U.S. Investors & The Fiduciary Standard

A National Opinion Survey

September 15, 2010

Methodology

The ORC/Infogroup survey was conducted August 19-23, 2010 among a sample of 2,012 adults comprising 1,007 men and 1,005 women 18 years of age and older living in the Continental United States. Most questions were asked only of those 1,319 who identify themselves as investors.

Where applicable, results for some questions were compared to similar telephone surveys of investors conducted in 2004 and 2007.

- Completed interviews are weighted by four variables: age, gender, region and race to ensure reliable and accurate representation of the total population, 18 years of age and older.

- The margin of error for results based on the total sample is plus or minus 3 percentage points.

Executive Summary

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Most Americans are confused about which financial professionals are required to operate under a "fiduciary standard" that requires the financial professional to put their client's interest ahead of their own. At the same time, nearly all U.S. investors believe that all financial professionals providing investment advice should be required to operate under this pro-investor standard.

Those are the chief findings of a major new survey of 1,319 U.S. investors conducted August 19-23, 2010.

Survey highlights include the following:

- **Nine out of 10 U.S. investors (91 percent) think that "a stockbroker and an investment adviser (who) provide the same kind of investment advisory services … should have to follow the same investor protection rules."** Supporters of this even-handed approach to regulation include 92 percent of households over $100,000 or more and 90 percent of college graduates.

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Executive Summary

- **Nearly all U.S. investors support the fiduciary standard for investment professionals providing advice.** A nearly unanimous 97 percent agreed that "when you receive investment advice from a financial professional, the person providing the advice should put your interests ahead of theirs and should have to tell you upfront about any fees or commissions they earn and any conflicts of interest that potentially could influence that advice." Over four out of five investors (85 percent) agree strongly with that statement.

- **Nearly all U.S. investors (96 percent) agree that the fiduciary requirement should extend to insurance agents selling investments.** There was strong support for the following: "when you receive investment advice from an insurance agent -- including an agent selling annuities -- the insurance agent should have to put your interests ahead of theirs when making those financial recommendations and also tell you upfront about any fees or commissions they earn and any conflicts of interest that could potentially influence their advice." Within the 96 percent overall support, more than four out of five investors (82 percent) agree strongly with that statement.

- **At the same time, there is widespread misunderstanding about which financial professionals are subject to a “fiduciary standard”:**

  - ❑ Fully three out of five U.S. investors (including 65 percent of 18-34 year olds and 57 percent of households $100,000 or more) mistakenly think that “insurance agents” have a fiduciary duty to their clients.

  - ❑ Two out of three U.S. investors (including 70 percent of 45-54 year olds and 62 percent of college graduates) are incorrect in thinking that stockbrokers are held to a fiduciary duty.

  - ❑ 76 percent of investors are wrong in believing that “financial advisors” – a term used by brokerage firms to describe their salespeople -- are held to a fiduciary duty.

  - ❑ By contrast, 75 percent of investors think the fiduciary standard is in place for “financial planners” and 77 percent say the same about “investment advisers.”

- **Over three out of five American investors mistakenly believe that stockbrokers are investment advisers:** Roughly a third of investors (34 percent, including 41 percent of 18-34 year olds and 45 percent of African Americans) incorrectly think that financial advice is the "primary service" offered by stockbrokers; and another 27 percent believe that "advice and assistance in conducting transactions are equally important services offered by brokers." (In reality, brokers are exempt from regulation as investment advisers, and the fiduciary duty that accompanies such regulation, on the grounds that investment advice is only an incidental component of their brokerage activities.) Only about three in 10 investors (29 percent) understand that the primary service of stockbrokers is to "buy and sell stocks, bonds, mutual funds, and other investment products on behalf of their clients, and they give only limited advice that is directly related to those transactions."

- **More than nine out of 10 U.S. investors (93 percent) think that stockbrokers should be required to disclose conflicts of interest in advance**, including cash "or other forms of compensation from a mutual fund company as an inducement to sell a particular mutual fund to his or her clients …"

Detailed Findings

Who Are Investors?

