

**INVESTMENT
COMPANY
INSTITUTE**

**THE PROFILE
PROSPECTUS:
AN ASSESSMENT
BY MUTUAL FUND
SHAREHOLDERS**

**VOLUME I
INSTITUTE RESEARCH**

*Report to the U.S. Securities and Exchange Commission by
the Investment Company Institute—May 1996*

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PROSPECTUS:
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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

In October 1994, Arthur Levitt, Jr., Chairman of the Securities and Exchange Commission (SEC), announced the “profile prospectus” initiative, an innovative effort designed to improve disclosure about mutual funds. He called upon mutual fund companies to develop a shortened or “profile” prospectus that would contain the information essential to making an investment decision. In response to Chairman Levitt’s initiative, eight fund groups¹ and the Investment Company Institute, in consultation with the SEC’s Division of Investment Management and with the Investment Companies Committee of the North American Securities Administrators Association (NASAA), developed a prototype of the profile prospectus. The group determined that every profile prospectus should address, in a prescribed order, 11 critical areas about which investors should be informed before purchasing a fund. As identified for the prototype profiles, these 11 areas are:

1. the fund’s goals or objectives;
2. the fund’s investment strategies;
3. the fund’s risks, specific to the type of fund;
4. the kind of investor for whom the fund might be an appropriate and/or inappropriate investment;
5. a table showing fees and expenses of the fund;
6. a bar chart depicting the fund’s total return for each of the last 10 years, with presentation of standardized SEC performance data of the fund;
7. the name of the fund’s investment adviser;
8. an explanation of how investors may purchase shares of the fund, including any minimum investments;
9. an explanation of how investors may redeem their shares;
10. disclosure of when and how distributions are made by the fund; and
11. a statement of the other services the fund offers to investors.

Each of the eight fund groups prepared prototype profile prospectuses for three of their funds—an equity fund, a bond fund, and a money market fund—for use in a year-long test of the document’s effectiveness.²

The Institute has conducted extensive research to identify whether the profile prospectus makes it easier for investors to focus on the key issues they need to address before investing and whether the profile prospectus provides the type of information that investors seek before they purchase a mutual fund. Such research, Chairman Levitt said, “will help us assess whether investors should be able to rely on a stand-alone profile or summary prospectus in deciding to invest in funds. When the research is complete, we will consider what, if any, permanent changes to fund disclosure rules should be made.”³

For this purpose, the Institute engaged Response Analysis Corporation, an independent research firm with twenty-seven years of experience in the financial services area, to conduct in-person interviews with shareholders who had purchased a mutual fund that they had not owned in the preceding five years. A total of 1,004 randomly selected “recent buyers” participated in the interviews, a sample that is representative of recent mutual fund buyers nationwide.

¹ The eight fund groups are American Express Financial Corporation; Bank of America N.T. & S.A.; Capital Research and Management Company; The Dreyfus Corporation; FMR Corp.; Scudder, Stevens & Clark, Inc.; T. Rowe Price Associates, Inc.; and The Vanguard Group, Inc.

² Six of the eight fund groups completed research on investors’ reaction to the profile prospectus. The results of that research are presented in Volume II, *Mutual Fund Company Research* (Investment Company Institute, Spring 1996).

³ Remarks by Chairman Arthur Levitt at a press conference to announce the distribution to investors of the profile prospectus (July 31, 1995).

The research called for each recent buyer to read both a profile prospectus and a Section 10(a) prospectus for comparable types of mutual funds and then to evaluate the profile prospectus on a number of features. For example, recent buyers assessed the language and writing style of the profile prospectus, the completeness of the information for making a purchase decision, and its effectiveness in locating information and in comparing different mutual funds. These recent buyers made similar evaluations for the Section 10(a) prospectus, from which comparisons may be made about the relative strengths and weaknesses of the profile prospectus and the Section 10(a) prospectus.

The Role and Use of the Section 10(a) Prospectus in Investment Decisions

- **Half of all recent fund investors did not consult or use a Section 10(a) prospectus for any purpose before buying their most recent funds.**⁴

Nevertheless, the majority of respondents acknowledged the importance of reading the Section 10(a) prospectus, with 37 percent indicating it was very important and 39 percent, somewhat important.

- **Most investors who did not consult a Section 10(a) prospectus report having little understanding of mutual fund investing. These investors tend to rely on fewer sources of information and are more inclined to rely on financial professionals for guidance. Those who consulted a Section 10(a) prospectus tend to be relatively more knowledgeable about fund investing and more inclined to make their own investment decisions.** Thirty-four percent of respondents who had not consulted the Section 10(a) prospectus described themselves as knowledgeable about fund investing, compared with 54 percent of those who had consulted a Section 10(a) prospectus. Of prospectus nonusers, 52 percent preferred to leave mutual fund purchase decisions to professional financial advisers, whereas just 26 percent of prospectus users preferred to rely on advisers.

