INVESTOR UNDERSTANDING OF BROKER ACCOUNT STATEMENTS

FINDINGS FROM A SURVEY

AARP Research Group

October 2000
Investor Understanding of Broker Account Statements

Conducted by NFO Research, Inc.
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for AARP

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INVESTOR UNDERSTANDING OF BROKER ACCOUNT STATEMENTS: FINDINGS FROM A SURVEY

Executive Summary

Background and Methodology

Participation in the stock market is at an all-time high in this country with over 50 percent of all American adults now invested in some form of securities. As recently as ten years ago, only 20 percent of American adults were investors. This explosion in growth means that many investors are new to the market and may not have a great deal of background in the financial arena. Moreover, securities industry practices or policies are not always geared to the new investor. Typical securities information may cause confusion or fail to communicate important information.

The purpose of the research described in this report was to assess: (1) the degree to which experienced investors with full-service brokerage accounts understand and can interpret basic information contained in typical account statements, and (2) the ease of use of such account statements. If investors cannot readily understand the information presented in account statements, it will be difficult for them to make investment decisions that will meet their needs and goals.

AARP contracted with NFO Research, Inc., to conduct a study of 314 investors who had at least one account with a full-service brokerage firm during May through July of 1999. All respondents were involved in investment decisions and were from households headed by someone age 40 or older. All investors were interviewed by telephone. The study methodology is described in detail in the full report.

Key Findings

Understanding of Account Statements

In general, experienced investors do not understand much of the information provided on account statements. As illustrated below, most investors could not define the terms used on the account statements, and many could not identify fundamental transactions such as the number of shares reinvested in a particular fund.
Specifying the Meaning of Basic Terms

A majority of investors were unable to specify the meaning of several terms used on the account statements:

- Only one in three respondents (34%) correctly defined the term “equity” in this context.
- Only four in ten respondents (41%) correctly defined the term “open order sell price.”
- Fewer than half (42%) knew that “LT” is an abbreviation for “long-term” losses or gains, when used in context.
- Only 11 percent of all respondents correctly specified the meaning of all three terms, though the percentage of correct responses increases with income.

Understanding Account Activity

Investors had difficulty understanding account activity as presented on the account statements:

- Fewer than half of all respondents (46%) correctly identified the number of shares reinvested in a specified fund.
- Just over half of all respondents (57%) accurately stated the percentage of the portfolio invested in equities as of the closing date of the account statement.
- Only two-thirds (67%) correctly stated the increase in value of a particular stock.
- Fewer than four in ten (38%) located the anticipated annualized income from a particular fund, even though this information was provided on the statement.

Usefulness of Additional Information on Account Statements

Investors overwhelmingly agreed that it would be helpful to have information regarding commissions paid and rates of return on their account statements:

- Essentially all investors stated that it would be “very” (79%) or “somewhat” (18%) helpful to have the rates of return for each investment included in the statement.
- Nearly nine in ten said that it would be “very” (65%) or “somewhat” (24%) helpful to have the amount of commissions and fees charged to the account for the reporting period included in the statements.
• Over four-fifths said that it would be “very” (45%) or “somewhat” (38%) helpful to have the reduction in the rate of return from commissions paid on the account included in the account statement.

• Half of all respondents said that it would be “very” (11%) or “somewhat” (39%) helpful to have a graphic summary of the assets and total value of the account included in the statement.

Understanding Basic Account Values

Sizable majorities of investors did correctly answer basic questions about the performance of the portfolios based on the account statements:

• the time period covered by the statement (88%)
• the total value of the portfolio (87%)
• the number of shares of a particular stock sold during the reporting period (82%)
• the amount paid per share to purchase a particular fund (83%) and
• the current price per share of a particular fund (82%).

Conclusions

In general, experienced investors have some difficulty understanding the performance of their investments as presented in typical account statements. The statements present information in formats that are not always readily interpretable and contain terms not understood by the layman. These results suggest that many investors may not fully appreciate the gains and losses occurring in their accounts.

