



STATEMENT

BEFORE THE

COMMITTEE ON BANKING, HOUSING  
AND URBAN AFFAIRS

OF THE

UNITED STATES SENATE

ON

"REGULATION NMS AND DEVELOPMENTS IN THE EQUITIES MARKETS"

JULY 22, 2004  
538 DIRKSEN SENATE OFFICE BUILDING  
WASHINGTON, D.C.

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Good morning Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee on Banking, Housing and Urban Affairs. My name is Charles Leven. I am AARP Vice president for Board Governance and Chair of our Board of Directors. I appreciate this opportunity to testify on our shared interest in, and concern for, the maintenance of a 'fair and orderly' national equity marketplace.

Since the creation of the National Market System (NMS) in 1975, registered exchanges and national associations have been required to publish immediately the details of almost all trades, and also the best quotes, for most securities.<sup>1</sup> Over the years this policy has been extended, by enlarging the range of securities for which transparency is obligatory, and by widening the types of trading systems required to publish price and quote information. Full price and quote transparency is fundamental to effectively regulating exchanges and markets, enhancing investor protection, competition, fairness, market efficiency, liquidity, market integrity, and investor confidence.<sup>2</sup> We believe that when

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<sup>1</sup> The national market system (NMS) came into existence in the United States as an explicit public policy objective in the form of a 1975 set of amendments to the Securities Exchange Act (SEA) of 1934. The NMS amendments established as a purpose of the SEA the need to 'remove impediments to and perfect the mechanisms of a national market system for securities', and directed the Securities and Exchange Commission (SEC) to 'facilitate the establishment of that system'.

<sup>2</sup> Core expectations for the mandatory transparency called for by the NMS are outlined in SEC (1/1/94: IV-1 to IV-5), and release No. 34-37619 (29/8/1996).

ordinary investors think or speak of the stock market it is the NMS that is being assumed, if not directly referenced or understood.<sup>3</sup>

Clearly, the securities markets are an important national asset which must be preserved and strengthened. The proposals under consideration by the U.S. Securities and Exchange Commission (SEC) to enhance and modernize the regulatory structure of the NMS are both important and fundamental.<sup>4</sup> And we believe that a stable but robust NMS is fundamental to our national economy, the financial well-being and economic security of the investing public, as well as for the business vitality of the market.

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<sup>3</sup> The 1975 NMS amendments directs the SEC, 'having due regard for the public interest, the protection of investors, and the maintenance of fair and orderly markets, to use its authority . . . to facilitate the establishment of a national market system for securities'. The SEC identified in 1978 a number of market reforms necessary for the establishment of the NMS and has subsequently promulgated a number of rules and developed key institutions to implement the NMS goals.

Among the key rules are those that relate to:

- dissemination of price and quote information;
- improving the handling and execution of customer orders by broker and dealers; and
- displaying price and volume data of the most recent transaction from all reporting market centers.

Three key institutions were developed to bring about the NMS:

- The Consolidated Quotation System (CSQ), that is a mechanism for making available to data vendors information about the bid and offer quotations and associated volumes;
- The Consolidated Tape Association (CTA), tha was established to consolidate the last sale reporting of all trades in exchange listed securities; and
- The Intermarket Trading System (ITS), that is an intermarket communications linkage

<sup>4</sup> See the proposed rule for regulation of NMS, U.S. Securities and Exchange Commission [Release No. 34-49325; File No. S7-10-04]. The Commission is proposing changes that would affect NMS participant trade-throughs, market access to quotations and execution orders, minimum market pricing increments, and plans for disseminating market information to the public.

## **SURVEY FINDINGS**

My remarks today summarize the views collected from a 2004 AARP survey of individual investors toward selected stock market conditions and practices.<sup>5</sup> It was conducted to examine investor perceptions of selected securities industry practices, the stock market, and financial services professionals. This survey did not attempt to focus on the technical aspects of NMS rules and institutions that have been created to deliver and maintain an operational national market system.

### **Best Available Price vs. Speed**

We understand the importance of the debate over the fate of the so-called 'trade-through' rule.<sup>6</sup> The challenge of finding a market mechanism that will maximize the probability that the NMS will secure the best available price per transaction (for the individual as well as for the institutional investor) in a given time frame is a difficult one. Credible arguments and research have been advanced that call for no change, an opt-out provision, or total elimination of

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<sup>5</sup> A copy of the full report, "Investor Perceptions and Preferences Toward Selected Stock Market Conditions and Practices: An AARP Survey of Stock Owners Ages 50 and Older", published March 2004, is available at: <http://research.aarp.org>. See Appendices A and B: Conducted from February 13<sup>th</sup> to February 20<sup>th</sup> 2004, the survey was fielded to panel members who met each of the following criteria: (i) are age 50 or older, (ii) own stocks, either as individual stocks or in mutual funds, and (iii) have primary or joint responsibility for making household financial investment decisions. A total of 1,917 households participated in the survey.