KEY TERMS

Section 10(a) Prospectus

As used in this report, “Section 10(a) prospectus” refers to the long-form prospectus that funds currently deliver to shareholders pursuant to Section 10(a) of the Securities Act of 1933. Mutual funds prepare the Section 10(a) prospectus, which is part of a fund’s registration statement, according to Form N-1A, the form for mutual fund registration statements. Part A of Form N-1A provides detailed instructions for completion of the mutual fund prospectus. Currently, these instructions comprise more than 12 standard, 8 ½ by 11-inch pages in the Securities and Exchange Commission’s publication of Form N-1A.

Profile Prospectus

As used in this report, “profile prospectus” refers to a concise prospectus developed at the initiative of the SEC. The profile prospectus sets forth information on eleven areas of particular importance for investment decisionmaking. The eleven areas are presented in a standard sequence or order prescribed by the SEC and are numbered accordingly. The profile prospectus is designed to address investor needs for simple and more understandable disclosure when making investment decisions and thus would not contain information beyond the eleven items of required disclosure.

Prospectus “Users” and “Nonusers”

At various points, this report refers to survey participants as “users” or “nonusers” of the Section 10(a) prospectus. Users include participants who reported that they had consulted a Section 10(a) prospectus for any purpose in their most recent fund purchases. Such “users” of the Section 10(a) prospectus may have consulted it with respect to only one item of information or a range of items. Respondents who did not consult a Section 10(a) prospectus for any purpose are referred to as “nonusers.”

⁴ Previous Institute research found that a far smaller percentage of survey respondents—26 percent—indicated they had used the Section 10(a) prospectus as a source for mutual fund information. Whereas the current research is limited to recent purchasers, respondents in the Institute’s earlier study were broadly representative of all mutual fund shareholders. See *Piecing Together Shareholder Perceptions of Investment Risk* (Investment Company Institute, Spring 1993) at page 26.

Assessment of the Section 10(a) and Profile Prospectuses

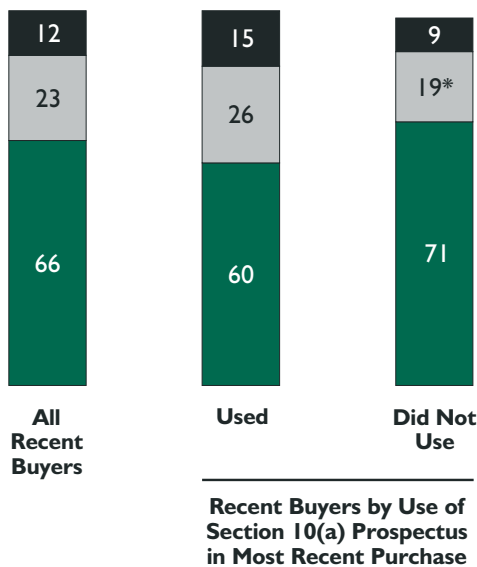
- **The vast majority of those investors who did not use a Section 10(a) prospectus would use the profile prospectus in making investment decisions.** Sixty-one percent of nonusers said they would be very likely to read the profile prospectus. Thus, availability of the profile prospectus likely would widen the information sources consulted by mutual fund buyers not inclined to use the Section 10(a) prospectus. At the same time, 71 percent of those who had consulted a Section 10(a) prospectus stated they would be very likely to read the profile prospectus.
- **Investors would make the profile prospectus one of their top information sources.** Sixty-five percent of those who had consulted a Section 10(a) prospectus, and 67 percent of those who had not done so, said they would place the profile prospectus at or near the top of their lists of information sources. In contrast, many respondents relegated the Section 10(a) prospectus to the middle or bottom of the list.

- **The vast majority of investors—including those who do not regularly read the Section 10(a) prospectus—would like to receive the profile prospectus, either alone or with the option to receive the Section 10(a) prospectus.** Sixty-six percent would prefer to receive the profile prospectus, either alone or with the option of requesting the Section 10(a) prospectus; 23 percent would prefer to receive the profile and Section 10(a) prospectuses together; and 12 percent would prefer to receive the Section 10(a) prospectus, either alone or with the option of requesting the profile prospectus (Figure 1).
- **Most investors believe that the profile prospectus provides them with the right amount of information.** Sixty-two percent of those who had used a Section 10(a) prospectus, and 77 percent of those who had not, stated that the profile prospectus contained the right amount of information with which to make investment decisions (Figure 2).

Figure 1

Preference for Receiving the Section 10(a) and Profile Prospectuses

(percent of respondents)



Prefer to receive:

- The Section 10(a) prospectus, either alone or with the option to receive the profile prospectus upon request
- Both the Section 10(a) and the profile prospectuses together
- The profile prospectus, either alone or with the option to receive the Section 10(a) prospectus upon request