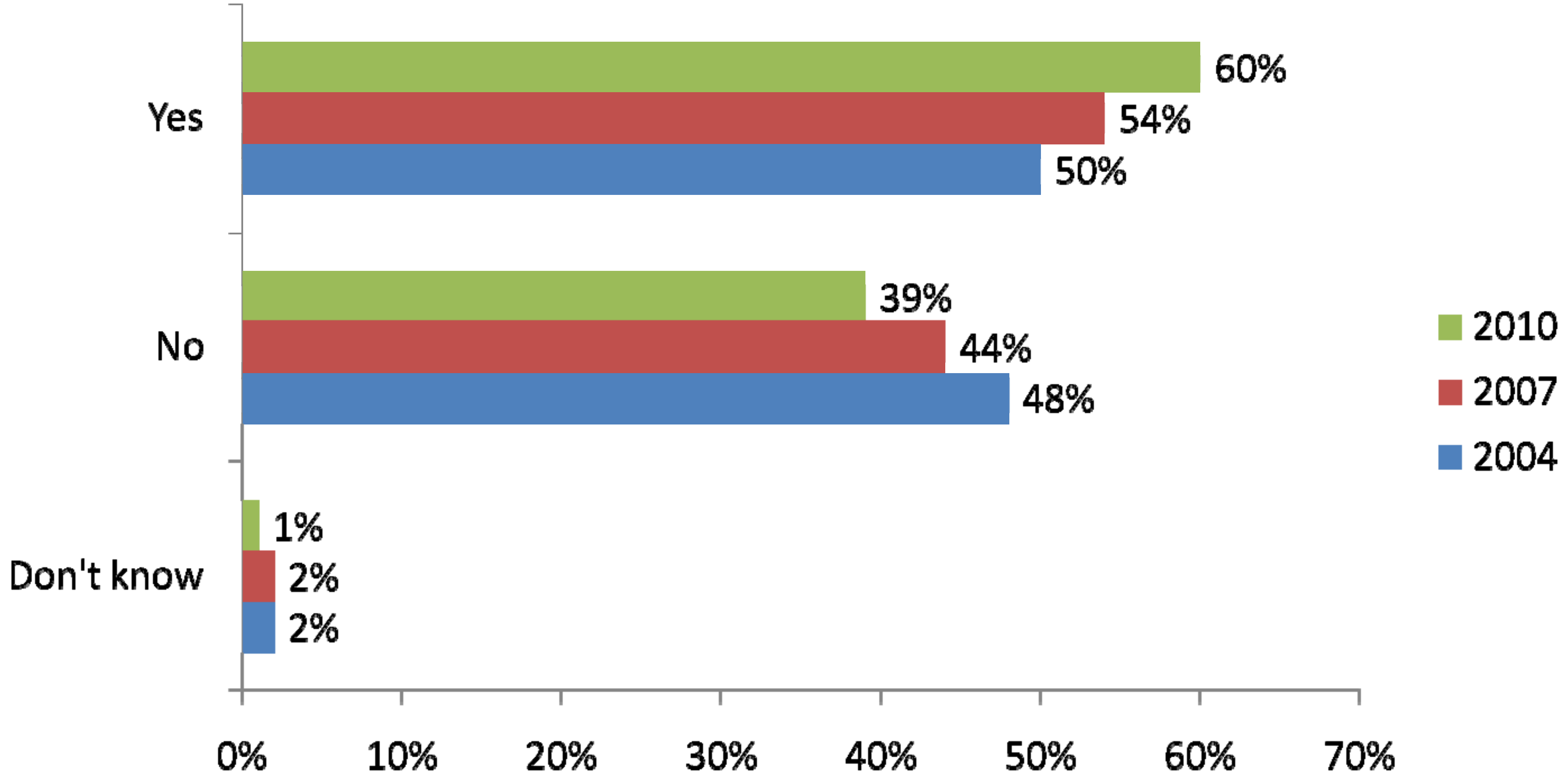
The number of adult Americans who define themselves as investors has increased from 50% in 2004 to 54% in 2007 and now stands at 60%.

In the 2010 survey:

- Men are more likely than women to say they are investors (63% vs. 56%).
- Those age 18-34 are much less likely to be investors (42%) than are those age 35 and over (67%).
- The likelihood of being an investor is heavily dependent on household income. Only 31% of those with household incomes of less than $35,000 are investors compared to 59% of those in households with incomes of $35,000 to less than $50,000. Seventy-six percent of those in households with incomes of $50,000 or more identify themselves as investors.

Who is Investing?

Q1: Are you an investor? By an investor I mean do you make decisions about where your savings are placed? This could mean you own bank certificates of deposit, stocks, bonds or mutual funds either directly or through retirement plans such as 401(k)s, IRAs, Roth IRAs or similar plans. Base = 2,069 adults in 2004, 2,052 adults in 2007 and 2,012 adults in 2010.



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Understanding of the Role of a Stockbroker

