

Results of Investor Interviews to Test Oral Point of Sale Disclosure

Supplemental Report to the Securities and Exchange Commission

June 1, 2005

Note:

This report serves as a supplement to the “Results of Investor Interviews to Test and Refine Point of Sale Disclosure Forms,” dated May 31, 2005.

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Overview

An iterative research and design effort was initiated in 2004 and continued in 2005 to develop suggested language and format for the disclosure of certain fee and conflict of interest information by broker-dealers. Results of the most recent research to refine the forms, “Results of Investor Interviews to Test and Refine Point of Sale Disclosure Forms,” were published on May 31, 2005.

This supplemental report provides the results of additional rounds of investor interviews conducted in three major metropolitan areas from April 13, 2005 through May 23, 2005. The objective of these interviews was to determine whether investors understood, over the telephone, certain portions of the same information presented in the mutual fund point of sale disclosure forms.

As investors shared their perspectives during each round of interviewing, the study materials (i.e., the script) were refined by the SEC to reflect investor input. The final script used during the Dallas interviews reflects the cumulative insight developed through these investor interviews.

This report is organized into the following sections:

- Summary of Findings
 - A consolidation of findings from all investor interviews
- The Study in Brief
 - An explanation of the research process
- Key Findings
 - Baltimore
 - St. Louis
 - Dallas
- Appendices
 - Materials used to complete this study

Summary of Findings

Investor input obtained during this study is consistent with other investor interviews we have completed for the Securities and Exchange Commission on this topic since 2004.

In general, investors felt the information provided over the telephone was useful and easy to understand. They valued the conflicts of interest disclosure and fee information presented in the oral statement.

Investors were generally supportive of disclosure regarding fees and conflicts of interest. They commented that the oral disclosure of this type of information would facilitate discussions with their brokers. Nevertheless, they wanted to supplement it with information in writing, either in digital or printed form.

For the most part, investors focused on the fees as the statement was read, and many wrote down fee amounts and percentages. In addition, most found it easy to recall the fee information presented. Many investors did not indicate that fee discounts expressed in the oral disclosure were a key message of the disclosure. Investors generally recalled the conflict of interest disclosure, especially when the disclosure was provided at the beginning of the statement.

The Study in Brief

Study Methods

We conducted in-depth interviews to elicit investor opinions and to gauge investor comprehension of the proposed oral disclosure. Interviews were conducted via telephone to provide a reasonable facsimile of an oral disclosure. For some interviews (see Baltimore and Dallas key findings), we also directed investors to a secure website to view stimuli such as the text used in the script and a point of sale disclosure form (see appendix for specific materials used during each round).

Individual in-depth interviewing is the preferred research method for studies of this nature as an interviewer can assess the respondent's understanding of key information without interference from others. Each interview lasted approximately 45 minutes.

Investors were also asked for written permission to audiotape 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 Release and Confidentiality Form).

Study Participants

Interviews were conducted in three market areas:

- Baltimore, MD (7 respondents)
- St. Louis, MO (7 respondents)
- Dallas, TX (8 respondents)

Interviewing investors in a variety of markets provides the best opportunity to obtain a diverse set of investor opinions. However, it does not ensure that the results represent the opinions of the entire investor community.

To qualify for the study, each participant passed an articulateness test and indicated they:

- Either solely or jointly made investment decisions
- Graduated high school, attended some college or graduated college (those with graduate degrees were excluded)
- Made a mutual fund or variable annuity purchase through a broker in person, over the phone or online within the past two years (those who had only purchased online were excluded)

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

Interviewing Techniques

A discussion guide was developed at the beginning of this process and modified as necessary. All investor interviews included an introduction section regarding the investor's preferred means of receiving information from his or her broker, an oral delivery of the disclosure using a script created by the SEC, a discussion of key messages communicated by the statement, and questions to determine specific recall and comprehension of information disclosed.

Project Team

John McKeever, Senior Vice President, Gelb Consulting Group, Inc. conducted the investor interviews and managed the research process.

Matt DuBeau, Group Director, Simplification, Siegel & Gale, provided input into the research design and designed the forms for testing.

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

Interpreting the Findings

Qualitative research of this nature is intended to explore the variety and nature of attitudes of investors. This type of testing is a best practice in assessing the effectiveness of functional communications such as forms. Due to the dynamic nature of in-depth qualitative interviews and small sample sizes, one should not conclude that these results are representative of the entire population of investors.

Key Findings: Baltimore (Oral Disclosure)

Methodology

Seven 45-minute in-depth telephone interviews were conducted with investors meeting similar screening criteria. Respondents had varying degrees of investment knowledge and all had received advice from brokers within the past six months.

Each discussion focused on investor understanding of the conflicts of interest and fee disclosure presented in three ways:

- Verbally
- Reading a script
- Reviewing a form

During each interview, investors initially described the types of information they used to make mutual fund decisions and how they received information from their brokers.

After respondents were read a script, each was asked to comment on the key messages, areas of confusion, and usefulness of the disclosure.

Once this oral delivery was fully addressed, respondents were also shown similar printed materials via a secured website. This review aided respondents' recall of specific sentences previously described orally. As part of this exercise, investors commented on the usefulness of each of these sentences.

Finally, investors viewed a Class A Mutual Fund disclosure form and were asked to compare the information contained therein to the information disclosed orally.

