

# Results of Investor Focus Group Interviews About Proposed Brokerage Account Disclosures

Report to the Securities and Exchange Commission  
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**Siegel & Gale, LLC**

**Gelb Consulting Group, Inc.**

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## Overview

This report describes the results of four focus groups conducted with investors. Focus groups were held in Baltimore, Maryland (two groups) and Memphis, Tennessee (two groups) on February 17 and February 24, 2005, respectively.

The purpose of these focus groups was to understand how investors differentiate the roles, legal obligations, and compensation among several types of financial services professionals. Specifically, investors discussed brokers, financial advisors/financial consultants, investment advisers, and financial planners. In addition, investors were asked to provide feedback regarding a proposed disclosure statement developed by the SEC.

This report is organized into the following sections:

- Summary of Findings
  - A consolidation of all findings from four focus groups
- The Study in Brief
  - An explanation of the methods used to elicit investor opinions
- Key Findings: Baltimore
  - Methodology and findings from the two Baltimore focus groups
- Key Findings: Memphis
  - Methodology and findings from the two Memphis focus groups
- Appendices
  - Materials used to complete this study

# Summary of Findings

## Defining Financial Services Professionals

Respondents in all focus groups were generally unclear about the distinctions among the titles *brokers*, *financial advisors/financial consultants*, *investment advisers*, and *financial planners*. Investors also opined that there must be some “licensure” or “certification” that distinguished one type of professional from another. Investors relied heavily on their personal experiences with their financial services professional rather than knowledge of the subject matter.

### Representative Comments:

- “I don’t know the difference. I mean I’ve got a guy that gives me advice. I don’t know what he is.” (Baltimore)
- “I really didn’t think there was much difference between a financial consultant and a financial planner. I just never really had the opportunity to think about there being much difference there.” (Memphis)
- “To me I don’t really [know]— because of how my investments are set up. I just see it as one person. I have someone who does my taxes that long before had my account with, my investment account. So I don’t use them for anything but that. So to me, they’re everything here. They represent all of these to me.” (Baltimore)
- “I’m not real clear as to what the distinctions are but I know there are some differences.” (Baltimore)
- “I think there are some credentials that separate the different categories. Don’t ask me what they are, but I think there are some credentials that separate some of them.” (Memphis)
- “[The titles] look similar. I don’t know that they are [different]. (Memphis)

In general, investors felt that *brokers* executed trades and were more likely focused on providing near-term advice (e.g., specific stocks) rather than long-term planning. Many understood that brokers’ compensation came from transactions-based commissions. Investors also assumed there must be additional fees from which brokers derived their income such as sales charges, bonuses based on assets, and other account maintenance fees.

*Financial advisors* and *financial consultants* were perceived to provide many of the same services as brokers, but were assumed to provide a broader scope of long-term planning advice such as recommendations on portfolio allocation and investment goal setting. Some investors perceived that this professional was similar to the others, especially financial planners.

*Investment advisers* was an unfamiliar title to many. These professionals were viewed to provide many of same services as the others, but some investors thought they might offer a broader scope of investment advice (e.g., real estate). Respondents in the Memphis focus groups thought this title encompassed all others.

*Financial planners* were viewed to provide services related to insurance and estate planning (e.g., wills/trusts) in addition to investment advice. Respondents cited specific examples of long-term financial planning including college, retirement and other goals when referring to this title. This scope of services provided by financial

planners was viewed as most similar to financial advisors/consultants. One of the distinctions made for financial planners is that they might sell insurance policies to clients.

### **Differentiating Financial Services Professionals**

Most investors were observed to distinguish financial services professionals in one of two ways:

1. Planning services provided – some investors tended to group *financial advisors/financial consultants, investment advisers, and financial planners* together, distinguishing them from *brokers*. This planning activity implied a higher level of service than a *broker* might provide.
2. Ability to execute trades – other investors tended to group *brokers, financial advisors/financial consultants, and investment advisers* together as they were perceived to offer actual trading assistance, distinguishing them from *financial planners*.

Respondents in Memphis were prompted to discuss the differences they perceived between *brokerage accounts* and *advisory accounts*. They were mostly unfamiliar with the term advisory account, but perceived the name to imply advice and a more active account review. In contrast, they recognized brokerage accounts to be used primarily for handling investment transactions.

Some investors felt their confusion was compounded by the lack of definitive communication from their financial services professionals.

- “How could you be clear when you’ve got brokerages calling themselves planners and planners calling themselves investment [advisers]? It’s not clear.” (Baltimore)
- “I couldn’t tell you [what the differences are]. It’s probably on my monthly sheet and I couldn’t tell you which one it is.” (Memphis)
- “There are a lot of gray areas, a lot of fine lines. The company that came in for the 401(k) is also open for personal investments that I can contact and open up separate accounts or 529s. I don’t recall his exact job description. He works for a company that is a brokerage firm but I don’t know what he is, if he’s a broker.” (Baltimore)
- “I’m sure we all get postcards or letters daily that they invite you to dinner. You know what? I don’t know if they’re a financial consultant, financial advisor or financial planners. How would I even know the difference?” (Baltimore)

## Reaction to the Proposed Disclosure Statement

The proposed disclosure statement was intended to alert investors that there may be differences between brokerage accounts and advisory accounts. In general, investors found the statement communicates that differences might exist, but did not do enough to explain those distinctions.