Investors overwhelmingly want to have the rate of return, the amount of fees and commissions paid per account period, and the reduction in the rate of return from these fees and commissions included on their account statements.

Recommendations

• Account statements often do not provide information in ways easily understood by a majority of experienced investors. With more and more new investors entering the marketplace, considerable effort should be made to use plain language on account statements to make them “investor friendly.”

• Information should be presented in a clear, accessible, easy-to-read manner that highlights account activity, changes in value, fees and commissions paid, and the effects of those fees and commissions on the investment’s rate of return. This will help investors understand how much they are paying for their investments and whether the cost justifies the returns over a period of time.

• Uniformity in the terminology and presentation of account statements across the industry would help investors understand the information presented, particularly with regard to changing account values.
INVESTOR UNDERSTANDING OF BROKER ACCOUNT STATEMENTS:

DETAILED FINDINGS

Background

Participation in the stock market is at an all-time high in this country, with over 50 percent of the public now invested in some form of securities. As recently as ten years ago, only 20 percent of the population were investors. This explosion in growth means that many investors are new to the market and may not have a great deal of background in the financial arena. Yet securities industry practices or policies are not always geared to the new investor and may cause confusion or fail to communicate important information.

In 1998, AARP conducted a study of investors age 50+ who had used the services of a broker and participated in investment decisions to determine their familiarity with common broker compensation practices and their appropriateness.\(^1\) That study revealed significant gaps in investors’ understanding of how brokers are paid, despite their current or previous experience working with a broker. The study also asked investors what kind of information they receive on their account statements; and it revealed that a majority (59%) believed that they receive information about the amount of commissions charged to their accounts, though few if any statements provide this information.

As a follow-up to that study, AARP decided to investigate the extent to which experienced investors with full-service brokerage accounts understand the information presented on typical account statements. The purpose of this research was to assess: (1) the degree to which experienced investors with full-service brokerage accounts understand and can interpret basic and fundamental information contained in typical account statements, and (2) the ease of use of such account statements.

Methodology

AARP contracted with NFO Research, Inc., to conduct a study of 314 investors who had at least one account with a full-service brokerage firm during May through July of 1999. All respondents were involved in investment decisions and were from households headed by someone age 40 or older.

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\(^1\) Investor Awareness of Broker Compensation Practices: Detailed Findings from an AARP Survey of Investors Aged 50 and Over, AARP, April 1998 (n=827).
The study was conducted in two phases. The first phase involved re-contacting 320 households with respondents in the appropriate age range who had indicated on a previous NFO survey that they maintained a full-service brokerage account. That sample yielded 152 completed interviews for a response rate of 48 percent. The second phase involved screening for additional persons who maintained a full-service brokerage account from a sample of 1,500 NFO panelists. That sample netted a total of 513 qualified persons of whom 500 were asked to complete the survey. Of these, 162 persons completed the telephone survey for a response rate of 32 percent. The total number of respondents in the two samples for the current study was thus 314.

In advance of the telephone survey, three typical brokerage account statements (minus any identifying information as to the firm or the client) were mailed to the two samples so that prospective respondents could familiarize themselves with their contents.2 The telephone survey asked questions about the contents of these three account statements to “test” respondents’ understanding of fundamental concepts and information provided and the usefulness of the information provided. For each question, the respondent was directed to the particular page of the account statement containing the “answer.” Interviewing was conducted in July 1999.

A comparison of the demographic characteristics of sampled households and survey respondents reveals almost no differences by age, household size, or household composition. With respect to annual household income, survey respondent households are somewhat less likely to fall in the category of $75,000+ than non-respondent households (52% vs. 57%).

Appendix A contains a copy of the annotated questionnaire, together with the letter to prospective respondents and the sample brokerage statements. Appendix B contains a demographic profile of survey respondents.

Key Findings

Number of Full-Service Brokerage Accounts Held

The great majority of respondents (85%) reported that they had one account with a full-service broker, while 13 percent had two accounts. Two percent had more than two accounts, with the largest number of accounts held by any respondent being six.