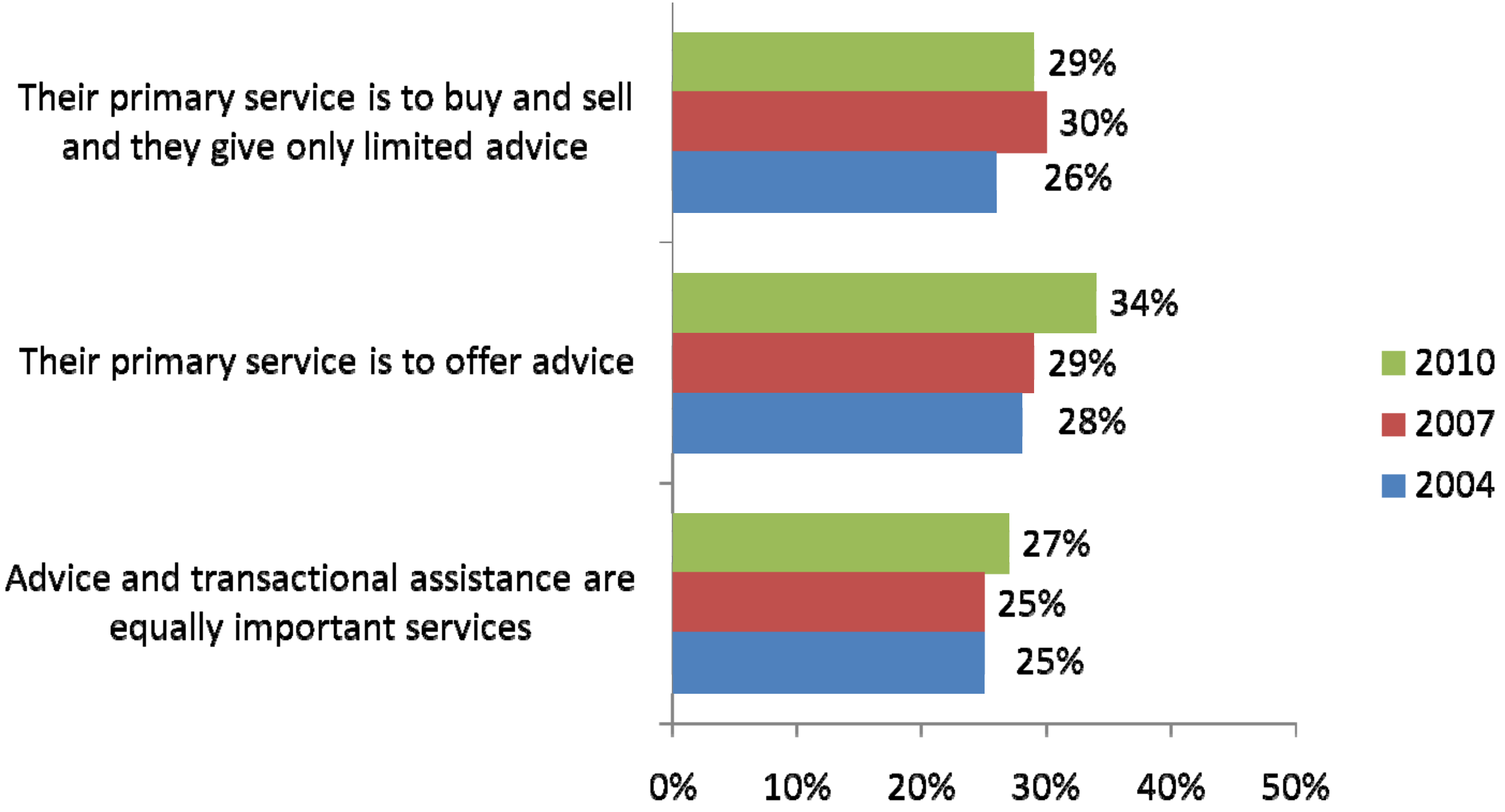
Despite the fact that the percentage of adults identifying themselves as investors has increased since this survey was first asked in 2004, investors' knowledge of the proper role of stockbrokers has not increased.

•Those investors who <u>correctly</u> identify the role of stockbrokers as primarily buying and selling and secondarily giving limited advice, was 26% in 2004, 30% in 2007 and 29% in the latest survey.

•The number of investors who <u>incorrectly</u> identified a stockbroker's role as offering advice, has increased from 28% in 2004, to 29% in 2007 and is now at 34% in the latest study.

Understanding of the Role of a Stockbroker

Q3: Based on your knowledge of stockbrokers , which one of the following statements do you believe best describes the services they provide to their customers? Base = investors: 1,319 in 2010, 1,073 in 2007 and 1,044 in 2004.