Terms such as *duties*, *rights*, and *obligations* increased the perceived importance of the statement. These terms in part “raised red flags” and would prompt investors to ask questions.

However, the statement was viewed to lack sufficient detail. As a result, investors were confused as to the differences between accounts and the implications of those differences to their investment choices.

Aspects of the statement that were found useful:

- An explicit affirmative statement of the type of account, e.g., *you have a brokerage account*
- A statement clearly noting the type of account it was not (odd language), e.g., *not an advisory account*
- The ability to contact someone with questions

Specific areas of confusion:

- No definition as to the actual differences between brokerage and advisory accounts
- Ambiguous terms *may differ* and *scope* (without scope being defined)
- Use of *as a consequence* implied the investor was responsible for the differences in obligations
- The phrase *your rights and our duties* left some puzzled
- Someone in *customer relations* was perceived by some to possess an insufficient level of subject matter expertise
- *Fiduciary* sounded familiar to some, but investors could not define the term

Suggested changes to improve the usefulness of the statement:

- Use “plain-English” and avoid terms such as *fiduciary*
- Specify the actual differences between *brokerage accounts* and *advisory accounts*
- Require an investor signature to acknowledge receipt of the disclosure
- Present the statement in a different color to make it more prominent
- Include the statement with account related documents such as applications and agreements
- Use consistent disclosure language
- Post explanations on the SEC website

# The Study in Brief

## Study Methods

A total of four focus group interviews were conducted to explore investor opinions regarding the services, compensation and legal obligations of several types of financial services professionals. The groups were held in two locations:

- Baltimore, MD
- Memphis, TN

A discussion guide was developed at the beginning of this process and modified after the first round of focus groups to include new areas of inquiry. All focus groups included the following areas of inquiry:

- The resources used to evaluate investments
- The services, compensation and legal obligations that applied to brokers, financial consultants/financial advisors, investment advisers, and financial planners
- Discussion on how those titles are differentiated
- Reaction to the proposed disclosure statement

The discussion guide was modified after the Baltimore focus groups. Details of the question areas are presented in the key findings sections that follow.

## Study Participants

Participants in the study had varying degrees of knowledge with respect to financial information.

To qualify for the study, each participant:

- Made investment decisions either solely or jointly
- Graduated high school, attended some college or graduated college (those with graduate degrees were excluded)
- Received investment advice from a financial services professional regarding stocks, bonds, mutual funds, or 529 plans in the past six months
- Managed investments primarily through a financial services professional
- Did not have more than 50% of their assets in no-load mutual funds
- Passed an articulateness screener

Investors were asked for written permission to videotape each interview, and asked to sign a statement of confidentiality regarding the subject matter of the interview. All study participants signed the statement (see Appendix for statement).

Note: the terms *respondents*, *participants*, and *investors* are used interchangeably throughout this report to refer to the participants of this study.

Words that are italicized refer to specific words or phrases in the proposed disclosure statement. Words or comments in quotation marks indicate a verbatim investor comment.

## **Interviewing Techniques**

In order to explore consumer reaction to securities industry disclosure statements, we utilized the following interviewing techniques:

- Rating sheets: In order to gauge individual respondent opinions, we utilized individual ratings sheets. This successfully captured investor feedback while minimizing the influences of group pressures.
- Cognitive interviewing: We asked respondents to read language used in the disclosure statements and reflect it in their own words. This has proven effective to ensure that statements are developed in “plain-English” and are not confusing.
- Projective techniques: By understanding how investors view the appropriate use of the securities industry disclosure statements, we assessed their relevance.

## **Interpreting the Findings**

Due to the dynamic nature of focus group interviews, small sample sizes, and group influences on responses, one should not conclude that these results are representative of the entire population of investors.

## **Project Team**

John McKeever, Senior Vice President, Gelb Consulting Group, Inc., moderated the focus groups.

Steve Makadok, Group Director, Research, and Matt DuBeau, Group Director, Simplification, both with Siegel & Gale, provided input into the research design and helped develop the final report.

Gerri Walsh, Deputy Director, Office of Investor Education and Assistance, Securities and Exchange Commission, observed all interviews.

Brian Mulford, Technical Monitor for this project, Office of Investor Education and Assistance, Securities and Exchange Commission, managed the project for SEC and observed all interviews.

# Key Findings: Baltimore

## Methodology

Two ninety-minute focus groups were conducted with investors meeting similar screening criteria. The first group included nine participants; the second group consisted of eight participants.

Each focus group discussion addressed three areas of inquiry:

- Unaided discussion of financial services professional roles
- Aided discussion of financial services professional roles, responsibilities and compensation
- Reaction to a proposed disclosure statement developed by the SEC

Four types of financial services professionals were discussed: broker, financial advisor/consultant, investment adviser, and financial planner.