Number of Respondents

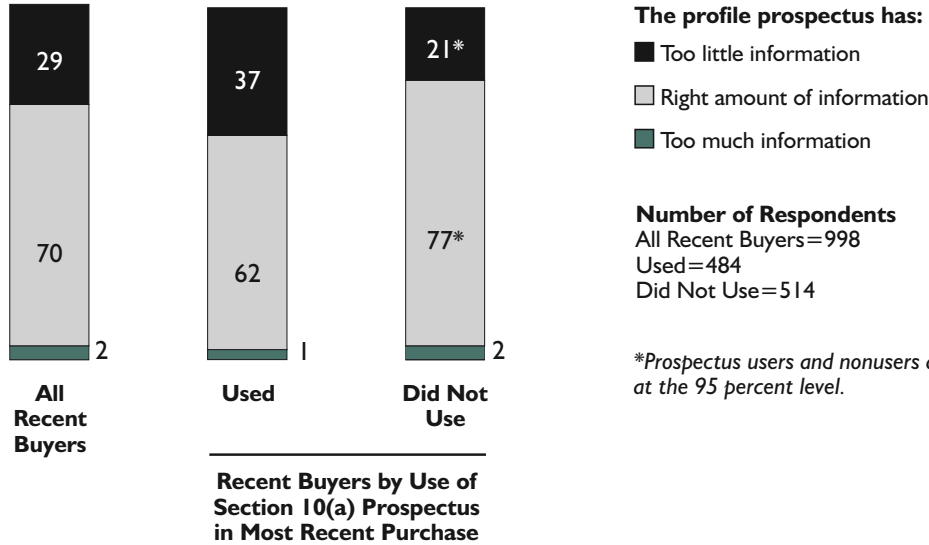
All Recent Buyers=994
 Used=480
 Did Not Use=514

*Prospectus users and nonusers are statistically different at the 95 percent level.

Source: The Profile Prospectus: An Assessment by Mutual Fund Shareholders, Volume I, Institute Research (Investment Company Institute, May 1996).

Figure 2
Assessment of the Amount of Information in the Profile Prospectus

(percent of respondents)



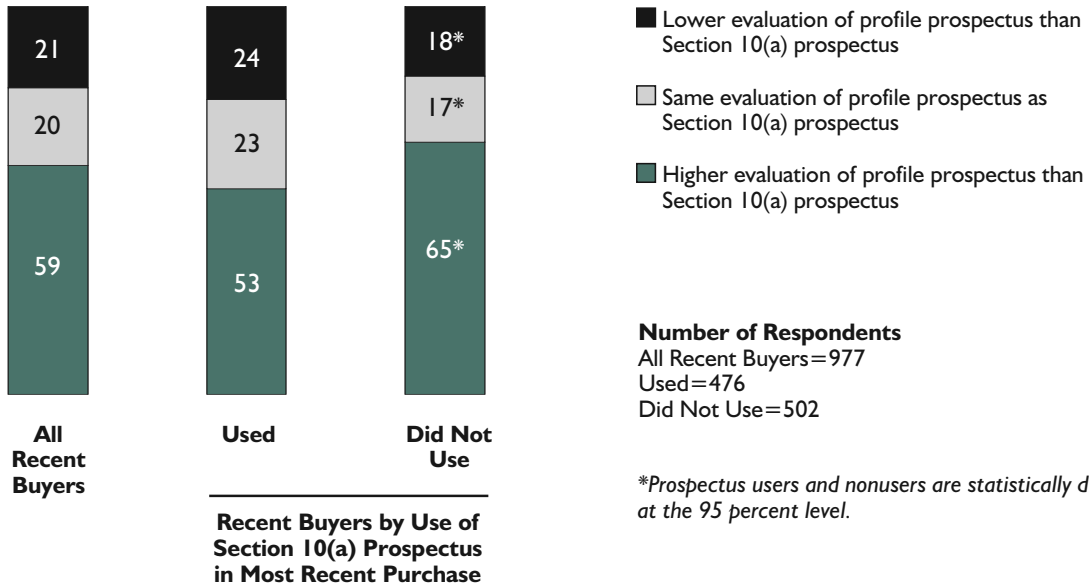
■ **Investors find the profile prospectus to be easier to use than the Section 10(a) prospectus for locating and understanding basic investment information.** Respondents were asked to indicate how easy it was to locate and understand seven items of information contained in both the Section 10(a) and profile prospectuses.⁵ A majority of participants reported it was easier both to find and to comprehend each of the seven items in the profile prospectus than in the Section 10(a) prospectus. Altogether, 66 percent of respondents gave the profile prospectus a higher rating than the Section 10(a) prospectus for locating specific information. Sixty-five percent rated the writing style of the profile prospectus better than that of the Section 10(a) prospectus.

■ **The profile prospectus appears to be of particular assistance to investors who find it very difficult to locate or understand information in the Section 10(a) prospectus.** Among investors who found it very difficult to locate information on fund risks in the Section 10(a) prospectus, 80 percent found it very easy to find such information in the profile prospectus. Similarly, of those investors who had extreme difficulty understanding the discussion of fund risks in the Section 10(a) prospectus, 33 percent said the passage on this subject in the profile prospectus was very easy to understand, and 44 percent, somewhat easy.

⁵ The seven items are: 1) minimum investment required, 2) investment goals, 3) investment risks, 4) fees and expenses, 5) redemption procedures, 6) historical performance, and 7) types of securities held in the fund's portfolio.

Figure 3
Overall Assessment of the Profile Prospectus Relative to the Section 10(a) Prospectus

(percent of respondents)



■ **Investors generally report that the profile prospectus would be more helpful in making investment decisions than the Section 10(a) prospectus.** Based upon their review of the profile and Section 10(a) prospectuses, 59 percent of survey participants rated the overall quality of the profile prospectus higher than the Section 10(a) prospectus. Another 20 percent rated the two documents as equally useful (Figure 3).