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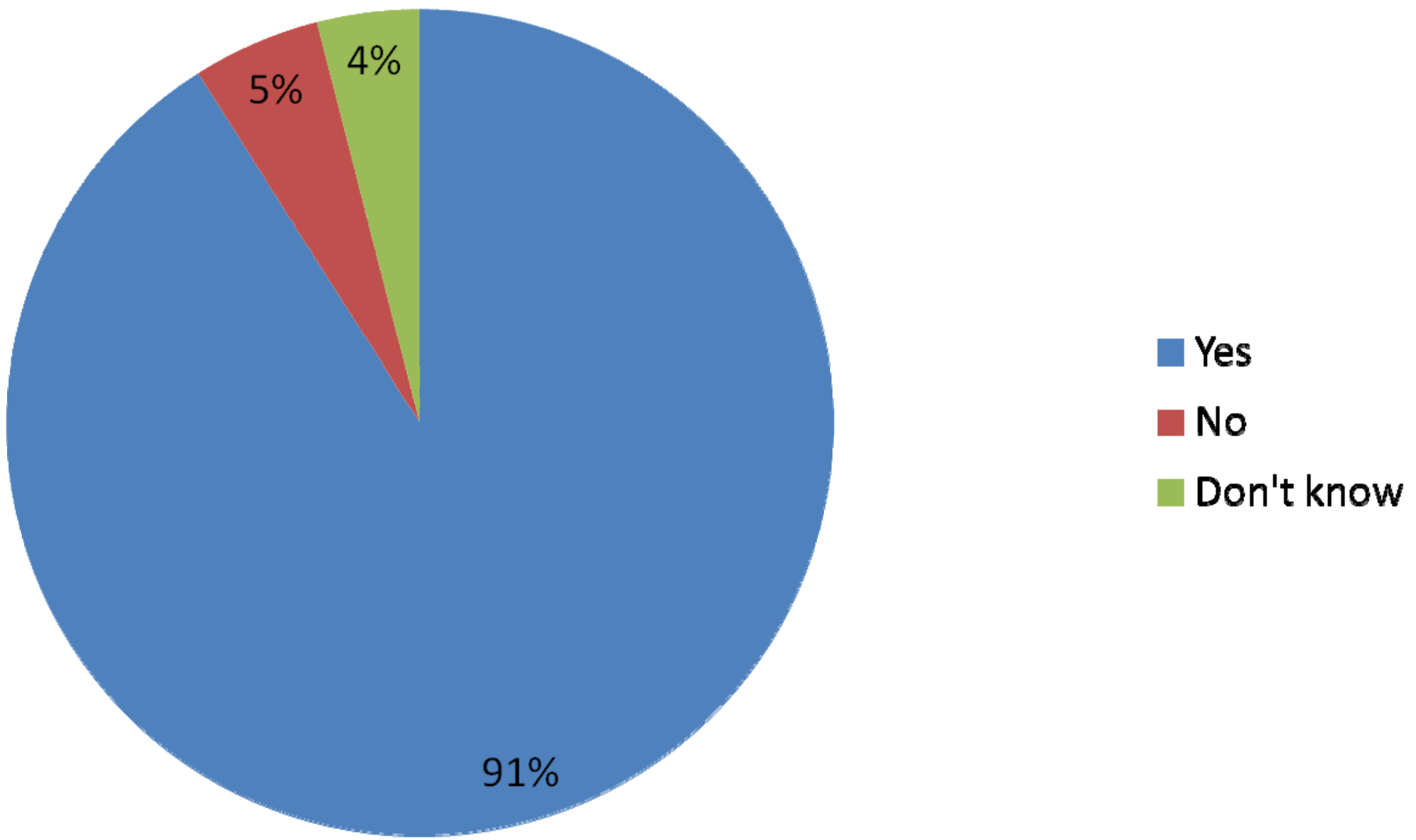
Following the Same Investor Protection Rules

Virtually every investor agrees (91%) that if a stockbroker and an investment adviser provide the same kind of investment advisory services, they should both have to follow the same investor protection rules.

A similar question asked in 2004 and 2007, asked about stockbrokers and financial planners and found that over 90% in both surveys agreed that if these two professionals offer the same type of advice, they should have to follow the same rules.

Following the Same Investor Protection Rules

Q4 If a stockbroker and an investment adviser provide the same kind of investment advisory services, do you think they should have to follow the same investor protection rules? Base = 1,319 investors.



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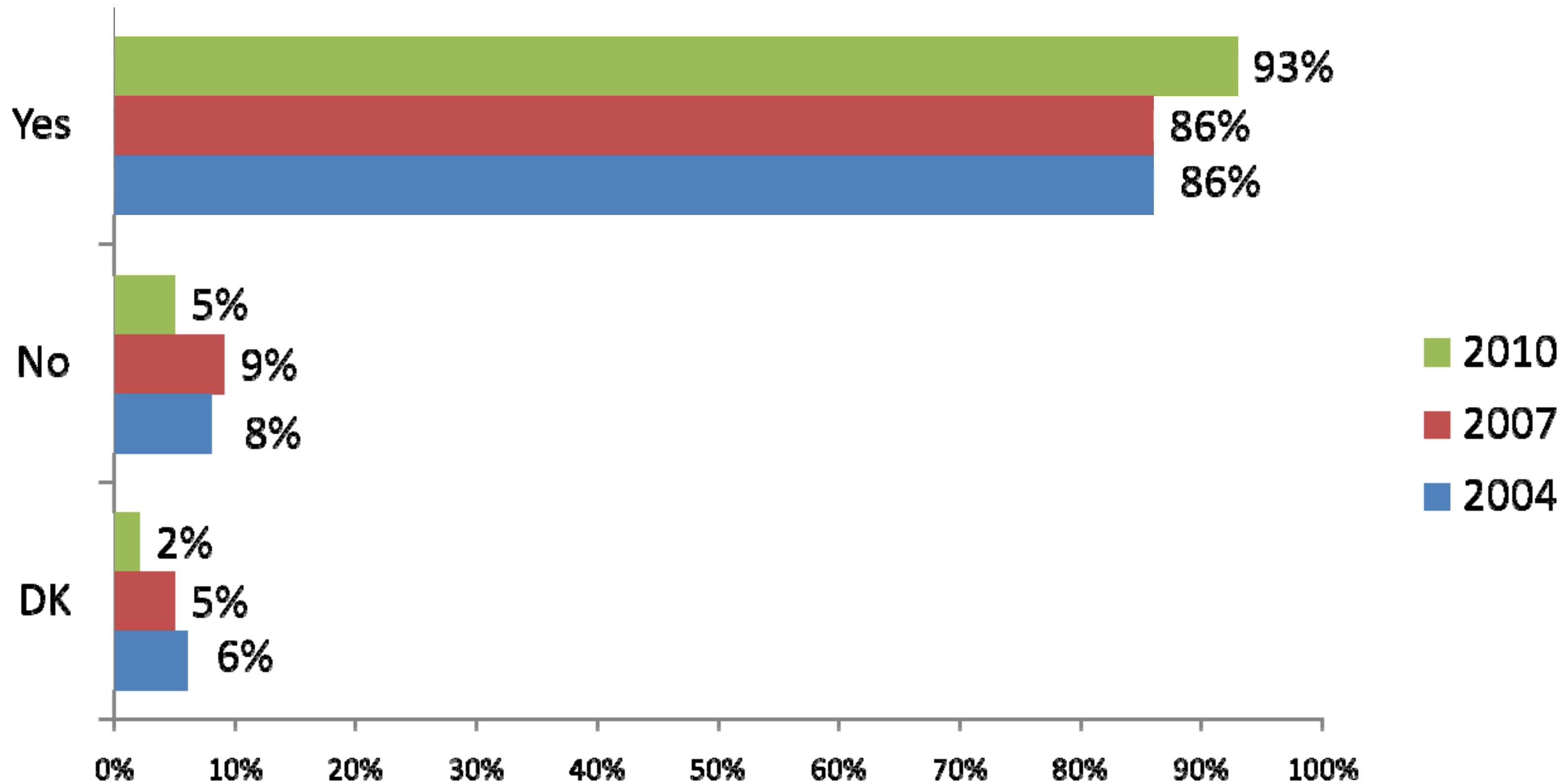
Disclosing Possible Conflicts of Interest