Initially, investors were asked to list, unaided, the types of services provided by financial services professionals. Then, using the same form, they indicated which of the professionals provided each service, recognizing that different professionals might perform similar or overlapping services.

Second, a similar task was administered using a list of specific services and obligations. As before, investors indicated which items applied to the financial services professionals considered.

Finally, investors were asked to review a disclosure statement proposed in the recent SEC release in order to evaluate its usefulness and clarity. In addition to their review, they circled items that were unfamiliar or confusing and put a square around items that were useful.

This qualitative research is best used to understand the variety of potential opinions of the broader marketplace. Caution should be observed when generalizing the results of these focus groups. The small sample, dynamic nature of the qualitative discussion, and group influences do not make these results projectable.

## Respondent Profile

All participants reported an existing relationship with a financial services professional. Respondents appear to have varying knowledge of investment issues. In responses to our recruitment screener, participants indicated varying levels of investment experience, educational levels and ages.

## Defining Financial Services Professionals

Respondents were generally confused about the distinctions between brokers, financial advisors/consultants, investment advisers and financial planners. For these respondents, their financial professional provided most of the services they deemed necessary to manage their investment accounts. These activities generally included executing trades, providing specific advice on securities, and developing investment plans.

Respondents indicated that they entrusted their financial matters to their financial professional and that this professional was considered to perform one or more of the roles presented. During the conversation, many used several titles interchangeably. It was also observed that few respondents changed their opinions regarding the appropriate title(s) of the individual who handled such matters. Furthermore, some commented that they were more concerned about the services provided than the title.

## Reaction to Disclosure Statement

Overall, the proposed disclosure statement did not resonate with the investors in either group. Many were confused as to the meaning behind the statement and some questioned its relevance. Nevertheless, the statement appeared somewhat effective in raising the issue that a difference existed. In addition, many respondents liked the ability to engage another resource for questions.

Aspects of the statement that were found useful:

- An explicit statement of the type of account (e.g. *you have a brokerage account*)
- The ability to contact someone for questions
- Highlighting *duties* and *obligations* gave the statement a higher level of perceived importance

Specific areas of confusion included:

- The actual differences between *brokerage* and *advisory* accounts
- Ambiguity of the phrase *may differ*
- No definition of the term *scope*
- Use of *as a consequence* caused some anxiety and implied the investor was responsible for the differences in obligations
- The combination of *your rights and our duties* left some puzzled
- Reference to someone in *customer relations* who was perceived by some to possess a limited amount subject matter expertise
- The term *fiduciary* was familiar, but confusing

Respondents recommended a “plain-English” approach (e.g., avoiding terms such as *fiduciary*). They also suggested making the statements more explicit by actually defining the differences between brokerage accounts and advisory accounts.

## Opportunities to Distinguish the Roles

Respondents provided some insights into the way they think about the roles of these professionals. One comment was especially representative-“the general public doesn’t know the difference.” In general, both groups seemed to blur their understanding of the roles/terms. They viewed many professionals as using similar titles, finding the roles to be indistinct. In addition, they generally did not distinguish these professionals based on legal responsibilities to their clients.

Investors relied heavily on their personal experiences in an attempt to define the terms. For example, many referred to their professional as a “broker” and thought this individual provided many of the services listed, including providing investment advice.

Some hypothesized that the main difference between brokers and the others is their focus on execution of trades. In addition, there was some consensus (based on the task sheets) that brokers are seen to recommend specific investments and receive commissions on trades. A few investors observed that some brokers could receive compensation based on assets under management.

Some respondents grouped other professionals into another category that could provide the same services, but who had a focus on planning. The financial planner was considered by some to provide a wider scope of responsibilities (e.g., beyond securities investments) and might have an additional certification. These investors were able to distinguish more clearly the services provided by financial planners and brokers.

A few opined that the differences were attributable to licensure or other certification. Other respondents were observed not to relate this concept clearly to their own financial services professional. For example, many stated they were not aware of the certifications each possessed.

Few investors distinguish between investment advisers and financial advisers/financial consultants. For example, most investors indicated on the rating sheets that these financial professionals provide advice about securities as part of their regular business. One distinction noted was that bankers and insurance sales agents commonly use the titles *financial advisor* and *financial consultant*, but not *investment adviser*.

### **Potential Impact of the Proposed Disclosure**

Despite confusion around the differences, investors in these groups agreed that raising awareness of this issue was an SEC responsibility. They felt the concept of brokerage/advisory account disclosure was important and relevant, but that the statement itself failed to provide clarity around the issue.

This exercise made respondents more aware of their lack of knowledge regarding the subject. One respondent challenged the rest of the group: “Do we ask them who they are?” This dialogue appeared to generate interest among these respondents. As one respondent put it, “I guess I need to do more research on who does what.” Therefore, effective communication of the disclosure might cause investors to become more prudent in their relationships with financial services professionals.