Four documents were used in this survey, all generated by the SEC:

- Class A Mutual Fund Shares Phone Script with minimum content (labeled Baltimore A)
- Class A Mutual Fund Shares Phone Script with maximum content (labeled Baltimore B)
- Class A Mutual Fund Shares Phone Script with maximum content and sentences highlighted (labeled Baltimore C)
- Class A Mutual Fund Point of Sale Disclosure Form (labeled Baltimore D)

Overview

Investors found the orally disclosed information useful. However, investors commented that the information was overwhelming and difficult to comprehend over the telephone. Respondents generally focused on the fees (i.e., dollar amounts) and the website addresses provided. Some investors did not mention the statements regarding potential conflicts of interest as a key message. Some investors recommended shortening the script (*see Baltimore B*) for easier comprehension.

Broker Communication

Most investors interviewed communicated with their brokers in a variety of ways, including newsletters with information about potential investment

opportunities, emails containing the same, and telephone conversations. Many investors indicated they used phone conversations with his or her broker to obtain detailed information about investments.

Oral Disclosure

Overall, investors found the oral disclosure useful. Several investors identified the following benefits of oral disclosure:

- Ability to ask questions of the broker
- Quick delivery of the information
- Useful information

Nevertheless, they pointed toward significant disadvantages of only delivering the disclosure verbally:

- Does not enable the investor to review at his or her own pace to “digest it”
- Difficulty in developing questions to ask the broker while listening to the statement
- Inability to see fees/statements “in black and white”

Investors were asked whether a standard script should be required. This mandate was important to many. The implied benefit to investors is that it would reduce the possibility that their broker could convey the disclosure in a “misleading” or confusing manner.

Respondents commented that the verbal delivery forced them to write down the information presented to assist future recall. They reported that their notes consisted primarily of the fees discussed in the disclosure. In addition, investors indicated their trigger for recording this information was the mention of specific dollar amounts, not necessarily the verbal instruction suggesting that the forthcoming information might be important enough to write down.

Investors also recommended making the script easier to understand. Suggestions included shortening the script (*see Baltimore B*) and dividing it into distinct components to ensure brokers paused before they moved into the next section.

Modules

Investors found the content in the maximum fee disclosure to be useful (*see Baltimore C*). Among all modules, the example of fees over time was the most confusing section in the oral disclosure as investors reportedly had a difficult time following the examples presented. For example, some investors thought the different amounts presented in different time intervals were alternative fees from which the investor could choose. Some investors commented that they would prefer to receive this type of information in writing to better understand the fees.

Written Disclosure

Investors recalled specific fee details from the written form and commented on the implications of the conflicts of interest and fees. By contrast, respondents did not comment on the implications of disclosures when they were delivered orally.

These investors said they would likely review this and additional information on a website or ask the broker to mail them the information. Delaying a transaction to obtain this information was not seen as a significant risk to these respondents.

In general, these respondents viewed written disclosure via email, website or in paper form to be equivalent. These investors viewed all of these written means of disclosure superior to oral delivery.

Recommendations for Questionnaire Changes for St. Louis

- Include questions regarding how investors would like brokers to integrate Internet disclosure into oral disclosure
- Include more task oriented questions to elicit more information about categories that should not have to be included in disclosures that only are oral (without any assistance from Internet-based or other written disclosures)
- Add more detailed questions concerning investor preferences regarding options of when and how to receive written/oral disclosures
- Include questions regarding perceived conflicts of interest based on the information provided over the phone
- Change “AAA Equity Fund” to another fund name to avoid confusion

Key Findings: St. Louis (Oral Disclosure)

Methodology

Seven 45-minute in-depth telephone interviews were conducted with investors meeting similar screening criteria. Investors had varying degrees of investment knowledge and all had received advice from brokers within the past six months.

Each discussion focused on investor understanding of the conflicts of interest and fee disclosure presented verbally by the interviewer through the use of a script.

During each interview, investors initially described the types of information they used to make mutual fund decisions and how they received information from their brokers. In addition, they were asked how they preferred to receive information from their brokers.

After investors were read a script, each was asked to comment on the key messages, areas of confusion, and usefulness of the disclosure.

Once this oral delivery was read in its entirety and questions were asked, the interviewer reread specific sentences contained in the script. As part of this exercise, investors commented on the usefulness of each of these sentences. Investors were then asked questions regarding the meaning of certain statements and to recall specific information contained in the script.

These interviews used one *Class A Mutual Fund Shares Phone Script*, which was created by the SEC.

Overview

Overall, investors found the information in the oral disclosure useful. The fees were observed to be a focal point for these investors. In addition, many investors commented that the conflicts of interest information is useful, particularly the statement that the broker is being paid more to promote the particular mutual fund described in the script. Some investors also liked the reference to website addresses for more information.

Broker Communication

These investors communicated with their brokers via email, regular mail, face-to-face meetings and phone calls. For some of them, the broker initiated communication through an email or newsletter. In general, investors preferred to receive information in advance (either in writing or online), review it, and then discuss questions/actions with their brokers either over the phone, in person or via email.

Recording Disclosure and Fee Information

Respondents were asked if they wrote down items from the oral disclosure. Many investors wrote down the upfront and annual fees without being prompted to do so, and some also wrote down the dollar amount of the upfront fees paid for a \$1,000 investment. These investors indicated the numbers in the disclosure encouraged them to write. One investor who did not write anything down said she “trusted her broker” and this information was unnecessary for her.

Conflicts of Interest

Respondents generally interpreted the conflicts of interest disclosure to mean that their broker was paid more to promote that particular mutual fund. Many concluded that this statement indicated that the broker may not have the investor's best interest in mind when recommending the investment and would consequently ask the broker about it.

Some investors commented they were not familiar with these potential conflicts of interest, citing that their brokers had not discussed the topic with them in the past. Some investors were unclear about the brokerage firm's potential conflicts of interest with them.

Fees

Investors recalled how much money, assuming a \$1,000 investment, would be invested in the fund and understood that the upfront fee explained the difference. Most recalled the specific fee amounts or percentages for both the upfront and annual fees.

