year was poor, relative to 'Q-3'. They don't explain how much of their growth is organic and how much was coming from acquisitions. There's a whole bunch of stuff that gets papered-over in the detail.

So, there's lots of information but not really the information you would like to have.

There's lots of data, there's very little information.

Okay. So not an overview of –

I don't think there are lots of data, I think there's lots of –

Fluff.

Not even 'fluff', there's lots of 'verbiage', but there's some data. There's mostly just verbiage.

There's lots of stipulation.

Right.

There's a lot of very detailed information that you really have to spend a lot of time concentrating on to pick things out of. And also there's the fluff, without something in-between, sort of what a layperson would need. Like an executive summary or some kind of plain English abstract of what the detailed information is saying.

On page 13 they say, "We experienced volume gains in all (inaudible word or two) except North America." But it doesn't state the reasons why. What caused the loss of volume? Was it

competition? A manufacturing plant gone? Something happened, or it didn't get up in time to go ___ plant on time? They don't state the reason why there was a loss in the North American sector.

Also on page 13, in the table, I think it's concerning that they're selling administrative expenses go up more than their R&D expenses. So, you know, what's going on with that? To spend more on administration than R&D in a company that – an energy company basically. Personally, I'd rather have more in R&D and less in administrative.

Just as an old English major. To start-off with, the cover sheet that says, "There's never been a better time to be a market leader." Excuse me, wouldn't that be a 'better time'? And they do not explain anything about why it is a better time and how they fit into any scheme of better timing or what. It's like they got the cover sheet after they did all the rest of it and didn't notice it didn't have anything to do with it.

I think all of this is the reason that I don't own stocks. There was some point reading through this where I realized, "Gee, I'd want to talk to some analyst who covers this company because that's the only way I can get a sense of what they're really doing."

Now, (name redacted), you said, "Why you don't own stocks." Are the mutual fund reports any better?

I don't read those either!

We'll get to that later, so. Anything in here that you found helpful? Anything that would be helpful if you were making investment decisions?

I think actually the tables were very helpful. But not their interpretations. The one I was talking about before, not only did they spend more of an increase on administration than R&D, but they spend twice as much money on administration as they do on R&D. No matter how they explain that, the chart shows it better.

Doesn't look good like on Pro-materials group either!

Right.

Anything else that seemed helpful? We've heard a lot about what was not helpful and what seemed to be missing. How about anything that would be helpful or that was helpful?

How about anything you found that was difficult to understand? Any specifics you can share in that regard?

If I really wanted to sit down and understand that, I would read it two or three times – you know, the New Accounting Standards, ASA570, you know – it's nothing I'm used to reading and I would have to really apply myself if I was to try to understand it.

So, some of the terminology was difficult.

The terminology, the language, the choice of subjects – just a combination of things.

All right. Anything else that anyone found difficult to understand?

I had marked down the “New Accounting Standard” section, too.

That was hard to understand.

Yeah.

SFAS number 14, Revised, Replacing – it just starts out badly, in terms of understanding it. Page 24.

And I think that’s just more saying that they’re using new accounting standards.

So if they could have given some explanation of what that was in a sentence or two, would that have helped?

Yeah.

My take on that though is, it talks about that ____ issued this new thing. So, I’m sure they assumed that anybody that understands what accounting standards are, understands that they’re just saying they went from ‘this’ standard to ‘this’ standard. And I’m not sure that saying more about what that difference is, is going to add anything to this or to the prospectus. That they kind of assume you know that there’s a difference and that that’s all you need to know.

All right.

I have a question – who are they targeting this to? Some pension fund manager who can spend a lot of time and is really educated or the average person? You know, because if it’s targeted to the average person it’s overwhelming and there’s too much information, you know. It almost seems like they should have a shortened version for the average person and then something for the professional, you know, or lots of appendices with a short thing, “Everything you really need,” in the beginning and if you’re really sharp technically, you can go to the appendices, you know.

So, ‘like’ an executive summary.

Yeah.

How about the language? We talked about the plain English initiative. But how about the language used in the report? Did it seem understandable or not?

Totally foreign!

What made it so difficult do you think?

I don't have any aptitude for any of the numbers or the nomenclature. It's all a total mystery! That was one problem. I agree that the detailed reports are way too much detail. But also, as a report – the opposite kind of problem would be, the fluff, where there's no information at all. It could be almost any product and they're substituting the same sort of words for anything somebody is trying to sell!

Just that the choice of words is long, hard, slight. And I actually read a fair number of annual reports for professional reasons, not for investment reasons. And just the density and the ambiguity of the wording. I mean, "The increase in earnings from continuing operations primarily with ____ to improvements in the combination of price and product mix, higher volume and reduced interest expense, net, which more than offset higher raw materials, utility costs, higher restructuring impairment charges and higher ____ expenses." That was one sentence! And there's hardly any one-syllable words in that sentence. And it was actually no numbers, there was nothing telling if – there were many things, we don't know which is most important, which is least. Is it meant to inform or not inform?

While I think it's meant to inform, all it's doing is analyzing the table it goes with. So to go to (name redacted)'s question, you know, this is not for the average investor, this is somebody who knows enough about accounting and business language that they can read through it. But I think their probably purposely was at that point no saying, "This was good/this was bad," it was just, "This is what this table showed. This goes up/this goes down."

Do people actually make investment decisions – individuals – based on something like this?

Yes.

That's a good question.

Seriously? In part.

Not entirely. You would want to do a lot more research, but people who are serious investors will look at it.

I don't mean to be naïve.

No, you look at this probably more – didn't you say it's more to 'exclude' a stock than I think to 'include' a stock?

That's what I said.

Yeah.

But the level of detail in the “Management Discussion and Analysis” here is way over the top relative to what I’m used to seeing in an annual report. This is the kind of stuff you see in the footnotes. When you get back to the footnotes – I understand why those are incredibly dense. But this front part needs to be a much crisper, clearer analysis of the business. Why they’re doing, what they’re doing, how they’re accomplishing their goals, what failures they had and how they have reacted to that.

Shouldn’t that be under like “Strategies Going Forward”? That would be something – I’m not sure if I missed it, but ‘strategies’. Like he said, “Who is this company going? Who do you want to invest in the company?” At the same time, you’re not telling me what your goals or your strategy is. Is it going to be in short supply? Is it like the commodity is going to go up? You know, what your ingredients for making ‘x’ product? Is it a commodity that is only mined in South Africa or whatever? It doesn’t make a difference where your sources come from or your product material comes from, so. And they’re not stating, you know, they’re not stating the strategies going forward. How cheap or like how expensive materials would be or anything like that. They’re not explaining it.

So, kind of what they left out. And then beyond that, what they did say it seemed like they used a long word when a simple word might due. They used a lengthy sentence where a short sentence might have worked. They didn’t have an executive summary that summarized if you didn’t want to read everything else. Any other issues?

Well, when you read the ___ it’s a four paragraph description of what the company makes, you know. And that’s what I really wanted at the beginning of that. So, that ‘one page’ where I know that most of their products are coming from gasoline additives, profits are going to be from gasoline additives but they’re moving, they’re expanding to something else. You know, and I just wanted that right away, I didn’t want all this generality stuff.

So, too much and too general.

I’m used to seeing some information about the president and the Board of Directors.

It’s at the very end.

Is it?

Well, the names are there but we don’t actually get a –

I’m used to seeing pictures and a short biography and I do sometimes, if I have time, look to see how much they make so I can laugh at it.

All right. That was very helpful. I’m going to ask you to hold onto the annual report and go on and you can put the clip on it, because we might come back to it later.

Mutual funds are required to send reports to shareholders twice a year. And I want to ask, when you receive reports for funds in which you've already invested, are those something that you generally read? Anybody?

Yes.

I always look to see what they did compared to the benchmark. And if they're under-performing or something, I - they have generally, especially the quarterly reports are pretty good, little summaries, they're not trying to justify why they're -

So, you can go right to that section.

I just go right to that section. I think they put, they usually get - all the 'O' marked funds and it's hard to find what you want, you know. It would be better if you just have 'O' market and over markets national and not all the 'O' marked stuff, but.

Okay. (name redacted), you said you read some and don't read others. What determines which ones you read?

By what's going on in my life at the time and then whether I have the particular report. Because sometimes I have the patience for it and sometimes I don't. I might pay more attention - if a fund is performing poorly, I might sort of spend a little more time looking at it and seeing if it was something I wanted to play with, yeah.

Anybody else?

I read both of those.

Me, too. For instance, I had a number of Vanguard index funds and with my finger in the air sensing the economic breeze that was blowing, I just cashed-out five of them. And I did that largely on the basis of reading the executive summary and the benchmarks and other things over the last several quarters, leading up into 2008. And they weren't going anywhere and hadn't been going anywhere for awhile. So, instead of eight funds I have three.

Let me ask which of the following types of information are important to you, if you do look in a mutual fund shareholder report. What about the financial statement? Is that something that's important or not?

Yes.

Okay.

No.

No.

(name redacted), what makes it important to you?

My mutual statement? Because it tells you, you know, where they are, how they've done from reference to previous years – that sort of stuff. It gives it the bottom line on where their monies are invested and how well they're doing.

And (name redacted), you had a different view?

Well, I guess what I was thinking about the financial statement as more than just the earnings as compared to different years and different benchmarks. There's the transactions and the companies and the assets and pretty-much the bottom lines that I'm interested in. But there's more financial information there that I don't look at than I do.

How about the list of securities that are held by the fund?

That's important.

Yes.

That's important? Okay.

I like seeing the percentage of different sectors.

How about the compensation paid to directors and officers?

I always wonder 'compared to what'?

Yeah. The raw numbers are deceptive, you know. You need context.

Is that something that's important to have or not, do you think?

You're saying the amounts or the percentage paid?

It has nothing to do with us, but you know, CEO's get hired from one company, they jump to another company and they get this bonus regardless if the company makes money or doesn't make money. I mean, that is unjust. He should be rewarded – he or she, whoever it is – should be rewarded if the company is profitable, that's fine! But if the company is going to go under or not make money, why should he/she be allowed to make that much money and have a stock be purchased and this and that. I just can't understand how these people get away with that. Even though a company is not profitable, they still make their –

But if we're talking about mutual funds, what I'm caring about there fundamentally is the performance of the expenses – expense ratios and any loading charges and that.

To go back to your previous question. The two funds I have are a total stock index fund and total international stock index fund. Can you imagine looking at all the corporations that are

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involved in those? And what would I know? When I first invested I got the rundown and I looked at it and compared it very carefully and learned nothing!

How about information or an explanation of how the fund performed? Is that something that's important or not?

I don't care how much the CEO makes. I'm not into it for philanthropy, I want to make some money! If it doesn't work, it doesn't work!

How about a graph showing how the fund performed in comparison to a securities index?

Yes.

Yes.

Useful, okay. How about information about fund expenses?

Yes.

Tables, charts or graphics that show the types of investments made by a fund?

Yes. By sector.

By sector. Information about accountants for a fund?

It's nice to know they have them!

As long as it's not Arthur Anderson.

And finally, how about information about how the fund board approves contracts with the funds investment advisor? Is that important to have or not?

I didn't understand the question.

It's information about how the fund board approves contracts with the funds investment advisor. So, it's a contract between the fund's board and the investment advisor.

Doesn't work for me because I assume these are all captive – captives of things in holding companies, not an arms-length transaction in any case. And my vote is to move my money if I don't like how that's being done.

Can I ask if anybody here has ever seen a profile of the committee that decides on executive reimbursements? Every corporation has one. They decide how much the president gets.

You mean within the board?

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Anywhere!

Yes.

Okay. Let me pass out –

And you find out that City Group has all these people, if you have some kind of insider knowledgeable you find out that they're all in bed with each other! Well, no wonder he's getting a lot of money!

That should be put to popular vote.

We're passing out an example of a mutual fund shareholder report. And again, if you could take a few minutes to look at it and then I'll ask you some questions.

(Long pause to review materials)

Okay, let's talk about this one. What information in this report did you find most helpful?

The breakdown of the holdings for each sector.

I thought the beginning summary was very well-written and informative. Especially as in contrast to –

So, it provided the kind of information you –

Yes. In English. Meant to be understood.

So, it was word choice.

They acknowledge their bad parts and they tried to explain them but not in a way that was hiding anything. And explained some of their strategy. It was informative.

So, it wasn't so much language as the type of information they were sharing.

Well, it was both. It was the language and the content.

Anything else that you found especially helpful in here?

The fund information and the portfolio of investments, which is nicely laid-out so you can go to different sectors.

Page five.

The pie chart.

Yes, I agree.

So, the pie chart was helpful. What was least helpful?

They don't make it quite transparent what your actual expense fund, expense load is. The footnote on the table on page four where you finally learn that it's .52%.

52% for six months.

So, you had to search for that information.

Well it's there but again, I would like to see it annualized.

Well, page four – it actually says, “Expenses during the period.”

For six months. The assumption is it's going to be the same expense load for the year. I guess I can assume that, but what was it compared to what? What was it the year before?

On the “Statements of Changing Net Assets,” I was disappointed that they gave you the numbers but they didn't – you know, the other annual report actually gave you the differences in percentage so you didn't have to go crunching the numbers yourself.

And again, back in the AP Expenses, they show management costs but they don't make any distribution of it.

What page is that?

Let me find it.

Page 11, Management Fee is \$142.3 million dollars.

That's a hunk of money!

I would like to see how that compares to other funds in the same sector and kind of a justification. It's probably below average if it's only .52, but some kind of justification based on performance.

It would be nice to know, what is the management fee structure.

Fee structure and what exactly do the top executives get paid.

I care more about – how they're paid is supposed to be determined. This fund lost money this year, does that mean these hooks are needing tuna fish or are they from a can or from the sushi bar?

I've always thought the fees should be sliding scale based on how well the fund is, you know.

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Or at least relative to the index!

Hold your breath!

What changes would make this report more useful to you as an investor?

Much shorter.

I thought it was a good report. It has its flaws and failings, but basically the way it's expressed is pretty clear.

That one change where they talk about getting the percent changed into numbers.

It makes it clear why I would never invest in a fund like that!

I'm not sure that you can shorten it down much. The stuff before you get to – basically is mandatory; it's all on the first four pages and I thought those were fairly well laid-out except for the discussion about ___ expenses.

Right. There actually are only about eight pages of text and everything else is tables. Which they could shorten by making it half the font size but then it would be hard to see.

You should delve really in the Morningstar, you know, that should be a mandatory, you know, for something.

I probably think you'd have to pay Morningstar to do that. I do think they were very upfront with what they said. "We were low relative to the index." I thought that was very –

That's the first thing they say.

So, this seemed more trustworthy, less trustworthy than the annual report?

(inaudible comment)

Have you ever looked at a mutual fund shareholder report online?

Yes.

(name redacted), how did you find it?

To read?

Yes. Did you –

I don't read things well on the computer, so half the time I end up having to print them out anyway.

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That would be very similar to this, wouldn't it?

Yeah.

How did you locate it or what did you think of it?

Well, we're going to ask both but I was initially interested in how you found it.

How you located it?

Yes.

Oh, no. I was answering how difficult it was to read. How you located it – usually it's in you know, a link to it on the web page of whatever the fund is.

So, you went into the web page.

Or Schwab (inaudible).

All right. And turning now to how helpful these reports are online; (name redacted) said that they're not as easy to read online for her. Anyone have a different view?

There is one thing that – and I see that (Drud?) does, it gives you some kind of index as to the tax advantage of the fund. You know, if they're doing a lot of turnover, there are certain – I don't quite understand how this works, but there are certain funds that generate a lot of taxes and so that really beats-up on their real actual return and some are very tax efficient. And that's important when it's not a 401K.

One advantage I've found of using the online reports is – I'm a photographer and I use graphic design and so I work sometimes with two and sometimes three screens. But if I have three screens working, I can have pages side-by-side and I can pluck them out of the folio and then be able to look from 'this one' to 'this one'. And sometimes that's an advantage instead of doing 'this' (holds pages up).

So, being able to see multiple pages.

Just an artifact from my preference.

Anyone else who has used online?

I really like Apple. I think it's far more efficient to make – when I have time to think about things, I don't want to then say, "Well, yes, send me the documents," and three days later I finally get it but now I no longer have time to think about those things. So, when I've got an evening to work on stuff, I'd like to have all of this online so I can find it. I mean, with it being able to be quickly searchable so I can skip immediately and go forward to "Environmental liabilities," or whatever else they talk about.

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One thing that comes up when I research stocks or mutual funds, stocks in particular, is you can't really believe the analysts' recommendations, the buy and sell, you know, because they're making conditions, they're in bed with the investment banks and all of that. So, that's kind of frustrating.

Whether they are or not, they might as well be.

Yeah!

Do you think you prefer to receive all the information and mutual fund shareholder reports online, provided that you could still request a paper version? Or do you want the paper version?

I'd rather have it online because I just throw it out anyway as soon as I get it.

Agreed.

Me, too.

Yeah.

Save the trees.

Save the mail person!

