



**FINANCIAL  
SERVICES  
INSTITUTE**

VOICE OF INDEPENDENT  
FINANCIAL SERVICES  
FIRMS AND INDEPENDENT  
FINANCIAL ADVISORS

## VIA ELECTRONIC MAIL

August 30, 2021

Jennifer Piorko Mitchell  
Office of the Corporate Secretary  
FINRA  
1735 K Street, NW  
Washington, DC 20006-1506

Re: FINRA Special Notice – Investor Education

Dear Ms. Mitchell:

On June 30, 2021, the Financial Industry Regulatory Authority, Inc. (FINRA) published a Special Notice requesting comment on effective methods to educate newer investors.<sup>1</sup> FSI and our members are committed to promoting investor education. Our members – licensed with FINRA, in many cases holding multiple licenses, and frequently dually registered as investment advisors – have assisted investors at a variety of stages in their financial lives to help them reach their goals. Through both their training and experience, our members have insight into effective methods to educate investors and have observed common pitfalls that younger or less experienced investors may encounter. FSI commends FINRA on undertaking this review and appreciates the opportunity to comment. Our comments reflect information we obtained from our members, including real-life examples and input from those who work directly with investors.

### **Background on FSI Members**

The independent financial services community has been an important and active part of the lives of American investors for more than 40 years. In the US, there are more than 160,000 independent financial advisors, which account for approximately half of all producing registered representatives.<sup>2</sup> These financial advisors are self-employed independent contractors, rather than employees of the Independent Broker-Dealers (IBD).<sup>3</sup> FSI's IBD members provide business support to independent financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions.

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<sup>1</sup> FINRA Special Notice – Investor Education (June 30, 2021), <https://www.finra.org/rules-guidance/notices/special-notice-063021#notice>

<sup>2</sup> Cerulli Associates, Advisor Headcount 2016, on file with author.

<sup>3</sup> The use of the term “financial advisor” or “advisor” in this letter is a reference to an individual who is a dually registered representative of a broker-dealer and an investment adviser representative of a registered investment adviser firm. The use of the term “investment adviser” or “adviser” in this letter is a reference to a firm or individual registered with the SEC or state securities division as an investment adviser.

FSI members make substantial contributions to our nation's economy. According to Oxford Economics, FSI members nationwide generate \$35.7 billion in economic activity. This activity, in turn, supports 408,743 jobs including direct employees, those employed in the FSI supply chain, and those supported in the broader economy. In addition, FSI members contribute nearly \$7.2 billion annually to federal, state, and local government taxes.<sup>4</sup>

Independent financial advisors are small-business owners and job creators with strong ties to their communities. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans. Their services include financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI members and their affiliated financial advisors are especially well positioned to provide Main Street Americans with the affordable financial advice, products, and services necessary to achieve their investment goals.

## Discussion

### I. Investor Education is a Critical Component of Investor Protection

Our members comply with a regulatory framework designed to safeguard investors and ensure market integrity. As FINRA highlights in its notice “[t]he relationship between an investor and a registered professional is [ ] subject to extensive regulation—for example, registration with FINRA is governed by rigorous qualification, testing and continuing education requirements, and the ongoing interactions between a FINRA-registered financial professional and their customer is subject to a range of SEC and FINRA rules, firm supervision and regulatory oversight.” This past year has highlighted individuals’ interest to engage in the capital markets prompted, to some degree, by Covid-related downtime, market volatility, and easy access to no-fee, low account minimum, direct trading platforms. These developments have also exposed gaps in many individuals’ understanding of investing and, in certain instances, more basic financial fundamentals.<sup>5</sup>

#### A. *Investor Behavior, Information and Technology*

Members report from their experience that many young investors initially enter the market appearing to look for a “golden ticket” stock. Recent events also illustrate that individuals still seek “advice” and input, but increasingly may turn to anonymous message boards or unreliable outlets for that advice.<sup>6</sup> “Financial influencers” found on a variety of social media platforms (many of whom earn money based on advertising and brand deals) have gained in popularity with recent news that an invite-only trading app is in development where viewers trade stocks as they watch influencers livestream. Even certain mainstream media programs have a more entertainment-oriented, frenzied quality to them. While there is now an abundance of free

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<sup>4</sup> Oxford Economics for the Financial Services Institute, *The Economic Impact of FSI's Members* (2020).

<sup>5</sup> See generally, Rachel Louise Ensign, *GameStop Investors Who Bet Big and Lost Big*, WSJ (Feb. 15, 2021), <https://www.wsj.com/articles/gamestop-investors-who-bet-big-and-lost-big-11613385002?mod=e2tw> (discussing recent investor experiences); Liz Frazier, *COVID-19 Exposes The Critical Need For Financial Education*, Forbes (Sept. 24, 2020), <https://www.forbes.com/sites/lizfrazierpeck/2020/09/24/covid-19-exposes-the-critical-need-for-financial-education/?sh=7edbc5b08e03> (summarizing results from a financial literacy survey).