Brokerages Most Frequently Mentioned

Just over one in three respondents (34%) reported having a full-service brokerage account with Morgan Stanley Dean Witter, Salomon Smith Barney, or Merrill Lynch, the three firms from which sample account statements were used to test investors’ knowledge. Table 1 shows the brokerage firms most often mentioned as ones with which respondents had accounts.

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2 The three brokerage firms whose sample statements were used to conduct this research were Merrill Lynch, Morgan Stanley Dean Witter, and Salomon Smith Barney—the three firms coincidentally named most often by the study respondents as their brokerage firms. The statements were provided by the firms.
Table 1. Brokerage Firms Most Frequently Mentioned  
(N=314)

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morgan Stanley Dean Witter</td>
</tr>
<tr>
<td>Salomon Smith Barney</td>
</tr>
<tr>
<td>Merrill Lynch</td>
</tr>
<tr>
<td>A.G. Edwards/Edwards</td>
</tr>
<tr>
<td>PaineWebber</td>
</tr>
<tr>
<td>Prudential</td>
</tr>
<tr>
<td>American Express</td>
</tr>
<tr>
<td>Legg Mason</td>
</tr>
<tr>
<td>Charles Schwab</td>
</tr>
</tbody>
</table>


All other brokerage firms were mentioned by no more than five respondents.

Length of Investing Experience

More than a third of investors had more than ten years’ experience with a full-service brokerage firm, while a slightly larger percentage (37%) had four years’ experience or less with a full-service brokerage firm (Table 2).

Table 2. Length of Investment Experience  
(N=314)

<table>
<thead>
<tr>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
</tr>
<tr>
<td>2-4 years</td>
</tr>
<tr>
<td>5-10 years</td>
</tr>
<tr>
<td>More than 10 years</td>
</tr>
</tbody>
</table>


Understanding of Account Statements

There was considerable variation in the degree to which respondents were able to answer questions about the account statements correctly (Table 3). On the positive side, the vast majority of respondents (95%) were able to discern the “bottom line”--whether the value of the portfolio increased or decreased during the reporting period.
Table 3. Percentages of Respondents Answering Each Question Correctly, Incorrectly, and “Don’t Know” (N=314)

<table>
<thead>
<tr>
<th>Question</th>
<th>Correct Response</th>
<th>Incorrect Response</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar value increased or decreased during reporting period</td>
<td>95</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Time period covered by the statement</td>
<td>88</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>Total dollar value of portfolio</td>
<td>87</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Statement shows commission charged for specific stock sold</td>
<td>83</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Amount paid per share to purchase particular fund</td>
<td>83</td>
<td>9</td>
<td>8</td>
</tr>
<tr>
<td>Current price per share for a particular fund</td>
<td>82</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Number of shares of specific stock sold during reporting period</td>
<td>82</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Rate of return for a particular stock is/is not shown on statement</td>
<td>73</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Dollar amount invested in mutual funds at beginning of reporting period</td>
<td>72</td>
<td>24</td>
<td>4</td>
</tr>
<tr>
<td>Dollar amount of dividends and interest earned on the account during the reporting period</td>
<td>71</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Amount of increase in value of a particular stock</td>
<td>67</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>Percentage invested in equities as of closing date</td>
<td>57</td>
<td>30</td>
<td>13</td>
</tr>
<tr>
<td>Open order sell price for particular stock</td>
<td>52</td>
<td>14</td>
<td>34</td>
</tr>
<tr>
<td>Number of shares of particular fund reinvested to date</td>
<td>46</td>
<td>26</td>
<td>29</td>
</tr>
<tr>
<td>Meaning of the abbreviation “LT”</td>
<td>42</td>
<td>7</td>
<td>51</td>
</tr>
<tr>
<td>Meaning of the term “open order sell price”</td>
<td>41</td>
<td>19</td>
<td>40</td>
</tr>
<tr>
<td>Anticipated annualized income from particular fund</td>
<td>38</td>
<td>27</td>
<td>35</td>
</tr>
<tr>
<td>Definition of an “equity”</td>
<td>34</td>
<td>36</td>
<td>30</td>
</tr>
</tbody>
</table>


More than four in five investors could identify:

- the time period covered by the statement,
- the total value of the portfolio,
- the number of shares of a particular stock sold during the reporting period,
- the amount paid per share to purchase a particular fund, or
- the current price per share of a particular fund.

