

November 3, 2003  
A summary

## Investment Terms Confidence Test

In response to several demands for a top-line overview of the focus groups and online surveys conducted to test the confidence levels of persons regarding their own idea of the meaning of financial/investment terminology this summary has been prepared.

The online survey portion of this study remains active and is available at no cost to 401k Sponsors, Investment/Financial Firms, Financial Publications indicating an interest to have the survey conducted on their participants, clients, employees or readers.

The terms used for the test were, for the most part, taken from the brochures, websites and text offered by major 401k provider companies.

*For more information or to request an online survey customized for your organization, company or client company please contact: [pspreadbury@wallst2mainst.com](mailto:pspreadbury@wallst2mainst.com)*

## **Methodology**

Between March/2002 and September/2003 a total of nine hundred and forty seven 401k participants took part in a combination of two different types of research; (1) focus group and (2) online surveys. The purpose of these studies is to determine the level of confidence of the average American in their own understanding of the definitions of investment and financial terms.

The studies focused on 401k participants because, it was determined, that this group represented persons who were exposed to the terminology through an active investment vehicle (the 401k) and were less likely to represent highly active Wall Street investors.

It's important to note that the purpose of the study was not to determine the 'awareness level' of the participants to the terms. The objective of the study was to get baseline indicators on the degree of confidence each individual participant had in their own personal idea of the definitions of each term.

The terms used in the test were taken from literature and websites used by major financial firms offering 401k products.

Sixteen focus groups consisting of 12 respondents per group for a total of 192 persons participated in the offline, direct discussion research. The remaining 755 represent 401k participant employees of companies who were directed to a simple website to take an online survey.

The offline focus groups, because of their face-to-face nature, provide more information regarding the demographics of the respondents as well as for verbatim comments. Four different focus groups were performed in Atlanta, Boston, Raleigh-Durham and Spokane. The online survey respondents provided basic background information and little personal information was requested.

## Conclusions

- No significant statistical difference between focus group and online responses.
- No statistical difference between the confidence levels of men versus women, age groups or marital status.
- 401k Participants do not perceive their 401k as an investment product.
- 401k Participants do not consider themselves to be 'investors.'
- 85% do not subscribe to or read investment or financial specific publications (Forbes, Fortune, Wall Street Journal, Investor News Daily, etc.).
- 50% 'never read' the Money or Business sections of their daily paper.

Most of the terminology used to test the confidence levels of these 401k participants was taken directly from literature and websites developed by the more popular financial firms that offer 401k products. In a few instances, the survey included terms taken from day-to-day financial news headlines and communications (Dow Jones, Standard & Poor's).

The focus groups provided the researchers with the opportunity to witness the personal, physical and facial reactions of respondents to the issue of investment terminology understanding as well as gather meaningful comments and verbatim.

Focus group respondents demonstrated reactions ranging from head shaking, laughing, embarrassment to exasperation. The general consensus of the groups, regardless of age, gender or ethnic composition was that the language of investing and finance was more suited to those who are in the *business of investing and finance*. Employer attempts to educate employee groups in the intricacies of 401ks were, for the most part, ineffective with the terminology used in the supporting literature and in the education sessions themselves cited as a significant reason.

A show of hands in the focus groups revealed that less than 10% of the 192 participants had ever *raised their hand* to ask a question during a 401k-education session.

A show of hands in the focus groups revealed that less than 15% are willing to take the effort to adopt the language of investing/finance into their everyday language.

A show of hands in the focus groups revealed that (with the exception of the term ERISA) between 85-100% of the respondents had *heard* these terms before and were aware of *them* but not really sure what they meant.

Before the groups, the participants were shown a list of words used to describe themselves and the money they put into their 401ks and to decide, by a show of hands, which word was the most accurate.

To describe themselves respondents were offered the following terms: **Participants, Employees, Investors or Members** (80% selected **participant**).

To describe money being put into the 401ks they were offered the following terms: **Investment, Contribution, Deposit or Premium** (86% selected **contribution**).

At the conclusion of the sessions, after having discussed 401ks as a group, participants were asked to review the terms again. 74% chose the term **investor** to describe themselves and the term **investment** to describe the funds placed into the account.

## **Demographics**

**This demographic information represents the focus group participants (192).**

Male	56%
Female	44%
White	68%
Black	26%
Hispanic	04%
Other	02%
Married	72%
Single	28%
Age 20-29	14%
Age 30-39	22%
Age 40-49	30%
Age 50-59	24%
Over 60	10%
Avg. Income	\$40,000

Percentage with 401ks or other retirement type plan	100%
Percentage who categorized themselves as 'investors'	34%
Percentage who indicate they have a broker/advisor	24%

**This information represents data gathered from the online survey form (755).**

Online survey respondents were not asked questions regarding their race, marital status or income. The reason for this was, questions such as these tend to reduce the response rate. These 401k participants took part in this survey as employee/participants of 401k sponsoring firms.