INTRODUCTION

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INTRODUCTION

On October 13, 1994, Arthur Levitt, Jr., Chairman of the Securities and Exchange Commission (SEC), announced an initiative to develop a new disclosure document for mutual fund investors, intended to provide them with clear and concise information in a standard format. In particular, the new approach, termed the “profile prospectus,” was aimed at making it “easier for [investors] to make comparisons, and easier to get right to the key issues they need to know before investing.”⁶

In response to Chairman Levitt’s initiative, the Investment Company Institute⁷ and eight of its mutual fund members, in collaboration with the SEC and the Investment Companies Committee of the North American Securities Administrators Association (NASAA), developed prototypes of such a profile prospectus.

The fund groups that worked on developing the prototype profile prospectuses are:

1. American Express Financial Corporation
2. Bank of America N.T. & S.A.
3. Capital Research and Management Company
4. The Dreyfus Corporation
5. FMR Corp.
6. Scudder, Stevens & Clark, Inc.
7. T. Rowe Price Associates, Inc.
8. The Vanguard Group, Inc.

On July 19, 1995, the Institute submitted proposed instructions for the profile prospectus to the SEC. The general instructions envisioned that the prototypes would present, in the same order, 11 areas of information about investing in a fund. These areas consisted of the following:

1. the fund’s goals or objectives;
2. the fund’s investment strategies;
3. the fund’s risks, specific to the type of fund;

4. the characteristics of an investor for whom the fund might be an appropriate and/or inappropriate investment;
5. the fees and expenses of the fund, in the form of the fee table from Item 2(a)(i) of Form N-1A;
6. a bar chart depicting the fund’s total return for each of the last ten years, with presentation of standardized SEC performance data of the fund;
7. the name of the fund’s investment adviser;
8. how investors may purchase shares of the fund, including any minimum investments;
9. how investors may redeem their shares;
10. when and how distributions are made by the fund; and
11. other services the fund offers to investors.

On July 31, 1995, the SEC, NASAA, the Institute, and the eight participating fund groups announced the results of these efforts and the beginning of a period to test and evaluate the new disclosure document. As Chairman Levitt stated, the purpose of the project was to try to make available to investors a clearer and more helpful prospectus, one “that they can read, in language they can understand, in a form they can follow.”⁸ On the same day, the SEC’s Division of Investment Management authorized the participating fund groups to deliver the new profile prospectuses to prospective investors, provided the profile prospectus complied with the general instructions submitted by the Institute. The Division’s letter stated, “The use of profiles is being undertaken initially as an experiment for a period of one year. During that time period, the staff of the Division intends to monitor the industry’s use of profiles to assess whether investors find them helpful in deciding to invest in a fund.”⁹ For purposes of this experiment, the Division required that the profile prospectus accompany the Section 10(a) prospectus. Since the start of the test period through April 1996, approximately 650,000 shareholders of 38 funds,¹⁰ in addition to broker-dealers, investment advisers and other investment professionals, have received a profile prospectus.

⁶ Remarks by Chairman Arthur Levitt, Jr. before the National Press Club (October 13, 1994).

⁷ Members of the Institute’s profile prospectus working group are identified in Appendix F.

⁸ Remarks by Chairman Arthur Levitt at a press conference to announce the distribution to investors of the profile prospectus (July 31, 1995).

⁹ Letter from Jack W. Murphy, Associate Director and Chief Counsel, Securities and Exchange Commission, to Paul Schott Stevens, Senior Vice President and General Counsel, Investment Company Institute (July 31, 1995).

¹⁰ Profile prospectuses were developed and distributed for 14 additional funds during the test period.

As part of the assessment, the Institute and its members undertook research to determine investor responses to the profile prospectus, especially in comparison with the Section 10(a) prospectus. It was envisioned that this research would seek to determine whether the profile prospectus would be effective and useful as a disclosure document, whether it would enable investors to focus more easily on the key issues needed for investing, and whether the profile prospectus would provide information investors sought before purchasing a mutual fund. It was anticipated that, based on research results and assessments made following a year's field experience with the profile prospectus, the contents and format of the disclosure would be reviewed and might be revised, if appropriate, to better accomplish the objectives of the document as set forth by Chairman Levitt.

In this regard, Chairman Levitt stressed the importance of such research to the Commission in determining whether "investors should be able to rely on a stand-alone profile. . . in deciding to invest in funds, and what, if any, permanent changes to fund disclosure rules should be made" as a result.¹¹

The Institute's and its members' research results are presented in this two-volume report to the Commission, *The Profile Prospectus: An Assessment by Mutual Fund Shareholders*. Volume I contains the results of the Institute's survey of 1,004 recent buyers of mutual funds. This survey involved obtaining separate evaluations of the profile and Section 10(a) prospectuses, a comparative assessment of the two types of documents, and background questions on investors' use of the Section 10(a) prospectus when making investment decisions. Volume II presents the results of the research undertaken by the fund groups that worked with the Institute to develop and field the prototype profile prospectuses.