On the other hand, fewer than half the respondents knew: the meaning of the terms “equity,” “LT,” and “open order sell price”; could state the number of shares of a particular fund reinvested to date; or could identify the anticipated annualized income from a particular fund.
Levels of Knowledge: Creation of a Knowledge Index

Figure 1 arrays the number of correct responses by the percentage of respondents who answered each number correctly. The maximum score was 18 (scored by one respondent, or .3% of the sample) and the minimum was zero (scored by one respondent, or .3% of the sample) (Figure 1).

Figure 1. Percentage of Respondents Answering Items Correctly
(N=314)


Respondents were divided into three categories based on the number of questions they answered correctly, creating an investor-knowledge index used in the subsequent data analysis.

- Level 1: 8 or fewer questions answered correctly (n=61)
- Level 2: 9 to 13 questions answered correctly (n=163)
- Level 3: 14 to 18 questions answered correctly (n=90)
Impact of Demographic Variables on Knowledge Level

Income, education, age, and gender are all related to level of knowledge (Table 4). Differences in percentages of correct answers within these groups are statistically significant at the .05 level.

Those with the highest annual household incomes ($100,000+) and college graduates were more likely than those with lower household income and less education to answer the knowledge questions correctly. For example, half of those with household incomes of $100,000 or more per year answered 14-18 questions correctly, in contrast with only 6 percent of investors with household incomes under $50,000.

More than two in five college graduates (42%) answered 14-18 questions correctly, compared with just 9 percent of those with a high school education or less. Of all those who answered 14-18 questions correctly (29% of the sample), 75 percent had a college education or post-graduate degree.

Younger investors were more knowledgeable than persons age 65 and older. Just over one in three respondents under age 50 (35%) and age 50-64 (36%) answered 14-18 questions correctly, compared with 20 percent of investors age 65 and older.

Men were more likely to answer 14-18 questions correctly (36%) than women (22%).

Table 4. Knowledge Level by Income, Education, Age, and Gender
(Percentages)
(N=314)

<table>
<thead>
<tr>
<th></th>
<th>Level 1 (lowest)</th>
<th>Level 2 (middle)</th>
<th>Level 3 (highest)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(n=60)</td>
<td>(n=163)</td>
<td>(n=90)</td>
</tr>
<tr>
<td>Household Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than $50,000</td>
<td>32</td>
<td>62</td>
<td>6</td>
</tr>
<tr>
<td>$50,000-$99,999</td>
<td>24</td>
<td>44</td>
<td>32</td>
</tr>
<tr>
<td>$100,000+</td>
<td>11</td>
<td>39</td>
<td>50</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High school or less</td>
<td>26</td>
<td>66</td>
<td>9</td>
</tr>
<tr>
<td>Some college</td>
<td>22</td>
<td>61</td>
<td>17</td>
</tr>
<tr>
<td>College graduate or higher</td>
<td>15</td>
<td>43</td>
<td>42</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 50</td>
<td>14</td>
<td>51</td>
<td>35</td>
</tr>
<tr>
<td>50–64</td>
<td>13</td>
<td>51</td>
<td>36</td>
</tr>
<tr>
<td>65 and over</td>
<td>27</td>
<td>54</td>
<td>20</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>16</td>
<td>48</td>
<td>36</td>
</tr>
<tr>
<td>Female</td>
<td>22</td>
<td>56</td>
<td>22</td>
</tr>
</tbody>
</table>

Meaning of the Terms “Equity,” “Open Order Sell Price,” and “LT”

Though knowledge levels may be moderate to high for many investors when their responses across many questions are considered, some terms used in typical broker statements are not generally understood. Just one in three (33%) correctly identified the term “equity” as meaning a stock or common stock, while only 41 percent could identify an “open order sell price” as the price specified by the investor at which a security is to be sold. Only 42 percent of respondents knew that “LT” was an abbreviation for long-term gains or losses. The percentage of respondents who answered all three questions correctly was just 11 percent.