<sup>6</sup> Technically, a 'trade-through' occurs when a participant either buys a security at a higher price than the lowest offer quoted among participating markets, or sells a security at a lower price than the highest bid quoted amount the participating markets. The SEC is proposing a uniform trade-through rule for both exchange (e.g., NYSE) listed and Nasdaq listed securities.

the existing rule. We believe most stakeholders in the issue will agree that - however the 'trade-through' conundrum is addressed – it will likely have a profound financial impact on the different market centers. Ultimately, it will also have an impact on public confidence, based upon perceptions of market credibility and fairness.

Our 2004 investor survey did not ask respondents to assess the role that the concept of "certainty" would play in their determination of what would be the best price available. However, we did ask respondents to weigh their preference for obtaining best price against circumstances that might warrant consideration of other trading criteria and options, i.e., speed, fees and confidentiality.

When presented with two opposing views related to the importance of obtaining the best available stock price versus the importance of other issues such as speed of transaction, approximately two-thirds (66%) of respondents indicated that they agreed with the view stating that best available price should be the top priority when conducting transactions.

<b>Best Available Price vs. Speed</b>	
<b>(n=1,917)</b>	
<b>View A: Best available price should be top priority.</b>	66%

<b>View B: Important to balance need for price with speed and other issues.</b>	31%
<b>Refused to answer</b>	3%

Certain individuals, such as those who conduct few transactions per year, women, those who are older, those with lower incomes, and those with less education were more likely to feel that best available price should be a top priority. Likelihood to agree with View A (best price) did not vary based on any of the other demographic variables tested, including race, employment status, and marital status.

When asked how strongly they agreed with their selection, close to three in four (74%) respondents indicated that they *somewhat* agreed. Approximately one in four (26%) indicated that they *strongly* agreed. Those who felt that best price should be the top priority ("View A" supporters) and those who felt that the need for best price should be balanced with speed and other issues ("View B" supporters) were equally likely to indicate that they *strongly* agreed with their respective viewpoints. Specifically, among View A supporters, 74 percent indicated that they *somewhat* agreed with View A, while only 26 percent indicated that they *strongly* agreed. Similarly, among View B supporters, 74 percent indicated that they *somewhat* agreed with View B, while only 26 percent *strongly* agreed with View B.

When those respondents who selected View A were asked if there were any circumstances under which best available price would *not* be their highest priority, almost half (48%) said that best available price would not be their top priority if obtaining the best price meant that they would have to pay high fees. Another 41 percent pointed to the need to conduct transactions quickly. Close to one in six (17%) reported that best available price would always be their highest priority.

<b>When Price Would Not Be the Top Priority for "View A" Supporters</b>	
<b>(n=1,274)</b>	
If getting the best available price meant I would have to pay high fees	48%
If I needed to buy or sell shares quickly	41%
If I wanted to complete the transaction on the Internet rather than go through a stockbroker	11%
Other (specify)	2%
Under no circumstances	17%

Of all respondents, more than eight in ten (86%) agreed that their stock broker or mutual fund manager should notify them before completing a transaction in which best available price is not the top priority.

**Important Considerations When Investing in Mutual Funds or Individual Stocks**

When respondents were asked to rate the importance of price, fees, speed, and confidentiality, the cost-related issues of price and fees received significantly more *very important* ratings than did speed and confidentiality.

Between 70 percent and 80 percent of respondents perceived price and fees to be *very important* in both mutual fund transactions and individual stock transactions. Approximately 60 percent perceived confidentiality to be *very important*, while fewer than 30 percent perceived speed to be *very important*.

### **Confidence in Financial Services Professionals**

The majority of respondents (74%) reported that they prefer to have others manage their investments for them, although they do like to be involved in major investment decisions. In fact, close to two in three (66%) indicated that they rely on either a personal broker/financial advisor, an employer-sponsored broker/financial advisor, or a banker when making investment decisions.