¹¹ Remarks by Chairman Arthur Levitt at a press conference to announce the distribution to investors of the profile prospectus (July 31, 1995).

**SECTION I:
RESEARCH
METHODOLOGY**



SECTION I:

RESEARCH METHODOLOGY

Research Design

The Institute's survey, conducted by Response Analysis Corporation (RAC),¹² involved in-person, in-home interviews with 1,004 randomly selected households that had purchased a mutual fund between November 1, 1990 and the time of the survey.^{13,14,15} In-person interviews guaranteed that respondents reviewed both the Section 10(a) and profile prospectuses before answering questions. Restricting survey participants to "recent" buyers helped to ensure that survey participants were familiar with mutual funds and to increase the likelihood that they could recall whether they had used the Section 10(a) prospectus as a source for mutual fund information. Interviews were conducted with individuals who were either primary or codecisionmakers for household saving and investment. Each interview took about 45 minutes to complete.

Using a computerized, multi-stage sampling frame constructed from 1990 Census data, RAC randomly selected 100 sampling areas throughout the contiguous United States to serve as interview sites for the Institute survey. The sampling frame includes all areas of the United States, down to the street level. In the first stage of the sampling procedure, RAC randomly selected 100 primary

sampling units (PSUs), which are either a county, a group of counties, or a Metropolitan Statistical Area (MSA).¹⁶ In the second stage of the sampling procedure, RAC randomly selected 400 secondary sampling units (SSUs)¹⁷ to form a pool from which samples for specific studies are drawn. For the Institute study, 100 SSUs were randomly selected.

An interviewer was assigned to each secondary sampling unit and given a computer-generated map of the defined area, including a randomly selected starting point. From this point, each interviewer began and continued along a prespecified travel path¹⁸ until he or she completed a quota of ten interviews.¹⁹ A minimum of three callbacks was made at each household. Of the 6,392 households successfully contacted, 76 percent did not qualify to participate in the research, 8 percent qualified but refused to participate, and 16 percent qualified and agreed to participate.

The sample was weighted using an iterative proportional fitting algorithm and the results reported in the text reflect that weighting. The application of weights to the raw data forced the distribution of the sample to reflect the target distributions for variables such as respondents' gender, age, income, and Census region. In setting the target

¹² RAC, located in Princeton, New Jersey and founded in 1969, specializes in empirical research for the financial services industry.

¹³ The interviews were completed between November 27, 1995 and March 5, 1996. RAC's in-home interviewing staff comprises more than 600 interviewers who are dispersed throughout the contiguous 48 states and live in or near the sample areas that form the RAC National Probability Sample. Many of RAC's interviewers have served as U.S. Census interviewers. Before recruiting respondents for the Institute survey, RAC trained all interviewers. Interviewers with procedural questions were able to contact RAC staff via a toll-free number.

¹⁴ To qualify, respondents had to have purchased shares of a mutual fund of which they had owned no previous shares before November 1, 1990. Households that only made purchases since then through employer-sponsored plans or thrift plans were excluded.

¹⁵ "Recent" buyers, who already may have owned mutual fund shares, should not be confused with "new" shareholders. While all respondents to this study are "recent" buyers, 77 percent made their first purchase of a mutual fund before 1993. When conducting shareholder research, the Institute routinely defines shareholders who purchased their first fund in the two years preceding the survey as "new" shareholders.

¹⁶ Each of RAC's PSUs has a population of at least 80,000.

¹⁷ SSUs are either Census Block Groups or Enumeration Districts. Census Block Groups and Enumeration Districts with populations of less than 4,000 were grouped with other Census Block Groups and Enumeration Districts.

¹⁸ RAC field staff follow a specific set of prescribed procedures to draw the prespecified path on interviewers' maps.

¹⁹ Several interviewers exceeded their quota, so that the total number of interviews completed was 1,004 rather than the anticipated 1,000. RAC determined that 1,000 interviews was sufficient to represent the population of recent buyers of mutual funds within an acceptable margin of error.

distributions, regional weights were developed from Census Bureau data. Weights for gender, age, and income were developed from existing RAC databases. In addition to bringing the sample into line with target weights, the weighting corrected for differential responses across respondent subgroups and for other random effects.

Summary of Characteristics of Responding Shareholders

Recent mutual fund buyers represent an estimated 54 percent of all households owning mutual funds²⁰ and have many of the characteristics found among shareholders at large.²¹ For example, 58 percent of the financial decision-makers in the survey are male, 78 percent are employed, and 60 percent have college degrees. Furthermore, survey respondents typically own three mutual funds and primarily purchase mutual funds from the sales-force channel.²² All of these data are approximately the same as those for the entire shareholder population.

Several characteristics of the sample of recent buyers differ from those of shareholders nationwide. Most significantly, recent buyers have greater household financial assets than do shareholders nationally. The median household financial assets of recent buyers participating in the survey is \$87,500, compared with \$50,000 for the entire population of shareholders. In addition, the median of the percent of household financial assets invested in mutual funds is 20 percent for survey participants, whereas the median for the entire shareholder population is 36 percent.^{23, 24} More survey respondents own bond and income funds than do shareholders nationally, and fewer own equity and money market funds. The median number of years that survey respondents have owned

funds is six years, compared with nine years for all shareholders (Figure 4).