Knowledge of each of these terms increases substantially with income. For example, while only 21 percent of those with household incomes less under $50,000 can define the term “equity” correctly, 44 percent of those with incomes of $100,000 or more give a correct definition. Just over one in four investors (26%) with incomes less than $50,000 correctly defined “open order sell price,” while almost half (49%) of those with incomes of more than $100,000 did so. More than twice as many investors with household incomes in excess of $100,000 (63%) knew the meaning of the term “LT” than those with household incomes under $50,000 (31%).

Education also makes a difference in knowledge only for the term “LT.” As education level increases, so does familiarity with this term. While only 25 percent of those with a high school education or less know the meaning of the term, 60 percent of those with a graduate degree are familiar with its meaning.

The meaning of the terms “LT” and “open order sell price” were more familiar to investors age 50-64 than to either older or younger investors. More than half of investors age 50-64 (51%) knew the meaning of “open order sell price,” compared with only 37 percent of investors age 65+ and 34 percent of those under age 50. With respect to the term “LT,” 52 percent of the group age 50-64 were aware of its meaning, in contrast with 32 percent of investors age 65 and older.

Men are much more likely to be familiar with the term “equity” than women (45% vs. 23%).

Impact of Other Factors on Knowledge Levels

Number and Type of Accounts Held

There were no differences in knowledge level by the number of accounts respondents had (one vs. more than one), nor by whether or not respondents reported having an account with one of the three firms whose sample account statements were used to test investors’ understanding of account statements.
Impact of Length of Investing Experience

Knowledge levels, as measured by the knowledge index, did not vary by length of investment experience. There were, however, two specific knowledge items for which length of investment experience made a difference (Table 5). In both cases, a significantly higher percentage of those who had been investing with a full-service broker for at least 10 years than those who had been investing for less than five years answered the question correctly.

Table 5. Differences in Knowledge Level by Length of Investing: Less than 5 Years vs. More than 10 Years*

(N=220)

<table>
<thead>
<tr>
<th></th>
<th>Less than 5 Years (% answering correctly) (n=113)</th>
<th>More than 10 Years (% answering correctly) (n=107)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar amount invested in mutual funds at beginning of reporting period</td>
<td>66</td>
<td>80</td>
</tr>
<tr>
<td>Number of shares of particular fund reinvested to date</td>
<td>39</td>
<td>55</td>
</tr>
</tbody>
</table>

*Differences are statistically significant at the .05 level.

Usefulness of Additional Information on Broker Statements

Respondents were also asked about the helpfulness of including graphic displays of account information on their statements and about the usefulness of including additional information (Figure 2). A majority said it would be “very helpful” to have both the rate of return for each type of investment and the amount of commissions and fees charged to the account included on their account statements.
Figure 2. Utility of Additional Information on Account Statements (N=314)

<table>
<thead>
<tr>
<th>Information Provided</th>
<th>Very</th>
<th>Somewhat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate of return for each investment type</td>
<td>79%</td>
<td>18%</td>
</tr>
<tr>
<td>Amount of commissions &amp; fees</td>
<td>65%</td>
<td>24%</td>
</tr>
<tr>
<td>Reduction in commissions' return</td>
<td>45%</td>
<td>38%</td>
</tr>
<tr>
<td>Graphic summary of assets &amp; total value</td>
<td>11%</td>
<td>39%</td>
</tr>
</tbody>
</table>


Impact of Education

Education was a factor in the perceived usefulness of having the rate of return earned on one’s account for each type of investment displayed on the account statement. The less-well-educated respondents were more interested in having this kind of information provided than those with higher levels of formal education. For example, more than half of high school graduates and those with some college education (63% and 52% respectively) said it would be “very helpful” to have this kind of information, compared with 38 percent of college graduates.