Again, virtually all investors interviewed (93%) think a stockbroker should be required to disclose any financial incentives they receive from an investment provider before they recommend those products to their client. This percentage has increased from 86% in both the 2004 and 2007 askings of the same question.

Disclosing Possible Conflicts of Interest

Q5: Stockbrokers receive financial incentives from investment product sponsors to recommend particular investments to their customers. If, for example, a stockbroker receives cash payments, vacation trips or other forms of compensation from a mutual fund company as an inducement to sell a particular mutual fund to his or her clients, should the stockbroker be required to disclose that fact to a customer buying the mutual fund?
Base = investors: 1,319 in 2010, 1,073 in 2007 and 1,044 in 2004.



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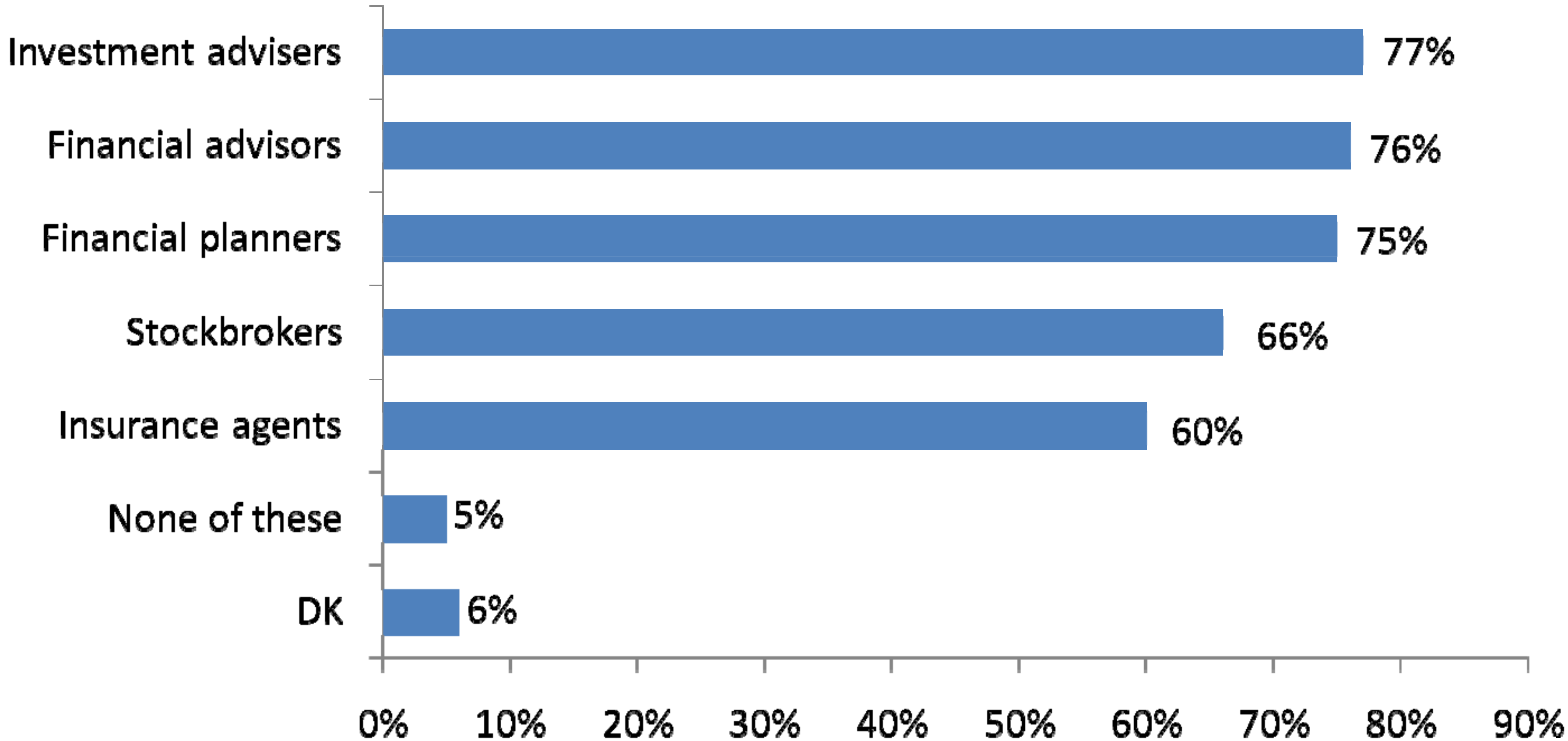
Operating Under a Fiduciary Duty