I don't know if I might be apt to look at it if it was just online. I think the only way I'm going to look at it is if it comes in the mail.

Since I look at it anyways, you know. If I wanted to look at it, you know, if I wanted to look at it badly enough, I'd look at it online and otherwise I'm just going to, you know, recycle it. So it's really a waste of paper because it goes in your mailbox.

Send out an email when it's out, so you can get the paper.

So, that lets you know about it.

Just like bank cards, they opt-in or opt-out. You're an investor in one of these and you can say going in, "Yes, I want to receive only electronically," or.

Yeah.

So, being able to express your choice about the way you receive it. Okay.

Any other comments about mutual fund shareholder reports before we move on?

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I really would like to emphasize justification of the fees, you know. Because I think somebody is making extra money, you know what I mean? They have expenses and I'm sure they feel self-justified that they're making a good salary and all of that. But on the other hand, most index funds do better than most managed funds. So there should be some real justification for – the ones with fees should do better than an index and if it doesn't then they should do a lot of fast-talking and explaining, you know.

Barney Franks agrees, but the rest of the Congress doesn't!

All right. If you'd just hold onto that. Let's move on now to proxy statements, and that's the last statement that we'll be covering tonight. I wanted to ask, how many of you have received proxy statements? Most of you.

For those of you who have received them, what do you usually do when you get one? Do you read it thoroughly? Do you glance through it? Do you throw it out?

Recycle.

Recycle.

I look to see if there is any shareholder issues that might be interesting. I look at names for a candidate who actually stands-out from the crowd.

I'll glance through it to see if there's anything unusual. But that's it.

Right.

I had a very conservative friend who gifted us with a subscription to the "Wall Street Journal" for awhile. So when I get the proxy statements I put them in the "Wall Street Journal" and recycle them both together.

I thought you were going to say you put them in the "Wall Street Journal" and you put that under your pillow!

I guess I do get them but I throw them away; I don't look at them.

Anything else that those of you who do at least glance through them, are looking for specifically? We've heard "for candidates", we've heard "shareholder tips."

The only thing that would get me to read them or pay attention or get involved is if there was meaningful shareholder activism.

Philosophies of the candidates and backgrounds.

So, if you had found out about it from some other source than the proxy statement itself, there might be something of interest there.

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The trouble I have even with that is, I know that certainly my holdings and probably the holdings of every private individual represent such a small fraction. That unless you can say, "Well, if they get at least 20% of the vote maybe they'll realize that there's something important here." But I don't believe that we can disrupt the election of the appointed trustees or anyone (inaudible word or two).

Right. But is it any different than any other election we have? If you look at it that way then, you know, "You're only one vote."
In an election you only have one vote, but as he says, in a company you have 20 million votes.

One person exercising 20 million votes, that's different.

One of the issues I'm hearing in proxy statements is the idea that even if you vote, it won't make any difference?

You only have one vote. As he mentioned, we only have one vote and a company may have 10 million/20 million whatever.

It's hardly a question of being a good citizen; you're not a citizen in the corporate climate ___ at all!

Well, it depends on how many shares you have! None of us have enough share to.

One dollar, one vote – instead of one person one vote.

But still, if there were something worth voting for, I would do it. Whether it was one vote or not, you know.

That's fair. But in terms of things like electing the directors –

If something stood-out in one of the directors, I would take the time to vote for one.

I think we all agree that how much of a difference would it make in the long run? But you're right. If something is wrong and you want to make it right, you vote. But I don't think it's going to make of a difference in how the vote is going to go or not, but you certainly have that right and you feel better if you do it!

And you were talking about activism. If there was something that really talked about activism in the report, I may actually show-up at the annual meeting and then you have the opportunity. That's one of the only ways that you can use it, so that then you have more than one vote.

Persuasion, yeah.

They're so much fun!

They usually are!

They're lively!

Exactly!

Let me pass out an example of a proxy statement and again, ask you to take five or ten minutes to have a look. It's not as big as it looks.

Sure. This one has smaller print in it.

Where is your "Wall Street Journal"!

That tree died for you. I hope you're recycling it!

Absolutely.

This would be a week's accounting paper for me!

Hey, they've got people's names in here! They put people's ages in here.

Is that good or bad?

I'm not sure what it has to do with anything because you can probably calculate how old they are by looking at the rest of the paragraph.

"Nominees for election ____."

That's a distinguished Board of Directors!

Really!

I thought so.

"James Jones!"

That's a real street address though, in San Diego.

What page was that, (name redacted)?

Page four.

14 also.

I know the company that owns that building.

Everybody remember Maxwell Smart?

Let's not go there.

There was a new movie out about that. Walt Whitman is the youngest person on the board.

I like Maxwell Smart! He's in the Dome of Silence.

He's in the Environmental and Technology.

That's right! And he's on the Audit Committee!

I'm not sure this is what the SEC is quite looking for.

All right, let's get serious here.

(Long pause while review materials)

Anything in here that was difficult to understand?

I have to admit, I didn't try to understand most of it.

So, it wasn't understandable, then?

I read this as if it were directed to me and the only thing that interested me was the ___ pay, that might get me to actually vote.

I'm not sure if other mutual funds state the same salary issues, but this fund, I guess, "Performance philosophy" is –

Well, this is a corporation.

But anyway, it is – they pay bonuses according to the equity of performance. So, it is stated right in here.

So, that was something you were interested in knowing.

Yes.

But there's an awful lot of wording to go through in this just to get to pieces that you're looking for.

So, what specifically were you interested in finding, (name redacted)?

I just kind of – mostly I look through headers to see what was there. In contrast to some of the other ones, there weren't a lot of tables in here, other than some compensation tables. So I went through the headers and looked at what might be interesting to look at.

So, there was a lot of text?

Yeah. And very small print.

Font size was an issue?

There's a lot more compensation information in this than I'm used to seeing. I sound naïve, but there's a Compensation Committee which says it's independent, but it doesn't seem to be. But all the information seems to be there!

Anything else that was difficult to understand?

The Compensation Committee are independent in the sense that none of the officers will refer them, that's what they mean – I assume!

There were a couple of things that I thought were interesting. On page two, it talks about how the Board of Directors recommends to vote. And it basically says, "Vote for everything that we recommended and vote against the one thing the shareholders offer." But I think the most interesting thing was on page five at the bottom left, it talks about "Directors, officers and employees may solicit votes." Which I thought was very interesting itself. Even though they won't be paid for it. So, I suppose that's like any election except that in this case you can get a lot more – you know, you can get bigger bang for the fact that you can solicit votes from people with larger chunks of stock.

I was struck by a small discrepancy. On page five, question 18, we learn that if you want to put someone forward as a candidate for director, you have to include a statement and qualifications - a statement from the candidate. And yet we learned virtually nothing about the views of any of the candidates for directors. The sitting directors. We have not 'statement' on pages 15 and 16, from these folks about who they are, what they think the company ought to be doing, what their roles as directors are.

I'm not sure whether that was there and taken out or not, I can check.

Well, there are still only 'two'. It's possible they went out – but there's only two pages missing from this, so if there were statements they were very short.

All right. Is it clear what you need to do when you get the proxy report? If you got this in the mail, is it clear what you need to do?

Sell!

Recycle.

The same with any of the – I mean, you fill-out all the little boxes and send it back to them.

Did everyone get to that part?

It doesn't seem like you have a meaningful effect, so that's why I don't even bother reading them usually.

Maybe it's just how this is packaged. I'm used to seeing with 'these' pages, practically – or separately bound in or up-front. If they're really sitting way back here you might never find them.

Which pages?

The pages you fill-in and return. So, then, those need to certainly be separately bound.

I realize you went through this fairly quickly, but was there any language that seemed difficult to understand? Anything that could have been explained better than it was?

I should know, but I don't, what the page 36, the "Summary of Compensation Table" adds up to, because there's so many kinds of compensation.

Anything else?

I don't know what these terms are, "Restricted stock, distributed stock units, dividend ___ stock unit ___."

I'd have to say, as a shareholder I would be concerned about the "Monte Carlo Pricing Model for Compensation."

Is that what it says?

Yep!

That's what it says!

On that same table.

Actually, that is a meaningful statement.

Yes.

If you know what it is.

If you know what it is.

So, is there more jargon in this proxy statement than in the annual report or the shareholder report?

Yes.

Much more.

How trustworthy did you consider the information in this proxy statement?

How do you know?

Well, they're explaining everything – the load, offending issues. It seems like a kangaroo court, you know. Anything useful is not going to get through to me, you know. It almost seems like you get more input if you have more shares, so maybe there should be a threshold; if you don't own half-a-percent of the company don't bother voting, you know, or something.

There is a glossary for I guess, terminology towards the end. Page 4, I guess it begins there. Appendix. I guess what the words in each phrase means and so forth.

So, does that seem like it's helpful?

No.

Near the beginning, I guess.

Exactly. It should be at the front.

Right. Or highlight it.

Yes!

It wasn't clear to me what the relevance was of all the information about compensation to the customer. I mean, I don't know if I need to know all of this, to make a decision. Maybe I do, but it certainly wasn't clear to me.

Anything else on the proxy statement?

Again, a cost-benefit analysis of your own time, it would definitely not be worth it!

I don't actually see it any different, though, than the annual report as far as you know, the amount of technical language in it. Also, as far as how trustworthy when you think. I mean, I do the same thing, I get an analysis of the information.

Yeah.

Can get independent information about a proxy?

The proxy is just talking about the vote of the company. So, some of it is asking a question, one is, "Do the shareholders get a say in how much people get?"

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There was a paragraph about that, “If you want to communicate you can call that.” And that was the one thing that I picked-up on. “Oh, if I really needed to know I would just call that number.”

But that’s a fairly straightforward on the proxy, “Should stockholders or not, have a voice or shareholders, in you know, how much people get compensated.” That’s kind of a yes or no. A lot of the other information is sort of what some of what’s in the annual report. And to get independent analysis, you go to Morningstar or you go to Hooper’s, you go to organizations that evaluate stocks and mutual funds.

What percentage of stock shareholders actually vote on these things?

I don’t know.

That would be interesting, I’d like to know.

If you’ll bear with me a minute, I’m going to go in the back and see if there’s anything else that they want me to ask and I’ll be back.

An extra 30 or 40 pages of detail on compensation – is that just to get people to not vote? I mean they could have given a one-page summary of pro and cons for the Board, and that would have been sufficient for me.

My guess is that some of that’s in there to say, “Well, here’s all the information you need, so why would you need the shareholders to have to contribute to the – to have a say in how much people should get paid or not.”

I think that’s what it was. “Here’s the information, now shut-up!”

Yes. Well, and that’s just kind of a guess. But otherwise it is a little odd that it’s got all this information about the compensation on it.

And if they say, “Well here are the metrics from the CEO. And the Board determined he did an outstanding job.” The whole discussion about how they reached it and then they say, “Well how many millions does that mean?” You know.

Okay. This will keep me in scrap paper, keep my printer going about three months.

Good news! No other questions. So if you could pass your materials up that would be great. I thank all of you for coming this evening and if you would see the hostess on the way out.

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(Explanation of group purpose, confidentiality information, OMB info, etc., by moderator. Moderator reads the disclosure about the materials to be used. Moderator comments are indicated by bold font.)

Let's go around the table, and we'll start over here since I'm right-handed. And if you'd introduce yourself, first name only, and tell us if you've been in a focus group before.

(name redacted) and no, I haven't.

(name redacted), no.

(name redacted), no.

(name redacted), no.

(name redacted), no.

(name redacted), no. But I have used the information from them.

I'm (name redacted) and years ago.

(name redacted) and no.

Very good. Well, I hope you'll find our discussion this evening informative and something that you'll enjoy.

Let me go around the table again and we'll start over here. Could you tell us in how many companies you own stock, outside of a 401K or other employer-sponsored retirement plan. Just a ballpark number.

Currently, individual stocks – none.

How about mutual funds?

Most of those are either IRA based or 401K based. We have one that we've been buying for a number of years, a Destiny Fund and that's a non-IRA mutual fund, but that's pretty much all we've got right now.

(name redacted)?

Four mutual funds and then one stock.

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I have eight mutual funds, one bond fund and two stocks.

That's a good question.

A ballpark estimate is okay.

I own several stocks and several mutual funds.

Okay.

And I like that answer; several stocks and several mutual funds.

All right. (name redacted)?

About four mutual funds and maybe 300 stocks.

Eight stocks and about 15 to 20 mutual funds.

Last, but not least, (name redacted)?

One stock and three mutual funds.

Let me go over to the flip chart. And I wanted to ask you what types of information you looked for as you do investment research. If you're deciding about a stock or mutual fund, what sorts of information do you look for about that stock or mutual fund?

Price and (inaudible).

Okay. What else?

History.

History. In what respect?

In many respects. The success of the company. The volatility of the earnings. Price history.

What else?

To me, that history is more from five, ten to 15 years because I watch that in relationship to everything else in the markets.

Okay. How about you, (name redacted)?

Investment advisor's recommendations.

Okay.

Insider's (inaudible word).

Anything else?

Sort of the overall view of the economy as a whole. Where are we in the business cycle?

Okay. And has that one changed in the last few months for anyone?

Yes.

Anything else?

In my mutual funds, I look at the type of funds or stocks that they have in the fund. I go to certain mutual funds because of the stock portfolio that they carry. I do not get into some that carry things that I don't feel 'good' about.

'Good' in what respect?

No long history.

Okay. And this was a great segue into my next question which was whether you look for different things in a stock investment as opposed to a mutual fund investment.

Mutual funds you look at the expense ratio.

Anything else?

And stock turnover in a mutual fund.

Who the managers are.

Let's go to the next page. Let me ask you – we've talked sorts of information you're looking for in investments; how about the sources of information that you use? Where do you get your information?

Prospectuses.

Daily newspaper, the "Wall Street Journal."

And are you looking for articles, or?

General trends mostly.

Okay.

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Internet.

Any specific sites?

Yahoo Finance. CNBC.

Any other sources of information on the Internet that anyone uses?

I have a tendency to go to the MSN Money at least once a day

Chat room.

How about you, (name redacted)?

The newspaper, I look at that and the Yahoo Finance, I go there, too.

Annual Reports.

Okay. Let's look at this list and let me go around the table and ask you to pick the most important information source out of all. We have a fairly good list here, but if you could pick the one source of information that's most useful. And let's start with (name redacted).

Probably the prospectus.

I guess I'd have to say the daily newspaper; reading it everyday and watching just what goes on with the economy.

(name redacted)?

I just use the Internet sites.

Any specific site here that's more important?

Not really.

(name redacted), how about you?

Well, it depends on what it is you're looking at; whether it's a mutual fund or a stock.

How about 'it depends'. And how about for a stock?

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Chat room.

And any specific chat room?

I have a variety that I listen to.

And how about mutual funds?

I only use investment advice from (inaudible).

All right. How about you (name redacted)?

I suppose "Wall Street Journal."

And (name redacted)?

Mine is all newspaper and the Internet.

Okay. (name redacted)?

Newspaper and the Internet.

Last but not least, (name redacted)?

What was the question again?

If you had to pick one of these sources that's the most important source of information for you as you make an investment decision, which would you pick?

So, whether I want to buy stock tomorrow, what document, where would I go to find out about it?

Just in general, which of these sources is the most important to you in making your investment decisions?

Well, if I knew how to read it, I would say the annual report. I mean, it's supposed to be accurate, isn't it? Isn't it supposed to be truthful.

So, annual report if it's –

So, not just one of them, you have to look at the history of the annual reports. And something I didn't see up there; anybody care about the personalities or the track history of the individuals running this company? I mean, that's one of the first things I look at is, what's this guy done before? What's this board done before?

That's up there – managers.

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Well, 'managers', I thought they were talking just about your particular mutual fund area manager.

Okay, great. Let's move on.

Mutual funds are, as you know, required to send reports to shareholders twice a year. And when you receive reports for funds in which you've already invested, are those documents something that you generally read or not? (name redacted) is smiling.

No. Generally no. As a matter-of-fact I just read one because I was upset with the fund so I had to find out who to contact for that particular fund, so I opened the report to find that person. That was the first time I had even opened one.

But that was because you had an issue that you needed to address. Could you share the general nature of the issue that you had?

Certainly. It was quite strange. But I had an account at a mutual fund that was in my ex-husband's name and my name, it was in joint tenancy. In the divorce settlement, all of the shares of that particular fund were supposed to be transferred to an individual account for me. This was ten years ago. The mutual fund had been purchased by another fund. And in the divorce settlement they only stated the number of shares that were in the account at the time of the divorce. In the meantime, with dividend reinvestment, the number of shares had increased substantially. The fund refused to transfer the entire 'bunch' into my name only; only the number of shares that were stated in the divorce settlement.

So, it was sort of an administrative type of issue.

Nightmare! They just solved it yesterday, as a matter-of-fact.

Great. I didn't mean to get personal, but thank you for sharing that. Anyone else who has read mutual fund shareholder reports.

I'm retired now so I have the time and I do read them; but I didn't before I was retired.