### **Opportunities to Increase the Impact of the Proposed Disclosure**

In addition to rewriting the statement, respondents made several recommendations to increase its usefulness:

- 1) Require an investor signature acknowledging that it has been read
- 2) Require standard language for all brokerages to use
- 3) Ensure the statement is concise, using brief sentences
- 4) Print the statement in red and bold letters

## Respondent Tally: Relationships with Financial Services Professionals

### Relationship with Professional

#### Baltimore Groups

Respondent Number	Decisions	Advice past 6 months	Relationship Unaided	Relationship Aided
<b>5:30 Group</b>				
1	Self	Stocks,Funds,Bonds	FA/FC	FA/FC
2	Self	Stocks, Funds	B/FA/FC	<b>B/FC</b>
3	Self	Stocks,Funds,College,Bonds	B/FA/FC	B/FA/FC
4	Jointly	Stocks,Bonds	FA/FC/FP	FA/FC/FP
5	Self	Funds,College	FA/FC/FP	FA/FC/FP
6	Jointly	Stocks,Funds,College,Bonds	FA/FC/IA	<b>FA/FC</b>
7	Self	Funds,Bonds	FA/FC	FA/FC
8	Self	Stocks,Funds,College,Bonds	FA/FC	FA/FC
9	Self	Stocks,Funds,Bonds	FA/FC	FA/FC
<b>7:30 Group</b>				
1	Self	Stocks,Funds,Bonds	B/FA/FC/IA	B/FA/FC/IA
2	Self	Funds	IA/FP	IA/FP
3	Jointly	Stocks,Funds,College	B	<b>B/FA/FC</b>
4	Jointly	Stocks,Funds,College,Bonds	FA/FC/FP	FA/FC/FP
5	Self	Stocks,Funds,College	B	B
6	Self	Funds,College Plan,Bonds	FA/FC/FP	<b>IA</b>
7	Self	Stocks,Funds,College	FA/FC/FP	FA/FC/FP
8	Self	Stocks,Funds	B/FA/FC	<b>B/IA</b>

Red indicates respondent changed response

Codes:

B Broker  
 FA Financial Advisor  
 FC Financial Consultant  
 FA/FC Financial Advisor/Consultant - these terms were presented together  
 IA Investment Adviser  
 FP Financial Planner

## Respondent Tally: Roles of Financial Services Professionals

Aided Roles																																																																																																			
Baltimore 5:30 Group																																																																																																			
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Executes trades on my behalf	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1																																																																
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Green indicates areas of consensus - provides service																																																																																																			
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# Key Findings: Memphis

## Methodology

Two ninety-minute focus groups were conducted with investors meeting similar screening criteria, with nine participants in each discussion.

Similar to the Baltimore focus groups, these discussions addressed three areas of inquiry:

- Financial services professional roles, responsibilities and compensation
- Perceived differences between brokerage accounts and advisory accounts
- Reaction to a proposed disclosure statement developed by the SEC

Four types of financial services professionals were discussed: broker, financial advisor/consultant, investment adviser, and financial planner. For each professional, respondents were asked to indicate the services provided by each aided by a list of services, compensation and legal obligations. Investors were instructed that different professionals might perform similar or overlapping services or use more than one title. Next, respondents discussed the differences among these professionals, including the titles each could or does use.

Respondents were advised that one of the ways to distinguish the professionals is by the type of account investors had with them. Investors were asked about their perceptions of and experiences with brokerage accounts and advisory accounts. They then discussed the differences between these account types.

Finally, in order to evaluate the usefulness and clarity of the proposed disclosure statement, investors were asked to review a statement prepared by the SEC. As part of their review, they circled items that were unfamiliar or confusing and put a square around items that were useful.

This qualitative research helps to understand the variety of potential opinions of the broader marketplace. Caution should be observed when generalizing the results of these focus groups, given the small sample, dynamic nature of the qualitative discussion, and group influences.

## Respondent Profile

All participants reported an existing relationship with a financial service professional, but had varying knowledge of investment issues. Respondents also had varying levels of investment experience, educational levels and ages.

## Changes Made to Discussion Guide from First Round of Focus Groups

- Combined the aided and unaided tasks into one task
- Added an additional section regarding the differences between brokerage and advisory accounts
- Refined the disclosure statement to include reference to a compliance department, instead of an individual in the customer relations department

## **Defining Financial Services Professionals**

Respondents were uncertain as to the differences in services provided by brokers, financial advisors/consultants, investment advisers and financial planners. Specifically, it was observed that investors lacked confidence in their understanding of the ways in which these professionals were compensated and the legal obligations the professionals owed to investors.

Participants said *brokers* executed trades and, to a lesser extent, provided investment advice. They generally understood brokers were compensated through commissions on trades, but some indicated there were additional fees (e.g., sales charges, maintenance fees) that benefited the broker.

*Financial advisors* and *financial consultants* were perceived to provide planning services such as recommendations on portfolio allocation, researching stocks, and risk tolerance. Many assumed financial advisors/consultants receive annual account management fees as well as commissions. Participants of both groups felt *financial planners* could also use this title.

*Investment advisers* were seen as providing many of the same services as brokers, but might offer a broader scope of investment advice (e.g., real estate). *Investment adviser* proved an amorphous title as respondents in both groups cited that it could be used by all other professionals.