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#### **Confidence in Financial Services Professionals**

**(n=1,917)**

	<b>Strongly agree</b>	<b>Somewhat agree</b>	<b>Strongly or Somewhat agree</b>
<b>I am confident that the financial institutions that handle my money manage my accounts according to what is in my best interests.</b>	<b>24%</b>	<b>52%</b>	<b>76%</b>
<b>I have more confidence in the abilities of mutual fund managers than I have in my ability to buy and sell individual stocks on my own.</b>	<b>32%</b>	<b>44%</b>	<b>76%</b>
<b>I prefer to have others manage my investments for me, but I like to be involved in major investment decisions.</b>	<b>35%</b>	<b>39%</b>	<b>74%</b>
<b>I have more confidence in the abilities of stock brokers than I have in my ability to buy and sell individual stocks on my own.</b>	<b>30%</b>	<b>42%</b>	<b>72%</b>

<b>I prefer to make investment decisions on my own without the assistance of others.</b>	<b>9%</b>	<b>28%</b>	<b>37%</b>
<b>I am confident in my ability to buy and sell individual stocks without the assistance of stock brokers.</b>	<b>9%</b>	<b>24%</b>	<b>33%</b>

While investor reliance on financial services professionals may stem in part from a desire to reduce demands on their own time, most investors appear to lack confidence in their ability to conduct trades and make investment decisions without the assistance of financial services professionals. Specifically, close to three in four respondents (72-76%) have more confidence in the abilities of mutual fund managers or stock brokers to conduct transactions for them than they have in their own abilities to conduct transactions. In contrast, only one in three (33%) are confident in their own ability to buy and sell individual stocks without the assistance of stock brokers.

Subsequent sections of the survey reveal widespread concerns about the securities industry on issues such as a lack of ethics and a lack of accountability, although most respondents (76%) indicate that they are at least somewhat confident (only 24% are strongly confident) that "the financial institutions that handle my money manage my accounts according to what is in my best interest." This apparent contradiction may reflect differences in interpretations of the terms "financial institutions" and "securities industry" as it is likely that the term "securities industry" brings to mind entities, such as brokerage firms,

mutual fund firms, and stock exchanges, whose primary functions involve trading stocks. In contrast, it's likely that respondents interpret "financial institutions" more broadly to include banks, which are likely to be perceived as separate from the securities industry. Yet another possibility is that respondents are more confident about their *own* banks and investment firms than they are about the industry as a whole, which may contribute to this relatively high level of confidence in institutions that "handle my money."

### **Concerns and Worries About the Stock Market**

Fear of losing money (63%), lack of ethics (61%), and general concerns about the state of the economy (55%) top the list of respondent concerns about the stock market. More than half of respondents selected these items when asked to select from a list of eight possible concerns. In contrast, fewer than one in three (29%) are concerned about the impact of future terrorist attacks on the stock market.

<b>Concerns and Worries About the Stock Market* (n=1,917)</b>	
<b>Fear of losing money</b>	<b>63%</b>
<b>Lack of ethics in the marketplace</b>	<b>61%</b>
<b>The state of the economy</b>	<b>55%</b>
<b>Significant stock market declines</b>	<b>46%</b>
<b>Accuracy of published financial statements</b>	<b>38%</b>
<b>Lack of confidence in the stock market generally</b>	<b>31%</b>
<b>Fear that future terrorist attacks may cause a significant stock market decline</b>	<b>29%</b>
<b>No concerns</b>	<b>4%</b>

Other (specify)	3%
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**\*Multiple responses accepted.**

### **Problems for the Securities Industry**

Negative perceptions of the industry run wide and deep. Dishonesty (62%), lack of accountability (62%), and lack of consumer protection and means of recourse for harmed investors (60%) are those issues that respondents are most likely to view as "big problems" for the industry. More than half also view insider trading (57%) and lack of internal controls and checks (52%) as "big problems."

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#### **Problems for the Securities Industry (n=1,917)**

	<b>Big problem</b>	<b>Small problem</b>	<b>Not a problem</b>	<b>Don't know / Refused</b>
<b>Dishonesty</b>	<b>62%</b>	<b>28%</b>	<b>2%</b>	<b>8%</b>
<b>Lack of accountability</b>	<b>62%</b>	<b>25%</b>	<b>3%</b>	<b>10%</b>
<b>Lack of consumer protection and means of recourse for harmed investors</b>	<b>60%</b>	<b>27%</b>	<b>3%</b>	<b>11%</b>
<b>Insider trading</b>	<b>57%</b>	<b>30%</b>	<b>2%</b>	<b>11%</b>
<b>Lack of internal controls and checks</b>	<b>52%</b>	<b>28%</b>	<b>4%</b>	<b>15%</b>
<b>The poor economy</b>	<b>47%</b>	<b>33%</b>	<b>11%</b>	<b>8%</b>
<b>Insufficient disclosure of risks to investors</b>	<b>46%</b>	<b>33%</b>	<b>9%</b>	<b>12%</b>
<b>Lack of confidence from the public</b>	<b>44%</b>	<b>39%</b>	<b>6%</b>	<b>12%</b>
<b>Incompetent fund managers</b>	<b>44%</b>	<b>39%</b>	<b>5%</b>	<b>12%</b>
<b>Incompetent brokers</b>	<b>42%</b>	<b>41%</b>	<b>4%</b>	<b>13%</b>