So, for you it was a time issue. (name redacted)?

Several years ago I tried to read them. There is so much minutia in most of it and yeah, it's in the English language, but trying to make heads-or-tails of it, I finally gave up!

Kind of needs an abstract or an executive summary or something, doesn't it?

A 'real' executive summary. Somebody who is not in the finance or something like that who will get it down into, I guess, plain language like myself. I'm an engineer and I constantly have to think about how I'm going to put something across and I don't think these people do. And so I have a tendency to take those reports, I file them away, I continue my research of watching how

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things go and I only do something when I don't like the way the trend is going or something like that and then I'll act. But not with what's in that report.

It's my impression that the reports have improved considerably over the last 20 years, though. In simplicity and in being brief, to-the-point, less garbage, less footnotes.

(name redacted), how about you? Do you usually read the shareholder reports?

I've skimmed it occasionally. It's like I'm an intelligent, articulate, well-educated person but I can't make heads-or-tails of this! You know, pieces of it. As I'm skimming I think, "Okay, I think – no." After awhile you give up and say, "Okay, I'm going to put it in the folder and if I really, really need it I know where to find it."

If it shows up in the mail and it's 'this' thick and it's really tissue paper almost, I always go, "Damn, I've got to go online and get this electronically," it's a lot easier to delete then and save trees. I don't even put it in the folder, I trash it right away because I know I'll never go back and read it before the next one comes in.

That explains the conditions of my file cabinet!

(name redacted), how about you?

I skim them.

I don't use them, no.

For those of you who do at least skim the shareholder reports, I wanted to ask what types of information you look for. And if you could tell me how important each of these is:

The financial statements. Is that something that's important or not? (name redacted) says 'yes'. Okay.

If you know how to read it.

If you know how to read it. Okay. How about the list of securities held by the fund. Is that something that's important?

It would depend very much on the company. Generally not.

Anyone have a different view?

My only comment to that is, I do look at it, "Where is the distribution?" To, "What type of stocks do they buy?" "What has been the change from a year?" But the rest of the verbal text, I guess I'm sorry, but it's worthless.

Is it because of the content or is it because of the way it's written or something else?

I don't even think a high school graduate could read and understand most of it. Much less, where you should try to be – somebody that's great, because people's perspective, knowledge and what-have-you is diverse and you've got to get down to the common denominator – and most of these reports are not!

They're not written to the lowest common denominator? Okay.

Sometimes it feels like there's a lot of financial jargon in it that my background has never equipped me for handling.

How much of this is dictated by some federal regulation or law that says it's got to be written this way?

So, that's an issue you have. How about the compensation paid to directors and officers? Is that important information or not?

Well, they like to get spun-up. It's like, "Why are we paying for failure and I can't do a damn thing about it!"

How about information about the funds' directors and officers, such as their names, titles and experience? Is that information in the mutual fund shareholder report or not? No? (name redacted) is saying 'no'.

Maybe it should be, but I don't pay much attention to it.

I look at most boards – I may be naïve in saying this, but they rubber-stamp. It's the staff and what-have-you who are putting things in front of them and I think more boards are there to collect their fees and get out.

Yes. That's my objective to retirement is to figure out how to get on a couple boards!

All right. How important is it to have an explanation of how the fund performed? Is that important information?

Is this for a mutual fund?

Yes.

Very!

How about a graph showing how the fund performed in comparison to the Securities Index?

Well, it's important if you're going to take action based on what. I mean if you're not going to take action based on it, then I think it loses a lot of its importance.

How about information about fund expenses? Is that important to have in a shareholder report?

Yes.

Yes.

Yes. Okay. And how about tables, charts or graphs showing the types of investments made by the fund?

This is a mutual fund. Well, it's very important then.

So, that's important information to have?

I'm not sure of the question; what do they mean by 'other investments'? Are we talking about something other than the list of?

No, types of investments we were talking about.

So, the list of stocks that the mutual fund owns?

Yes. So, that's important information? All right. How about information about the accountants for a mutual fund? Is that important or not?

Yes.

The what?

Information about the accountants. (name redacted) is making a face.

You're saying about the accountants? I go back to the scandal we had a couple of years ago. And one of the best accounting firms in the nation went bad. I'm one of those that, my trust goes 'so far'. If I don't know them I'm leery at all times. I watch how it does, not who the blooming accountant is.

Anyone have a different view?

Well, it's important that it be a matter of record that they do have an accountant and that it be somebody. But to me, as an individual investor it means nothing. I don't pay much attention to it.

Just it's sort of whether they have it or not. All right. And then last but not least, information about how the fund board approves contracts for the funds investment advisor. Is that important information to have or not? Is that something you've ever thought about before?

No.

No.

All right. Now I want to pass out an example of a fund shareholder report. And I want you, if you would please, to take about ten minutes to look through this. I know it's thick and we don't have too long. But if you would just look through it and then I have some questions that I want to ask you about it.

And feel free to mark-up these copies.

(Long pause while group reviews material.)

Okay, let's talk about this document. What information in this document did you find most helpful to you? If you were thinking about making an investment in this mutual fund, what information was most helpful to you? (name redacted)?

First paragraph, second page! There is so much to read here that – as an engineer I go to tables and absorb it there. The text is somebody's – I'm leery of text.

So, overall, the text was less helpful than the tables.

I think the discussion is very helpful. I think these people are being straightforward.

Any particular sections of the text were most helpful to you, or just all of the discussion in general?

Well, they made an attempt to explain why their performance was down.

I like the first three pages because it's nice to see the guy tap dance – I mean, really! And it gives you, I guess a frame of reference for reading what may be bad numbers that follow. So, it just says, "Hey, here's what we did and here's where we did wrong and here's where we did poorly." And if you want the specifics, go look at the numbers.

So, it put the rest in context?

Yeah, it sort of put the rest in context and you know, like I said, it's always nice to see somebody who is more than likely 'overpaid' have to stand-up and put his name on a document that says, "We did really bad this year."

Okay. Anything else? What did you find most helpful?

I like to look at the 'Financial Highlights', which is back on page 14, which sort of shows the history. It shows what they started with at the beginning of the year and that's the top line. And then about two-thirds of the way down, what they ended-up with, and with Net Asset Value at the end of the year. So, a summation of the culmination of the whole report right in here.

So, that was helpful.

I have to agree with him. I found that table. Because when I think about how the market fared overall, it just says, “Yeah, I understand the downfall.” But I then look at all the way back and I – you know, the Net Asset Value at the end of the year gives me a comfort feeling in relationship to the total picture. And I guess that’s what comes out from being an engineer – looking at numbers and seeing trends and stuff. I’ll admit that I’m not very much into the verbiage. ‘This’ (the table) tells me a lot.

(name redacted), how about you? What did you find most helpful?

Me, too. I like to go to the tables and you can really just look and kind of summarize it upfront.

Anything else that you folks found most helpful in this report? Overall, did you think the information was understandable?

It’s very clearly written.

Anything specifically that seemed confusing or unclear?

It’s just kind of ‘typical’ to me; it’s what you get from a mutual fund.

So, no surprises here?

No surprises. Since I already told you I throw them away, I haven’t read them so it’s hard to make a comparison. But I spent more time on this one!

What changes would make this report more useful to you as an investor? How about you, (name redacted)? What changes would make it more useful for you?

It could be easier to find the expense ratios.

So, you had to hunt for that information?

Yeah.

Any other changes that would make the report more useful? Have any of you ever looked at a mutual fund shareholder report online? How many have? One. Anyone else? Okay. How easy was that to find or were those reports to find? Did you have to search for them, or?

Pretty easy to find.

All right. Did you find that it was helpful to read the report online?

Yes. I have it when I ‘want’ it; I don’t have to look for it in a file cabinet!

So, you just go to the computer and you can find it. Anything you found difficult about using that shareholder report or shareholder report online?

Nothing more difficult than reading it on paper, so.

All right. Everyone, just in general, is there any information in shareholder reports for mutual funds that you would prefer to receive in paper form?

That we prefer -?

Just in general. Do you prefer to receive this kind of information in shareholder reports in paper?

Yes. And my reason is that I when it comes up, I don't want to read it right away. I mean, I put it away in a file or a suspense file, and read it sometime in the next week or the month. And whereas if it's on my email, it's liable to get deleted or omitted in that time.

Unless you kill your own trees and print it yourself. Having the company kill it for us.

I think in this day and age, it's going to show the 'geek' in me. I'd rather not have 'this'. I would rather have it on a CD that I can then pull-up on the computer and then do word searches. If I'm looking for a trend or like expense reports, you can type that in and it will go find it and I don't have to flip through it. I would rather use the computer aspects to help search for stuff than to have a document where I don't even know where it's at. It makes it a lot easier to find stuff either on the Internet or I've asked one of the fund managers, "Why don't you just send this to me on a disk?" You burn less paper and the mailing cost – instead of that big, huge book, it would be a whole heck-of-a-lot less.

Having them send it to you as an email attachment cost even less.

That would be fine, too. That way I can download it and put it on a CD if I want to.

I think most of the funds that I keep getting their little email saying, "Don't you want to go all electronic? Don't you want to have us stop sending you this paper?" I go, "Yeah, that's a good idea," but I just never get around to doing that. I mean, ideally you take 'this' and you tie it in with a standardized natural query database. And you've got this little program that comes with your annual report and you just type in natural language queries like, "Show me the expense ratio for this. Show me the list of all the companies. Show me 'whatever'." And then it just spits it out to you, you know, on one page.

(name redacted), how about you? Do you prefer paper? Online? A combination?

Online. Much rather online.

(name redacted), how about you?

I prefer it in paper. I have trouble reading the screen.

So, paper is easier for you. (name redacted), how about you?

If I 'was' going to read it, I would read a paper version. But getting it electronically and printing it out myself would be fine, too. Because I just don't like to read on the monitor.

(name redacted), how about you?

Online, I prefer. I'd prefer that online was the default method of receiving it. And then if you wanted to get it sent to you in paper, then you get to opt out, but you get the option.

Or a slightly different matter; I'm having to fight now with a company that sent me their billings by email. And one of their billings got diverted into my junk mail, through no fault of mine. It happened and I didn't pay it! And they and I are having a big dispute about this. And I think that's a great failing of email. Sometimes it doesn't always get there or it gets in the wrong file. So, I prefer the old standard mail.

And (name redacted), how about you?

I like to touch things when I read them. And I have to hold a pencil, don't ask me why.

Too much time in school!

The other thing is though, the paper copies that they do send you have that very weird paper so it doesn't weigh very much and it sort of gives you the willies when you touch it. It's not 'reader-friendly'. Where as if you can print it off yourself on decent paper, it's better. You know what I mean by the 'willie' paper?

Those of you who would prefer to get these reports online, would you still like to have an option though that you could request a paper copy to be sent to you?

Yes.

All right. Any other comments that you have about mutual fund shareholder reports before we move on to our next document?

I guess I have one. I'd like to have – and I've never found one in here – what the cost was to develop it.

So, some information about how much it took to create the report. Any other thoughts?

That's why I'm saying, having it by Internet or electronically; if you could cut out – because you can put that stuff on an electronic file very easily. But when you have to go and print it, there's a lot of staff time, compiling time, mailing time, and all that other stuff. And to me, if I could get it electronic and know that I was saving myself money, I'd opt for it.

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Your “Statements and Assets and Liabilities” it says that the shareholder reports cost ‘so much’, it’s on page 11, the left column, fourth line from the bottom.

What page is that?

It caught my eye.

Do you know of any companies that have these out on a web page when you go look?

So, you would have to initiate.

You would have to go to their corporate website and there would probably be – you would probably have to have an account and a password to get in, but then you could just read the whole thing as a ‘read only’ on their corporate website. Does anybody know? Any of you big-time investors have experience doing that? ‘Big-time’ meaning lots (inaudible).

I’m not sure. I can ask when I go back.

Okay, let’s move on here. And I wanted to talk a little about annual reports, which I think some of you mentioned in our initial discussion. And how many of you actually use annual reports in making an investment decision for stocks.

This is an annual report.

This is a shareholder report – I’m sorry, let me clarify. This is a shareholder report for a mutual fund. Now I’m talking about annual reports for specific stocks. How many of you have used those in making investment decisions? Let’s see a show of hands. So, a couple of you.

What sorts of information, (name redacted) and (name redacted), have you looked for in those annual reports?

Well, I think it’s important to read what the management says is the challenges for the company going forward; how they’ve done in the recent past. What their outlook is for the future. Because you want to get their opinion obviously, they’re managing the company. You look at the financials, the history, what they’ve done in the past and on usually a quarter or yearly basis – that sort of thing.

Generally they have those in both an abbreviated form in the first and then a detailed form in the back.

Right.

(name redacted), is that?

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Yes, I'm agreeing with him. The first couple of pages it says what the management goals are and how they met them and so forth. And then the abbreviated financial report.

I have an example of an annual report. And again, I'd like you to take about ten minutes or so to look through it and then I have some questions I wanted to ask. You have to read fast! Just kind of get an overview. And again, we're looking for what things are helpful, what's not helpful, what's missing. So, feel free to make notes on the report as you go through them.

(Long pause while group reviews material.)

Okay, let's talk about the annual report. Was there anything in this annual report that you found especially helpful? How about you, (name redacted)?

It had their earnings and their revenue in there. Expenses. It told what the company was and what they did and that was good.

What else? What kind of information did you find that was helpful in here?

At the bottom of page one, I looked at that, that they summarized the ____ and price history.

So, that was helpful. Anything else that was helpful? How about you (name redacted)?

There's so much information I'm not even sure where to start! It was so much.

(name redacted), how about you? Anything that was especially helpful?

The first three pages are a pretty good summary of what the company wants you to know. The financial and then the CEO's two-page statement there. The key elements that have gone on in the last year.

Anything else that folks found helpful in here? How about things that weren't helpful?

Other than the size?

Okay, the size was not helpful.

But you know, just thumbing through it, it's like I think somebody somewhere would have found most everything interesting. Somebody would have found some piece of information here interesting that I would have glossed over, yet I would have looked at something else. Like I really enjoy the names of the Boards of Directors! Like Rusty Steel, Joe Blank, Turner Loose! Yeah, maybe that's just a general comment. Maybe there ought to be a little more humor in these sorts of things!

All right. Was there anything that you found difficult to understand? We've talked about what was helpful and not helpful. How about things that were difficult to understand?

Well, I don't think that's really a reasonable question because there is not enough time to just thumb through every page, understanding it – there's no time to understand it. There's awareness of, "Oh, I've got to go back and look at this." You have your little pile of stickies and you put a sticky there and go back and look through it. But in the time allocated, the whole thing was not understandable.

Just because of the volume.

Just because of the volume and the time for the focus group here. This is something that if I was really interested in the company, it would probably take me a couple of hours each of two days to go look at this and try and figure-out what it meant.

The purpose of this, too. It seems to me it's a little different from the annual report of the mutual fund; the purpose of this is to inform the general public about the company, as well as the shareholders. And there's a lot of sales pitch in here, all the glossy pictures that is of marginal interest, I think, to shareholders, they're already in it! So, it's a sales pitch.

All right.

I always look through my annual reports to see if I see anybody I know!

Anyone else? Anything that jumped out at you that seemed especially difficult to understand?

Well, unless you know accounting. The detailed financial statement is probably necessary, but to the average reader, as he goes down here and tries to reconcile all this and sees, "___ declared deferred stock compensation, ___ treasury," this sort of thing. It's pretty arcane.

For the average investor.

Yes.

Wear a decoder ring, "What does that mean?"

I think what you're doing here is, that's assuming that we would look at an annual report to decide whether we would invest in the company or not. I think generally speaking, people don't read the annual report to determine whether they're going to invest in it or not. It's usually in the performance of the stock, rather than the annual report.

How about the language used in the report? Did you think it was clear? Unclear?

I should have labeled the page. There was one spot in here that I thought was – I think it was this one – where they said, "This is an example, for instance if you had this." Of course, it may have been in that other one, too. Should have flagged it. There was one that I thought was interesting because it said, "As an investor, if you do this, this is what to look for."

(name redacted), how did you find the language in this one?

Sales pitch. I'm sorry.

Was it understandable, or?

There's basically two pages that I found and those were pages 1 and 57. One was the Financial Highlights where I can see increases and stuff like that. And then the Overall Summary on 57, which give me end of the year numbers and ratios, I found that to be more interesting. I hate to say that, I guess it's because I'm an engineer. But I get into the text and I just go, "Whoopee do."

(name redacted), how about you? How about the language in the report? Was there anything that seemed unclear or could have been explained better?

No, I didn't notice anything about the language. I just noticed the size of the report and that seemed to indicative of a good year, generally. All the pictures and the hype.

How trustworthy do you consider the information in this annual report?

My thought was a sales pitch. As long as you're reading it and you know it's a sales pitch, that's fine, I mean it's a good starting spot, you know, to base your investment decision on.