*Financial planners* were viewed to provide services related to insurance, estate planning (e.g., wills/trusts) in addition to investment advice. Respondents provided specific examples of long-term financial planning including college funds, retirement and other goals when referring to the title. This scope of services provided by financial planners was viewed as most similar to financial advisors/consultants.

## **Brokerage Account versus Advisory Account**

Respondents felt the name advisory account connoted advice and an active responsibility for account review. This was in contrast to a brokerage account, which some believed to be primarily used for handling investment transactions.

While investors were familiar with the term brokerage account, many respondents did not have a clear understanding of the type of account they owned. However, the term advisory account was foreign to them. In addition, they were unclear as to the type of professional who would likely service each account type. This lack of clarity is consistent with their views on the types of services, obligations and compensation for each professional.

## **Reaction to Disclosure Statement**

Overall, respondents in both groups saw the statement as important, but were unsure as to its implications to them as an investor. This lack of clarity seemed a function of the use of phrases such as *may differ* without specifying the actual differences. The statement was viewed to raise “red flags” that might prompt them to ask their broker questions, contact the department referenced in the form or seek more information on a website.

Aspects of the statement that were found useful:

- An explicit statement of the type of account (e.g., *you have a brokerage account*)
- A statement of the type of account it was not (e.g., *not an advisory account*)
- The ability to discuss the differences with someone
- Attention-grabbing terms such as *duties, rights* and *obligations*

Specific areas of confusion included:

- Definitions of both account types were not included
- Ambiguity of the clause *may differ*
- The definition of *fiduciary* was not familiar to many

The participants suggested making the statements more explicit by actually defining the differences between brokerage accounts and advisory accounts.

### **Opportunities to Increase the Impact of the Proposed Disclosure**

In addition to rewriting the statement, respondents made several suggestions to increase its usefulness:

- 1) Require an investor signature acknowledging the statement has been read
- 2) Require standard language for all brokerage firms to use
- 3) Present this statement along with account-related documents such as applications, agreements and statements
- 4) Make prominent by including the statement on a separate sheet from other documents
- 5) Include endorsement of the statement by the SEC

## Respondent Tally: Relationships with Financial Services Professionals

### Relationship with Professional

#### Memphis Groups

Respondent Number	Decisions	Advice past 6 months	Circled Relationship	Type of Account
<b>6:00 Group</b>				
1	Self	Stocks, Bonds	B/FA	Brokerage
2	Jointly	Stocks, College	B/FA/FC/FP	Brokerage/Advisory
3	Self	Stocks, Funds	FC/FA	Don't Know
4	Jointly	Funds	B/IA	Don't Know
5	Jointly	Stocks	B	Don't Know
6	Self	Stocks, Funds	B/FC/FA	Advisory
7	Jointly	Funds, Bonds	FC/IA/FP	Advisory
8	Jointly	Funds	B/IA/FP	Don't Know
9	Self	Funds, Bonds	IA	Don't Know
<b>8:00 Group</b>				
1	Jointly	Stocks, Funds	FC/FA	Don't Know
2	Self	Stocks, College	FC/FA	Brokerage
3	Jointly	Stocks	B/IA	Don't Know
4	Self	Stocks	None	Brokerage
5	Jointly	Stocks	FP	Don't Know
6	Jointly	Stocks, Funds	FC/FA	Don't Know
7	Self	Stocks, Funds	FA	Don't Know
8	Jointly	Funds	B/FP	Brokerage
9	Jointly	Stocks, Bonds	B/IA	Brokerage

Codes:

B	Broker
FA	Financial Advisor
FC	Financial Consultant
FA/FC	Financial Advisor/Consultant - these terms were presented together
IA	Investment Adviser
FP	Financial Planner

## Respondent Tally: Roles of Financial Services Professionals

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Memphis 6:00 Group																																																																																																			
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# Appendices

- A Recruitment Screener**
- B Baltimore Discussion Guide**
- C Memphis Discussion Guide**
- D Release and Confidentiality Form**

# Appendix A: Recruitment Screener

## SEC

### Broker Disclosure

**Gelb Consulting Group, Inc.**

**February 2005**

Hello, my name is \_\_\_\_\_ with (facility name), an independent research firm. We are holding several interviews in the (location) area to talk with investors about improving the information you receive from financial institutions.

I am calling today to invite you to participate in one of the group interviews on (date). Your name will not be used in any way and there are no sales involved with the research. Also, your personal account balances will not be discussed or revealed during the discussion.

We are offering a \$(incentive) incentive for participation in this interview. Each interview will last about 90 minutes.

Would you be interested in participating and sharing your ideas with us?

Yes      **Continue**                      No      **Thank and terminate**

Now we've got a few questions to see that you qualify for participation.

1. Have you participated in a focus group discussion or research project with any research firm within the past 6 months?

- Yes                                      **Thank and terminate**
- No
- Don't know/ Don't remember **Thank and terminate**

2. Do you, or does anyone in your household work for a marketing research firm, financial services firm (like a bank, brokerage firm or financial planner), or securities regulator?