<b>Conflict of interest between fund managers and fund shareholders</b>	<b>42%</b>	<b>34%</b>	<b>6%</b>	<b>18%</b>
<b>Transaction fees that are too high</b>	<b>42%</b>	<b>40%</b>	<b>7%</b>	<b>13%</b>
<b>Conflict of interest between brokers and shareholders</b>	<b>40%</b>	<b>37%</b>	<b>7%</b>	<b>21%</b>
<b>Conflict of interest between fund board of directors and fund managers</b>	<b>40%</b>	<b>32%</b>	<b>5%</b>	<b>23%</b>
<b>Market volatility</b>	<b>31%</b>	<b>43%</b>	<b>13%</b>	<b>13%</b>

### **Need for Changes in Regulations**

Of all respondents, close to eight in ten (78%) feel that the regulation of the securities industry should be stronger than it is today. One in three (33%) feel that it should be *much* stronger, while 45 percent feel that it should be *somewhat* stronger. Only one percent feel that it should be looser. Approximately one in five (21 %) report that they *don't know* whether regulation of the industry should be stronger or looser than it is today.

<b>Should Regulation of the Securities Industry be ...? (n=1,917)</b>	
Much stronger	33 %
Somewhat stronger	45 %
Somewhat looser	1 %
Much looser	0 %
Don't know	21 %
REFUSED	1 %

## **CONCLUSION**

Our 2004 survey of 50 and older investors was conducted in order to examine perceptions of selected securities industry practices, the stock market, and financial services professionals. Our survey reveals that most investors feel that the cost-related issues of price per share and fees are more important in stock transactions than are other issues such as speed of transaction. Findings also reveal widespread concerns among investors related to dishonesty in the securities industry, lack of ethics, lack of accountability, and lack of consumer protection, suggesting that much remains to be done to restore investor confidence.

As difficult as it is to enact and promulgate corrective legislation and regulation, it will take additional time to arrest investor anxiety, to restore public confidence in the industry, and to measure the consequences of efforts to modernize the NMS structure. We believe that the SEC has taken a number of concrete steps to address a range of market performance issues that had been neglected in recent years. But additional prudent steps are clearly needed.

I would be happy to answer any questions you may have.

## **APPENDIX A: METHODOLOGY**

Knowledge Networks, a research firm based in California, administered the survey using its web-enabled panel of people who have agreed to participate in surveys. This panel is designed to be representative of the U.S. population and was built by providing Internet devices and Internet service connections to people who have agreed to serve on the online panel. By providing Internet access to willing participants, Knowledge Networks allows individuals who would otherwise have no access to the Internet to participate in online research.

### **Target Audience Selection**

Based on its existing information about its panel members, Knowledge Networks sent email invitations only to panel members who are aged 50 or older and own individual stocks, mutual funds, IRAs, 401(k), or 403(b) accounts. Questions were then added to the survey in order to verify that respondents owned stock in at least one of these accounts.

### **Weighting**

The survey results are weighted based on gender, age, education, race/ethnicity, and geographic benchmarks to ensure that the results are representative of panel members ages 50 and older who own stocks either through mutual funds or as individual stocks. This weighting corrects for non-response. Additionally, the weighting was adjusted to ensure that the percentage of respondents who own stocks in only retirement accounts matches the percentage for respondents found in the 2002-03 MacroMonitor survey. The MacroMonitor survey is a nationwide mail survey, which is conducted every two years by SRI Consulting Business Intelligence to collect detailed information about financial asset holdings and financial behavior from 2500 respondents. In order to ensure a statistically valid and projectable sample, respondents for the MacroMonitor survey are recruited through random-digit dialing.

**Background Regarding Knowledge Network's Web-Enabled Panel**

Initially, in order to invite households to participate in its web-enabled panel, Knowledge Networks contacted households through a random digit dialed telephone survey. Then, Knowledge Networks provided an Internet appliance and an Internet service connection to households who agreed to join the panel. Individuals who already had their own computers and Internet access prior to joining the panel are allowed to participate in surveys through their own equipment if they desire. Panelists are sent emails three to four times per month inviting them to participate in research studies.