Impact of Knowledge Level

The least knowledgeable investors were more likely than the most knowledgeable to say it would be “very helpful” to have information on the rate of return presented on their broker statements (50% vs. 35%).

Other Factors

There were no statistically significant differences by length of investment experience, age, gender, or income in the perceived utility of additional information on account statements.
Conclusions and Recommendations

Experienced investors generally have some difficulty understanding the performance of their investments as presented in typical account statements. The statements present information in formats that are not always readily interpretable and contain terms not understood by the layman, suggesting that many investors may not fully appreciate the gains and losses occurring in their accounts.

High percentages of experienced investors who have full-service brokerage accounts are knowledgeable about very rudimentary information presented in account statement. They can tell whether or not the value of their investments is increasing, the time period covered by their statements, and the number of shares of a particular stock that were sold during the reporting period. Experienced investors, however, still have difficulty understanding some terms and activity presented in typical account statements. For example, fewer than half understand the meaning of such terms as “equity” or “LT,” or can identify the anticipated annualized income from a particular fund.

Knowledge levels vary considerably by a number of demographic factors, including income, education, age, and gender. Generally, those with higher household incomes are more knowledgeable than those with lower household incomes, and those with at least a college education are more knowledgeable than high school graduates. Typically, younger investors are more knowledgeable than persons age 65 and older. Men are generally more knowledgeable than women.

Interestingly, knowledge levels do not vary by number and type of brokerage accounts held or by length of investment experience.

* * * *

The following recommendations suggest actions that could help increase investors’ understanding of their account statements and respond to their stated preferences for more information.

- Given that experienced investors lack understanding of the kinds of information provided on typical account statements, greater efforts should be made to educate investors about the contents of account statements and how to interpret them. Education campaigns targeted to the less affluent, to persons without a college education, to older persons, and to women may be especially important given their lower knowledge levels about account information.

- Account statements often do not provide information in ways easily understood by a majority of experienced investors. With more and more new investors entering the marketplace, considerable effort should be made to use plain language on account statements to make them “investor friendly.”
• Information should be presented in clear, accessible, easy-to-read formats that highlight account activity, changes in value, and fees and commissions paid.

• Uniformity in the terminology and presentation of account statement information across the industry would help investors understand the information presented, particularly with regard to changing account values.

• Account statements should include rates of return, the total amount of fees and commissions paid during the reporting period, and the reduction in the rate of return from these fees and commissions. Such information would respond to investors’ desires and help them understand how much they are paying for their investments, and whether the cost justifies the returns over a period of time.
APPENDIX A

ANNOTATED QUESTIONNAIRE
Screening Questions

1. On a previous survey, you indicated that your household uses a full-service brokerage for investments. Is that correct?
   
   Yes (continue)
   No (terminate)

2. Which full-service brokerage(s) do you currently have investments with?
   
   13 Merrill Lynch
   12 Morgan Stanley Dean Witter
   12 Salomon Smith Barney
   6  A.G. Edwards/Edwards
   5  PaineWebber
   4  Prudential
   3  American Express
   3  Legg Mason
   2  Charles Schwab
   50 Other
   4  Don’t know

3. How long have you had investments with (SPECIFY BROKERAGE)?
   
   12  Less than 2 years
   25  2-5 years
   29  6-10 years
   35  More than 10 years

Now, I would like you to reference the brokerage statements that we asked you to review. I am going to ask you some questions regarding the information on these statements. This will help determine the ease of use of the statements.
SERIES 1:

Please look at Statement A and refer to it when answering the following questions.