- Yes                                      **Thank and terminate**
- No
- Don't know/ Don't remember **Thank and terminate**

3. Who in your household is primarily responsible for making decisions regarding purchases of investments, such as stocks, bonds, retirement accounts, college savings plans or mutual funds? **(DO NOT READ LIST)**
- Self **Continue**
  - Self and other jointly **Continue**
  - Other **Ask to speak with that person, if not available, thank and terminate**
4. Please tell me which describes the highest level of education you have attained:
- Some high school **Thank and terminate by telling them the group is already full**
  - High school
  - Undergraduate degree
  - Graduate degree **Thank and terminate by telling them the group is already full**
5. Which of the following statements **best describes** how you **primarily** make investments in things like stocks, bonds, retirement accounts, college savings plans or mutual funds?
- I make investments like this primarily through a financial services professional (e.g., broker, financial advisor, financial consultant, financial planner)
  - I make investments like this primarily through my employer's retirement plan (e.g., 401(K), TSP, 403(B)) **Thank and terminate**
  - I make investments like this primarily through an investment club **Thank and terminate**
  - I make investments like this primarily through self-service online trading account **Thank and terminate**
  - Don't know/ Don't remember **Thank and terminate**
6. For which of the following have you received advice from your financial services professional in the past six months?
- Individual stocks
  - Mutual funds
  - 529 college savings plan
  - Individual bonds
  - None of the above within the past six months **Thank and terminate**
  - Don't know/ Don't remember **Thank and terminate**

7. What percentage of your investments are made in no-load mutual funds: \_\_\_\_%
- If over 50%, then **Thank and Terminate**
  - If under 50%, then continue
  - Don't know/ Don't remember, then continue
8. What is the total of all assets you have invested in stocks, bonds or mutual funds -- outside of your employer's retirement plan, but including any investments you have in an IRA? I will read several ranges to you. Please tell me which range includes your assets (this information will be kept confidential):
- Less than \$2,000 **Thank and terminate**
  - \$2,000 - \$24,000
  - \$25,000 - \$99,000
  - \$100,000 - \$499,000
  - \$500,000 or more **Thank and terminate**
  - Don't know **Thank and terminate**
9. How would you describe your criteria for deciding which stocks, bonds or mutual funds to invest in?

**Test for articulateness**

10. I will read several age ranges to you. Please tell me which range includes your age:
- Under 25
  - 25 - 39
  - 40 - 54
  - 55 and over

Thank you for agreeing to take part in this focus group. I'm sure you will find it interesting. The discussion group will last about 90 minutes, and you will receive \$(incentive here) in appreciation of your time and for your travel costs. This will be informal and held at a professional office building in the (location) area.

Thanks again for agreeing to be a part of these discussion groups. They will be held at the office of (facility).

I would like to send you a confirmation letter with a map and directions to (facility). May I please get your full name and address?

Name: Mr/ Ms \_\_\_\_\_

Phone: (\_\_\_\_) \_\_\_\_\_ H/W

Address: \_\_\_\_\_ City \_\_\_\_\_ Zip \_\_\_\_\_

# Appendix B: Baltimore Discussion Guide

## SEC

### Broker Disclosure

Gelb Consulting Group, Inc.

February 2005

### Introduction (10 minutes)

Thank you for joining us today. My name is John McKeever, and I work for Gelb Consulting Group, an independent market research firm. Today we are going to talk about how you interact with financial services professionals to manage your investments. We're conducting this work for the Securities and Exchange Commission.

How many of you are familiar with the SEC? For those of you who aren't familiar with the SEC, its primary mission is to protect investors and maintain the integrity of the securities markets. They are interested in developing a better understanding of how investors like you use financial services professionals.

So during this discussion, we will spend some time discussing the types of ways you use a financial services professional.

Before we get started, let me go over a few ground rules:

- There are no right or wrong answers
- I'm videotaping and audio taping this discussion for my report
- I need you to speak one at a time
- My job is to keep the conversation going, so imagine you're having a dinner conversation among a group of friends and speak directly to each other
- Your comments will remain anonymous, so feel free to speak candidly
- Your name tents are there for me to remember everyone's name

Do you have any questions before we begin?

1. To get started, I'd like everyone to introduce themselves. Let's start here – first name and the area of Baltimore you live in. (allow participants to introduce themselves)
2. When researching investments, what resources do you typically use (probe: financial services professional, websites)?

**Unaided Roles (25 minutes)**

- 3. I've put together this sheet (show form) that outlines some of the things financial services professionals do for investors like you.
- 4. Before we talk as a group about them, I'd like you to take a few moments to write down what tasks you think each financial services professional performs.

If you don't know, leave the space blank. (allow respondents to complete the forms, circulate to ensure that each has filled out the form before proceeding)

On the form, please circle the type or types of financial services professional who helps you manage your investments.

<b>Broker</b>	<b>Financial Advisor/ Financial Consultant</b>	<b>Investment Adviser</b>	<b>Financial Planner</b>

Now that you've had a chance to fill out these forms, I'd like to discuss what you've written. As we discuss things, please do not modify your form, even though you might want to change your response based on what someone else said. Remember, there are no right or wrong answers...