<sup>6</sup> See National Financial Council Survey, <https://www.financialeducatorsCouncil.org/financial-guidance-survey/> (survey results showing that approximately 25% of respondents don't feel they have a trusted person to turn to for financial guidance).

information available on personal finance and investing, it has not necessarily resulted in heightened financial literacy levels among all groups.

One likely reason is that it takes considerable time and a foundational understanding to wade through the vast amount of information available – there is a lot of “noise.” A common pitfall advisors observe is individuals underestimating the time it takes, on a consistent basis, to “go at it alone.” A recent study indicates that those with financial advisors appeared to weather the economic downturn caused at the onset of the Covid pandemic better than those who did not have an advisor.<sup>7</sup> Young or less experienced investors may also be more susceptible to experience market losses that deter them from establishing a long-term plan at an early stage of life when compounding is most powerful.

As one advisor shared, he spoke with the adult child of a client over the course of months as he began focusing on his financial wellbeing. The young adult had recently graduated with an advanced degree and, after working for several months, was focused on starting to invest. The new investor shared that he did not want to pay a fee for advice or money management – it seemed unnecessary when he could trade for free. Over the next six months, the recent graduate spent considerable time researching the market as well as platforms for trading and investing. He recognized, however, that there was opportunity cost in terms of his time and lost market returns, although he had educated himself considerably through this research process. While he tried his hand at investing on his own, for little to no fees, he eventually gravitated toward a low-cost fee arrangement that provided him more personalized advice. Through his research and thoughtful consideration, he recognized the ongoing time commitment that would be necessary to cut through the information available to make truly informed investment choices that fit into a long-term plan. He also recognized that he wanted a “person” to assist in an investment strategy personally tailored to him and who was available for questions and could continue to education him about the market. Evaluating different brokerage business models and recognizing the benefits of investor education provided by an experienced, licensed professional can be the first hurdle for many new investors. For example, studies indicate that individual investors can be over-confident in their own trading and stock picking abilities.<sup>8</sup> This tendency can be amplified in rising markets.

## *B. Effective Education Practices and Tools Used by Our Members*

Our members provided input, based on their training and experience, on: 1) the substantive areas where they frequently see the need for investor education; 2) the methods they have found to be effective in delivering education; and 3) the importance of early investor education.

### *1. Key Areas in Need of Additional Investor Education*

While basic information available about investing can be a positive starting point, members have found that a one-sized fits all approach to investor education is not nearly as effective as one tailored specifically to each investor’s needs. In addition, a wholistic approach to financial education is critical to understand the “big picture” and how different components of financial planning fit together to enhance overall financial wellbeing. Educating investors on financial

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<sup>7</sup> See Million Dollar Round Table (MDRT) Study (March 2, 2021), <https://www.mdr.org/financial-priorities/#>

<sup>8</sup> See generally, Daniel, Kent and David Hirshleifer, *Overconfident Investors, Predictable Returns, and Excessive Trading*, *Journal of Economic Perspectives*, 29 (4): 61-88 (2015); Terrence Odean and Brad M. Barber, *The Behavior of Individual Investors*, *Handbook of Economics of Finance* (2013).

basics, including different types of securities, key features of each, as well as different account types (including those available for saving for college and retirement) are all important. Advisors report that information related to taxes (such as understanding the marginal rate), tax implications, and the tax treatment of different types of retirement accounts – and differing advantages of each – are common areas where they have found a need for additional investor education. Advisors report that when clients understand the “why” it is more likely to influence investor behavior.

Another critical part of investor education, according to our members, is educating investors on an appropriate strategy for when to buy and sell securities. Educating clients to use objective measures and to stick with their plan is especially key during volatile markets. Advisors discussed the importance of explaining research-based strategies on determining when securities should be sold – based on percentage gains – and when portfolios should be rebalanced across asset classes. This type of investor education also helps to take the emotion out of investing. For example, in a recent survey “[f]ifty percent of consumers who manage their portfolios generally said they find it harder to keep emotions out of investing than the 45% who rely on a financial advisor. They also reported higher rates of lost sleep and regrettable decisions than those who work with an advisor.”<sup>9</sup>

Educating investors on the penalties for withdrawing from a retirement account is another area where advisors find that they provide meaningful education. Discouraging withdrawals from retirement accounts, especially for younger investors who may change jobs more frequently and for whom retirement feels far away, is critical. In addition to education about options concerning an employer sponsored 401k, more generally, there are an array of services (and education) advisors provide when a client changes job, such as time sensitive advice during time-windows where action must be taken concerning health benefits and insurance policies tied to their former employers. Without understanding the choices and receiving competent advice, individuals can make decisions that may not suit their needs and that can be irreversible.