Male	52%
Female	48%
Age 20-29	18%
Age 30-39	24%
Age 40-49	30%
Age 50-59	20%
Over 60	08%

Percentage with 401ks or other retirement type plan	100%
Percentage who categorized themselves as 'investors'	38%
Percentage who indicate they have a broker/advisor	22%

## Tabulations

We've color-coded the results so readers can get a clear picture of the overall response of both the offline and online portions of the study as well as the difference between the two. Results appearing in **BLACK** represent the overall total response. Results in **GREEN** represent the responses of the offline 'focus-group' sessions. Results in **RED** represent the online survey data.

### **Question: "How often, during the week, do you read the Money, Business or Financial Sections of the daily paper?"**

(Frequency)	(Total)	(Focus Groups)	(Online Survey)
Never	<b>398 (42%)</b>	<b>77 (40%)</b>	<b>321 (43%)</b>
1-2 Days A Week	<b>227 (24%)</b>	<b>54 (28%)</b>	<b>173 (23%)</b>
3-4 Days A Week	<b>180 (16%)</b>	<b>35 (18%)</b>	<b>106 (14%)</b>
5-6 Days A Week	<b>95 (10%)</b>	<b>25 (13%)</b>	<b>84 (11%)</b>
Everyday	<b>47 (08%)</b>	<b>01 (01%)</b>	<b>71 (09%)</b>
Total	<b>947 (100%)</b>	<b>192 (100%)</b>	<b>755 (100%)</b>

### **Question: "Do you subscribe to any publication that might be considered investment/finance oriented? (Forbes, Wall Street Journal, Fortune, Investor Daily, etc.)"**

Yes	<b>133 (14%)</b>	<b>23 (12%)</b>	<b>110 (15%)</b>
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Respondents were asked to respond to the following hypothetical scenario:

*Please look over this list of investment words and terms. How 'sure' or confident are you of your definition of each word or term? When you see these words in a newspaper or magazine article, do you feel you **really know** what they mean, **think you know** or are you **clueless**?*

<u>Investment/Financial Word</u>	<u>Really Know</u>	<u>Think I Know</u>	<u>Clueless</u>
Mutual Fund	43	185	719
Global Growth Fund	29	123	795
Index Fund	34	138	775
ERISA	11	62	874
Standard & Poor's	39	191	717
Municipal Bonds	67	281	599
Tax Deferred	255	387	305
Dow Jones Industrial Average	118	207	622
Money Market Funds	72	199	676
Defined Contribution	103	246	598
Minimum Required Distribution	51	88	808
Adjusted Market Value	67	141	739
Asset Allocation	96	201	650
Rollover IRA	141	303	503

## **Observations**

The fact that almost 67% of the 401k participants did not consider themselves to be active in the area of investing we felt was interesting in light of the fact that a 401k is an investment product.

- 85% lacked confidence in their own understanding of the term *Minimum Required Distribution*.
- 76% lacked confidence in their own understanding of the term *Mutual Fund*.
- 83% lacked confidence in their own understanding of the term *Global Growth Fund*.
- Almost all were clueless to *ERISA*.
- 77% lacked confidence in their own understanding of the term *Adjusted Market Value*.

## **Verbatim**

Focus group respondents were asked to provide their answers to the preceding questions in writing first and then to discuss the issue and each term as a group. This was done to prevent any undo influence by group discussion or interpretations of terms that would occur during group discussion to affect their answers.

Some of the verbatim conclusions and observations made during the focus groups that demonstrated an across the board consistency from city to city and demographic to demographic included;

- *"The investment community speaks to the common person in much the same way the medical or technology community does – in a language that they assume we understand."*
- *"I didn't really think of my 401k as an 'investment'. I always thought of it as more of a savings plan or something like that."*
- *"The thing is, I've been hearing these words all my life. I think I should know what they mean but if push came to shove and my financial security were at stake I guess I really don't know what they mean. It's almost embarrassing."*
- *"The company that sponsors our 401k at work gives us a lot of paperwork and they have a website we can go to where they say it's all explained. But I still don't get it. Not really."*
- *"No one wants to have to learn this stuff. Especially at my age."*
- *"I love it when they tell you to consult your financial advisor. Who the hell has a financial advisor? And these days, if you had to go find one how would you know you could trust him?"*

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