Yeah, but due to recent history, wasn't there a law passed a few years ago that made the people who sign this personally responsible? So that the president of the company or whoever signs this, basically he's signing for the factual accuracy. Now, it may be hidden and there may be convoluted to get the real answers. But I consider it to be about as factually accurate as the company is going to put out in public, simply because the guy at the top has to, you know, sign on it – if it's a lie he'll go to jail.

(name redacted), how about you? Do you think this information is trustworthy or not?

I would think so.

Any other comments about the annual report before we move on?

I did like that it talked about its employees and what it did for their retirement. And you want to invest in a company that's doing well, it's nice to know they do treat people well and it sounded like it and that made me think about it. "Oh, that sounds good!" They give their people healthcare.

It would make a fund manager decide not to invest it because they're wasting money that could be paid to shareholders!

Any other comments about the annual report?

There is an index so you can find things, but it was broken into two parts. There's an index on page 10 and then on the first page there's a 'contents' page. And I wasn't sure how they broke it into two parts. All of it on page 10 is the financial results, that's most of it.

Any other comments about the annual report?

Well, I just read the 'accountants' and they – I couldn't see that anywhere they said, "This is a hundred percent true."

So that made you wonder a bit?

Well, they use a lot of convoluted language, 'where as' and so forth.

Did you feel that the language in that part of the annual report was a little bit more difficult to understand than in the rest of it?

But I think it's standard, yes. They can't go out on a line and say, "Everything here is absolutely true," so they have to walk a tightrope.

Okay. Hold on to those in case we need them, we'll come back to those.

The final thing I wanted to ask you about was, let's see a how of hands – how many of you have received proxy statements in the past? So, pretty much everybody. Let me go around the table and ask each of you, when you receive a proxy statement, in general what do you do? Do you read it thoroughly? Do you glance over it? Or do you discard it?

(name redacted), how about you?

I think it depends on time. I try to read them thoroughly and once in awhile life just interferes and I discover it in the middle of the dining room table two weeks later and go, "Oh!" But I do try to read those thoroughly because I want to know what it is, if it's somebody is voting on like a (inaudible word).

So, you're interested in what sorts of issues are up for vote? Okay. How about you, (name redacted)?

I read it. Probably not in detail, but I tend to vote with management thinking I own part of it because they're managers and I trust them to advise me what way, what to do.

(name redacted), how about you?

Don't generally read them. Again, I go with management. If you don't go with management, if you're not with the company, you sell it, you leave it. You don't need to own it and fight the management.

Do you usually send in the proxy statement?

Yes.

Okay. (name redacted), do you usually send in the proxy statement?

Yes.

Okay. And (name redacted)?

Usually.

(name redacted)?

The first time around usually I don't even look at it, I just toss it. If I get a second notice or a phone call, then I usually go with management and send it in.

Okay. So you usually have to be prodded a little bit.

Yes. On the second time.

(name redacted), how about you?

I always respond by telephone.

Okay. And when you look through the proxy statement, is there anything in particular that you're looking for?

Yeah, the proposals by the shareholders. I generally vote against management's recommendations, just as a matter of course.

All right. (name redacted), how about you?

I will skim them. But I always have a tendency to go back to some graphs that I have if it's on one of the things that I have either stock on or what-have-you. And I look at trend. And if it's doing okay, I'll sign it! I mean, or if it's something new that somebody has sent me, not a proxy, but a prospectus sometimes, I'll go and check it out. But on proxies, I guess I'm with (name redacted) there. I'll look it over and I guess like my ___ gut is, I won't trust anybody who is willing to make things work better and make a buck. And so I have a tendency to go with management.

Those aren't always tied together.

I realize that. But that's why I have a tendency to look at past history.

But then, as (name redacted) says, if you don't believe it – drop the company.

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Why? Why should I drop the company? Just hang around and irritating stockholders!

Okay, (name redacted), what do you usually do?

I usually send it back. And if I forget and get the second notice then I send it in.

Steven?

I read them all. They're so much fun!

In what way?

Well, because I work for Lockheed and there's always this group of nuns that are stockholders that hold like 50 shares and they always show up at the Board of Directors meetings and they always have a proposal that Lockheed should get out of significant portions of their business because it's morally wrong. And actually, I usually vote with that – safe in the knowledge that it will never pass! But it makes me think that, "I'm not just a robot." So. And – when they put something in that says, "Oh, we want to create 500-million new shares of stock," thereby diluting my shares of stock by some amount – I don't care whether the management thinks that's a good idea or not. The last time they tried it I voted against it. But it did work, it passed anyway and diluted my holdings by 25%! But yeah, I read the proxy statements there! And I only get like one or two, so.

So, it's not real time consuming.

Some of the shareholders statements are hysterical! "Where did they ever come up with that idea! What were they thinking!"

So, one thing I think I'm hearing in this group is, some of you read it for entertainment?

Sometimes.

Okay, we hadn't heard that.

The ones from the real minor stockholders are usually entertaining. The ones that are put forward by the board, you know, you want to look at that. The ones that are put forward by management that basically says, "No, we like our board of directors, we want to change the elections here from once every two years to once every ten years because we like these guys we've got here." Well, we should read that and think that over carefully.

I want to pass out an example of a proxy statement and let's take just about five or ten minutes on this one.

(Long pause while group reviews material.)

Okay, let's talk about the proxy statements. Was there anything in here that you found difficult to understand?

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Didn't get through it all.

You mean there's a lot here.

Yes.

The whole organization I thought – how you vote ought to be right on top.

Or separate.

And they need to put recommendations somewhere else. And the next page should be the Table of Contents if you want to look into any of those things, where you find it. Rather than all of 'this' stuff! It may be all valuable but it's not organized well.

So, the organization of it. Anything else that made this difficult to use? (name redacted)?

I wanted to ask for a magnifying glass. This is a waste because it's a really small font and the bottom third of this thing is wasted. My question is, I almost quit reading because it was annoying to have that much of the page wasted and the font size – what is that, a 7?

The font size is pretty small. And it may well be, too, and I'm not sure about this – it's possible this was designed to be printed on smaller than 8½ x11, so that could be what's going on here. But the point is, the font is small regardless of the size of the paper.

Yes. And the other thing is, I would rather see a one-paragraph on everything -- the proposal. Some pro-and-con statement, even if it was by one a shareholder. By having a pro and con about it, somebody is going to have better interest in it. And why do they have to be so long? A lot of text.

Anything else that seemed difficult to understand in this?

Why Maxwell Smart was the director? A couple of dead people.

How about the language in the proxy statement? Did it seem easy to understand or not?

Well, I thought the Question & Answers were clear. I mean, I skimmed most of this just for the time. But it seemed like the Questions were pretty straightforward and then I looked at the Answer to the Question. If you had a question wasn't pre-answered in the first four or five pages, then you'd have to go look at stuff, but. I don't know, I kind of like that.

Anything else in the language? Anything that was difficult to understand?

Appendix A.

Appendix A. So, that was difficult to understand?

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It's not difficult to understand each item, but.

How about how trustworthy this information is? Did you think that this proxy statement was trustworthy or not? (name redacted), how about you?

I'm assuming, I think it is.

I get the impression that they were trying to hide some things in these proposals. Some of them don't need as much verbiage or needed to be as long as they were. And then that sort of just came across as probably not 'above board'.

So, the fact that there was a lengthy description kind of -

Lengthy description, lengthy Appendix. They're almost 'hoping' you don't read the whole thing.

Okay.

And one of the proposals for the Long Term Incentive. What was the one it's replacing? How is it different? Is it really an improvement? Or is it different? Or is it not as good? And there's not a comparison. I'd like to know what I'm changing from or to.

Any other comments about the proxy statement? How many folks didn't get to the end to actually see the proxy statement to be returned? About four. Okay.

Thinking about our entire discussion tonight, is there anything else that you would like to share with us about proxy statements, annual reports, mutual fund shareholder reports?

Well, the proxy 'card', I get, the card to mail in. And then there's the supporting document. It is pretty straightforward. I like to be able to 'find' them. It usually just comes by itself and you have to go online to find the pros and cons and the other stuff.

Any other thoughts?

I guess they're kind of legally necessary and for a lot of us they're over-voluminous. But how much of it are they trying to – how much of it is necessary to satisfy their obligations to the stockholders and how much is due to various legal requirements and the legislative requirements that have been imposed upon them? I don't have any idea, but I have a feeling, looking at this thing, it starts out with an SEC page and so-forth, that the requirements are far and above what the stockholders need.

It's color-coded. Legal stuff comes out in red and management stuff comes out in yellow and shareholder stuff comes out in green and all the fluff comes out in purple!

If you'll bear with me a minute, let me go in the back and see if there's anything else that they want me to ask and I'll be right back.

Okay, just a few more questions.

For people who prefer electronic delivery, do you want an email attachment or an email notification that documents are available online? So email attachment or email notification to go online? How many would prefer an email attachment? One.

I would rather have an email with a website that I can automatically click and go to it.

Yeah.

Okay. So, we have email attachment, email notification that documents are available. Or email with a clickable link.

If they use Microsoft, I don't think you can type it in as a web address without turning it into a link; it's going to try to go there.

It would probably 'strip' a big attachment. I know that at work I can't even send myself an attachment – I send it from home to work and it's gone!

Technology aside, let's just talk about preferences. So we have three possibilities. An email with an attachment. An email notification that you can go online to find it. Or an email with a clickable link. How many would prefer the email with an attachment? Nobody.

How about the email notification that documents are available online? One.

And then email with a click-able link? Four. So, most people. And I think at least one person didn't vote.

I like your suggestion of a disk.

Okay. All right. If it were possible to search a fund report online for specific words or types of information, would you be more likely to go online to view fund reports? So, if they were searchable, would you be more likely to go online as opposed to using the paper form?

Yeah, but you'll probably need a smarter search engine than just most text processors, "Find this string."

Let's see a show of hands. How many people would? Four. About half. Okay.

For people who prefer to get the fund report in paper, would providing the information online be acceptable if you received written notification that the report is available online or upon request?

Could you repeat that?

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For people who prefer to get the fund report in paper, and we had a number of folks, would providing the information online be acceptable if you received written notification that the report is available online or upon request?

Yes.

Yes.

You could request a paper or an email copy of the document by contacting the fund or you can access the document at a specified website. Okay, so that might be an acceptable option for it sounds like most people.

Those are all the questions I have this evening. And if you would pass your material up please. And make sure you see the hostess on the way out! Thanks very much for coming this evening.

Thank you. I don't think we solved any of the world's major problems.

Well, I think we got some good input and we appreciate it.

April 15, 2008, 6:00 PM, Dallas, TX

(Explanation of group purpose, confidentiality information, OMB info, etc., by moderator. Moderator reads the disclosure about the materials to be used. Moderator comments are indicated by bold font.)

Let's go around the table and if you would each introduce yourself, first name only. And could you tell us in about how many companies you own stock outside of a 401K or other employer-sponsored retirement program? And then also how many mutual funds you might own. Let's start over here.

All of my stock right now – I've been investing in stocks for 50 years. But right now all I have are mutual funds. And I don't know which ones I have because they're all handled by the bank.

But it would be safe to say you have several?

Oh, yes, yes!

I'm (name redacted) and I have probably 100 to 120 different stocks and one or two mutual funds.

I'm (name redacted). I have four or five separate individual stocks. I have a bank account with Smith Barney where there are three different fund investors that take a group of 30 or 40 stocks. And I have a 401K and my wife has a 403B, which I fairly well manage for her. Hers are in Fidelity, about 4 or 5 different Fidelity mutual funds.

I'm (name redacted) and my situation is almost identical to (name redacted)'s, except it's with Baer's, the financial company.

I have five stocks and then I have three or four mutual funds – VanKampen and some other cash management fund.

And I couldn't tell you how many different funds I have because they're spread around a bunch of places in a bunch of cities. And then I own four or five stocks.

I'm (name redacted). I own seven or eight individual stocks and a handful of mutual funds through UBS.

I have three stocks and the rest of my stuff is in a trust. And I put into it and the bank is handling it for the future, the kids.

Okay. Let me go over to the flip chart. And what I want to ask you now is, what types of information do you look for as you're deciding what to invest in?

Track record, how they've doing.

And in what respect do you look at the track record?

Like if Vanguard was really good and then it got bad and then it got good and I'm talking about over 15 to 20 years. And the stocks that are in it, I mean if they're all loaded in one direction and the economy goes the other, you know, if there's not a big spread, you're probably going to see it more than if there's a spread of things within that mutual fund. And you didn't mention bonds, I guess that has nothing to do with this discussion.

No, we're talking tonight about stocks and mutual funds. What else are people looking for when you make a decision about investing?

Well, when you see the ads in the magazines and paper and all, especially with mutual funds, they always tend to pick a timeframe when they did really well and they'll say, "We yielded ten-percent versus ____ with only eight-percent." And they always pick time periods when the market was up and they never pick when it's down. So, you have to be real cautious of looking at the timeframe that they're talking about. It tends to be somewhat deceptive and you're always sort of trailing the funds that are doing really well. And the one that's done well, maybe they're going to be static or down for awhile.

Analysts for information, as far as price and different things.

You have to look at geography.

And 'geography' in what respect?

The Asian market. If it's foreign funds, you have to kind of be aware of the countries they are in.

Anything else?

You guys don't listen to the Sunday morning news? What is it, the "Bulls and the Bears"!

Okay, so it's a TV program?

Yeah, but I don't pay attention to that!

(name redacted)?

After Katrina, my financial man advised me to buy into something and I can't think of the name of the company. But their business is clean-up.

Hazardous waste.

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It wasn't hazardous waste. It will come to me. But anyway, he said, "I hate to take advantage of someone else's misfortune, but somebody is going to clean that mess up."

So, current events that may impact stocks.

You have to look also what type of work they're doing. Like she said, 'clean-up', and everybody was investing in construction companies to go down there and clean-up and so-forth. They hit on disasters.

When you read financial advice, or a columnist in the newspaper or magazines, what they say is not always in step with what the financial advice is for the people selling investments.

Which do you tend to pay more attention to?

Well, I would probably tend to believe an outside person who has nothing to gain financially from it. Rather than someone who is trying to steer you towards something that they get a commission on. But you have to sort of look at both perspectives.

Get a balanced view.

I think TV has become a real hot-button to people who are – the Bloomberg Report.

The TV and the Internet.

Or Cramer. So everybody thinks he's god up there or something.

Some social – like I would determine, just because something may be doing well, I may not invest in it just because I don't like what companies they have.

I was buying the stock in the company I was working for because I knew what the situation was.

How about executive compensation – is that something you look at in deciding to make investments?

No. I'm kind of leery about that. When they're telling everybody you have to get your lower pay and all of a sudden certain people get 'bang-bang-bang', up in the millions. You know, the guys down below – there's something wrong going on. It scares me.

Something that happened to me personally. My wife and I bought some stock in healthcare, which was doing very well. But we weren't aware of the fact that the CEO that was making all of the money for the company and was going to take an early retirement and take a billion dollars pay-off to leave the company. And the stock immediately lost about seven or eight dollars a share and all of the small investors lost money so this one individual can take his billion dollar buy-out. We thought he was working to try and make the company successful for everybody and not just for himself. But it's really hard for an investor to know what the upper management of the company has in mind, and what they do is not necessarily in the interest of the stockholders.

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Check the history of the Golden Parachute companies. You read their history of what he's got. They've got a bunch of Gold Parachutes going. That will scare you!

But that company, that had never happened before, because this was a small company that grew very large and the CEO, when he bailed-out, the stock is now down about \$25 a share from its high point. People now are going to be cautious about it. But when it happened we didn't know.

And if it's a buy-out, too, you have to be careful, too.

When there's a buy-out, the acquiring company executives and the selling company executives always get a big – the selling CEO gets money and they'll leave quietly. And then buying CEO gets a big bonus.

That scares me from buying stock in that company. That's becoming very popular now.

The latest was ____ trying to buy Circuit City. And the executives will make money on that but I don't know how the stockholders will be a year or two from now if that goes through.

They're both losing money.

That's either one!

Okay, let's move on here. The Internet as an information source was mentioned. What sorts of Internet sites do you use?

Well, what's the rating service? It's like a star –

Morningstar?

Morningstar. That's something you can do easily now on the Internet. Put in any stock or mutual fund and get the Morningstar rating, which is information that wasn't as easily available before the Internet.

But the other side of the Internet is, anybody can put anything out there from any place and when you talk to journalism students and stuff, they don't know the difference between accuracy and non-accuracy and the Wikipedia is whatever you want to write in it.

All right, let's move on. Do any of you use annual reports when making decisions about potential investments? And I'm talking about stock investments rather than mutual fund investments. Anyone who uses annual reports?

I check the annual reports going back and seeing what the history of the company has been doing and what their plans are. Overall, I think it's very important.

The proxy pretty well sets what kind of ____, at least at that time what it was.

And that helps you a lot. But a lot of people don't do that, it's too much reading.

Let's see a show of hands. How many of you have actually used an annual report in the past to make a decision?

I used to make 'em!

So, you read those certainly. How helpful do you think annual reports are in making an investment decision, those of you who have used them?

Not very.