## **APPENDIX B: ANNOTATED QUESTIONNAIRE**

Conducted by Knowledge Networks for AARP February 13 – 20, 2004.  
1,917 qualified cases (financial decision maker and stock owner)  
Note that some percentages do not total to 100% due to rounding.  
Each question was asked of all 1,917 respondents unless otherwise noted.  
Results are weighted. See report for explanation of weighting.

GROUP. Investor group. n=1,917

Stocks only in retirement investments	21%
Others (both or non-retirement only)	79%

### **[SINGLE CHOICE]**

Q1. Who has primary responsibility for making decisions regarding your household's financial investments?

Myself	48%
Myself and someone else	52%

### **[IF Q1 = 3 OR SKIPPED]**

### **[DISPLAY SCREEN]**

### **[NOTQUAL]**

We appreciate your response but unfortunately you didn't qualify for the rest of the questions on this topic.

### **[TERMINATE INTERVIEW]**

### **[SINGLE CHOICE]**

Q2. How closely, if at all, have you been following reports of plans to change current rules related to how stocks are traded on some stock exchanges?

Very closely	3%
Somewhat closely	20%
Not too closely	43%
Not at all	34%

### **[OPEN END]**

Q3. What, if anything, have you heard about the plans to change rules related to how stocks are traded?

**[DISPLAY SCREEN]**

Q4INTRO. Please read the following information and answer the questions on the following screen.

As you may know, the New York Stock Exchange is the largest U.S.-based stock exchange. A current rule that governs how stock is traded on the New York Stock Exchange allows anyone who buys or sells stocks listed on the New York Stock Exchange to wait up to 30 seconds before completing the transaction. The purpose of this 30-second rule is to increase the chance that the buyer or seller will get the best possible listed price. This rule affects anyone who buys and sells stocks listed on the New York Stock Exchange, including stock brokers, mutual fund managers, and individual investors.

Some people like this 30-second rule. Some people don't like this rule. These two views are explained as View A and View B on the following screen.

**[SINGLE CHOICE]**

**[ROTATE ORDER OF VIEW A / VIEW B]**

Q4.

View A: When buying or selling stocks, some people feel that the top priority should be to get the best available price. These people feel that the 30-second rule is a good rule. They don't mind if their stock broker, mutual fund manager, or they themselves wait up to 30 seconds before buying or selling stocks. They like the 30-second rule because it means that they might save a few cents per share on the price of stock that they buy.

View B: When buying or selling stocks, some people feel that it's important to balance the need for the best available price with other needs such as the speed of the transaction. These people feel that the 30-second wait time should be reduced or eliminated entirely. They don't mind if the price of the stock they buy is a few cents per share higher than the best available price. They don't like the 30-second rule because it slows down their transaction time.

Which of the above views do you agree with more?

View A	44%
View B	21%
Don't know	35%

**[IF Q4=3 OR SKIP]**

**[KEEP SAME ROTATED ORDER AS Q4]**

**[SINGLE CHOICE]**

Q4A.

View A: When buying or selling stocks, some people feel that the top priority should be to get the best available price. These people feel that the 30-second rule is a good rule. They don't mind if their stock broker, mutual fund manager, or they themselves wait up to 30 seconds before buying or selling stocks. They like the 30-second rule because it means that they might save a few cents per share on the price of stock that they buy.

View B: When buying or selling stocks, some people feel that it's important to balance the need for the best available price with other needs such as the speed of the transaction. These people feel that the 30-second wait time should be reduced or eliminated entirely. They don't mind if the price of the stock they buy is a few cents per share higher than the best available price. They don't like the 30-second rule because it slows down their transaction time.

If you had to pick one, which view do you agree with more?

n=663

View A	63%
View B	30%
REFUSED	7%

VIEW. (Composite Q4 and Q4A)

n=1,917

View A	66%
View B	31%
REFUSED	3%

**[IF SELECTED ONE OF THE VIEWS IN Q4 OR Q4A]**

**[SINGLE CHOICE]**

Q5. How strongly do you agree with that view?

n=1,869

Strongly agree	26%
Somewhat agree	74%

**[IF OWN MUTUAL FUNDS]**  
**[GRID – SINGLE CHOICE]**  
**[RANDOMIZE RESPONSE LIST]**

Q6. When you invest money in a mutual fund or take money out of a mutual fund, how important is each of the following to you?

n=1,342

	Very Important	Somewhat important	Not too important	Not at all important	REFUSED
Price per share	74%	20%	4%	2%	1%
Fees charged for the transaction	75%	21%	3%	1%	1%
Speed of the transaction	19%	43%	27%	10%	1%
Confidentiality	62%	23%	11%	3%	1%