When asked to identify key messages from the script, the respondents did not mention their ability to obtain personalized information about these fees. However, investors understood they could receive personalized information after the interviewer asked them if such an option was available and indicated that they would ask for such personalized information.

Some investors recalled the potential fee discount. One investor concluded that the fee discount offered aligned his interest (in lower fees) with the incentives paid to the broker.

Prospectus

Most investors did not recall references to the prospectus. After the section pertaining to prospectus was reread, investors understood the statement and indicated they would likely request the information from their brokers.

Delivery of Disclosure

Investors were mixed in their preference of method of delivery of this type of information. For the most part, investors wanted the ability to review written information regarding the investment (some wanted regular mail, email or a website), coupled with the opportunity to ask questions. Furthermore, investors preferred to receive this type of information both in writing and verbally, if such an option were available to them.

Investors identified the following benefits of oral disclosure:

- Ability to ask questions and discuss the investment
- Quick delivery of the information
- Useful information

And they noted the following disadvantages:

- Length of disclosure makes recall difficult
- Potential to "jump into" the investment without properly reviewing it
- Inability to compare investments
- Does not provide enough information to learn about mutual funds

These respondents were mixed in their opinions regarding a standardized script. Those who recommended the script felt it was important to ensure a consistent and complete delivery of information among all brokers. Those who did not recommend the script felt the delivery would be “mechanical” and would not sufficiently highlight this important information.

Recommendations for Questionnaire Changes for Dallas

- Assess the extent to which investors understand the website addresses as being for the brokerage firm or mutual fund
- Integrate oral disclosure with forms and ask investors questions to gauge comprehension of information presented
- Explore investors’ preferred method of receiving this type of information

Key Findings: Dallas (Oral Disclosure)

Methodology

Eight 45-minute in-depth telephone interviews were conducted with investors meeting similar screening criteria. Respondents had varying degrees of investment knowledge and all had received advice from brokers within the past six months.

Each discussion assessed the disclosure's ability to impact investor understanding of the conflicts of interest and fee disclosure. The interviewer, through the use of a script, drafted by the SEC, presented the disclosure for this round of testing verbally. As part of this usage simulation, all respondents were provided with an opportunity to review similar information contained in a point-of-sale disclosure form (*see Dallas #1*) posted on a secure website. Half of them reviewed the information on the form. The others cited a number of barriers they encountered including dial-up access prohibiting simultaneous phone use and Internet access, confusion regarding the website address, and emails going into junk email folders unnoticed.

As part of each interview, investors initially described the types of information they used to make mutual fund investment decisions and how they received information from their broker. They were also asked how they preferred to receive information from their brokers.

Investors were read a script by the interviewer. Following the reading, they were asked what actions they took (e.g., wrote down information or followed online), asked to comment on the key messages, areas of confusion, and overall usefulness of the disclosure.

Following this area of inquiry, investors were asked for their unaided recollection and understanding of specific pieces of information: conflicts of interest with their broker individually and the brokerage firm, fees, volume discounts, and whether the opportunity for obtaining fee estimates was presented.

Overview

Overall, investors found the disclosure information presented useful. Investors commented that the fee information and conflicts of interest disclosure were the most useful in helping them make investment decisions. In addition, investors found the language used in the statement easy to understand.

Broker Communication

These investors communicated with their brokers primarily via email and the telephone. Many reported that communications with their brokers were initiated in one of two ways: they contacted the broker to investigate a particular investment; or they received an email from the broker regarding a potential investment. Investors would prefer to receive, in advance of a phone call, information in writing so they would have an opportunity to review it and ask questions of their broker. These respondents commented that they were not prone to making investment decisions over the phone.

Recording Disclosure Information

Generally, respondents who did not view an online form wrote down information. These respondents recorded information including, but not limited to, the upfront and annual fee dollar amounts and percentages. Investors commented that these fees triggered them to begin recording the information. In addition, these investors reported they typically write down information provided to them by their broker over the phone.

In contrast, those who were able to view the online form did so as a substitute for taking notes as the script was read. These particular investors commented they would review this information online if their brokers presented them with the same opportunity. They commented that they attempted to identify the information on the form that corresponded with what was being delivered over the phone. These investors commented that they preferred seeing this information, specifically the fees, to help them understand the fees being described verbally. These investors recommended that the script should align with the form to make their comparison of oral and written disclosures more efficient.

Conflicts of Interest

Investors recalled the conflicts of interest disclosure, and many indicated it was a key message reflected in the statement. Most understood that the statement reflected a conflict that both their broker individually and the brokerage firm had with them in promoting this fund. For some, this disclosure implied that the broker might “push” this particular fund over others, a negative implication to this particular fund.

Fees

Investors recalled the upfront fees and the consequential reduction to their initial investment. In general, they understood there was an upfront fee as well as on-going fees paid annually. It was observed that those who wrote down fee information reported the specific fee amounts while those who viewed the form online (and who did not write down the information) reported estimates.

Few investors had unaided recall of the fee discount language. Upon a reread of the fee statement, they noted that the statement indicated they could receive a

discount on the fees if they owned other shares of the fund or within the fund family.

Respondents understood they could receive fee information estimated for their investment amount. Some indicated they could estimate the fee amount for their investment without assistance by using the percentages provided.

Additional Information Requests of Broker

Respondents commented they would ask their broker for additional information regarding the fund's historical performance and holdings. They also said they would be comfortable asking their broker for additional information in writing during a telephone conversation.

Delivery of Disclosure

Many of these investors preferred both written and verbal communication regarding the investment. They wanted written information to review it in detail, at their leisure, preferably in an electronic format. One investor mentioned that his ability to "file" it electronically was a key benefit.