Because you should try to put a positive spin on everything and you don't – unless it's something really major, you don't highlight the negatives.

You've got to weed through those, rather than the general copy. Most of the time, by the time the annual report comes out, the conditions may have changed.

Exactly.

So, it's not very timely.

In the past, when companies were regulated – the utilities, the airlines and all – when they wanted a rate increase, they would make things looking negative to the regulators. But when they would do the annual report to the stockholders, they would probably give a real positive spin.

I think part of the problem now is they're even lying to the SEC. A lot of the reports are not accurate to the SEC from the companies, they're finding out.

Always, the annual report was like the 'past performance' of the company, not necessarily a good position or what's going to happen in the future.

Exactly.

Those of you who use annual reports, is there anything that you can recall that seemed especially difficult to understand in the annual reports? And I know it's hard because you don't have one in front of you.

It's the small print!

I agree with you, it's hard to see it.

So, the small font?

And it's the legalese, so the average person I don't think probably reads it the same as the person who wrote it. So it covers what you're supposed to do, "We've told you, and whether you understood it not didn't matter or if you could 'see' it didn't matter, but we told you." It's like all those things with credit cards, you need to two magnifying glasses to find the one sentence.

Disclaimers by either – if you hear on the radio where they speak real fast or in writing where the font is really tiny.

The proxy statements are much more enlightening.

We'll get to those in a bit, if you'll hold that thought. What I want to do now is to pass out an example of an annual report. I want you to take ten or 15 minutes to look through this, if you would.

Do we need magnifying glasses?

They didn't spend much money buying those things did they! I assume I'm supposed to take one and pass it down.

All right. I wanted to draw your attention to page 10 in here. There's a Table of Contents, essentially. We do only have a limited amount of time, but if you would try to look at each of those particular sections and get a sense of what's in there so that I can ask you some questions about that.

Could I borrow a magnifying glass?

And the reason is, the actual information about the company was redacted, so that's why we've got the loose format. And the thought was, it would be easier just to see if it was printed single-sided. So, just take ten or 15 minutes. I'll be asking you what's easy to understand, what's not, what language in here is not that easy to understand. So, feel free to take your pencil and mark on these copies.

What did you say to pay particular attention to?

On page 10, you can see the sections in the remainder of the document. So, try and hit on each of those in the time that we have. And we'll take about ten to 15 minutes.

(Long pause to review material).

Let's talk about this. I want to start with the Management Discussion and Analysis and again, it's on page 11 and goes up to page 27. Could you share with me what you found that was helpful in this section of the annual report?

I like to start with the Overview and get an idea of what (inaudible word or two). An overview of where they're going.

Anything else that was helpful in this section?

They talk about their acquisitions and everything else.

You have to be really careful with what's going on – what they're selling and where they're buying it.

I wouldn't invest in this company.

There's some problems here and one of the first thing that hit me was further up here, scared the heck out of me when I first read it was, how great they are with OSHA and the EPA and everything else. The bottom line is, it's the first thing they said. So, there's been problems with this company before.

Those comments raised some red flags in your mind?

Yes, for me it did because usually OSHA and that type of thing is the bottom line. And over here, it's right upfront, you know. "We had problems."

And they're selling a lot of stuff.

And it's in the Houston area so you know there is something going on with that someplace along the line. It was kind of a little scary there for a second when I saw that.

I think a red flag is when they say that they've experienced volume gains in all geographic areas except North America. They're all over the world and North America is the least of their volume gains?

What page is that?

Thirteen.

And if I see things like that, I felt that was on the negative side. Is that a positive?

Let's move on to what was not helpful in here.

When they talk about manufacturing stuff between seven countries, but you have no idea what the countries are; you have no idea what the facilities are. I tried to figure-out if you've got 6,900 employees and you divide it by 27 countries, is it all manufacturing? How much is headquarters? What's the overhead? And what are they trying – like, "Who are you? what do you do? How do you do it? And do you make money on it?"

Page two has it where they're manufacturing some of their stuff. It said Sao Paulo, Brazil, ____, France, Moomba, India, Malaysia, China, China and so forth.

But that was not here in the –

It was page two.

My point is, if your overall discussion is about that, and you say you're technological, well how do you define 'technological'? How do you define 'innovation'? How do you define 'global'? You know, it really doesn't tell you the definition of them or what it means, it just – and if you're that global, 6,900 employees isn't very many employees, spread all over the world.

And I found out that it's an Ohio corporation. It's on page 3. With the deal about – but if you look at the report, too, from the outside accounting office is Cleveland, Ohio, Deloitte, so that gives you a – they have headquarters up there then.

They're down here in Dallas, too. They're a good accounting firm.

Getting back to the Management Discussion and Analysis – anything else in this section that you found that was not helpful? (name redacted), were you about to raise a point?

Only that there was a red flag with the term 'impairment' was mentioned an awful lot in the context of 'trading impairments', so it makes me wonder what to besmirch their good name. Actually that would be helpful in a sense that it would steer me away from investing in them.

But the reality is, somebody sitting down and going through all of this – if we weren't forced to, I'm not sure who would. Particularly with no commas, there's no paragraph registers, no change of thought breaks.

So, the formatting you're saying was not that helpful?

Well, I'm saying the average person in the world could not read all of this. You can hide anything in it and be protected by saying you said it! Because technically it's in here somewhere, I'm sure, but.

You're right, ___ columns and punctuation – it just runs on, like you said. And those are 'helpful' things in reading, and it's not there.

Thinking more about the Management Discussion and Analysis section, was there anything that seemed to be missing in that section that you would have expected to find?

You had to really look to find out how much money they earned or lost last year. It's way in the back! And they didn't do that well.

It looks like they made money.

On a first-year basis, it's substantially better than the year before.

They also had to increase their debt, though.

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But it appears they made a lot of it on selling (inaudible), for \$11-million. But it wasn't even actually made by the performance of the company, it was made by extraordinary things that happened to happen to the company.

I ran across a correspondent over here that they were looking at 'Medicare Part B Payments' and what they're expecting to make on that and everything else and medicines and everything else, it's kind of interesting to me.

All right. How about the language in the report? Was there anything especially in this Management Discussion and Analysis that was difficult to understand?

It's not written for the layperson at all.

Not written for the average investor at all either.

It goes on and on.

Doing with all this stuff, but it doesn't mean anything to the average person.

Is it the language used? It is a formatting? Or is it volume?

It's an overwhelming amount of volume! I'm not a savvy investor. I would end up looking at pictures! In the back of my mind, I know that this is going to say what they want me to hear. So as somebody looking at this or someone that already owned it, then I'm not looking – if I already owned it, I'm not necessarily looking to say, "Well, what do they do?" I should probably already had an idea of what they do. I'm going to be looking at, you know, what's coming, what did they do compared to last year or the last two years – like on page 44. If I see anything outstanding; maybe I heard something in the news like you know, Exxon Valdez, how did that impact – things that may have been in the news, that how did that impact us and things like that. But it's just 'so much' information! Every page looks like the next page! I probably missed it, but I went through every page and looked like the dickens to see the executive salary money.

You won't find them in here.

They're in (inaudible) all the time!

Well, they are a lot of them. But that will be in the proxy statement.

The proxy.

Bu you were looking in here for that and you didn't find it.

Yes. You can find what they make and you can find how much stock they own and how much they've sold recently. It gives you a 'big' idea!

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Salary, bonuses, stock options granted. I think they made it clear to investors. I saw some where it wasn't clear, what's published are 2007 numbers were projections or actual. Further on in the report they show years like 2003, 4, 5 and 6 and they highlighted 2007, but I wasn't quite sure if that meant that was projections for 2007 or if those were actual. And if they had the dates when it was published – because if it was published in November 2007, then you know it's a projection. If it had been published in March of 2008, then you probably would have –

It says on 48, if you ever get that far. The Statement to the Securities Exchange, dated February 28, 2008, that they don't know of any violations. But you'd have to go through an awful lot to have found that.

But maybe that should be in the first or second page.

Did I miss the notes from Deloitte in here?

It's interesting on page 49, showing the Post Return and (inaudible), and expected ____ for 2008. You have to look through the whole thing, all the way through this carefully. But then the other benefits of the tables, for example, looking at the Medicare Part B and all this other crap going on. What bothers me about it was a lot of this was based on the U.S. dollar compared to foreign dollars, too. Did you see that in there? That's bad, and a 'point-percent difference' and so-forth and so-on. They're talking about it again.

Let me ask you to look at your copies and starting on page 11, if you would just page through to page 27, the Management Discussion and Analysis. Did anyone make any notes on those pages about things that were helpful, not helpful, difficult to understand?

Well, they say they're not subject to U.S. Federal ____ Tax Exemptions for (inaudible). I don't think anybody is going to wade through all of this to get to the meat of the subject. And I don't remember what section it was in, but they talk about the options and going to a stock fund and who's the best and who's not the best and it's not clear. And most people don't know that they're changing stock options for stocks to try to put in some kind of fund that you can't really trade.

Page 13. "This increase in revenue in 2007 compared to 2006, primarily was due to progress and improvement, all over the world except in the United States."

Yeah, I saw that part, too.

That's what I found, too.

Hey, we're doing better overseas and we're losing here.

So, that was important information if you were thinking about making an investment.

Well, the bottom chart did show percent change of increase.

But the point is, how would you find that in this? The odds are very low that you would find it.

Well, you have to look at it very carefully.

Anything else in this section that anyone has marked?

They kept bringing up 'cost of sales' continuously through the whole report; how much they have to spend for sales going out. They're paying somebody top dollar to go out there and sell them. Later on, some of the other things I saw – their cost for sales went up increasingly over the years since the year before, I think doubled. They're paying top dollar to somebody.

Okay.

On page 14, the 'net income per share' to them.

And I see what you mean, compare 2005 to 2006, and ____ 2008 and you don't know what happened in 2007.

All right. I asked you to focus quite a bit on the Management Discussion and Analysis. But in the remainder of the document, was there anything that stands out in your mind as being helpful if you were thinking about making an investment in this company?

On the second or third or fourth to the last page on (inaudible), I write to the corporate office before I'm going to pay (inaudible). I look at things that have nothing to do with money!

On the 'Stock Exchange Certification and Report of Independent Auditors', there were a lot of disclaimers in there. And that makes you wonder, "Who are the auditors?" You know, we've had this come up with Enron, and their auditor actually went bankrupt over the issue. The investors made the assumption that auditors were independent and didn't have a personal gain. But now we have it pointed out to us that not only has that been the case, but now they're putting disclaimers in there saying, "We do the best we can. We can't assure there's no collusion or fraudulent or inappropriate behavior." So, the issue to me then is, "Who is, in terms of the Securities & Exchange Commission or anyone they contracted with, is reviewing the independence and the appropriateness of the auditors, not having something to gain financially by reporting a favorable audit?" In other words, if the auditors are at risk of losing the account if they report something negatively, does that influence what they write? They put disclaimers in here that say, "We can't guarantee that's not the case."

Well, the auditors are only going to work with the information they're supplied with, and so they're covering themselves.

But in the case of Enron, Enron was doing things that were very (inaudible word) and the auditors let it pass through.

On page 52, when they talk about the model they're using for auction prices – most people are not going to know what that model is. And then when they get up here, they talk about, "Basing

the company's closing stock," and all that's done again. It's not a clear example of, "It was 'this' on a closing day and 'that' equaled 'that' and that meant 'so-and-so'," it's just a bunch of garbage. And then on the other side, if you look at the way they state the numbers; if you put like '2007' and then parentheses, and then '2008' parentheses. But you've got to jump from 'here' to over 'here' to 'over here' to 'over here' to try to track the numbers in such a way that you can – or write them down on a piece of paper! And then this part down here is on that same page, you've got the "Conversion of the share to share units based on the price the company's common stock would be what date." But that's a pretty new trend and I'm not sure many people – at least it me – truly understand what that means. And I don't know if that means the corporation gets to hold those units instead of the individual getting to hold them and find other shares if they're being held that way. And that would make a big difference, if the company voted the shares or whether the individual is holding the shares, their shares that they acquired in this 'auction' thing.

All right. Before we leave the annual report, I want to ask you, how trustworthy do you think the investment is in this annual report? (name redacted), how trustworthy do you think it is?

Not especially. It's obvious with this amount of verbiage that it's easy to hide just about anything – numbers and names, too. It can portray just about any outcome desired.

If it were shorter would it be more trustworthy? If it were say 20 pages?

Perhaps, if it was made shorter and clearer. But the only thing I would trust coming out of this is an expert's advice on it, somebody who reads these over and can know what to spot, because I don't.

All right. Anyone else have a thought about how trustworthy this is? (name redacted)?

I can't say if your selling administrative increases \$33.3 million or 10%. That's just for selling – administration or by the upper administration. What increase was that?! If they increase that selling by \$33 million, how much is for above middle management? It's kind of scary.

But then you also have to know how many people that's spread across. If it's 200 it will be different than two! That's not disclosed either.

It's kind of scary.

Any other comments on what is trustworthy or untrustworthy in this report?

Well, the average person, I think probably looks at it, "Oh, yeah, this looks great, this looks beautiful." But when you start reading it and understanding what's bad about it – but if you understand _____, it's not trustworthy. But to the average guy who doesn't read this too often and is looking at this company, "Oh, yeah, great! It looks great."

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I wouldn't invest in this company.

Yeah, but you –

Is that because you don't think this information was trustworthy or just you don't like what you're seeing?

I don't think it's trustworthy because of the volume of it. When you go to this much effort to talk about the thing, you're covering up something. If everything is good – look at Exxon's annual report for example, they've not been voluminous!

I just found something in here that scared the hell out of me! Page 41. "In November, 1998, on the issued notes, having aggregated a principal over \$200 million." How many of that was outstanding?

I saw something that was quite a bit of it still outstanding.

Yeah.

I mean, I had to go through this and all of a sudden it hit me in the face!

So, from the laymen's standpoint, if it said, "We made 'this' much from selling land. This much from 'this'. We owe this many millions and here's how these two things come together." The notes or whatever have to be paid-out over this period of time, so you know whether it's five-years/ten-years or 15-years; you have a clearer vision of what the cash flow is going to be and when the bank's coming.

But you're liquidating your assets! What are you going to do? You got all this money from selling these things last year, but what are you going to do this year?

Precisely!

I would submit that most people we buy financial things from, probably could not sit down and begin to think if they read this size every day, all day long, looking for the little sentence.

Okay. Let's move on and you can hold onto these but if you'd put the clip back on it so it doesn't get mixed up with some other materials I'll be asking you to look at.

Let's shift gears a bit now. Mutual funds are required to send reports to shareholders twice a year. And let me ask, when you receive reports for funds in which you participate, how many generally read them? How many? Show of hands?

I'd scan them.

They're all different sizes, different points, different types, different whatever's.

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There are a lot of people that wait until the end of the year.

Well, it's all that time probably!

Those of you who do read through or skim the shareholder reports, what kinds of information are you looking for?

Whatever holdings they might have. And some of the rationale for that balancing.

How much money I made! How much is it worth today compared to what it was last year! That's all I want to know about.

And how volatile is it.

Also, I kind of skim through and see what companies they have stock in.

Or are they reinvesting.

So, you're looking at how well it performed. Are you looking for a graph or some sort of indication about how the fund performed in comparison to some sort of securities index?

Yep!

That's something you're looking for. Okay. How about tables, charts and graphs showing the types of investments made by the fund?

I think that's useful.

I like that.

Yes.

Is that something you generally look for?

I look down the list of what they're holding.

How about the compensation paid to directors and officers? Is that something you generally look at or not?

No.

Lately I've been doing that because after what I've been reading about and hearing about, especially with the people in the market selling stocks down and who's leaving with multi-million-dollar _____. What's going on here? I'm losing and they're making! That's kind of scary.

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And it's sometimes hard to identify what's commission and what is fees, who are getting them or.

Bingo! I don't know what section that falls in, but I spent part of this week trying to get the answer to that question on two or three things and you can't find it.

You have to see your CPA.

He's a little busy this week!

I sometimes look at graphs and things like that. You can tell more, at least I can, than reading a thousand words.

Two things about mutual funds before you purchase them that ought to be disclosed – really upfront and not down in the middle of the document. One of them is, if there are unrealized capital gains that occurred in such a way that you end up owing taxes on gains that you don't actually personally realize. If that's the case, that's not always disclosed. And then the other thing is, what is the grand total of all the fees in the hands – open fees. And that's sort of analogous, when you buy like gasoline, there's a motor fuel tax, but there's also taxes that go through the whole process – back when the oil company out on the ground and then transported it and then you refined and then sold to you – it may be even half the cost of the product, the taxes on all the different levels. Well, the same thing applies to mutual funds. There's a fee that you may pay to an investment advisor, but there are also fees involved in putting the fund together and purchase individual stocks. So, there ought to be someplace where you see upfront, "What is the total annual fees of everything together that you're paying per year on this fund." And that's not something you can easily discern.

When you look at it, you don't get a true picture of what it costs you in the long run.