**[IF OWN INDIVIDUAL STOCKS]**  
**[GRID – SINGLE CHOICE]**  
**[RANDOMIZE RESPONSE LIST]**

Q7. When you or your broker buys or sells individual stocks (outside of a mutual fund), how important is each of the following to you?

n=1,387

	Very Important	Somewhat important	Not too important	Not at all important	REFUSED
Price per share	80%	14%	1%	2%	2%
Fees charged for the transaction	71%	23%	3%	2%	2%
Speed of the transaction	29%	40%	21%	8%	3%
Confidentiality	61%	23%	10%	5%	3%

**[IF IN FAVOR OF 30-SECOND WAIT TIME / VIEW A]**  
**[MULTI CHOICE, UNDER NO CIRCUMSTANCES = SINGLE CHOICE]**  
**[RANDOMIZE RESPONSE LIST, KEEP OTHER AND UNDER NO CIRCUMSTANCES AT THE END]**

Q8. Under which, if any, circumstances would getting the best available stock price **not** be your highest priority?

n=1,274

If getting the best available price meant I would have to pay high fees	48%
If I needed to buy or sell shares quickly	41%
If I wanted to complete the transaction on the Internet rather than go through a stockbroker	11%
Other (specify)	2%
Under no circumstances	17%

**[SINGLE CHOICE]**

Q9. Please indicate the extent to which you agree or disagree with the following statement:

If my stock broker or mutual fund firm buys or sells stock without seeking the best available price, they should notify me before they complete the transaction.

Strongly agree	57%
Somewhat agree	29%
Somewhat disagree	10%
Strongly disagree	3%
REFUSED	2%

**[IF OWN INDIVIDUAL STOCKS]**

**[MULTI CHOICE]**

Q10. Think about the individual stocks that you own, outside of any mutual fund investments. How did you purchase those individual stocks?

n=1,387

Through employee stock options	36%
Through a stock broker or an online trading service	53%
Directly from the publicly traded company	14%
Other (specify)	15%

**[IF Q10=2]**

**[MULTI CHOICE]**

Q10A. Please specify which of the following ways you have purchased stock through a stock broker or online trading service.

n=752

Over the Internet	20%
Over the phone	75%
Through the mail	10%
Automatic deductions from bank accounts	8%
Other, specify	17%

**[IF Q10=3]**

**[MULTI CHOICE]**

Q10B. Please specify which of the following ways you have purchased stock directly from a publicly traded company.

n=186

Over the Internet	4%
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Over the phone	36%
Through the mail	61%
Automatic deductions from bank accounts	13%
Other, specify	13%

**[IF OWN INDIVIDUAL STOCKS]**

**[SINGLE CHOICE]**

Q11. How well do you understand the costs of buying or selling shares of individual stocks?

n=1,387

Completely understand	15%
Somewhat understand	46%
Don't understand very well	27%
Don't understand at all	12%

**[IF OWN MUTUAL FUNDS]**

**[SINGLE CHOICE]**

Q12. How well do you understand the costs of buying or selling shares of mutual funds?

n=1,342

Completely understand	11%
Somewhat understand	45%
Don't understand very well	31%
Don't understand at all	12%
REFUSED	1%

**[SINGLE CHOICE]**

Q13. In general, do you have a favorable or an unfavorable opinion of the securities industry as a whole?

Favorable	39%
Unfavorable	25%
Don't know	35%

**[IF Q13=1]**  
**[SINGLE CHOICE]**

Q13A. How favorable is your opinion of the securities industry?

n=772

Very favorable	25%
Somewhat favorable	75%

**[IF Q13=2]**  
**[SINGLE CHOICE]**

Q13B. How unfavorable is your opinion of the securities industry?

n=484

Somewhat unfavorable	64%
Very unfavorable	36%

**[GRID - SINGLE CHOICE]**  
**[RANDOMIZE RESPONSE LIST]**

14. How much do you agree or disagree with each of the following statements?

	Strongly agree	Somewhat agree	Somewhat disagree	Strongly disagree	REFUSED
I am confident that the financial institutions that handle my money manage my accounts according to what is in my best interests.	24%	52%	17%	6%	2%
I am confident in my ability to buy and sell individual stocks without the assistance of stock brokers.	9%	24%	39%	27%	2%
I have more confidence in the abilities of stock brokers than I have in my ability to buy and sell individual stocks on my own.	30%	42%	17%	8%	2%
I have more confidence in the abilities of mutual fund managers than I have in my ability to buy and sell individual stocks on my own.	32%	44%	15%	7%	2%
I prefer to make investment decisions on my own without the assistance of others.	9%	28%	39%	22%	2%
I prefer to have others manage my investments for me, but I like to be involved in major investment decisions.	35%	39%	15%	9%	2%

**[SINGLE CHOICE]**

Q15. As you may know, Wall Street is a term used to describe the nation's largest banks, investment banks, stockbrokers, investment firms, and other financial institutions. Overall, would you say that Wall Street benefits the country a lot, benefits it somewhat, harms it somewhat, or harms the country a lot?