Questionnaire Design

The survey instrument included two separate questionnaires. The first questionnaire was administered by the interviewer and contained questions on shareholders' use of the Section 10(a) prospectus in their most recent fund purchases,²⁵ views on mutual fund information and investing, and demographic and financial characteristics.

The second questionnaire comprised the evaluations of the Section 10(a) and profile prospectuses and was completed by each respondent under the supervision of the interviewer. The order of respondents' assessments of the Section 10(a) and profile prospectuses was rotated to eliminate bias. One half of the sample evaluated the Section 10(a) prospectus first and the profile prospectus second; for the other half, the sequence was reversed. In addition, one profile prospectus from each of the eight participating fund groups was randomly selected to be included in the study. Altogether, three equity funds, three bond and income funds, and two money market funds were used. Each fund group also provided a Section 10(a) prospectus for a fund with a similar investment objective that was paired with its profile prospectus for the assessment.²⁶ Pairing the profile prospectus with a Section 10(a) prospectus from the same fund group eliminated from the assessment any bias that might arise through the use of prospectuses from different fund companies. Also, using a Section 10(a) prospectus and a profile prospectus for two funds with a similar investment objective rather than for the same fund substantially reduced the possibility that information about a fund learned from one

²⁰ This estimate excludes households that purchased money market funds in the five years preceding the survey.

²¹ The Institute conducted a survey with a representative sample of 1,165 mutual fund shareholders owning mutual funds outside of employer-sponsored retirement plans in July 1995. See the forthcoming report, *Mutual Fund Shareholders: The People Behind the Growth* (Investment Company Institute, Spring 1996).

²² The respondents in this survey are also very similar to the respondents who participated in the Institute's study on shareholders' assessment of risk disclosure methods. In that study, 60 percent of the respondents were male, 80 percent were employed, and 61 percent had college degrees. See *Shareholder Assessment of Risk Disclosure Methods* (Investment Company Institute, Spring 1996) at page 9.

²³ The median amount in household financial assets is based on category data. The median percent of household financial assets invested in mutual funds is the proportion derived from dividing the median amount in mutual funds into median household financial assets.

²⁴ See Appendix D for more details on responding shareholders' characteristics.

²⁵ People consider investing an important subject but find it difficult to discuss, according to the existing body of financial research. Therefore, the best way to obtain an assessment from individuals on financial subjects is by relating questions to a specific past event rather than asking questions in the abstract. See John F. Swift and Roger J. Stubbs, "Market Research in the Financial Field," *Consumer Market Research Handbook* (1986) at page 618.

²⁶ See Appendix C for the complete listing of the Section 10(a) prospectuses that were paired with the profile prospectuses used in the research.

Figure 4

Selected Demographic and Financial Characteristics of Recent Buyers of Mutual Funds and All Mutual Fund Shareholders

	Recent Buyers ^a	All Shareholders ^b
Median		
Age	43 years	44 years
Household income	\$62,500	\$60,000
Household financial assets ^c	\$87,500	\$50,000
Financial assets held in mutual funds	\$17,500	\$18,000
Number of funds owned	3	3
Percent of financial assets held in funds	20%	36%
Length of fund ownership	6 years	9 years
Percent of Respondents		
Male	58	57
Four-year college degree or more	60	58
Employed full- or part-time ^d	78	80
Types of mutual funds owned: ^e		
Equity	64	73
Bond and income	63	49
Money market	43	52
Primary mutual fund purchase channel:		
Sales force	59	66
Direct market ^f	39	29
Other (e.g., accountant or lawyer)	2	5

^aBased on in-person interviews with 1,004 households that purchased a mutual fund not previously owned before November 1, 1990; interviews were conducted from November 1995 through February 1996.

^bBased on telephone interviews with 1,165 households owning mutual funds; interviews were conducted in July and August 1995.

^cExcludes primary residence and assets in employer-sponsored retirement plans.

^dIncludes self-employed.

^eMultiple responses included.

^fIncludes purchasing directly from a fund company or a discount broker.

Note: Number of respondents varies.

prospectus could be used to evaluate the other prospectus. In all, sixteen different rotation schemes were developed and randomly dispersed among the interviewees.

The self-administered questionnaire included three sections. The first section called for an assessment of the prospectus that respondents were to evaluate first. The second section was an assessment of the other prospectus. The third section compared the two prospectuses. The first few questions of each individual assessment were designed to familiarize respondents with the prospectuses they were evaluating. For example, respondents were asked to write down the name of the fund on

the prospectus they were reviewing, to list its adviser, and to record the minimum investment required. Respondents then were asked to locate seven items in the prospectus and then indicate how easy or difficult they were to find. Next, respondents were to indicate how easy or difficult it was to understand the passages describing each item. Completion of these questions for both prospectuses better ensured that respondents were able to make informed evaluations in their joint assessment of the Section 10(a) and profile prospectuses, which was the subject of the third section.