Nevertheless, they also preferred a corresponding telephone conversation during which they could ask questions of their brokers. In fact, even if the option were available to receive only written information, these investors reported they would ask for both if the option were available to them.

Investors identified the following benefits of oral disclosure:

- Ability to ask questions and get answers quickly
- Initiates conversation with the broker
- Can get information quickly

These investors noted the following disadvantages of the telephone disclosure:

- Inability to review at their own pace
- Potentially time consuming
- Pressure to agree immediately
- Could be distracted on the phone call

Investors were mixed in their attitudes regarding a standardized script. If a standard script was used, investors recommended including a reference to a website to retrieve additional information.

Appendices

- A Discussion Guides**
- B Respondent Recruitment Screener**
- C Scripts and Forms Used For Testing**
- D Release and Confidentiality Form**

Appendix A:

Discussion Guides

**SEC
Oral Disclosure
Discussion Guide – Baltimore
Gelb Consulting Group, Inc.**

Thank you for joining me today. My name is John McKeever and I work for Gelb Consulting Group, an independent market research firm.

I'd like to talk to you about how you use different information sources to evaluate investments. During the interview, I'd like you to respond to some information I'm going to tell you and also show you on a website.

Do you have Internet access? Are you currently online? (if not, ask them to dial up now)

Interviewer note: if they do not have access, terminate and contact recruiter to reschedule.

Keep in mind that there are no right or wrong answers; we are just interested in the opinions of investors like you.

We're conducting this work for the Securities and Exchange Commission. Are you familiar with the SEC? The primary mission of the SEC is to protect investors and maintain the integrity of the securities markets. They are trying to develop some communication to help investors make more informed investment decisions.

Your name will not be used in any way and your comments will remain anonymous. This session is being audio taped so I can refer to it for analysis. In addition, there may be observers on the line with me, but you won't hear them. Do you have any questions before we begin?

Introduction (10 Minutes)

1. To get started...what information sources do you use to evaluate investments?
2. How do you typically receive information regarding investments from your broker? (probe: information in advance)
3. How familiar are you with mutual funds? What is your understanding of how they work?

Maximum/Minimum Content – Oral Disclosure (10 Minutes)

I will now read you some information your broker might provide you over the phone. For this exercise, imagine that I am your broker and you're considering making a mutual fund purchase. You've already discussed this investment with your broker and now they will provide you with additional information regarding the mutual fund. I will read this statement only once. (Read Maximum/Minimum Content Statement)

4. What are some of the key messages communicated to you in this statement? (Probe fully)
5. What, if anything, is confusing or difficult to understand?
6. Based only on what I have told you, what are some of the specific pieces of information you would use to evaluate this investment? (probe fully)
7. Did you find this information useful? Why or why not?
8. What could be done to improve this communication to make it more useful? (Probe: oral disclosure sufficient to make investment decision)

9. What do you perceive are the benefits of receiving this type of information over the phone?
Disadvantages?

Maximum Content Statement – Modules (5 Minutes)

There are some specific items added to this statement that make it different than the first. I'd like to take a closer look at these items now. Now I'd like to show you another statement. Please go to www.gelbweb.com/SEC and click on "Form C." Are you able to see it? Imagine that this information would be communicated to you when you talk to your broker over the phone. Just like before, this is additional information beyond what your broker may have provided you.

10. Please look at the highlighted areas. Which of these do you find useful (if delivered over the phone)? (Review modules with respondent)

Write down conflicts –
\$1,000 example –
Volume discount –
Estimated purchase amount –
Fees over time –
Fees depend on value of investment -
Special incentives –
Prospectus request –

Mutual Fund Form (10 minutes)

Now I'd like to show you another statement. Please go to www.gelbweb.com/SEC and click on "Form D." Are you able to see it? Imagine that this form would be handed to you during a meeting with your broker.

Now take a few minutes to review the information on this form.

11. What are some of the key messages communicated to you on this form? (probe fully)
12. What, if anything, is confusing or difficult to understand?
13. Did you find this information useful? Why or why not?
14. Did you find this information to be the same as what I read to you earlier? (probe: conflicts of interest, fees over time)
15. What do you perceive are the benefits of receiving this type of information in writing?
Disadvantages? (probe: delay in getting information before making decision)

Delivery (10 minutes)

Now I'd like to discuss what you perceive to be the most useful ways to communicate this type of information.

16. In what ways do you feel this information is best communicated? Why do you say that? (Read entire list: website, phone, form, email) (Probe: choose not to hear the information over the phone, brokers use the same script, directing to website)
17. 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 opinions.

SEC

Oral Disclosure

Discussion Guide – St. Louis

Gelb Consulting Group, Inc.

Thank you for joining me today. My name is John McKeever and I work for Gelb Consulting Group, an independent market research firm.

I'd like to talk to you about some information you could potentially receive from a broker and how you view that information. During the interview, I'd like you to respond to some information I'm providing you during our conversation.

Keep in mind that there are no right or wrong answers; we are just interested in the opinions of investors like you.

We're conducting this work for the Securities and Exchange Commission. Are you familiar with the SEC? The primary mission of the SEC is to protect investors and maintain the integrity of the securities markets. They are trying to develop a presentation of information to help investors make more informed investment decisions.

Your name will not be used in any way and your comments will remain anonymous. This session is being audio taped so I can refer to it for analysis. In addition, there may be observers on the line with me, but you won't hear them. Do you have any questions before we begin?

Introduction (10 Minutes)

1. To get started...what information sources do you use to evaluate investments?
2. How do you typically receive information regarding investments from your broker? (probe: over the phone, information in advance)
3. How do you prefer to receive information regarding potential investment decisions from your broker? Why do you say that?
4. How familiar are you with mutual funds? What is your understanding of how they work?