Benefits a lot	31%
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Benefits somewhat	42%
Harms somewhat	7%
Harms a lot	2%
Don't know	17%
REFUSED	1%

**[SINGLE CHOICE]**

Q16. Some of the investment companies on Wall Street manage mutual funds. Overall, would you say that mutual fund companies benefit the country a lot, benefit it somewhat, harm it somewhat, or harm the country a lot?

Benefits a lot	24%
Benefits somewhat	46%
Harms somewhat	7%
Harms a lot	1%
Don't know	21%
REFUSED	1%

**[SINGLE CHOICE]**

Q17. How much have you read, seen or heard about misconduct by people in the mutual fund business?

A great deal	17%
A fair amount	51%
Very little	26%
Nothing	8%
REFUSED	1%

**[IF OWN MUTUAL FUNDS]**  
**[SINGLE CHOICE]**

Q18. How concerned are you that investigations into accusations of misconduct by people in the mutual funds business will affect the value of your mutual fund investments?

n=1,342

Very concerned	25%
Somewhat concerned	46%
Not too concerned	25%
Not at all concerned	4%

**[MULTI CHOICE]**  
**[RANDOMIZE RESPONSE LIST, KEEP LAST TWO AT BOTTOM]**  
**[NO CONCERNS = SINGLE CHOICE]**

Q19. What are your main concerns or worries about investing in the stock market today?

Fear of losing money	63%
Lack of ethics in the marketplace	61%
The state of the economy	55%
Significant stock market declines	46%
Accuracy of published financial statements	38%
Lack of confidence in the stock market generally	31%
Fear that future terrorist attacks may cause a significant stock market decline	29%
No concerns	4%
Other (specify)	3%

**[SINGLE CHOICE]**

Q20. How would you like to see the regulation of the securities industry change? Should the regulation be...

Much stronger	33%
Somewhat stronger	45%
Somewhat looser	1%
Much looser	0%
Don't know	21%
REFUSED	1%

**[GRID - SINGLE CHOICE]**  
**[RANDOMIZE RESPONSE LIST]**

Q21. Please tell me if you think each of the following issues are a big problem, a small problem, or not a problem for the securities industry.

	Big problem	Small problem	Not a problem	Don't know	REFUSED
Dishonesty	62%	28%	2%	7%	1%
Market volatility	31%	43%	13%	12%	1%
Lack of accountability	62%	25%	3%	9%	1%
Lack of confidence from the public	44%	39%	6%	10%	2%
Lack of internal controls and checks	52%	28%	4%	14%	1%
Incompetent fund managers	44%	39%	5%	11%	1%
Incompetent brokers	42%	41%	4%	12%	1%
The poor economy	47%	33%	11%	7%	1%
Insider trading	57%	30%	2%	10%	1%
Conflict of interest between fund managers and fund shareholders	42%	34%	6%	17%	1%
Conflict of interest between brokers and shareholders	40%	37%	7%	7%	14%
Conflict of interest between fund board of directors and fund managers	40%	32%	5%	22%	1%
Lack of consumer protection and means of recourse for harmed investors	60%	27%	3%	10%	1%
Insufficient disclosure of risks to investors	46%	33%	9%	10%	2%
Transaction fees that are too high	42%	40%	7%	11%	2%

**[MULTI CHOICE]**

Q22. Which, if any, of the following do you rely on when investing in mutual funds or buying stocks?

Personal broker/financial adviser	49%
Spouse	28%
Financial periodicals	23%
Employer-sponsored broker/financial adviser	21%
Research analysts' recommendations	17%
Financial shows on TV	16%
Other family member	15%
Friend	11%
Internet	11%
Accountant or CPA	11%
Banker	7%
Colleague	6%
Other (specify)	5%
Insurance agent	3%
Lawyer	2%

**[IF Q22=7]**

**[MULTI CHOICE]**

Q22A. You indicated that you rely on the Internet when investing in mutual funds or buying stocks. Please select all of the types of Internet sites you rely on.