Research shows that seventy percent of the people are visual; twenty percent are auditory and ten percent are kinesthetic. So, if you put the right graph, they can probably get it. But it's not done that way; it's done in long, complicated sentences that the general person probably in a quick read couldn't discern.

Let me ask you to take a look at these. And again, we'll go through this and you can feel free to make notes on the materials. And what we're looking for is what's helpful, what's not helpful, what's missing, what's difficult to understand. And I wanted to draw your attention on page 1 to the 'Letter to the Shareholders' and please be sure to read through that because I'll have some particular questions about that. So, let's take about ten minutes.

(Long pause to review materials).

Okay, let's talk about the shareholder report. And let's begin by focusing on the "Letter to the Shareholders", which is on pages 1, 2 and 3. What in that letter, did you find helpful to you?

It scares the hell out of me!

In what way?

It helped me to stay away from the company!

If we believe an investment in Wachovia is a good investment and how great it was and everything else. You can go into housing mortgage was bad ____ for this company. This is at the end of 2007, December, and right now my investment in Wachovia is – they’re pretty-well – it’s a bad investment, no matter how you look at it. Somebody there knew!

We bought a big investment in some California –

Probably West Financial –

That had a lot of California ____ mortgages that were based on house depreciation but not sustainable.

And then it says, “We believe in long-term profit. Wachovia appears attractive, especially.” At today’s valuation, about ten-times expected 2008 earnings. Wachovia, I think that they even put money ____ down to help them get out of trouble. So, you know, somebody is blowing up a big balloon and telling, “Hey, this is great here!”

Okay.

And then somebody congratulated them for being candid about having lousy performance in every sector.

Yea, for sure! Yeah, they’re very open about not performing well in any of the segment indexes. And on page 3, with the chart comparing their performance over the past 20 years. It’s obvious that last year was tough on them. But historically they outperformed the index.

What scared me was on page 1 here, it says their investments in the healthcare industry – which is really a good deal – were 1%, while the overall average was 7%. So, they’re doing way below the average! They have some bad companies.

I think part of the question was though, “Are they communicating?” Is that part of it?

That’s part of it, sure.

And they try to make it readable and break it out and tell you that they have figured-out that they messed-up. And they could have hid the part about the patent – most people wouldn’t just consciously read healthcare and think about what patents are going to be going out.

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And they named names. I'm looking more at format and readability. And it tells you right off-the-bat, "Focusing on three areas, 'boom-boom-boom', and 'boom-boom-boom'."

"Here's what we did and here's what went wrong."

And then like you were saying about the Wachovia – whether we agree with them or not, they're telling you, "This is the explanation of why they chose it."

Whether you agree or disagree with that choice.

There's a red light there right there in front of you, the same thing as he said, with the healthcare.

But he's saying, "We believe our investment is a good choice and this is why." And then it's for you be discerning.

I just like the fact that it was double-spaced and you could find things!

So, it's readable.

Yep.

And they use some, what I would consider maybe 'layman' terms. Like 'collateral damage'; I think everybody knows what 'collateral damage' is now. And you know, things that would kind of bring you into following it a little further; maybe be a little more interested in reading on.

One of the things that's nice, and I talk to a lot of different financial advisors about 'balanced funds'. And their model is that you have a portion in the stock market that may be up but may be down. If you have a portion in bonds, they're supposed to be relatively low – recurrent. Well, if you had a traditional situation where the bond rates and their investments were 6% or 7% and you could say, well, in theory a stock can make 10/15/20%, but in a bad year it's going to lose money. You still got your bond income. But with bonds and interest rates being as low as they are now, it's almost certain that if you buy a ___ bigger balanced fund that's got bonds in it, at these really low interest rates – at best, you're going to receive a very low return on your money. At worst, if interest rates go up, the value of the bonds are going to go down and you're going to actually lose money. So, the bond segment does not protect you against fluctuation in stock prices now, as would have been the case ten years ago or something. And this document or any – almost every financial advisor I talk to, uses the model that may have been valid in 1990, but is not valid today, is that with interest rates so low, these type of investments do not decrease your risk. And that's one thing I've tried to avoid. Just to see what would happen, with my advisor, I bought a thousand-dollars with the Bond Club of America and it was a particular fund he was recommending two years ago. So, I bought \$1,000 and, "I'm going to watch that for two years and see how it does." Today it's worth \$1,005! And if I had bought \$100,000 worth of that, I would have made \$500 on it. And that's supposed to be to sort of 'off-set' fluctuations in the market. I told him I said, "If interest rates on these bonds were 7%, yeah it can go up or down. But if it's 3%, there's not much it can go down and there's a lot it can go up." And I think a lot

of advisors, a lot of these reports, don't explain that. And you can't figure that out on your own, it's easy to make a bad decision.

This is interesting, too, in this. On page 1, they're not investing in technology especially. Companies like (inaudible) or Intel or Microsoft or what – they're going into basically low-valuation companies like Hewlett-Packard, Sony and Mitsubishi. And they believe that the high priced stuff – they'd rather deal with the low stuff.

The conversation we're having, a 20/25/30-year-old beginning investor, could not have without some kind of long-sleeve training or whatever. And in most cases, when someone sells you something – I always think of the financial advisor and retirement, (inaudible), can quit working and have it all handled! And I think somewhere in there, it ought to be – there's got to be something that lets beginners understand, "What does this mean?" Because you look at the population shift, that's going to impact the whole financial world in the next ten years.

So, that's something that's really missing.

Well, I don't think that someone 25 or 30 when they first pick this up, would understand what we're talking about at all, looking at the maturity in the room, for the most part.

What you said was interesting. But what's interesting also here is that maybe the reason why they don't go into high-value stocks, you know, over a 3 to 5 year time we believe that the fund will ____ with these companies' increased competition and technology results, the stock can go (sound), you know what I mean? And they're telling you that, that's why they're going to low-value stocks, which in one way somebody is using common sense here on 'why' they're doing this. I mean, they're telling the truth here, I mean if you read it, you'd have to look at it.

And the part is not whether we agree or disagree with how they did the function, it's the fact that they are trying to communicate and somewhere in this communication if there are changes, there ought to be some way that these terms are restated or something so that the not-all-sophisticated-person has some idea what they're talking about.

Something I really couldn't understand in there is on page 13 where it talks about Income 'Tax Information and Distribution ____'. They show an awful lot of unrealized depreciation, unrealized undistributed ordinary income, and then they figure long-term capital gain. But I don't understand that note '3' where it talks about 'income'. It says, "We're not required to provide income tax implications of this." But I don't understand there reading that, what the income tax implications are. If you bought the shares of the stock today, at the end of this year, what are the tax implications? I don't understand it. And that could make a big difference on whether you make or lose money in the fund.

Okay, so that's not clear.

And where they talk about (inaudible) here, I don't know, you could just take 'a' number and say, "This number is (inaudible)," an example and you could maybe map it out. But you'd have to have some sense of how they figure that!

Let's move on here. Let me ask, have any of you ever looked at a mutual fund shareholder report online, as opposed to a print format? Okay.

How would you feel about receiving a mutual fund shareholder booklet online or some sort of notification through an email that it's available online or as an attachment?

I think you'd have to print it out for it to be of any value. You just scan six pages. I don't think you could get much out of it. I don't know what percentage of people would – if it was a 50 page report – how many people would print the whole thing out.

And if you have Comcast, they're liable to cut it in half – because you're using too much space.

We're being asked to take the cost of every company – the gas company, the electric company, the phone company, whatever – and put it all out and do it ourselves! And if you've ever had anybody steal any of your identity then you feel like I do and if you've never had – you know you have an _____ and a cards steal -- it's a whole different ballgame to try to straighten it out. And I just think the burden of being able to do it – they will have met their mandate if we told you. But the odds of people having the time to do that if they've got a whole bunch of funds and they print it all out and then you run out and you run to Kinko's and come back and all that – it just won't happen!

Let me ask this. How many of you – let's see a show of hands – would prefer to get a mutual fund shareholder report through an email or to look at it online?

But I'd like to have that option. If I wanted to or felt like I needed to have a hard copy, then I'd want that. But if I were a more 'green' individual, I would say, "No, don't print it out." If I need to print it out I'll print it out or I'll read it online in pdf.

Younger audiences are more inclined to read electronically than people my age.

If you get anything over the Internet, you should have the option to still get a paper copy and you should be able to opt 'out' of the paper copy and not have to opt 'in'. For example, the water bill for the City of Dallas, if you get electronic notification on your water bill, so you'll know about it when the bill first comes out, you have to go in there and opt 'in' to receive it as a paper copy. If you don't do anything, they stop sending you a paper copy. And if you miss that email notification, if it gets into your junk mail or something, you can be delinquent on the date of making your payment. Well, I like to get a paper copy just as a reminder, knowing that I didn't overlook it on the Internet. And you have to opt 'in', you don't opt 'out'. And I think on all these reports, they should give you the option to say 'paper'.

To pick the way you would prefer.

To pick the way you prefer, but not to automatically stop sending you something.

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But if you're not around and you had a thousand emails – because I get like 400 a day. And you miss that one email then you're not going to get it at all and you're not going to know what stock.

Okay, let's move on. We've only got about 20 more minutes here and I have something else I want to show you.

I wanted to go around the table and ask you, what you do when you receive a proxy statement. Do you read it thoroughly? Do you glance at it? Do you toss it? Let's start here.

Well, I usually read it. And a lot of times now, if I don't respond, they'll call me and say, "Well, how you going to vote on this?" But I read proxy statements – I mean, parts of it.

And do you usually return them or not?

Sometimes I do.

I don't get so many of them, so I usually read them.

I read them and I don't like the fact that almost always when there's a stockholder-proposed change, the Board of Directors, 99.9% of the time, recommend that you vote against it, even if it sounds like a good idea, they almost never recommend it. And if you vote 'yes', you're up the list, you're probably 2% of the vote. A lot of those proposals are to protect the individuals. The upper management and board of directors of the company, they don't like those proposals because it puts restrictions on them.

And do you usually return the proxy or no?

It depends on what it is. I'd say maybe 50/50. If it's something that I don't feel that my vote makes any difference, even expressing of my opinion sometimes – sometimes I toss them and sometimes I send them in. If it's something I feel strongly about – even if I know it's not going to pass, I still go ahead and vote. If it's something that's not really relevant or it's like say, "We want to recommend the company not invest in a company that pollutes the environment." Well, if I feel that's important, I'm going to vote for it. If I don't feel that what the company is doing in particular – like Exxon – my wife won't buy shares of Exxon because she's still mad about Exxon Valdez and that happened 15 years ago or something. But even though that company is doing well, she won't buy their stock. So, if she had a proxy statement on them, she'd vote against whatever they were recommending.

(name redacted)?

I almost always vote and send it back. And I pay a lot of attention to the board of directors. And if they're putting in a whole new slate, then I vote against the whole new slate; something is happening that isn't good.

All right.

I do always read as much as I can understand. But I feel like voting is part of my responsibility as a stockholder so I will vote. But just recently – talking about the email stuff – I did get just yesterday, email notification about my proxy, which I can phone call in, so I'll do that.

All right.

I normally do and sometimes I might know the person if they're in the area. And if I don't understand them, I try to call the broker or whoever is involved and find out their take on what it meant. Because some of them are – I'm not quite sure what they're saying, so you don't know if you're for or against it because you can't quite clarify what it is that's trying to be accomplished, the goal.

Sometimes they're worded where if you think you're voting 'yes' you're actually voting 'no'. They do the same thing with proxies sometimes, the way it's worded in a double-negative type wording or something.

Speaking of the shareholder's issue -

I'm sorry but let's move on because we've only got 15 minutes here and I've got another document for you to look at. I don't mean to interrupt you but I want to make sure we get through all of this.

I used to be faithful in returning proxy statements and I will still do an occasional one online but that's really about it.

Why do you tend to return them less than you used to?

There's too many. My nephew, I take care of his stuff and he's got more stuff than I do. I'm just tired of it.

So, it's just the volume? Okay. (name redacted)?

I'll send the proxy in but I want to be sure who is on the board and what's what – and that makes my decision a ___ thing a lot of times.

All right. I wanted to ask you to take – and we've only got five minutes. Let's go through a proxy statement.

I've never seen a proxy statement this thick.

Sometimes they're printed on different paper.

(Pause to review material).

Anything in this proxy statement that you found difficult to understand? (name redacted)?

The proposals are numbered in a way that doesn't agree with what's on your fill-in form. So proposals went '3 and 4' and there's no proposal '3' on the proxy cards.

I think we've redacted that. Anything else that was difficult to understand?

Well, this was at least twice as long as most of them I've seen, so it would be more difficult to understand simply from the point that if you have to read so much material.

Just again, the volume.

I think a 10-page report would be a lot. Also, again there's a 'Stockholders Proposal' that would allow stockholders to have some say about executive compensation and the board without question is going to recommend getting that, and not only salary, but also bonuses and stock options and all of that.

\$50,000 for eight meetings!?

And what they said about (inaudible) –

So, that was not understandable?

It would have been eight directors for a term of one year. I didn't know if that meant the entire board, so I'm going 'here' looking and trying to see, what is the total of the directors and what is this a percentage of? Is it 100% turnover or how is that? Because that makes a difference.

(name redacted), anything in here that you found difficult to understand?

I think I'm getting tired and I didn't spend a lot of time looking at it.

Anything else that was difficult to understand?

I had a hard time figuring out what they were making, the officers.

The board right here, it makes good money.

I'm looking over here at this little box where they're supposed to show the compensation.

What page is that?

Twenty-something. And I don't understand what it is and who they are!

Which page are you looking at?

28 and 29.

So, that wasn't clear on 28 what they were. Okay. Anything else that was difficult to understand?

Usually when you see the compensation, it's the name with the title and how much they're making – the top five to ten.

This just says, "\$17.5" for James (inaudible last name). Well, who is he and is that \$17.5 million or \$175,000?

Well, later on it shows – over in the thirties – it shows more of the dollar amounts.

On 34. Chief Executive Officer gets four times – the share ownership guidelines are four times the base salary. And then the president gets three times and it goes down the line.

First you have to know what the base is to do the math.

Well, that's later on.

To your point, I think, if you were just a non-professional reading this.

Oh, I found it! I found it! Page 36.

It would be better if it was all listed in one place – who they are, how long they've been on the board, and what they make, what percentage – all of this, instead of having to look for it.

Page 36.

Yeah, this report is way too long; it could be greatly simplified.

How trustworthy do you think the information is in this proxy statement? (name redacted), how about you?

Trustworthiness? It's hard to judge. I believe that the details are accurate as far as they're expressing all the compensation and the details and what actually financially went on, for about 20 pages. I have no reason to doubt that. But you know, evil can be concealed in the details.

I think there should be an upfront summary of compensation and then they can put all the details after that – instead of having to dig through the different layers to find it.

I found it on page 44.

So, you had to dig for it.

Yeah, it says, "Number of years, service and how much they make." \$21 million!

Yeah, that should have been upfront.

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Does that affect your sense of how trustworthy this information is, that you had to hunt for it, or not?

It's way in the back. You get tired of reading it.

That's a lot of money!

It is.

Okay. I'm going to go around the table, and we're almost done. I wanted to ask each of you if you would share with us just generally speaking, what your occupation is or if you've retired, what it was before you retired. Let's start over here with (inaudible first name).

I'm retired. I was a petroleum geologist. And I was president of the company here in town.

All right. (name redacted)?

Software engineer, still doing that.

Retired manager and engineer with the utility company.

I have five children and worked all the time and mostly as administrative, executive assistant. And these last ten years I ___ with the head of the ___ franchise operation.

(Inaudible female) tables.

(Inaudible female)

(inaudible word) management consultant.

Retired, college professor. Occupational safety now.

All right. Give me just one minute and I'm going to go in the back and I know we don't have too much time, but I want to see if there's anything else that they want me to ask.

What did you teach in college?

The last two years I was teaching medical and disaster preparedness.

My daughter teaches in college up in Toronto, Canada.

No more questions. Let me ask you to pass up all your materials.

Thanks very much!

April 22, 2008, 7:00 PM, Jacksonville , FL

(Explanation of group purpose, confidentiality information, OMB info, etc., by moderator. Moderator reads the disclosure about the materials to be used. Moderator comments are indicated by bold font.)

Let's do some introductions, first name only please. And if you would, share your occupation with us, just generally. Let's start over here.

I'm (name redacted) and I'm a homemaker, I have two girls.

What do you want to know?

Your first name and your occupation.

I'm retired. My first name is (name redacted). And they got me down here as "(name redacted)".

Can you share what you did before you retired?

I'm retired from the post office, the U.S. Post Office.

All right.

(name redacted). I'm a minister.

Okay.

(name redacted). I'm retired after 36 years of teaching elementary school.

I'm (name redacted) and I'm a customer service rep.

Okay, great! Thanks very much.

I wanted to ask how many companies you own stock in, outside of a 401K or an employer-sponsored retirement program. And again, let's start over here. So stocks or mutual funds, approximately how many?

One.

One? Okay.

Yeah, I have one stock.