A majority of investors think that each of the following professionals have to comply with a “fiduciary duty” which means they put their clients’ financial interest ahead of their own. But in the case of stockbrokers (where 66% say yes), insurance agents (where 60% say yes) and financial advisors (where 76% say yes), this is not correct.

Investment advisers and many financial planners are subject to a fiduciary duty; the survey indicates that most investors understand this fact (77% for advisers and 75% for planners).

Operating Under a Fiduciary Duty

Q6 Some financial professionals are required to comply with what is called a "fiduciary duty" which means that they are required to put your interests ahead of theirs when making recommendations, and tell you upfront about any fees or commissions they earn and any conflicts of interest that potentially could bias that advice. Based on your understanding, which of the following types of financial professionals are required to uphold this standard? Base = 1,319 investors.

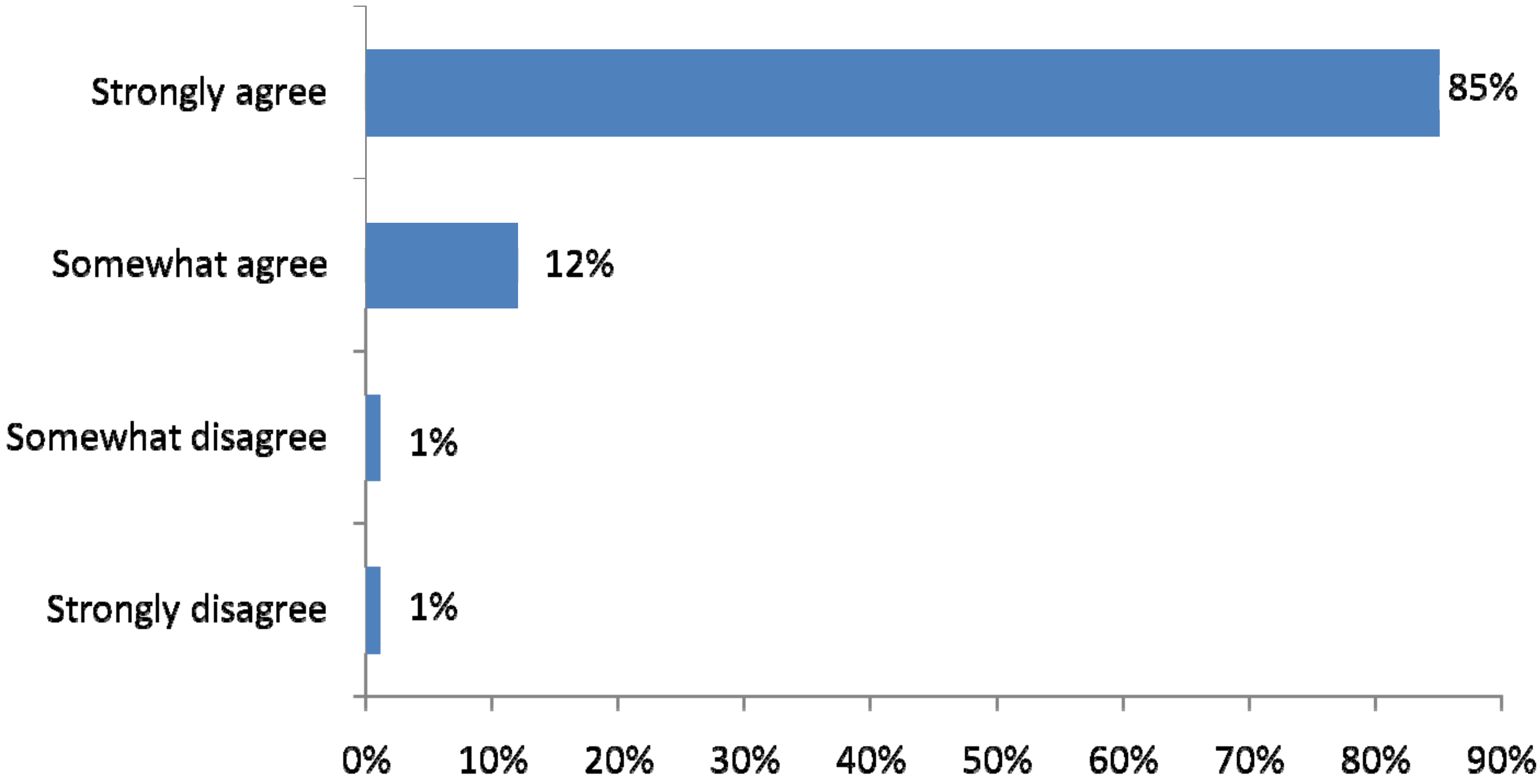


How Financial Professionals Should Behave