## 2. *Methods for Delivering Investor Education*

The means in which an advisor interacts with his or her client is also important for success. Tools such as one-on-one coaching, individually tailored financial planning, monthly client newsletters and annual investment reviews are, collectively, effective. Advisors report that meeting on a regular basis (and ensuring they repeat and remind investors of important concepts) is an effective education strategy, especially for less experienced or younger investors. Some clients may prefer written correspondence, while others react best to podcasts, webinars or opportunities that facilitate a dialogue. Advisors also report that given the long-term nature of many of their relationships with clients, they can determine what works best for the client and have the flexibility for their means of investor education to evolve.

Advisors recognize the importance of ongoing education, which is key as markets evolve, new products emerge, and each individual investor’s goals and circumstances change. Having a “person” to contact when there is a question – for example, when the client wants to learn about new terms in financial press headlines (e.g., bitcoin, crypto, SPACs) – remains a powerful investor

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<sup>9</sup> Michael S. Fischer, Nearly a Third of Investors Cop to Trading While Drunk: Survey, ThinkAdvisor (Aug. 12, 2021) [https://www.thinkadvisor.com/2021/08/12/nearly-a-third-of-investors-cop-to-trading-while-drunk-survey/?kw=Third%20of%20Investors%20Cop%20to%20Trading%20While%20Drunk%20Survey&utm\\_source=eml&utm\\_medium=enl&utm\\_campaign=dailywire&utm\\_content=20210812&utm\\_term=tadv](https://www.thinkadvisor.com/2021/08/12/nearly-a-third-of-investors-cop-to-trading-while-drunk-survey/?kw=Third%20of%20Investors%20Cop%20to%20Trading%20While%20Drunk%20Survey&utm_source=eml&utm_medium=enl&utm_campaign=dailywire&utm_content=20210812&utm_term=tadv)

education tool for a broad spectrum of investors. Reducing regulatory burdens and providing a roadmap to make available materials (both educational materials as well as disclosures) in languages other than English is also important to serve the educational needs of a broader group of Americans. Effective methods to deliver investor education to a broad and diverse group of potential investors is also critical to combat financial scams because an informed individual is better positioned to ask questions and identify when something may be amiss (e.g., guaranteed, quick high returns).

### 3. *The Importance of Early Investor Education*

Our members highlighted that early financial education will better position young adults to handle their finances. We have supported legislation proposing financial literacy in schools, including a bill that included personal finance education standards for elementary through high school students. In addition, to support early financial education, our members have partnered with Centsables, a financial literacy initiative and multi-media program for kids, teens, and young adults. We have also partnered with Empowering Generations Through Financial Literacy to provide education resources.<sup>10</sup> These resources and tools assist in raising awareness across multiple generations regarding the benefits of financial literacy and include presentations members can customize; whether for young adults or near-retirees. Member firms have also developed their own programs to support investor education, including “coaching centers” providing educational materials on their websites and programs more specifically geared to support financial education for those serving our country in the military.

## II. Measuring Effective Investor Education

Even among experienced financial advisors, some shared that employing specific metrics to test investor education methods is challenging. More specifically, it is hard to “test” what may have happened if the advisor did not provide the investor education. Also, individual success linked to investor education can also present itself in different ways depending on an individual’s goals, meaning that investor education success stories may not reveal themselves accurately in a survey. For example, a client may continue working past “normal” retirement age, not because she does not have financial security, but because she enjoys her job. This may, in a survey result, look like a retirement “failure” when, in fact, it is not.

We appreciate that FINRA is exploring this area to determine how to measure which investor education methods may be the most successful. Our members suggested that actual investor behavior is the best indicator of effective investor education methods. The most immediate test of successful financial education is whether an individual is consistently saving money to achieve goals, such as retirement. Longer term measures of successful financial education are based on outcomes. For example, research shows that investors who work with a financial advisor are better prepared for their retirement, better understand the costs that may arise in retirement and how to save for them and feel more confident in their ability to be successful in retirement.<sup>11</sup> These results likely correlate to the tools experienced, licensed advisors use to educate their clients.

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<sup>10</sup> <https://financialservices.org/financialfreedomdownloads/>

<sup>11</sup> See The Insured Retirement Institute, *The State of Retirement Security in America Today – 2019 Boomer Expectations for Retirement Study* (2019), [https://www.myirionline.org/docs/default-source/default-document-library/iri\\_babyboomers\\_whitepaper\\_2019\\_final.pdf?sfvrsn=0](https://www.myirionline.org/docs/default-source/default-document-library/iri_babyboomers_whitepaper_2019_final.pdf?sfvrsn=0); Claude Montmarquette, Nathalie Viennot-Briot, Centre for Interuniversity Research and Analysis on Organizations (CIRANO), *The Gamma Factor and the Value of Advice of a Financial Advisor* (2016) <https://www.cirano.qc.ca/files/publications/2016s-35.pdf>

## Conclusion

We are committed to constructive engagement in the regulatory process and welcome the opportunity to work with FINRA on this and other important regulatory efforts. Thank you for considering FSI's comments. Should you have any questions, please contact me at (202) 393-0022.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robin Traxler". The signature is written in a cursive style with a long horizontal line extending to the right.

Senior Vice President, Policy & Deputy General Counsel