How about mutual funds outside of 401K, or?

Oh, no. This is something new; they never had that in my time.

Three mutual funds. There might be another two or three mutual funds – you know how some of them have different ones inside of it? I think maybe six or 7 mutual funds.

Thanks.

I'd say seven.

Two mutual funds, a 401K and an IRA.

Let me ask; what types of information do you look for as you do research on investments? And now I'm looking more for the type of information, not so much where you get the investment – which we'll cover in a minute. But what kind of information do you look for if you're thinking about making an investment?

Ten- and five-year returns.

I like a longer spread. I like to look at ten-year returns and if possible, 20 year returns.

I get to ask my broker, but lots of times I like to know who is like inside the mutual fund. What are the holdings, the different companies that they're holding. So, I like to look at that sometimes.

If they've been in business a long time, that the P&E is good and the price of the stock – if it's up or down or fluctuates or stays level. Something like that is what I – and I read about it first, and I don't ask anybody because their opinion is no better than mine!

(name redacted), how about you?

Just look at like the history, of what it's done previously and what it's going to do. Like ours is mostly long-term, maybe 20-year terms. And pretty much trust the person who is advising it.

Okay. Anything else that anyone looks at in thinking about an investment?

I wish I could buy some Berkshire stock!

You and me both! One is the different classes; because the different classes determine I guess different fees. And like 'D' shares and the 'C' share and stuff like that, to look at that. And then the upfront loads and the loads in the rear – it's the 'ending' load but I forget what it's called. So, those price-points in there.

I think the administrative costs are supposed to be less than 2% on a mutual fund. I think that's the advice I've read. And if it's costing you anymore than this, it's too much.

So, is that something you kind of check on?

Yes, yes.

Okay. Anything else? How about sources of information? Where do you get this information?

My number one source is "Consumer Reports" and their "Mutual Funds" issue that comes out, I believe it's March of every year. That's a very good source because it gives you the one-year/five-year/ten/twenty returns on various mutual funds.

What was your question?

Where do you get your information?

Newspapers, magazines. I get a lot of stuff on the computer.

Any specific websites that you go to?

I don't know them. I don't pay any attention to that because if comes up I'll read whatever. Like "The Motley Fool", have you ever heard of him? I read his stuff; they're pretty good.

And then do you use the local newspaper? You said you use newspapers – is it the local newspaper or what?

No, just the regular newspaper. I don't get "Barron's" or you know, or anything like that.

I read a lot from my broker. I get a prospectus and stuff like that and then some that you're already in, they'll send you different ones of all the other ones that you might not be in! And so you see information from that.

I used to watch "Cramer" but the minute he recommends a stock the price goes way up, so it doesn't do any good to watch him! I mean sometimes he has general information about an industry that's good. But I would never go for a stock that he's picked because he's just driven the price up the minute he mentions it!

I watch "Cramer" too.

(name redacted)?

I talk to my financial advisor. I have an 'official' and an 'official' one!

All right. Have any of you ever looked at an annual report for a particular stock?

Yes.

(name redacted), what sorts of things did you look for in the annual report?

I look at their gross, their annual – several different things. I like annual reports. My husband used to do – he worked for his company’s annual report, so I like looking at those. And I like looking at the ‘ten keys’ also. The disclosures; especially the – I’m trying to think of the word, I just lost it there. The CPA’s notes.

Anything particular you look for in those notes?

If they make any mention about unusual activities, especially among the salaries or the stock options.

We get a report in the mail, it’s like ‘this’ thick; it’s a quarterly report. And that’s too much to wade through!

I get a lot of them! It goes right to the recycle bin!

I agree with that!

You could save a tree!

What I want to do now is to pass out an example of an annual report and ask you to take a few minutes to look through it and then I have some questions that I want to ask you about it.

This annual report may not look like one that you receive because it’s printed on one side only and that’s because we just made copies of it. But the actual information about the company was redacted from this so that’s why it may look a little bit different from others you’ve seen.

(name redacted), I wanted to follow-up on something with you, though. You mentioned that you have an official advisor and an unofficial investment advisor?

I have a broker and my brother-in-law who has done extremely well with stocks, so I consult both.

So, is your brother-in-law an investment advisor also?

Not officially.

So, he’s just a –

A family member.

Okay, all right. Now we have about ten or 15 minutes to look through this and there's a lot of information in here. So, I do want to draw your attention to page 10. And there's a Table of Contents. And one thing you may want to pay special attention to is, beginning on page 11, and going through page 27, is the Management's Discussion and Analysis. So, try to look through all of it, but do pay particular attention to that part. And feel free to mark on this. And the things that I'll be asking you about are what's helpful in this report, what's not helpful, what's clear, what's unclear. So, just take a few minutes and feel free to mark on these copies and then we'll talk about the reactions that you have.

(Pause to review materials).

Is this a real company, 'XYZ'?

Yes. But that's not its name.

Oh. 'XYZ', okay.

As you're going through it, if you see a term that's difficult to understand, go on and circle that or indicate it.

Do you have a list of people that's on the board?

I believe that may be in there but you may have to look for it. Just take a few minutes and anything that you look for and you don't find, just make a note and then we'll come back to it.

Yeah, I was reading about the stock and you'd be surprised who was on the boards. Like the one I was looking at, "Anheuser Bush" is on the board and they pay him 'x' amount. What's he want to do that for? It's just something to do! When you've got that much money! Bill Gates is on the board of Warren Buffet!

Let's just try and take a few minutes to look through the materials and then we'll talk about what's in them.

I guess the smarter people you get, the better off you are.

(Pause to review materials)

Okay, let's talk about this annual report? How helpful do you think an annual report like this is, in making an investment decision? (name redacted), how about you?

It could be helpful.

What do you think in it, is helpful?

I found helpful that they had the percentage from 2006, 2005 and 2007 -- all of them together. I found the overseas -- like all the overseas charts.

What else was helpful in this report?

The only thing about annual report –

What did you find that was helpful in the report to you if you were making an investment decision?

Nothing yet.

Okay, nothing yet.

You've got a lot of losses in here and you've got quite a lot of debt.

But just in terms of the types of information?

What?

In terms of the types of information, is just having information about that something that's helpful or not?

Well, it's like the stock I have. They send it out – an ordinary person – this here doesn't mean much to them, it's a bunch of figures and they don't care, they want the bottom line. They get their dividends. I think all of this here is costly to make and mail. And the company that I have stock in, they're thinking about doing away with the 'annual report' to mail it out because this costs a lot of money. And they're thinking of –

Some other ways of getting that information out.

Yeah. These annual reports, I've seen and I just browse over them, I don't read it. I look at these figures – so what! So they owe a couple of billion-dollars to – you know, they don't worry about it. So, I want to see what my dividend was per share!

All right. (name redacted), how about your reaction? Anything in here that was helpful, or would be helpful to you if you were trying to make an investment decision?

Well, if I was trying to make an investment decision, but not being the most astute investor – from a common person, it's overwhelming – all the information and looking through trying to figure-out what it is. You almost need an accounting degree and a business degree to understand everything that's in here! But there are some things, as far as how you think about things. But for myself, like I was looking at just 'pension', and I saw pension went down. But from an investment standpoint, okay that's moving from the liability. But then me thinking about 'people', you got \$20-million difference from one year to the next year – what happened within that timeframe? Did you just lay these people off? If this is a 'pension' should it have been going to 'pension'? Was this somebody that worked 20 years and gave them the shaft?

So, that raised some questions.

For me, for me from – I guess from a moral perspective, just thinking about ‘people’. And but some of the other stuff, I mean, investing and making money-wise – over the years, compared to other years they made more money and stuff like that. But it’s like the information is so full, you get lost in it. Now I went to the front page just to get a synopsis of everything and you’re still looking like, “Okay, okay, okay,” and he asked about dividends and I know I saw it somewhere, it was one-point-something-percent-somewhere. But you really have to search! And I understand the detail, because you know, you get that other information and, “Okay, what’s this?” But there’s still more questions than answers! You get “U.S., the U.S. part,” and then you got the “Non-U.S. part,” and how many people are over there. But I mean, I was stuck at how the pension could drop that much in one year! When I think of pension, like, “How! For pension?” That’s just me, I mean, but.

Did it seem like that there’s a lot of information and there’s a lot going on? Or is it the sheer volume of the information in the document that makes it difficult?

I think the sheer volume. Because the information won’t be as difficult if it’s concise. Now, I can understand if you only want to put together – give you an option! Do you want the ‘whole one’ or the ‘concise one’? Certain things you just break-down – what we would maybe want to know as an investor, okay? “What did you do from last year to this year,” or whatever. “What is your outlook for the next five years?” The acquisitions that they made- that was some good information that they gave, that they bought another company and it cost ‘this’ much to get that company, and that kind of things, and what that company does and you go through different pages and see what was what. But just break it down. This is probably a concise form to us – they probably got even deeper stuff, but. If you just look at it from a common person’s viewpoint. When do you look at this and go wash clothes and cut the grass and answer the telephone? You know, if we get to a point where we take our Social Security – well, I’m a younger guy and that’s going to be my retirement and if I’m supposed to look at that and do it, how do I actually do it? Even if I look at all the reports, I can’t make a decision! So I don’t understand this, because it’s not made for – in my opinion – ‘me’!

(name redacted), anything that was helpful to you in here?

Of course, I looked at the ‘Audit Report’ first and the fact that they got an unqualified opinion, and I looked at the individual auditor’s notes, which I found very interesting. I found the report about the stock options very interesting – because I think they’re extremely generous with their stock options and it doesn’t take a long time to get vested in this company with stock options and there’s an awful lot of them out. I also found their board of directors very interesting because they didn’t have any outside directors – they were all from the same company, and I don’t think that’s good.

All right. (name redacted), what did you find helpful?

Well, I would have to take a weeks’ vacation to read this! And so, you know, I circled some terms that I thought, you know, nobody outside this industry would understand what they were.

And I found that the bottom line is contained on page 31, “Did they pay a dividend or did they not?” And, yes, they did! They paid \$1.16. Last year they paid \$1.04. So this is the bottom line to investors right here!

Which page is that?

Thirty-one.

So it was about half-way through?

Yeah. You know, in some industries they print an ‘Executive Summary’; they’ll have a full report but it will be preceded by an ‘Executive Summary’ and that’s what the average investor needs; they need the ‘Executive Summary’, they don’t need the full report. To me it’s just BS, most of it. You know, if you stop printing these, you’d put a lot of MBA’s out of work. But I did notice that they closed a plant in Pennsylvania and they closed a plant in New Jersey, so I didn’t like that very much. It might have been a good investment decision, but it’s not good for jobs in this country.

Now you anticipated my next question, which was you said there were some terms in there that were difficult to understand. And I wanted to ask everyone, were there particular terms that were hard to understand or unclear? (name redacted), did you circle some?

Yes, I did.

Would you like to share what those are?

‘Adjacent markets’, on page 2, the top of the second column. “Innovation also includes applying existing technologies to new or adjacent markets.” And then I guess they mention ‘hyper dispersants’, I guess that’s a product they make. In that same paragraph.

Okay, but that wasn’t clear.

And then down to below, “The leader in global supplies.” It says, “Streamline scalable processes,” and I didn’t know what ‘scalable processes’ was. Okay, “In this period of significant integration and rationalization,” that’s on page 9. I have no idea – what are they saying by that? Okay, page 11 in the first column they reference, “Cautionary statements for Safe Harbor purposes,” but it says, “Included elsewhere in this annual report.” I don’t know how deeply buried the, ‘cautionary statements for Safe Harbor purposes’ are, but I didn’t know what that was. ‘Impairment related charges’ – there were a lot of references to this ‘impairment related charges’. I have no idea what they’re saying by that. Okay, here’s another one, ‘segment volume variances’, I have no idea what that phrase means. I guess that’s about it.

(name redacted), did you have any terms that you had marked?

They had a lot of acronyms and I didn’t see where they explained what the acronyms meant. Okay, like they have a (URBOR, IBDA?) – things like that, it’s like, “What does that mean?”

So, those weren't clear? All right. (name redacted), anything that you found in terms of specific terms that were difficult?

I just assumed that I didn't know about the technology, since it is a technical company.

That's what I mean about these reports. Ordinary person – I bet they go through and look at them and see what the dividend was and then I bet it goes right in the trash! They don't need to know that! A stockholder – what do they care! I mean, there might be some people higher-up that's got a million shares, that yeah, it would probably mean something to them. But if they're buying and selling companies. And this tells you they've got 'so much debt' and what can you do about it? Nothing!

(name redacted), did you mark anything that was difficult to understand?

Oh, there were plenty! I don't ever read these, so this was my first one to look at. So, anything I found interesting was, "Wow, that's in there!" But just the whole thing seemed so wordy. Of course, they're trying to sell themselves, but I mean so they bring out the positive. And then if they're trying to bring out the negative, like they know about the negative, but they're sugar-coating it so that you don't know if you're coming or going! That's what I thought.

I also found it very strange that they never explained what they are. "We are a Southeastern Aggregates Company. We've been in business for 80 years."

It may be that that information was redacted, so that it was not clear what company it was.

How trustworthy do you think the information in this annual report is?

Honestly? I have no clue! Do I really trust it? To a certain degree. But it's like you want another opinion. Even though this comes from the company, you almost want another opinion – which you can't get from the company. Like she mentioned about one of the reports that was done in there – and you say it wasn't an outside report?

There were no outside directors on the board of directors.

(name redacted), how trustworthy do you think this is?

I would trust the information; however I wouldn't know if the information was good or bad. Like if you say this is what it is, I'll believe you. But again, being able to understand that and know what it means.

I wouldn't base an annual report – whether I'm going to invest in the stock or not. I wouldn't just on that alone.

What else would you want to know besides what's in the annual report?

Well, like a 'New York Stock Exchange Certificate', I don't care about things like that. If they're on the Exchange, then you've got to assume they're on the up-and-up! So, they've already been investigated if they're on the Exchange anyway. Mutual funds – I mean, they say, "If you invest \$10,000, if you're going to invest 'x' amount every month, at the end of a 10-year period you'll have 'x' amount of dollars," and charts. But they're a lot different.

And we'll get to that in a minute, actually.

They're a lot different than the stock market.

I know my bias is because of things that's happened. I lost money at WorldCom, I lost money in another company that went belly-up. And all the information that was out there was supposed to be good, you know, it was supposed to be good information. Maybe \$5,000 wasn't that much to somebody else, but \$5,000 was something to me! And WorldCom went under and I didn't know it went under – and I knew from watching different – but I didn't know when it was going under and I didn't have any idea from reading the report or anything and talked to the broker about it and they was shocked too. They're shocked! What am I getting? And I explained my bias from reports, from that, because that might be unfair to the company. Because I said, I'm going on what's happened in the past, which actually you're not supposed to do that all the time.

But it can be important.

I was following a company in Texas, okay? Everything looked good, it had a good record, good business, it was going along good. And then I read where they're going bankrupt. And you look at the figures and they're going along and the price of their stock and everything looks good and the next thing you know you turn around and they're going bankrupt! Because they gave something to some CEO, you know, \$50-million to retire or something like that.

I think companies are already required to have outside investors. The problem with Enron was that the Arthur Anderson was in on it! So, we, as investors, didn't have trustworthy auditors.

I understand that part. But I'm saying not like a CPA company that would do that just for them, but another third party, like a 'Watch group' and they bring out reports. In any company that's on the stock exchange, they go through all of that. This company just does that all year long. Because if all these reports come out every year at different times, and you have a staff not owned by the SEC or anything like that, I guess, but it's paid from something – I don't know how we can have it set up. But if we think about Enron and something like that, we have to have something that makes us feel a little more secure about investing. And also, at the same time we can say, "Look, we have a way of in one aspect of watching over the employees in companies, so their pensions are not lost and things of that nature, and our investments." And this outside organization that just goes through the numbers and validates and checks. Because there's got to be a check-and-balance system. And the company that don't want to submit to it, that just throws up a red flag for everybody else. "Okay, you don't want to send over your notes or the information. You don't want us to check whatever they have to check to verify that this is a true statement," then that's a company that, "Okay, we got an issue with." And we can have an issue with it. It's an outside source –

Pardon me, that would increase your trust?

Yes.

All right. (name redacted), how about you? How trustworthy do you think the information in the annual report is?

I think you have to say to yourself, "It's as accurate as they want it to be." Because I think in the end, any company can hide things in the short-term. Hopefully in the long-term they cannot hide things. But they can hide it from the auditors, the auditors can hide it from the investors. You just have to hope that they are being honest with you and look at their long-term record.

All right. Let's move on. We've talked about mutual funds and many of you have mutual funds. And they are, of course, required to send reports to shareholders twice a year. And I wanted to ask you, those of you with mutual funds, what do you typically do when you receive a mutual fund shareholder report?

Recycle bin!

And do you do anything before the recycle bin?

Sometimes I look at the administrative costs and make sure they're under that two-percent and then I just toss it.

How about you, (name redacted)?

I look at it and then I recycle it.

Do you glance at it?

I do look at the different items, yes I do.