Oral Disclosure Retention (15 Minutes)

I will now read you some information your broker might provide you over the phone. For this exercise, imagine that I am your broker and you're considering making a mutual fund purchase. You've already discussed this investment with your broker and now he or she will provide you with additional information regarding the mutual fund. I will read this statement only once. (Read statement clearly with appropriate pace)

5. Did you write anything down as I was providing you with this information? If so, what?
6. What triggered you to write something down? Would you have written anything down if this were an actual conversation with broker?
7. What are some of the key messages communicated to you in this statement? (Probe fully: types of fees you pay, when fees are paid)
8. What, if anything, is confusing or difficult to understand? Did you pay less attention to any portions of the information? Why?

9. Based only on what I have told you, what are some of the specific pieces of information you would use to evaluate this investment? (probe fully)
10. What questions or requests would you have of your broker based on what I've read to you?
11. Overall, did you find the information that I provided you was useful?
12. Of the information given in the statement, what would you consider to be the most useful? The least useful? Why?
13. What could be done to make this communication more useful?
14. What do you perceive are the benefits of receiving this type of information over the phone? Disadvantages?

Oral Disclosure Content (15 Minutes)

Now I'd like to review some specific aspects of the information I just provided you. I will ask you about your recollection of specific information. Remember, there are no right or wrong answers.

15. Does the broker himself have a conflict of interest with you? What about the brokerage firm? Why do you say that? What do you recall? Now let me read the sentences again (second paragraph, 1st section only). What is your understanding of this information? Is this information important to you to evaluate this investment? Why?
16. Now let me reread one particular sentence (read "more information about payments and incentives" sentence). What is your understanding of this information? Is this information important to you? Why?
17. If you invested \$1,000 in the fund today, how much of your payment would be invested in the fund? What explains the difference between the amount of your payment and the amount of your investment? What did I say that enabled you to answer this question?
18. Based on the information I read to you, is it your understanding that you could ask for the fee information estimated for your purchase amount? If this option were available to you, how likely would you be to ask your broker for that information? Why?
19. What is your recollection regarding a fee discount? What do you recall?
20. Now let me read these sentences again. (read two fee paragraphs...). What is your understanding of these fees? Is this information important to you to evaluate this investment? Why?
21. What is your recollection regarding this fund's prospectus? What do you recall? Now let me read these sentences again. What is your understanding of this information? Is this information important to you to evaluate this investment? Why? How likely would you be to request the prospectus?

Delivery (10 minutes)

Now I'd like to discuss what you perceive to be the most useful ways to communicate this type of information.

22. Let me describe to you a scenario in which you receive this type of information from your broker: Assume that after your broker provided you with additional information about the mutual fund, he or she indicated that similar information could be provided to you in writing. Would you be interested in reviewing the written information? How would you prefer to receive that written information?
23. Overall, in what ways do you feel this information is best communicated? Why do you say that? (Read entire list: website, phone, form, email) (Probe: brokers use the same script, directing to website)
24. 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 opinions.

SEC

Oral Disclosure

Discussion Guide – Dallas

Gelb Consulting Group, Inc.

Thank you for joining me today. My name is John McKeever and I work for Gelb Consulting Group, an independent market research firm.

I'd like to talk to you about some information you could potentially receive from a broker and how you view that information. During the interview, I'd like you to respond to some information I'm going to provide you during our conversation.

Keep in mind that there are no right or wrong answers; we are just interested in the opinions of investors like you.

We're conducting this work for the Securities and Exchange Commission. Are you familiar with the SEC? The primary mission of the SEC is to protect investors and maintain the integrity of the securities markets. They are trying to develop a presentation of information to help investors make more informed investment decisions.

Your name will not be used in any way and your comments will remain anonymous. This session is being audio taped so I can refer to it for analysis. In addition, there may be observers on the line with me, but you won't hear them. Do you have any questions before we begin?

Introduction (10 Minutes)

1. To get started...what information sources do you use to evaluate investments?
2. How do you typically receive information regarding investments from your broker? (probe: over the phone, information in advance)
3. How do you prefer to receive information regarding potential investment decisions from your broker? Why do you say that?
4. How familiar are you with mutual funds? What is your understanding of how they work?

Oral Disclosure Retention (20 Minutes)

I will now read you some information your broker might provide you over the phone. For this exercise, imagine that I am your broker and you're considering making a mutual fund purchase. You've already discussed this investment with your broker and now he or she will provide you with additional information regarding the mutual fund. I will read this statement only once. As part of this I will also send to you an email with a link to a website that contains the same information that I am about to read to you. Feel free to view or use this email as you would if you were talking to your own broker. (Read statement clearly with appropriate pace)

5. Did you take any actions while I was reading the script? (probe: write down, website – actual conversation with broker)
6. If respondent wrote something down: What did you write down? What triggered you to write something down? Would you have written anything down if this were an actual conversation with broker?
7. If respondent viewed the information provided via the hyperlink: Did you find this information useful? Why or why not?

8. What are some of the key messages communicated to you in this statement? (Probe fully: types of fees you pay, when fees are paid)
9. What, if anything, is confusing or difficult to understand? Did you pay less attention to any portions of the information? Why?
10. Based only on what I have told you, what are some of the specific pieces of information you would use to evaluate this investment? (probe fully)
11. What questions or requests would you have of your broker based on what I've read to you? (probe: URL for brokerage firm or mutual fund)
12. Overall, did you find the information that I provided you was useful?
13. Of the information given in the statement, what would you consider to be the most useful? The least useful? Why?
14. What could be done to make this communication more useful?
15. What do you perceive are the benefits of receiving this type of information over the phone? Disadvantages?