Company homepages (i.e. pepsi.com)	49%
News and information sites (i.e. CNN Money)	83%
Stock or fund trading sites (i.e. Ameritrade.com)	59%
Other (specify)	13%

**[IF OWN MUTUAL FUNDS]**

**[SINGLE CHOICE]**

Q23. Excluding automatic distributions or automatic investments, how many mutual fund transactions have you directed a broker or mutual fund company to conduct for you within the past 12 months? (Please do not count transactions of individual stock. If you are not sure, please select the option that is closest to your best guess.)

n=1,342

No transactions	45%
1 – 2 transactions	25%
3 – 4	12%
5 - 6	5%
7 – 8	1%
9 – 10	1%
11 – 20	2%
21 – 30	1%
More than 30	0%
Don't know	7%
REFUSED	1%

**[IF OWN INDIVIDUAL STOCKS]**

**[SINGLE CHOICE]**

Q24. Excluding automatic distributions or automatic investments, how many transactions of individual stock have you directed a broker to conduct for you within the past 12 months? (Please do not count mutual fund transactions. If you are not sure, please select the option that is closest to your best guess.)

n=1,387

No transactions	51%
1 – 2 transactions	20%
3 – 4	9%
5 - 6	4%
7 – 8	2%
9 – 10	2%
11 – 20	3%
21 – 30	1%
More than 30	2%
Don't know	6%

**[NUMBER BOXES, RANGE 0-100]**

Q25. Thinking about your total financial assets, excluding real estate, what percentage of your total financial assets falls into each of the following categories? If you are not sure please provide your best estimate.

	<b>Median</b>	<b>Mean</b>
CDs, Savings Accounts, Checking Accounts, Money Market Accounts or Money Market Funds	30%	38%
Stocks held in Mutual Funds	25%	34%
Individual Stocks, <u>not</u> in mutual funds	20%	28%
Bonds held in Mutual Funds	10%	14%
Individual Bonds, <u>not</u> in mutual funds	5%	11%
Other	20%	29%

**[NUMBER BOXES, RANGE 0-100]**

Q26. Thinking about your retirement savings only, excluding real estate, what percentage of your retirement savings falls into each of the following categories? If you are not sure, please provide your best estimate.

	<b>Median</b>	<b>Mean</b>
CDs, Savings Accounts, Checking Accounts, Money Market Accounts or Money Market Funds	30%	41%
Stocks held in Mutual Funds	40%	42%
Individual Stocks, <u>not</u> in mutual funds	20%	30%
Bonds held in Mutual Funds	10%	18%
Individual Bonds, <u>not</u> in mutual funds	7%	12%
Other	23%	36%

**[IF OWN MUTUAL FUNDS]**

**[SINGLE CHOICE]**

Q27. Does the mutual fund or funds you own contain any stocks or only things like bonds and money market investments?

n=866<sup>7</sup>

Has stocks	74%
Does not contain stocks	7%
Don't know	19%
REFUSED	1%

**[SINGLE CHOICE]**

Q28. Are you, or your spouse or partner, a member of AARP?

<sup>7</sup> Question 27 was asked to eliminate respondents who did not own stocks, either as individual stocks or through mutual funds. The question was only asked of those respondents who owned shares in non-retirement mutual funds. Respondents who had retirement accounts, such as 401(k)s or IRAs, and who did not own stocks outside of retirement accounts were screened through a separate question to ensure that their retirement accounts included individual stocks or stock mutual funds.

Yes	58%
No	42%

**DEMOGRAPHICS OF RESPONDENTS**

<b>Gender</b>	
Male	52%
Female	48%

<b>Age</b>	
50-54	22%
55-59	20%
60-64	15%
65-69	12%
70-74	11%
75-79	10%
80+	9%

<b>Race/Ethnicity</b>	
White, Non-Hispanic	86%
Black, Non-Hispanic	6%
Other, Non-Hispanic	4%
Hispanic	4%

<b>Education</b>	
Less than high school	7%
High school	30%
Some college	26%
Bachelor's degree or higher	36%

<b>Region</b>	
Northeast	21%
Midwest	23%
South	35%
West	21%

<b>Household Income</b>	
Less than \$25,000	18%
\$25,000 - \$49,999	38%
\$50,000 - \$74,999	21%
\$75,000+	23%

<b>Employment Status</b>	
Employed, either full-time or part-time	44%
Retired	44%
Other	11%

<b>Marital Status</b>	
Married	66%
Divorced	14%
Widowed	13%
Single, never married	6%
Separated	1%