Anything specifically that you would open it and look for?

Anything unusual. Anything especially negative. Any negative numbers.

How about you, (name redacted)?

They're horrible! I open it up, shred the first sheet that has my address and name and stuff and the rest is in the recyclable bin.

(name redacted)?

I only get one annual report; I don't have any mutual funds anymore. But if I was going to buy mutual funds, I'd buy Vanguard.

Jacksonville, April 22, 2008, 7:00 PM

All right. And (name redacted)?

We get a quarterly report and a little tape that keeps the pages closed and that doesn't even get broken. I don't even tear the front page off!

All right.

I will mention that I do look at my online brokerage account.

Yes, weekly!

Now what I want to do is to pass out an example of a fund shareholder report. So, this is a shareholder report from a mutual fund. Again, if you'll just take a few minutes to look through it and then I'll have some questions about it. This is a little bit shorter than the annual report we just looked at.

(Pause to review materials)

Okay, let's talk about this one. Let me pick on (name redacted) first. What did you find in the shareholder report that was helpful to you?

I don't know.

We can come back to you. How about you, (name redacted)? Anything in here that was helpful to you?

Oh, yes, most of it! I thought it was very helpful! It was very easy to understand, to read through, to know exactly what the fund – what stocks and whatever, that the fund held.

What do you think made it helpful?

Well, I like the charts and tables. Not the charts so much as all these tables where they tell you exactly what the company has invested in; how many shares they own. I liked it. I like the 'Shareholders Letter'. I thought it was very easy to understand 'why' they made the investment decisions they made. I just thought it was much easier to understand than the annual report.

(name redacted), how about you? What did you find that was helpful in here?

I, again, like the 'Shareholders Letter'. I liked they were talking about the areas in which they had the money and their philosophy. And like (name redacted), I thought it was easy to understand and perhaps that's because we deal with it more.

What did you find helpful?

The information. It's there. It seems like transparency, a little bit. You can see where they're at, what they're holding. The Letter from the President or what is it – the letter on the front to the shareholders, probably from the fund manager, giving us an idea of his thinking; why they did

what they did and how they're doing it. And to be honest, it's going to make me look at mine! Because I really didn't look at mine!

(name redacted), anything in here that you found helpful?

I thought it's very good; it gave a lot of information. You know, about the company – ups-and-downs, why 'this' happened, why 'that' happened. It's pretty-much explained, you know the mutual fund, what it's doing and the percentages. And they explained why they lost money due to the mortgage and interest and all of that. I thought it was pretty good.

All right. And (name redacted), anything that was helpful to you in this?

It was a nice letter.

It was a nice letter, okay. What was 'nice' about it?

Just, it explained what was going on. I keyed in where it talked about the 'anticipating economic weakness, recession or worse', so just like being prepared for that.

Anything in the shareholder report that was not helpful? I think in general you all have been more positive about it than the annual report; but anything that was not helpful?

Well, I thought it was interesting in the 'Shareholders Letter' that says, "We believe our investment in Wachovia is a good example of finding opportunity in the face of investor uncertainty." Because Wachovia is experiencing strained financial difficulty. And it says, "Most of its mortgage operations were acquired through direct purchase of Golden West Financial, which has been a ___ off of Wachovia." So, it's like, "I don't think you thought that one out before you did it!" Because that's caused them some real loss!

Anything else that wasn't helpful in here? How about terms or anything that was not clear?

I thought this one was fairly clear.

All right. I wanted to ask you about preferences about getting this type of information, especially paper versus online. Have any of you ever looked at a mutual fund shareholder report online?

Yes.

One person? Okay. How were you able to locate that report? Was it easy to find? Or were you provided with the URL, or?

Yes, you can do the URL. You can go through like – I was with A.G. Edwards, which is now Wachovia Securities, and you can look at their link for it. They have places where you can go

and look at them. And they offered me the option of receiving my reports online instead of in paper, which has been a huge help to my recycling bin!

Let me go around the table and ask, if you had a choice in how to get information, would you prefer – thinking now about companies that you own shares in or mutual funds – would you rather get it in paper, would you rather get it online? How would you like to get that information?

I guess online. Just to be ‘green’, you know, to not have this stuff go out and end up in recycling bins.

I like the online because I pretty much speed read anyway and that way I can really click through it!

I would like it online. My only issue would be if you would connect to it online, are they going to start sending you all this ‘other’ stuff? And that would be your hesitation. Because I’ve thought about doing that, too, with Smith Barney, but I just didn’t want the extras.

I’ve not ever received anything.

No extra?

How about you, (name redacted)?

I’d rather get paper instead of online. I get things online and I can’t – like my phone bill – and I wanted to print it out and it took 14-pages to print my phone bill!

So, you might as well have it printed to start with.

Yes!

(name redacted)?

I typically prefer to get things on paper. Like the phone bill, for example, because like I would like to sit and look at it, rather than stare at the screen because I have to stare at the screen from the other stuff. But for something like this, I would like to say, if I want to look at it, I should be able to call and say, “Will you send me one?” And then they’ll send it right out.

All right. Any other comments about fund shareholder reports, before we move on?

I wanted to ask, how many of you have received proxy statements in the past? How about you, (name redacted)?

Don’t know.

Received what?

Proxy statements. How about you (name redacted), do you remember if you've received a proxy statement?

I'm trying to think. I don't – I can't recall any.

Okay. (name redacted), how about you?

Yes.

What do you typically do with them when you receive them?

Shred the first page and put it in the recycle bin.

So, typically you don't read them then?

Only if – I mean, if something catches my attention or if it was something I wanted to read about, something interesting going on – if somebody sent over because I asked about it. Other than that, no.

How about you, (name redacted)?

Yes, I have received proxy statement and proxy ballots.

And what do you typically do with them?

I read them. If it's something that needs to be voted on, I usually vote on it and mail it right back. I've also done it online. I do always try to vote.

And how about you, (name redacted)?

I do read them to see. Like I say, they might have a change in the board or directors or they might have an election of officers or directors. And I might read just out of interest, I mean, I don't care who is on there. Except that my fund was recently disciplined by the SEC, so I might have to pay closer attention to who is on the board! They had to pay a huge fine!

(name redacted) and (name redacted), you said that you do look at the proxy statement. If you get a proxy statement and typically opened it up, what for example, is the first thing that you look for?

What changes are they making. What are they interested me doing?

Same here. Or if it's a director, I might look at his or her qualifications, just to see what industry they come from. Just out of curiosity, I guess.

Is there any information that you've ever looked for in a proxy statement that you expected to find and did not find? I know it's hard because you don't have it in front of you, but.

Well, I don't think it matters so much with mutual funds, but I know some companies will change the location of a shareholders meeting so that most shareholders can't attend. Now that's a really big one – you know, where they will announce the results of a proxy vote. And they'll move it across country so the shareholders! And that happened with Pacific Gas & Electric, where they got tricky with the shareholders and they moved the annual board meeting to New York or someplace inaccessible to other shareholders.

And it had been in San Francisco previously?

Oh yes, it had always been in San Francisco. And that sort of thing shouldn't be allowed, I don't think.

All right. So, that's one of the things that you look for.

What I want to do now is pass out an example of a proxy statement. And on this we'll take maybe five minutes or so to look through it and then I'll have some questions about it.

(Pause to review materials)

Okay, let's talk about the proxy report. Was there anything in here that you found difficult to understand? How about you, (name redacted)?

Not really.

So, it was fairly understandable?

Yeah.

Okay. What do you think made it understandable?

I guess because it's stuff that I would be interested in knowing. Knowing that you would want to know what they're going to vote on and having it laid-out like this. Like the Table of Contents, knowing – I mean, all these things are things that I would want to know that they're going to vote on.

All right.

What was your question?

I wanted to know if there was anything that you found difficult to understand in here?

No.

Okay. (name redacted), how about you? Anything that was difficult to understand in here?

I didn't get through it all!

In the part that you did get through though.

Well, I'm just trying to figure out what a 'phantom share' is, which in my mind is 'not real', but it's real to somebody else! I would like to be a board of director and get phantom shares and record up to \$12,500 worth. But I mean, it's like extra information. If I'm going to vote, I get the sheet that shows me what it is, what we're going to vote about – you know, you read it and get ideas of what's going on. You decide before you go in and you vote. This don't help you with that. It just throws a whole lot of stuff at you and hope you just, "Okay."

Is it the language, is it the content? What is it about the material that would make it hard to decide how to vote?

It had no pros and cons. You're not going to get that anyway because they want you to go with what the board is saying. I would prefer a pros – because you have to figure-out – because a lot of times I could be against something, but it could be something that's really beneficial to that company but without the explanation, you would have no clue why you go 'this way' or 'that way' and that's one of the reasons I just leave them alone. Without the information being in front of me, it's like, "How could I really vote on something?" Or even board members? If I'm going to vote for a member besides knowing he's a certain age and he's owned these other companies; but what do you know about your companies?

(name redacted), how about you? Anything that was difficult to understand in here?

No, I thought it was fairly easy to understand. It didn't have a great deal of technical terminology in it.

And (name redacted), last but not least.

Yeah, I thought it was pretty understandable. The only thing I wasn't quite clear on – they did indicate in one paragraph when the directors could exercise their stock options. And I think that needs to be a little more clear. I thought it said they could only exercise them – okay, "Each option is granted with an exercise price at the closing price of our common stock on the date the option is granted." So, I guess backdated is illegal – backdating stock options is illegal.

Yes.

Okay, I mean that seems to be clear now, when you can exercise the option – "Only on the date it's granted."

But they're talking about the price, the price is the day it's granted.

Right.

But it sounds like that was unclear.

Yes. I would like it clarified a little more, “There’s no way that the stock options could be backdated.”

How about anything in terms of language or terms that was difficult to understand? Did anybody mark anything in here?

I did the same thing, though. I think it’s a typical report with any of them; they just tell – I didn’t see anyplace in here where they had their board of directors. If it’s in here, I missed it. Because the vote on them. But they’re telling me how to vote and what. And like one place in here it says, for when their CEO’s – telling how much money he’s going to get. And then the stockholders come in, they had a question on the ballot about it and then it says, “It’s a non-binding,” so why have a vote on it? They say regardless, they can vote yes, but it’s non-binding and they can give the CEO whatever money they want to when he leaves – something like \$42-million.

I read somewhere that in Europe, shareholders have more control over executive compensation and this is just an indication – pages and pages of out-of-control executive compensation. Just totally out-of-control!

How trustworthy do you think the information in this proxy statement is? (name redacted)?

I would trust it.

(name redacted)?

It sounded pretty solid to me, yeah, I can believe it. Except that I’ve read it before and it’s typical – what they cover and what they say in their votes, their proxy votes, etceteras. So I don’t think they’re telling you a bunch of lies in here – it looks pretty straight.

(name redacted), how about you? How trustworthy do you think this is?

It was okay!

(name redacted)?

I had a problem where it says, “The board reviewed the ‘insubstantial’ amount of goods and services purchased from companies of which Messer’s Joyce & Patterson are executive officers and companies in which Messer’s Whitman, Joyce, Patterson and Dr. Jones are directors. It also reviewed the ‘small’ amount of the company’s discretionary contribution to St. Jude’s, where Mr. Wes is chairman of the board.” And I’m like, okay, ‘small and insubstantial in the amounts’. I would have some real concerns. And what’s ‘small’ to them may not be ‘small’ to me!

Okay. And (name redacted)? How trustworthy do you think this information is?

Well, I think it's probably pretty trustworthy because they aren't even embarrassed by all this money they're giving each other. They aren't even embarrassed! I mean, here they lay it all out for you, you know! It's unrestrained greed!

I love here where it says, "Executive officers total direct compensation. Base salaries, bonuses paid and grant ____ of long-term incentives, generally found within the first ____ between the 50th percentile and 75th percentile of the Fortune 500 Market data." Doesn't that say 'greed' right there? Their performance didn't match their compensation!

Okay. We're almost at the end of the group and I wanted to come back really to the beginning. And as I mentioned, the main objective that we had was to try to understand how well the 'Plain English Initiative' that the SEC has is working in terms of the documents that you have reviewed this evening. And I wondered, if overall, in your own words, you could describe the language that is used in these documents that you've reviewed this evening. And (name redacted), let's start with you.

Well, I'd say this one is fairly 'obtuse', would be my word for it. Sort of – well, just undecipherable, really, to the average shareholder. I mean, you would have to be an MBA to understand this report. This one, I would say is pretty 'user-friendly'. It's almost engaging, it's almost I would use the word 'engaging' because it's so readable. And this one, you know, I just – I don't want to get started on 'executive compensation', it really makes me crazy.

All right. (name redacted)?

I think they're doing as good a job as they can with the constraints they have. It's just like I was a teacher and other teachers would understand what I am talking about when I am talking about my job and 'No Child Left Behind' and things like that. Those are terms we would use that we would know. And these terms are terms that if we were in the business world we would understand, I think, a great deal more. I think given the constraints that they're operating under, that they truly are making an effort to let us know things in plain English – as plain English as they can get.

(name redacted)?

I most liked the mutual fund one. I don't look at the report. I don't think they use words that we could understand. The only thing that we may not understand is like she was saying, the words that apply to 'their' business aspect alone. And because we're unfamiliar with it, it's unfamiliar to us. And in layman's terms – it's 'getting there'! It hasn't gotten there, but it's getting there where more common people can grasp a hold of it.

And (name redacted)?

Jacksonville, April 22, 2008, 7:00 PM

I don't much comment on it one way or the other because you didn't really have time to go much deeper or page by page. But overall, I don't know, they seemed to be a fairly well written reports. I don't know, some of these – I can understand 90% of what they're talking about.

Okay. (name redacted)?

I would describe them as 'wordy' and 'irrelevant' to the general public.

All right.

If you'll bear with me a minute, let me go in the back and let me see if there is anything else they would like me to ask you.

I want to be one of the board of directors, they get some good money!

Just to be on a board you can get \$50,000 – period!

That tells you why it's such a network; it's so self-referential, all these boards of directors. And they all sit on each others boards. And they all rubberstamp each others' executive compensation. "I'll be on your board and you'll be on my board."

Just like Congress giving themselves a raise. They don't have to vote on it; after 90 days with no action, it's automatic.

"Oh, I didn't vote on that increase!" No, you just let it happen through inaction!

I want to know how you become a CEO of one of these companies!

You know, I've worked in big corporations where I watched the people shooting up the corporate ladder – they were just totally trashed! Just horrible human beings!

Okay, just one other question and hopefully this will be fun. I wanted to ask you what suggestions you might have for improving the disclosures that are contained in these documents. And assume that you were responsible for making up the rules on disclosures. What sorts of things would you suggest be included?

On the disclosure documents. What we would suggest to be included?

Yes. Suppose you were making up the rules on what a disclosure about a stock or a mutual fund should include; what sorts of things would you want to include?

Well, I've got one but I know it will never happen. I would like to have them have to disclose how many American jobs were lost as a result of their activities. I guess that would apply to 'this' one – the annual report. How many American jobs were lost. Put a figure on it, don't hide it in you know, I don't know what that would be called – 'expenses'. Put a figure on how many people lost their jobs.

And what good would that information do?

It would influence me, how I invest. How many people lost their jobs – you don't consider that important?

Well, the people losing their jobs – that's each company as they're going offshore. But that's NAFTA and all that other stuff. Somebody says, "We're going to layoff 20,000 people." Or the airlines, "We've got too many people and now we're going to let 'so many' go." They say the bottom line, "We've got to cut someplace."

Okay. But the point was, that's something that (name redacted) would like to know.

Right. You're retired! You're not worried about your job! But there are those of us who are very concerned about jobs.

Let's move on here. (name redacted)?

One. Just thinking about the board of directors – could it be implemented that they let us know how many boards they are actually on? Not just this one that they would be on, but how many boards is that individual – and they have to be put on there how many they are on. And maybe they should set a rule that they can only be on three or two a year. I mean, how do you actually help a company if you were on seven?!

All right. Other suggestions? If you could make the rules on disclosures?

Oh! Any investigations, I guess. Maybe they disclose it already. But upfront, in that first page that they've been investigated by the SEC. Or their company is in New York and the New York attorney is investigating them. So, we don't hear about it six months after the fact, you know. We just have to turn on the news, the world news somewhere and find out they're being investigated in Pennsylvania by the Attorney General's Office. If their records have been subpoenaed or something, they have to disclose it.

Any other suggestions?

I would like to know what types of things they're doing for the environment, if they're doing anything. What environmental initiatives do they follow or promote?

Okay. Anything else?

This is a silly little thing, but perhaps they could have a link that you go and look and have someone – like a video of someone explaining it to you so that you might be able to understand.

So, that would be an advantage of having information online, that you could click on that and go to that additional information?

Jacksonville, April 22, 2008, 7:00 PM

Yes. And they could 'say' it to you rather than doing 'that'.

Okay. Any other suggestions? Okay. If you'll pass your material up I'll appreciate it.

And thanks to you all for coming this evening, we really appreciate it. And please see the hostess on the way out!