Ninety-seven percent of investors agree strongly or somewhat that "when you receive investment advice from a financial professional, the person providing the advice should put your interests ahead of theirs and should have to tell you upfront about any fees or commissions they earn and any conflicts of interest that potentially could influence that advice."

How Financial Professionals Should Behave

Q7: Do you agree or disagree with the following statement: When you receive investment advice from a financial professional, the person providing the advice should put your interests ahead of theirs and should have to tell you upfront about any fees or commissions they earn and any conflicts of interest that potentially could influence that advice. Would you say you… Base = 1,319 investors.



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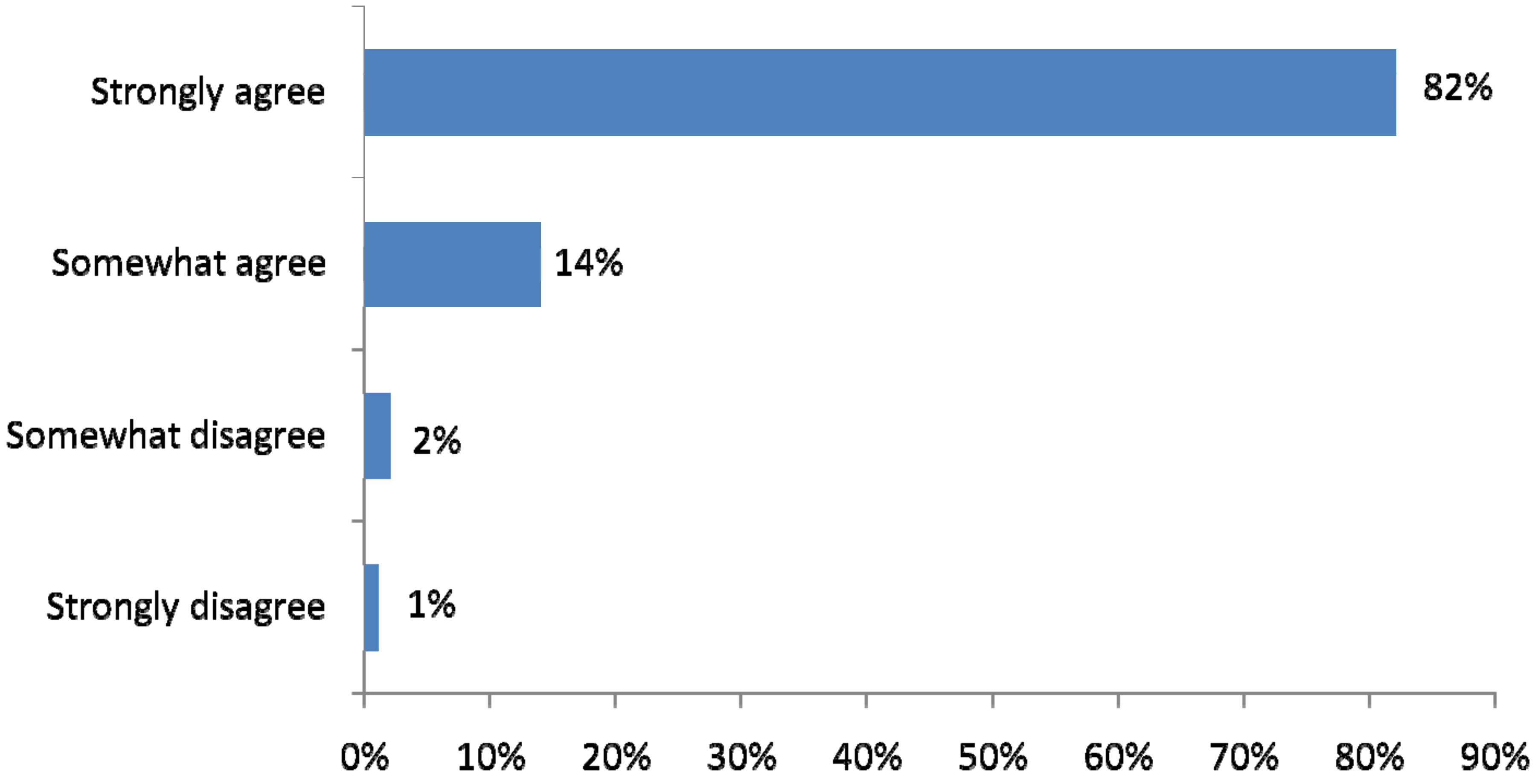
How Insurance Agents Should Behave

Ninety-six percent of investors agree strongly or somewhat that "when you receive investment advice from an insurance agent, the person providing the advice should put your interests ahead of theirs and should have to tell you upfront about any fees or commissions they earn and any conflicts of interest that potentially could influence that advice."