- 5. What are some of the differences between each of these categories? Or are they all the same?
- 6. Which of you uses a broker? What services do brokers provide?
- 7. Which of you uses a financial advisor or financial consultant? What services do financial advisors or financial consultants provide?
- 8. Which of you uses an investment adviser? What services do investment advisers provide?
- 9. Which of you uses a financial planner? What services do financial planners provide? (ask of non-users)

**Aided Roles Discussion (20 minutes)**

10. Now that we've discussed the services these financial services professionals offer, I'd like you to fill out another form that includes some of the things we might have already discussed, and perhaps some new items. Please place an X in the box for each of the services, fees and responsibilities each of these financial services professionals offer. It is possible that many might provide many of the same services.

Also on the form, please circle the type of types of financial services professional you use.

	<b>Broker</b>	<b>Financial Advisor/ Financial Consultant</b>	<b>Investment adviser</b>	<b>Financial Planner</b>
Provides advice about securities as part of their regular business				
Executes trades on my behalf				
Recommends specific investments (e.g., stocks)				
<i>Other services provided (fill in blank)</i>				
Receives commissions on the purchases I make				
Is paid a fee based on the amount of assets I keep with them				
<i>Other ways they are paid (fill in blank)</i>				
Is required by law to act in my best interests				
Is required by law to disclose any conflicts of interest				
<i>Other obligations (fill in blank)</i>				

11. Have any of you changed your mind regarding the person you circled on your form from the previous task? What did you change? Why?

## Disclosure (30 minutes)

The SEC has developed a statement that is intended to help investors become more aware of the differences between investment advisers and brokers. This statement would be included on forms that brokers provide to their customers. Please take a few minutes to review the statement. “You” and “your” refers to you. “Our” refers to the brokerage firm.

The statement reads as follows:

**Your account is a brokerage account and not an advisory account and, as a consequence, your rights and our duties and obligations to you, including the scope of our fiduciary obligations, may differ. You can discuss these differences with Samantha Smith in our customer relations department.**

While reviewing this statement, please circle any terms that are unfamiliar or confusing to you. Draw a box around anything that you find useful.

12. To start, what is your overall reaction to this statement? Is this relevant to you? Why?

13. What did you find useful? How might you use it? Would you read it if it were in an advertisement? Account application? Account Agreement?

14. What would it take for you to notice this statement? The SEC wants the disclosure to be included in a “prominent statement.” What do those words mean to you?

15. What did you find difficult to understand? Why?

Now let’s talk about some specific terms used in the disclosure.

16. A term that’s often used to distinguish these roles is “fiduciary.” What does this term mean to you?

OK. Now, I’d like to you give a definition

Fiduciary: A fiduciary is a person entrusted with the duty to act in another person’s best interests.

17. Now that you have this definition, how would you define “fiduciary” to someone who is new to investing?

18. What is your understanding of “brokerage account?”

19. What is your understand of term “advisory account?”

OK. Now, I'd like to give you a definition:

**Brokerage Account:** A brokerage account is a customer account with a broker-dealer registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

**Advisory Account:** An advisory account is a client account with an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940.

20. Given these definitions, how would YOU explain the difference to someone new to investing?

21. Do you think this statement will help investors like you become more aware of the differences between investment advisers and brokers? If so, how?

22. Would this disclosure affect your choice of financial professional?

23. What suggestions do you have to improve this statement in order to increase its usefulness to investors like you?

24. Is this an effective way to address the differences between investment advisers and brokers? Why do you say that?

25. What recommendations do you have for the SEC to address these differences?

26. How important is it that financial services professionals use the same language (like this statement)? Why?

27. How would you prefer to receive information about these differences? Why? (probe: someone other than the person designated in the disclosure, the account agreement, DVDs, website, webcast)

### **Wrap-up (5 minutes)**

28. Finally, do you have any suggestions for SEC as they move forward in developing communications to better inform investors like you?

Thank you for your time and feedback.

# Appendix C: Memphis Discussion Guide

## SEC

### Broker Disclosure

Gelb Consulting Group, Inc.

February 2005

### Introduction (10 minutes)

Thank you for joining us today. My name is John McKeever, and I work for Gelb Consulting Group, an independent market research firm. Today we are going to talk about how you interact with financial services professionals to manage your investments. We're conducting this work for the Securities and Exchange Commission.

How many of you are familiar with the SEC? For those of you who aren't familiar with the SEC, its primary mission is to protect investors and maintain the integrity of the securities markets. They are interested in developing a better understanding of how investors like you use financial services professionals.

So during this discussion, we will spend some time discussing the types of ways you use a financial services professional.

Before we get started, let me go over a few ground rules:

- Please turn off your cell phones
- There are no right or wrong answers
- I'm videotaping and audio taping this discussion for my report
- I need you to speak one at a time
- My job is to keep the conversation going, so imagine you're having a dinner conversation among a group of friends and speak directly to each other
- Your comments will remain anonymous, so feel free to speak candidly
- Your name tents are there for me to remember everyone's name

Do you have any questions before we begin?

1. To get started, I'd like everyone to introduce themselves. Let's start here – first name **only** and the area of Memphis you live in. (allow participants to introduce themselves)
2. When researching investments, what resources do you typically use (probe: financial services professional, websites)?