1. What is the time period covered by this account statement? (DO NOT READ LIST)

   88   Correct answer (one month, May 29-June 26, 1998)
   8    Incorrect answer
   4    Don’t know
   -    Refused

2. What percentage of the portfolio is invested in equities as of the closing date for this month? (DO NOT READ LIST)

   57   Correct answer (35%)
   30   Incorrect answer
   13   Don’t know
   -    Refused

3. What is an equity?

   33   Correct answer (a stock, common stock)
   37   Incorrect answer
   30   Don’t know
   -    Refused

4. What was the dollar amount invested in mutual funds as of the beginning of the reporting period? (DO NOT READ LIST)

   72   Correct answer ($12,321)
   24   Incorrect answer
   4    Don’t know
   -    Refused

5. What is the total dollar value of this portfolio?

   87   Correct answer ($214,755)
   11   Incorrect answer
   2    Don’t know
   -    Refused
6. Has the dollar value of the portfolio increased or decreased during the reporting period? (DO NOT READ LIST)

   95 Correct answer (increased)
   3 Incorrect answer
   2 Don’t know
   - Refused

7. How many shares of Carrington Laboratories were sold during this reporting period? (DO NOT READ LIST)

   82 Correct answer (1,000)
   6 Incorrect answer
   12 Don’t know
   - Refused

8. Does this statement show the commission charged for the sale of the Carrington Laboratories shares? (DO NOT READ LIST)

   83 Correct answer (no)
   7 Incorrect answer
   10 Don’t know
   - Refused

SERIES 2:

Please look at Statement B and refer to it when answering the following questions.

9. How much, if any, has the value of the 300 shares of RST Co. stock increased since it was purchased? (DO NOT READ LIST)

   67 Correct answer ($3,637.50)
   20 Incorrect answer
   12 Don’t know
   - Refused

10. In the column “Unrealized gain/(loss)” for the 250 shares of XYZ Corporation, what do the letters “LT” stand for? (DO NOT READ LIST)

    42 Correct answer (“long-term”)
    7 Incorrect answer
    51 Don’t know
    - Refused
11. Does the statement itself provide the rate of return for the OPQ fund? (DO NOT READ LIST)

- 73 Correct answer (no)
- 13 Incorrect answer
- 14 Don’t know
- Refused

IF Q. 11 IS CORRECT, DK, OR REFUSED, SKIP TO QUESTION 13.

12. What is the rate of return for the OPQ fund? (DO NOT READ LIST)

- (n=41)
- 34 Correct answer (doesn’t show this, can’t tell)
- 56 Incorrect answer
- 10 Don’t know
- Refused

13. What is the current price per share for the LMN Income Fund? (DO NOT READ LIST)

- 82 Correct answer ($14.00)
- 8 Incorrect answer
- 9 Don’t know
- Refused

14. And how much did the investor pay per share for the LMN Income Fund when it was purchased? (DO NOT READ LIST)

- 83 Correct answer ($12.75)
- 9 Incorrect answer
- 8 Don’t know
- Refused

15. How many shares of the LMN Income Fund have been reinvested to date?

- 46 Correct answer (11.2395)
- 26 Incorrect answer
- 29 Don’t know
- Refused

16. What is the anticipated annualized income from the LMN Income Fund? (DO NOT READ LIST)

- 38 Correct answer ($647.21)
- 27 Incorrect answer
- 35 Don’t know
SERIES 3:

Please look at Statement C and refer to it when answering the following questions.

17. What is the open order sell price for the Keycorp New stock?

   52 Correct answer (28 and 7/16)
   14 Incorrect answer
   34 Don’t know
   - Refused

18. What is the meaning of the term “open order sell price”?

   41 Correct answer (the specified price at which a security is to be sold)
   19 Incorrect answer
   40 Don’t know
   - Refused

19. What is the dollar amount of the dividends and interest earned on this account during this reporting period? (DO NOT READ LIST)

   71 Correct answer ($112.03)
   14 Incorrect answer
   15 Don’t know
   - Refused

20. Now I would like for you to refer to the page marked Statement D. How useful would this type of graphic summary be to you on your account statements? (READ LIST)

   11 Very useful
   39 Somewhat useful
   22 Not very useful, OR
   26 Not at all useful
   1 Don’t know (DO NOT READ)
   1 Refused (DO NOT READ)

Now I am going to read you a list of items that might be included on your investment account statement. For each, please tell me how helpful each would be to you.
21. How helpful would it be to know THE RATE OF RETURN EARNED ON YOUR ACCOUNT FOR EACH TYPE OF INVESTMENT YOU HAVE? Would it be very helpful, somewhat helpful, not very helpful, or not at all helpful?