How Insurance Agents Should Behave

Q8: Do you agree or disagree with the following statement: When you receive investment advice from an insurance agent – including an agent selling annuities – the insurance agent should have to put your interests ahead of theirs when making those financial recommendations and also tell you upfront about any fees or commissions they earn and any conflicts of interest that could potentially influence their advice. Would you say you… Base = 1,319 investors.



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Topline results of telephone interviews with 2,012 adults, conducted August 20-23, 2010.

B1 Are you an investor? By an investor I mean do you make decisions about where your savings are placed?

This could mean you own bank certificates of deposit, stocks, bonds or mutual funds either directly or through retirement plans such as 401(k)'s, IRAs, Roth IRAs or similar plans.

2010	2007	2004	
60%	54%	50%	YES
39%	44%	48%	NO
1%	2%	2%	DON'T KNOW/NOT SURE

IF INVESTOR, B1 [01], CONTINUE.
ALL OTHERS SKIP TO NEXT SECTION

B2 Do you use…
(READ LIST. RECORD AS MANY AS APPLY. WAIT FOR YES OR NO FOR EACH)
[ROTATE]
BASE = 1,319 investors

41%	An investment adviser
17%	A stockbroker
52%	NONE OF THESE
--	DON'T KNOW/NOT SURE

B3 Based on your knowledge of stockbrokers . . . which ONE of the following statements do you believe BEST describes the services they provide to their customers?
(READ ENTIRE LIST BEFORE RECORDING ONE ANSWER)

20510	2007	2004	
29%	30%	26%	Their primary service is to buy and sell stocks, bonds, mutual funds, and other investment products on behalf of their clients, and they give only limited advice that is directly related to those transactions
34%	29%	28%	Their primary service is to offer financial advice to their clients. They then help their clients to implement their recommendations by buying and selling stocks, bonds, mutual funds, and other investment products
27%	25%	25%	Advice and assistance in conducting transactions are equally important services offered by brokers
11%	16%	21%	DON'T KNOW/NOT SURE

B4 If a stockbroker and an investment adviser provide the same kind of investment advisory services, do you think they both should have to follow the same investor protection rules?

91%	YES
5%	NO
4%	DON'T KNOW/NOT SURE

B5 Stockbrokers receive financial incentives from investment product sponsors to recommend particular investments to their customers.

If, for example, a stockbroker receives cash payments, vacation trips or other forms of compensation from a mutual fund company as an inducement to sell a particular mutual fund to his or her clients, should the stockbroker be required to disclose that fact to a customer buying the mutual fund?

2010	2007	2004	
93%	86%	86%	YES
5%	9%	8%	NO
2%	5%	6%	DON'T KNOW/NOT SURE

B6 Some financial professionals are required to comply with what is called a "fiduciary [PRONOUNCED: fi-DOO-shee-er-ee] duty" which means that they are required to put your interests ahead of theirs when making recommendations, and tell you upfront about any fees or commissions they earn AND any conflicts of interest that potentially could bias that advice.

Based on your understanding, which of the following types of financial professionals are required to uphold this standard?
(READ LIST. RECORD AS MANY AS APPLY. WAIT FOR YES OR NO FOR EACH) [RANDOMIZE]

77%	Investment advisers
75%	Financial planners
60%	Insurance agents
76%	Financial advisors
66%	Stockbrokers
5%	NONE OF THESE
6%	DON'T KNOW/NOT SURE

B7 Do you agree or disagree with the following statement: When you receive investment advice from a financial professional, the person providing the advice should put your interests ahead of theirs and should have to tell you upfront about any fees or commissions they earn AND any conflicts of interest that potentially could influence that advice.

Would you say you . . .
(READ LIST. RECORD ONE ANSWER)

85%	Strongly agree
12%	Somewhat agree
1%	Somewhat disagree
1%	Strongly disagree
1%	DON'T KNOW/NOT SURE

B8 Do you agree or disagree with the following statement: When you receive investment advice from an insurance agent -- including an agent selling annuities -- the insurance agent should have to put your interests ahead of theirs when making those financial recommendations and also tell you upfront about any fees or commissions they earn AND any conflicts of interest that could potentially influence their advice.

Would you say you . . .
(READ LIST. RECORD ONE ANSWER)

82%	Strongly agree
14%	Somewhat agree
2%	Somewhat disagree
1%	Strongly disagree
1%	DON'T KNOW/NOT SURE