Figure 5
Sampling Error at the 95 Percent Confidence Level for Selected Percentages of Responses, by Sample Size
(percent of respondents)

Sample Size	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
1,000	2	3	4	4	4
500	3	4	4	4	4
250	4	5	6	6	6
100	6	8	9	10	10

This table shows, for example, that if the sample size is 1,000 and if 10 percent of the respondents provides the same answer to a question and 90 percent provides the other answer, then using the same procedures, these responses can be expected to be replicated for the entire population within a range of + or - 2 percent 95 percent of the time.

Sampling Tolerances

The use of sample surveys is standard practice for deriving estimates about a total population.²⁷ Estimates derived through sample surveys are subject to sampling error. As the sample size increases, the level of potential sampling error generally becomes smaller. The findings in this report based on the full sample represent the total population of recent buyers of mutual funds with an

overall sampling error of plus or minus 4 percent at the 95 percent confidence level. Figure 5 shows the approximate sampling error for estimates of proportions computed for the sample as a whole and for various subsamples. Because of rounding to the whole integer, some totals in figures throughout the report may not equal exactly 100 percent.

²⁷ For a detailed discussion of survey sampling, see W.E. Deming, *Sample Designs in Business Research* (1991).

**SECTION II:
THE ROLE AND USE
OF THE SECTION 10(a)
PROSPECTUS
IN INVESTMENT
DECISIONS**

.....

SECTION II:

THE ROLE AND USE OF THE SECTION 10(a) PROSPECTUS IN INVESTMENT DECISIONS

Mutual Fund Information Needs

Buying a mutual fund is not an impulse purchase for the majority of survey respondents. Seventy-four percent said they review a lot of information before making a fund purchase decision, and 72 percent indicated that they will not buy a mutual fund unless several sources indicate it is a good investment. Many shareholders need investment advice from a financial professional as part of the fund purchase process; 50 percent of respondents said they do not often make fund purchase decisions without advice from investment professionals, and 46 percent indicated they find mutual fund investing to be very complicated. Seventy-four percent stated that they compare several mutual funds before making a purchase decision. Furthermore, the fund purchase process can be lengthy for many investors. Forty-two percent of respondents

said it takes longer than they like to locate the information needed to make an informed mutual fund purchase decision (Figure 6).

One reason why the fund purchase process is often involved and lengthy is that investors typically want to know a range of information about a fund they are considering. The survey respondents were asked if they considered any of 12 different items of information before purchasing their most recent funds. The median number of items they reviewed was five. Forty-nine percent of respondents reviewed six or more items; only 10 percent reviewed one or two items. Seventy-nine percent of respondents mentioned reviewing past performance, 68 percent fund risks, 67 percent fees and expenses, 64 percent the types of companies the fund invests in, 61 percent investment goals, and 59 percent the minimum

Figure 6

Opinions on Mutual Fund Information and Investing

(percent of respondents)

	Agree	Neither Agree nor Disagree	Disagree	Number of Respondents
I compare several mutual funds before making an investment decision.	74	14	13	995
I review a lot of information before I make my mutual fund investment decisions.	74	13	13	998
I won't buy a mutual fund unless several sources indicate it is a good investment.	72	16	13	997
I find mutual fund investing very complicated.	46	17	36	997
I know a lot about mutual fund investing.	44	27	30	994
It takes me more time than I would like to locate the information I need to make an informed mutual fund purchase decision.	42	23	35	997
I often make mutual fund investment decisions without advice from professional financial advisers.	42	7	50	992

Figure 7

Mutual Fund Information Obtained by Recent Buyers for Most Recent Fund Purchase

Items Obtained

(percent of respondents)

Past performance	79
Risk	68
Fees or expenses	67
Types of companies the fund invests in	64
Investment goals	61
Minimum investment	59
Price per share	47
Performance compared with index	35
Fund's narrative discussion of its performance during the last year	31
Shareholder services	26
Information on portfolio manager	24
Portfolio turnover	22

Number of Items Obtained

(percent of respondents)

One to two	10
Three to five	41
Six or more	49
Mean number of items	5.8
Median number of items	5.0
Number of respondents	984

investment required. Less than half of respondents reviewed any of the other six items. For example, only 35 percent of respondents reviewed fund performance compared with an index, only 31 percent reviewed the fund's narrative discussion of its performance during the last year, and only 24 percent reviewed information on the fund's portfolio manager (Figure 7).

Use and Importance of the Section 10(a) Prospectus as an Information Source

Investors use a variety of information sources about mutual funds—including fund company materials, newsletters, magazines, newspapers, investment professionals, and friends and family members. Among the sources, the Section 10(a) prospectus was respondents' second-most frequently cited, with 50 percent mentioning they consulted it before purchasing their most recent funds. The most frequently mentioned source was professional financial advisers, cited by 65 percent of respondents. Less than one third mentioned any other information source. For example, only 31 percent pointed to articles in newspapers, magazines, or investment newsletters, and only 16 percent mentioned mutual fund rating and information services. Altogether, the median number of sources consulted by the survey participants was two (Figure 8).