79  Very helpful
18  Somewhat helpful
  1  Not very helpful
  2  Not at all helpful
      - Don’t know (DO NOT READ)
      - Refused (DO NOT READ)

22. How helpful would it be to know THE AMOUNT OF COMMISSIONS AND FEES CHARGED TO YOUR ACCOUNT FOR THE REPORTING PERIOD? Would it be very helpful, somewhat helpful, not very helpful, or not at all helpful?

65  Very helpful
24  Somewhat helpful
  5  Not very helpful
  5  Not at all helpful
  1  Don’t know (DO NOT READ)
  - Refused (DO NOT READ)

23. How helpful would it be to know THE REDUCTION IN YOUR RATE OF RETURN FROM COMMISSIONS PAID ON YOUR ACCOUNT? Would it be very helpful, somewhat helpful, not very helpful, or not at all helpful?

45  Very helpful
38  Somewhat helpful
 10  Not very helpful
  5  Not at all helpful
  2  Don’t know (DO NOT READ)
  1  Refused (DO NOT READ)

24. Just for statistical purposes, stop me when I get to the category that includes your household’s total income in 1998, before taxes. This includes wages, Social Security, pensions, and interest or dividends and investments. Was it…? (READ LIST)

24  Less than $50,000
44  $50,000 to $100,000, OR
28  More than $100,000
      - Don’t know (DO NOT READ)
      - Refused (DO NOT READ)
25. Are you or your spouse currently a member of …AARP?

   66   Yes, member of AARP

26. (RECORD SEX FROM VOICE):

   48   Male
   52   Female

Those are all of the questions I have this (MORNING/AFTERNOON/EVENING). Thank you very much for your help on this study.
APPENDIX B

DEMOGRAPHIC CHARACTERISTICS
OF RESPONDENTS
Table B1. Demographic Characteristics of Respondents  
(N=314)

<table>
<thead>
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<th>Percentage</th>
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<tr>
<td><strong>Age</strong></td>
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<tr>
<td>&lt;50</td>
<td>21</td>
</tr>
<tr>
<td>50-64</td>
<td>34</td>
</tr>
<tr>
<td>65+</td>
<td>44</td>
</tr>
<tr>
<td>Missing</td>
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<tr>
<td><strong>Gender</strong></td>
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<tr>
<td>Male</td>
<td>48</td>
</tr>
<tr>
<td>Female</td>
<td>52</td>
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<tr>
<td><strong>Marital status</strong></td>
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<tr>
<td>Married</td>
<td>69</td>
</tr>
<tr>
<td>Widowed, separated, divorced</td>
<td>24</td>
</tr>
<tr>
<td>Never married</td>
<td>7</td>
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<tr>
<td><strong>Household income</strong></td>
<td></td>
</tr>
<tr>
<td>&lt;$50,000</td>
<td>24</td>
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<tr>
<td>$50,000-$99,999</td>
<td>44</td>
</tr>
<tr>
<td>$100,000+</td>
<td>48</td>
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<tr>
<td><strong>Education</strong></td>
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<tr>
<td>Some college</td>
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<tr>
<td>College graduate or higher</td>
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<tr>
<td>North Central</td>
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<td>South</td>
<td>27</td>
</tr>
<tr>
<td>West</td>
<td>28</td>
</tr>
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</table>

*Source: Investor Understanding of Broker Account Statements: Findings from a Survey, October 2000 (N=314).*