Oral Disclosure Content (15 Minutes)

Now I'd like to review some specific aspects of the information I just provided you. I will ask you about your recollection of specific information. Remember, there are no right or wrong answers.

16. Does the broker himself have a conflict of interest with you? What about the brokerage firm? Why do you say that? What do you recall? Now let me read the sentences again (third paragraph – first three sentences). What is your understanding of this information? Is this information important to you to evaluate this investment? Why?
17. Now let me reread one particular sentence (read "more information about payments and incentives" sentence). What is your understanding of this information? Is this information important to you? Why?
18. If you invested \$10,000 in the fund today, how much of your payment would be invested in the fund? What explains the difference between the amount of your payment and the amount of your investment? What did I say that enabled you to answer this question?
19. Based on the information I read to you, is it your understanding that you could ask for the fee information estimated for your purchase amount? If this option were available to you, how likely would you be to ask your broker for that information? Why?
20. What is your recollection regarding a fee discount? What do you recall?
21. Now let me read these sentences again. (read two fee paragraphs). What is your understanding of these fees? Is this information important to you to evaluate this investment? Why?
22. Is there any additional information you would request to evaluate this investment? How likely would you be to request the fund's prospectus? Is this information important to you to evaluate this investment? Why do you say that? (probe: specific information from prospectus)

Delivery (10 minutes)

Now I'd like to discuss what you perceive to be the most useful ways to communicate this type of information.

23. Let's assume that before your broker provided you with additional information about the mutual fund over the phone, he or she indicated that similar information could be provided to you in writing. Would you be interested in hearing the information provided to you over the phone? Would you be interested in reviewing the written information? How would you prefer to receive that written information? (probe: handle request with broker)
24. Overall, in what ways do you feel this information is best communicated? Why do you say that? (Read entire list: website, phone, form, email) (Probe: brokers use the same script, directing to website)
25. 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 opinions.

Appendix B:

Respondent Recruitment Screener

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. In order to participate in this interview, you will need Internet access. Can you access the Internet while on your phone? (Note: this was not required in St. Louis testing)

- Yes **Continue**
- NO **Ask if they can complete the interview from work, if not, thank and terminate**

6. Which of the following statements best describes your experience with making investments in things like stocks, bonds, retirement accounts, college savings plans or mutual funds?

	A	I have made investments like this through a broker over the phone
	B	I have made investments like this through a broker in person
	C	I have made investments in stocks or bonds through a broker online
	D	I have made investments in mutual funds or 529 plans through a broker online
	E	I have made investments like this directly (not through a broker)
	F	I have never made investments like this Thank and terminate
		Don't know/ Don't remember Thank and terminate

Note: If respondents are only in C or only in E or only in C & E, then thank and terminate.

Note: Do not recruit more than 1/3 of participants in category C.

Note: Respondents must indicate category A in order to participate.

7. Which of the following have you purchased from your broker or financial representative in the past two years?

	A	Individual stocks
	B	Mutual Fund
	C	Section 529 Plan where the underlying investment is a mutual fund
	D	No-load Mutual Fund
		Don't know/ Don't remember Thank and terminate

Note: If respondents are in only A or only D or in only A&D, then thank and terminate.

8. 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**

9. How would you describe your criteria for deciding which stocks, bonds or mutual funds to invest in? **Test for articulateness**

10. 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**

11. 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 interview. I'm sure you will find it interesting. The interview will last between 30 and 45 minutes, and you will receive \$([incentive](#)) in appreciation of your time. You will need Internet access during the interview to view materials that will be discussed. Interviews are being scheduled between ([give available times](#)) on ([date](#)). Which time will be convenient for you to take the call? Please keep in mind that the interview will take about 45 minutes, during which time you will need Internet access.

Date: _____ Time: _____ CDT EDT (circle one time zone)

Thanks again for agreeing to take part in these interviews.

I would like to send you a confirmation letter with the interview time and a link to the materials that will be discussed. May I please get your full name and email address?

Name: Mr/ Ms _____

e-mail: _____ Phone: (____) _____ H/W

Address: _____ City _____ Zip _____

Appendix C:

Scripts and Forms Used for Testing

Class A Shares Phone Script

Baltimore A

[Greeting]

I'd like to continue our conversation regarding AAA equity mutual funds.

Because these are Class A shares, you will pay an upfront sales fee of \$57.50 per thousand dollars invested, or 6.1% of your net investment amount. You also pay annual fees while you hold the fund, which are estimated to be \$19.20 per thousand dollars, or 1.92%.

While my firm receives special incentives to promote this fund, I personally do not get paid extra for selling this fund over the other funds we offer. You can find more detailed information about the compensation and incentives we receive to sell this fund on our website at www.generic.com.

You can find a copy of the fund's prospectus on AAA's website at www.aaafunds.com, or I can send you one.

Class A Shares Phone Script

Baltimore B

[Greeting]

I'd like to continue our conversation regarding AAA equity mutual funds. I need to go over some important information with you about fees and our conflicts of interest. It may be helpful for you to write them down.

Because these are Class A shares, you will pay an upfront sales fee of \$57.50 per thousand dollars invested, or 6.1% of your net investment amount. For a \$1,000 investment, the amount that would be invested in the AAA Equity Fund after deducting the upfront sales fees is \$942.50. You may qualify for a discount on this fee if you, or your family, hold other shares from this fund family, or if you agree to make additional purchases.

You also pay annual fees while you hold the fund, which are estimated to be \$19.20 per thousand dollars, or 1.92%. If you want me to estimate the upfront and annual fees for your purchase amount, I can.

