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Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
By E-Mail

Re: Summary Prospectus Proposal, Release No. 33-8861, File No. S7-28-07

Dear Ms. Morris:

Motivated by the SEC proposal for the creation of a "summary prospectus," our academic research group has just completed a series of randomized trials to measure the effects of such a disclosure document.

In our experiment, subjects choose a mutual fund portfolio under one of three information conditions. In the first condition (*status quo condition*), subjects have access only to the mutual funds' statutory prospectuses. In the second condition (*summary only condition*), subjects have access only to the new summary prospectuses. In the third condition (*summary plus condition*), subjects receive the summary prospectuses and have the option of requesting the statutory prospectuses as well. This third condition most closely mimics the proposed new disclosure regime. In our experiment, subjects are paid for their chosen portfolios' actual subsequent performance, so they have a monetary incentive to make thoughtful decisions.

Although we are still analyzing the data (our last subject completed the experiment this afternoon), our initial results suggest that the summary prospectus will have a meaningful impact on individual investors' asset allocation decisions. In particular, the summary prospectus discouraged our experimental subjects from investing in high-fee funds, although this effect was small relative to the average magnitude of the fees that were paid.

Updated details on the study and its results will be posted as they become available at www.som.yale.edu/faculty/jjc83/summaryprospectus.pdf. Below, we describe our study design in greater detail and present our preliminary findings.

**Study Design**

We recruited roughly 300 (non-faculty) staff members at a large private university to participate in our experiment. Each subject was asked to allocate two $100,000 portfolios. The first portfolio had to be allocated among a menu of four actively managed equity funds. The second portfolio had to be allocated among a menu of four actively managed bond funds.[1] Investment menus were randomly selected from among ten possible menus. Front-end load funds constituted half of each menu, and funds without front-end loads constituted the other half.

Subjects were randomized into one of three information conditions. In the *status quo condition*, subjects were given only the eight funds' statutory prospectuses (four stock funds and four bond funds). In the *summary only condition*, subjects were given only summary prospectuses that we had produced for the eight funds, following the summary prospectus template distributed by the SEC. In the *summary plus condition*, subjects were given the eight summary prospectuses and had the option of requesting the statutory prospectuses as well.

Subjects were also randomized into one of two investment horizons. Half of the subjects had a one-month investment horizon; the other half had a one-year investment horizon. After a subject made his/her asset allocation choices, either the subject's stock or bond portfolio was randomly selected. Each subject will receive 0.1% of the selected portfolio's final redemption value at the end of the subject's investment period. For example, if a subject in the one-year condition has a final portfolio value of $110,000 in twelve months, that subject will receive a $110 payment at that time. Subjects also received a flat $20 payment for participating in the experiment. The experiment was partially funded by a grant from the FINRA Investor Education Foundation.[2]

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[1] We reversed this stock-bond ordering for half of the subjects.

[2] The FINRA Investor Education Foundation, formerly known as the NASD Investor Education Foundation, supports innovative research and educational projects that give investors the tools and information

Each investment menu was shown to the same number of subjects in each experimental condition. Therefore, we can simply compare mean outcomes across experimental conditions without adjusting for fund menu effects.

**Experimental Results**

We present results that pool the subjects in the *summary only condition* with the subjects in the *summary plus condition*, since almost no subjects in the latter condition requested statutory prospectuses.

| | *Status quo condition* (statutory prospectus) | *Summary conditions* (summary prospectus) | *t*-statistic of difference |
|---|---|---|---|
| Average fees paid when making equity allocations | 3.65% | 3.54% | 0.84 |
| Average fees paid when making bond allocations | 3.43% | 3.04% | 3.53 |

The table shows that when the summary prospectus was used, the total fee paid (including fees generated by loads, redemption fees, and expense ratios) as a percent of portfolio value fell by 11 basis points for the stock portfolio and 39 basis points for the bond portfolio. The effect on the stock portfolio is not statistically significant, but the effect on the bond portfolio is statistically significant at the 99% level.[3]

These results suggest that the use of the summary prospectus will create some pressure on mutual fund companies to reduce fees. However, such pressure is unlikely to be large, since the greater investor fee sensitivity that we have documented is small relative to the level of the fees paid by our subjects (see the table above). For subjects in our study, the portfolio that would have minimized equity fund fees has an average fee of only 1.54%. Likewise, the portfolio that would have minimized bond fund fees has an average fee of only 1.44%. Even with the summary prospectus, our subjects were not close to fee minimization. The use of the summary prospectus generated only a modest shift away from high-cost funds.

Despite these reservations, we support adoption of the summary prospectus proposal. As this research has shown, the summary prospectus will create modest downward pressure on fees. Moreover, the streamlined prospectus will save a great deal of paper and some reading time.

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they need to better understand the markets and the basic principles of saving and investing. For details about grant programs and other new initiatives of the Foundation, visit www.finrafoundation.org.

[3] We also do not observe significant changes in returns-chasing; the value-weighted average past returns of the portfolios are similar across information conditions.

Sincerely yours,

John Beshears
James J. Choi
David Laibson
Brigitte C. Madrian