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FOR IMMEDIATE RELEASE

## **Survey Finds Most Investors Lack Critical Survival Skills**

**MONTGOMERY, ALABAMA** (March 14, 2006) The Alabama Securities Commission cautioned today that a major new national survey shows that the vast majority of U.S. investors do not appear to possess important "investor survival skills" needed to build their savings into a retirement nest egg.

A Securities Investor Protection Corporation (SIPC)/Investor Protection Trust (IPT) survey found that more than four out of five of active investors (83 percent) failed the SIPC/IPT test of key knowledge and behavior. Only 17 percent of respondents correctly answered a sufficient number of questions on knowledge (six of eight questions) and behavior (three of four questions).

"This survey shows that investors need to brush up on the fundamentals of investing," said Joseph P. Borg, Director of the Alabama Securities Commission. "Those who don't understand the basic rules of the game make costly mistakes. At a time when individuals have increased responsibility to direct their retirement savings, investors simply cannot afford the price of ignorance."

The Alabama Securities Commission is actively partnering with the AARP Foundation in developing educational materials to be used in the upcoming "Campaign for Wise and Safe Investing". The program, which will be aimed at investors and potential investors aged 50 and higher, will provide important information regarding unsuitable and fraudulent investments. The Commission is also sponsoring a non-commercial, objective investor education and protection seminar in conjunction with the Evelyn Brust Foundation. The seminar will be held at the Tuscaloosa Public Library, May 2, 2006. The Tuscaloosa Public Library was one of twenty National libraries chosen to pilot the Investor Education @ Your Library Program.

The SIPC/IPT survey did show that investors were knowledgeable about account statements and diversification. In responding to a key behavior question, nine in 10 investors said that they regularly review their brokerage account and/or mutual fund statements. On the knowledge side of the survey, nearly three out of four investors (74 percent) showed that they understand the concept of diversification, which has been a major focus of investor education efforts by the Investor Protection Trust and other groups. However, ONLY one in five investors (21 percent) said that they practice all four of the desirable behavioral traits focused on in the SIPC/IPT survey: reading prospectuses, regularly reviewing account statements, checking out the disciplinary backgrounds of brokers/financial planners, and having a financial plan in place.

### **Other key findings of the SIPC/IPT survey include the following:**

**Just over one third of investors (36 percent) have checked out the disciplinary backgrounds of their stockbroker and or financial planner.** Seven out of ten who did not check out their financial planner's background indicated it was because they either trusted the individual in question (61 percent) or the individual had assured them that there was nothing to be concerned about (9 percent)!

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**Fewer than one in 10 investors (8 percent) understand that NO agency or organization "insures you against losing money as the result of fraud in your investment portfolio."** A total of four of five investors incorrectly identified one or more of the following entities as providing such insurance: Securities and Exchange Commission (42 percent); Federal Deposit Insurance Corporation (41 percent); and SIPC (23 percent).

**Fewer than two in five investors (39 percent) understand how sales fees and commissions work in the no-load mutual fund context.** A nearly equal number of investors (38 percent) answered the no-load question incorrectly and another 12 percent either indicated they did not know or refused to provide an answer.

**Other key investor behavior findings: Fewer than three out of five investors (58 percent) have "ever" read a prospectus.** Additionally, more than three of four investors (77 percent) claimed to have a financial plan of some sort in place.

Other key investor knowledge findings: Only 41 percent understand the bond investing basic rule that as interest rates go up, bond prices tend to fall. More than a quarter of investors (28 percent) predicted bonds will move in the wrong direction, 16 percent said bond prices would remain the same, and 14 percent either didn't know or refused to answer. Fewer than three in five investors (57 percent) can correctly define a prospectus. About three out of five investors (61 percent) understand that most brokers and financial planners are compensated through commissions on product sales. Two out of three investors understand that stocks have had the best long-term return for investors, compared to those who incorrectly identified CDs (14 percent), bonds (11 percent) and savings accounts (2 percent).

Full survey findings (including methodology) can be found at <http://www.sipc.org> . The online, self-scoring version of the SIPC/IPT survey is available online at <http://www.sipc.org/survivalquiz> .

*(Note: Background information courtesy of SIPC, IPT and Michigan OFIS)*

The Director of the Alabama Securities Commission (ASC) cautions potential investors to thoroughly check out any investment opportunity. Contact ASC for inquiries regarding securities broker-dealers, agents, investment advisors, investment advisor representatives, financial planners, the registration status of securities, to report suspected fraud, or obtain consumer information.

**The ACS website will give you access to professionally developed educational materials that will teach you about investing and how to protect yourself from investment fraud.: [www.asc.state.al.us](http://www.asc.state.al.us)**. If you don't have access to the Internet call 1-800-222-1253 and the Education and Public Affairs office will mail free investor education materials to citizens upon request.

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If you have questions or require more information call Dan Lord, Education and Public Affairs.