To give you a sense of the fees you would pay while you own this fund, for a \$1,000 payment the fees - assuming 5% growth - would be approximately \$75 after the first year, \$211 after three years, \$345 after 5 years, and \$671 after 10 years. Your actual fees will depend on the value of your investment.

While my firm receives special incentives to promote this fund, I personally do not get paid extra for selling this fund over the other funds we offer. If you'd like more information about these types of special incentives, I'd be glad to provide it to you right now. You can find more detailed information about the compensation and incentives we receive to sell this fund on our website at www.generic.com.

You should consider all the costs, goals and risks associated with this fund before you make a purchase. You can read more about this information in the fund's prospectus. If you were to make a purchase, you would receive a prospectus along with your confirmation. Would you prefer that I send you a copy today so you can read it before you make a decision? You can also find a copy of the fund's prospectus on AAA's website at www.aaafunds.com.

Class A Shares Phone Script

Baltimore C

[Greeting]

I'd like to continue our conversation regarding AAA equity mutual funds. **[I need to go over some important information with you about fees and our conflicts of interest. It may be helpful for you to write them down.]**

Because these are Class A shares, you will pay an upfront sales fee of \$57.50 per thousand dollars invested, or 6.1% of your net investment amount. **[For a \$1,000 investment, the amount that would be invested in the AAA Equity Fund after deducting the upfront sales fees is \$942.50.]****[You may qualify for a discount on this fee if you, or your family, hold other shares from this fund family, or if you agree to make additional purchases.]**

You also pay annual fees while you hold the fund, which are estimated to be \$19.20 per thousand dollars, or 1.92%. **[If you want me to estimate the upfront and annual fees for your purchase amount, I can.]**

[To give you a sense of the fees you would pay while you own this fund, for a \$1,000 payment the fees - assuming 5% growth - would be approximately \$75 after the first year, \$211 after three years, \$345 after 5 years, and \$671 after 10 years.] **[Your actual fees will depend on the value of your investment.]**

While my firm receives special incentives to promote this fund, I personally do not get paid extra for selling this fund over the other funds we offer. **[If you'd like more information about these types of special incentives, I'd be glad to provide it to you right now.]** You can find more detailed information about the compensation and incentives we receive to sell this fund on our website at www.generic.com.

[You should consider all the costs, goals and risks associated with this fund before you make a purchase. You can read more about this information in the fund's prospectus. If you were to make a purchase, you would receive a prospectus along with your confirmation. Would you prefer that I send you a copy today so you can read it before you make a decision?] You can also find a copy of the fund's prospectus on AAA's website at www.aaafunds.com.

Generic Brokerage Firm

Our fees and conflicts of interest for AAA Equity Fund Class A shares (AAAEA)

Ask before you buy

We are required to tell you about the fees and conflicts of interest that may affect your decision to buy shares of this fund. Ask us to fill in the blanks below for details about the fees you must pay.

Volume discount

You may qualify for fee discounts if you or members of your family hold other shares from this fund family, or if you agree to make additional purchases. Ask us for more information about these discounts.

Do you want us to fill in the blanks for you?

We must write in amounts for your investment at your request.

Fees

You pay when you buy

You pay a sales fee for Class A shares when you purchase them—up front. The amount of the up front fee you pay is based on your payment.

Your payment	Estimated up front fee you pay	Your investment	Up front fee as % of your investment
\$	\$	\$	%
\$1,000.00	\$57.50	\$942.50	6.10%
\$50,000.00	\$2,250.00	\$47,750.00	4.71%
\$100,000.00	\$3,500.00	\$96,500.00	3.63%

You also pay each year

In addition to the up front sales fee, you will pay ongoing fees every year you hold shares in the fund. These fees are based on the value of your investment, and include:

Distribution fees (<i>we receive most or all of these fees</i>)	0.25%
Management fees	0.75%
Other expenses	0.92%
Total annual fee %	1.92%

In addition, you will pay a **\$50** fee each year if the value of your shares in this fund is less than \$10,000.

These estimates assume the value of your investment does not change.

Investment value	Estimated 1st-year annual fees you pay	Annual fee %
\$	\$	1.92%
\$1,000.00	\$19.20	1.92%
\$50,000.00	\$960.00	1.92%
\$100,000.00	\$1,920.00	1.92%

Examples of fees over time

These examples show the hypothetical costs of investing in this fund for a given number of years—the total of the fees you pay when you buy and the fees you pay each year.

For a \$1,000 payment, this is how much you would pay in fees after holding your shares for the time period indicated. These examples assume 5% annual growth, and no change in fees.

	1 year	3 years	5 years	10 years
Paid when you buy	\$57.50	\$57.50	\$57.50	\$57.50
Total annual fees paid	18.37	153.88	287.66	613.75
Total	\$75.87	\$211.38	\$345.16	\$671.25

Conflicts of interest

Does the fund or its affiliates pay us extra to promote this fund over other funds? **YES**

Do we pay our personnel more for selling this fund than for selling other funds we offer? **NO**

Find out more

Details about our conflicts of interest

Last year, we received \$789,124 to promote the AAA fund family. You can learn more about the payments and special incentives we receive to sell this fund by asking us for a summary. You can also request this information by calling (800) 888-8888 or review it online at www.brokerwebsite.com/specialincentives.

Prospectus

You should consider the costs, goals and risks associated with any fund before you buy. Read more about this investment in the fund prospectus. We can provide you with a copy today, or you may obtain one by calling (800) 999-9999 or on line at www.aaafunds.com/equityfund/prospectus.

Class A Shares Phone Script

St. Louis

I'd like to continue our conversation about McWhortle Equity mutual fund. Let's go over some important information about the fees that you will pay and the conflicts of interest my firm and I may have when selling this fund.