### Roles (30 minutes)

I've put together this sheet (show form) that outlines some of the things financial services professionals do for investors like you.

3. Before we talk as a group about them, I'd like you to take a few moments to write down some things:
  - First, circle the title or titles that best describe your financial service professional
  - Next, please read through the list of services on the left hand column. Put an "X" in each box to indicate the types of services each financial services professional provides.

The types of services and titles used by financial professionals may overlap so your financial professional may fit into more than one category.

If you don't know, leave the space blank.

(allow respondents to complete the forms, circulate to ensure that each has filled out the form before proceeding)

	<b>Broker</b>	<b>Financial Consultant/ Financial Adviser</b>	<b>Investment Adviser</b>	<b>Financial Planner</b>
Provides advice about securities as part of their regular business				
Executes trades on my behalf				
Recommends specific investments (e.g., stocks)				
<i>Other services provided (fill in blank)</i>				
Receives commissions on the purchases I make				
Is paid a fee based on the amount of assets I keep with them				
<i>Other ways they are paid for the services they provide to me (fill in blank)</i>				
Is required by law to act in my best interests				
Is required by law to disclose any conflicts of interest				
<i>Other obligations (fill in blank)</i>				

Now that you've had a chance to fill out these forms, I'd like to discuss what you've written. As we discuss things, please do not modify your form, even though you might want to change your response based on what someone else said. Remember, there are no right or wrong answers...

4. Let's discuss each of the services each of these professionals provides. (flip chart each professional on the list) (probe: service, legal obligations, compensation – different color for each – how you PAY for the services)
5. Could a broker use any of these other titles? Financial advisor? Financial consultant? Investment adviser? Could a financial planner use any of these other titles?
6. Now looking at these different professionals, are there any differences? If so, how would you describe the differences between someone new to investing?

#### **Account Discussion (20 minutes)**

One of the ways financial services are differentiated is by the type of account you have with them. Some accounts are called Brokerage Accounts and some are called Advisory Accounts.

7. Have you heard any of these account types before?
8. Do you have either one? (hands – record number/account type)

#### Rotate between Brokerage Account and Advisory Account

9. What do you think *Brokerage Account* implies? (probe: services, legal obligations, fees/compensation, level of attention, what title or titles would a financial professional who serviced this account hold)
10. What do you think *Advisory Account* implies? (probe: services, legal obligations, fees/compensation, level of attention, what title or titles would a financial professional who serviced this account hold)
11. What are similarities between these two types of accounts? What are the differences?

## Disclosure (25 minutes)

The SEC has developed a statement that is intended to help investors become more aware of the differences between investment advisers and brokers. This statement would be included on forms that brokers provide to their customers. Please take a few minutes to review the statement. “You” and “your” refers to you. “Our” refers to the brokerage firm.

The statement reads as follows: (read aloud once all respondents have their copy)

**Your account is a brokerage account and not an advisory account. As a consequence, your rights and our duties and obligations to you, including the scope of our fiduciary obligations, may differ. You can discuss these differences with our Compliance Department at (800) 555-1234.**

While reviewing this statement, please circle any terms that are unfamiliar or confusing to you. Draw a box around anything that you find useful.

12. To start, what is your overall reaction to this statement?
13. Is this relevant to you? Why or why not?
14. How would this statement impact your investment decisions? Would this disclosure affect your choice of financial professional?
15. Do you think this statement will help investors like you become more aware of the differences between investment advisers and brokers? If so, how?
16. What did you find useful? How might you use it?
17. **If this were the statement used by brokers**, would you read it if it? (probe: advertisement, account application, account agreement)
18. **If this were the statement used by brokers**, what could be done to increase the likelihood that you would read it? How might this be a “prominent statement?”
19. How important is it that financial services professionals use the same language (like this statement)? Why?

Now let's talk about ways to improve the statement.

20. What did you find difficult to understand? Why? (probe: fiduciary if it comes up)

21. What suggestions do you have to improve this statement in order to increase its usefulness to investors like you?

22. How would you prefer to receive information about these differences? Why? (probe: the account agreement, DVDs, website, web-cast, a specific type of individual)

**Wrap-up (5 minutes)**

23. Finally, do you have any suggestions for SEC as they move forward in developing communications to better inform investors like you?

Thank you for your time and feedback.

# Appendix D: Release and Confidentiality Form

## Release and confidentiality form

I, \_\_\_\_\_, hereby declare and agree to the following:

1) That I shall not disclose, make known, divulge, disseminate, or communicate such confidential and proprietary information or any part thereof to any person, firm, corporation, company or entity that I shall receive at any time from Gelb Consulting Group during the course of this interview, with exceptions noted below:

That this agreement is not valid or meant to cover information received during this study that is not proprietary or confidential, specifically information that:

- 1) Is in public domain at any time
- 2) Is known to you independently
- 3) Becomes known to you from sources other than this study

2) I hereby authorize Gelb Consulting Group to videotape this interview. I understand that this video will not be used to personally identify me now or at some future date nor will it be used for any marketing or promotional activities.

Date:

Name:

Signature