First, I will disclose the conflicts of interest my firm and I have when selling this fund. My firm receives payments from McWhortle and its affiliates to promote this fund over others. In addition, I personally get paid extra for selling this fund over the other funds we offer. **[If you'd like more information about the payments and incentives we receive for selling this fund, I'd be glad to provide it to you right now.]** You can also find this information on our website at www.generic.com.

Now, I'll tell you about the fees you'll pay. Because these are Class A shares, you will pay an upfront sales fee of \$57.50 per thousand dollars invested, or 6.1% of your net investment amount. **[For a \$1,000 investment, the amount that would be invested in the McWhortle Equity Fund after deducting the upfront sales fees is \$942.50.]** **[You may qualify for a discount on this fee if you, or your family, hold other shares from this fund family, or if you agree to make additional purchases.]**

You also pay annual fees while you hold the fund, which are estimated to be \$19.20 per thousand dollars, or 1.92%. **[If you want me to estimate the upfront and annual fees for your purchase amount, I can.]**

[You should consider the costs, goals and risks associated with this fund before you make a purchase. You can read more about this information in the fund's prospectus. If you were to make a purchase, you would receive a prospectus along with your confirmation. Would you prefer that I send you a copy today so you can read it before you make a decision?] You can also find a copy of the fund's prospectus on McWhortle's website at www.mcwhortle.com.

Class A Shares Phone Script

Dallas

I just sent you an email with a link to a website that contains information about McWhortle Equity mutual fund to your [_____] email account. It contains the same information that I am about to provide you now over the phone.

Let's go over some important information about the fees that you will pay and the conflicts of interest my firm and I may have when selling this fund.

First, if you invest in this fund, my firm and I have a conflict of interest. My firm receives payments from McWhortle and its affiliates to promote this fund over others. In addition, I personally get paid extra for selling this fund over the other funds we offer. If you'd like more information about the payments and incentives we receive for selling this fund, I'd be glad to provide it to you right now. You can also find this information on our website at generic.com

Now, I'll tell you about the fees you'll pay. Because these are Class A shares, you will pay an upfront sales fee of \$57.50 per thousand dollars invested, or 6.1% of your net investment amount. For a \$10,000 investment, the amount that would be invested in the McWhortle Equity Fund after deducting the upfront sales fees is \$9,425.00. You may qualify for a discount on this fee if you, or your family, hold other shares from this fund family, or if you agree to make additional purchases.

You also pay annual fees while you hold the fund, which are estimated to be \$19.20 per thousand dollars, or 1.92%. If you want me to estimate the upfront and annual fees for your purchase amount, I can.

AAA Equity Fund Class A shares (AAAEA) from Generic Brokerage Company

Ask us questions before you buy

We are required to tell you about fees and conflicts of interest that may affect your decision to buy shares of this fund.

Additional fees apply to short-term trading

In addition to the fees shown below, you will pay a 2.0% redemption fee if you sell your shares within two months of the date you purchase them. Ask us for details.

Find out more

You should consider the costs, goals and risks associated with any fund before you invest. Read more about this investment in the fund prospectus. We can provide you with a copy today, or you may obtain one by calling (800) 999-9999 or online at www.aaafunds.com/equityfund/prospectus.

Fees

You pay when you buy

You pay a sales fee for Class A shares when you purchase them—up front. This **up front sales fee** is based on the amount of your payment. Generic Brokerage receives all or most of this fee.

You may qualify for sales fee discounts if you or members of your family hold other shares from this fund family, or if you agree to make additional purchases. Ask us for more information.

If the amount of your payment is...	Estimated up front sales fee you pay	Value of your investment	Up front fee as % of your investment
\$10,000.00	\$575.00	\$9,425.00	6.10%

Personalized information is available from us in writing upon request.

You also pay each year

In addition to an up front sales fee, you will pay ongoing fees every year you hold shares in the fund. The **annual fees** you pay are based on the value of your investment, and include:

Distribution fees	0.25%
Management fees	0.75%
Other expenses	0.92%
Annual fee	1.92%

The distribution fees are set by the fund, but Generic Brokerage receives all or most of these fees.

In addition, you will pay a **\$50 maintenance fee** to AAA each year the value of your shares in this fund is less than \$10,000.

These estimates assume the value of your investment does not change.

If the value of your investment is...	Estimated 1st-year annual fees you pay	Annual fee as a % of your investment
\$9,425.00	\$180.96	1.92%

Personalized information is available from us in writing upon request.

Example of fees over time

This example is intended to help you compare the cost of investing in the fund with the cost of investing in other funds. The example shows the estimated cost of investing in this fund for a given number of years—the total of the fees **you pay when you buy** and the fees **you pay each year**.

This example does not include the \$50 maintenance fee for fund balances below \$10,000.

For a \$10,000 payment, this is how much you would pay after holding your shares for the time period indicated. This example assumes a 5% annual return, and no change in fees. Your actual costs will vary.

	1 year	3 years	5 years	10 years
Paid once when you buy	\$575.00	\$575.00	\$575.00	\$575.00
Total annual fees paid	183.75	568.39	977.10	2,114.23
Total	\$758.75	\$1,143.39	\$1,552.10	\$2,689.23

Conflicts of interest

Sales charges paid by mutual funds vary. Broker-dealers—like Generic—have an incentive to sell funds that pay high sales and distribution fees. To learn more about the payments and incentives we receive for selling this fund, ask us for a summary. You can also request this information by calling (800) 888-8888 or view it online at www.brokerwebsite.com/specialincentives.

Does AAA or its affiliates pay us extra to promote this fund over other funds? **YES**

Do we pay our personnel more for selling this fund than selling other funds we offer? **YES**

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