Although many recent buyers had not consulted a Section 10(a) prospectus, most felt that it was important to read the Section 10(a) prospectus before deciding to purchase shares in a fund. Thirty-seven percent of respondents said it was very important to read the Section 10(a) prospectus, and 39 percent said it was somewhat important. Only 12 percent thought reading the Section 10(a) prospectus before buying a fund was unimportant.

Shareholders Who Had Used a Section 10(a) Prospectus

Shareholders who had consulted a Section 10(a) prospectus before making their last purchases of a mutual fund were typically in their early forties and had a household income of \$62,500. The majority was male, employed, married, and had a college degree. The median household

Figure 8

Source of Mutual Fund Information Consulted Before Most Recent Fund Purchase

Sources

(percent of respondents)

Professional financial advisers	65
Section 10(a) prospectus	50
Magazines, newspapers, and investment newsletters	31
Annual reports	29
Friends and family	23
Fund company newsletter or sales literature	22
Fund company telephone representatives	17
Mutual fund rating and information services	16
Other	6

Number of Sources Used

(percent of respondents)

One	32
Two	24
Three	18
Four	13
Five or more	13
Mean number of sources	2.5
Median number of sources	2.0
Number of respondents	981

financial assets of prospectus users was \$87,500, of which 20 percent was invested in mutual funds.²⁸ Furthermore, respondents who used the Section 10(a) prospectus tended to be independent investors who were comfortable investing in mutual funds (Figure 9 and Figure 10).

Altogether, 72 percent of respondents who had consulted a Section 10(a) prospectus owned equity funds at the time of the survey, 65 percent owned bond and income funds, and 42 percent owned money market funds. The median number of funds owned by this group was three. More than half purchased their most recent funds from the direct market channel. In general, respondents who consulted a Section 10(a) prospectus were not risk-averse; 58 percent of these shareholders said they were willing to take above-average or substantial risk (Figure 10).

Respondents who consulted the Section 10(a) prospectus had used the document fairly extensively. Forty-six percent of Section 10(a) prospectus users said they typically read most of the document, and 15 percent said they usually read it cover to cover (Figure 11).

From a list of 12 items, 26 percent of respondents who had consulted the Section 10(a) prospectus reported that they had obtained six or more items from the document; 18 percent sought only one item of information. The median number of items obtained from the Section 10(a) prospectus was four. Those respondents who used the Section 10(a) prospectus often relied on additional sources for mutual fund information as well, typically consulting two other sources (Figure 11 and Figure 12).

²⁸ The median amount of household financial assets is based on category data. The percent of household financial assets invested in mutual funds is the proportion derived from dividing the median amount in mutual funds (also based on category data) into the median amount of household financial assets.

Figure 9

Demographic and Financial Characteristics of Recent Buyers

	Recent Buyers Who	
	Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
Median		
Age	42 years	45 years
Household income	\$62,500	\$62,500
Household financial assets ^a	\$87,500	\$87,500
Percent of Respondents		
Male	67	49*
Married	77	74
Four-year college degree or more	66	56*
Completed graduate school	23	17*
Employed full- or part-time	78	78
Retired from lifetime occupation	19	17
Agree with Statement:		
I review a lot of information before making mutual fund investment decisions	84	65*
I compare several mutual funds before making investment decisions	84	63*
I find mutual fund investing very complicated.	39	53*
I know a lot about mutual fund investing.	54	34*
I often make mutual fund investment decisions without advice from professional financial advisers.	57	28*
I prefer to leave my mutual fund purchase decisions to a professional financial adviser.	26	52*

*Prospectus users and nonusers are statistically different at the 95 percent level.

^aExcludes primary residence and assets in employer-sponsored retirement plans.

Note: Number of respondents varies.

Shareholders Who Had Not Used a Section 10(a) Prospectus

For the most part, the demographic characteristics of respondents who had not consulted a Section 10(a) prospectus before making their most recent fund purchases were similar to those of respondents who had consulted a Section 10(a) prospectus, except that more were women and fewer had college degrees. Other differences between those who had and had not used a Section 10(a)

prospectus involved mutual fund investment and ownership characteristics. Those who had not consulted a Section 10(a) prospectus typically described themselves as not knowing much about mutual fund investing and as tending to consult professional financial advisers. Indeed, of respondents who did not consult the Section 10(a) prospectus, 78 percent sought information from professional

Figure 10
Mutual Fund Ownership Characteristics of Recent Buyers

	Recent Buyers Who	
	Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
Median		
Financial assets held in mutual funds	\$17,500	\$17,500
Number of funds owned	3	3
Percent of financial assets held in funds	20%	20%
Length of fund ownership	8 years	6 years
Percent of Respondents		
Types of mutual funds currently owned: ^a		
Equity	72	57*
Bond and income	65	60
Money market	42	44
Channels through which funds are currently owned: ^a		
Direct market	63	33*
Sales force	57	80*
Type of mutual fund most recently purchased: ^b		
Equity	56	44*
Bond and income	40	44
Money market	17	26*
Channel used to purchase most recent fund:		
Direct market	55	24*
Sales force	44	75*
Self-assessed willingness to take mutual fund risk:		
Willing to take substantial risk for substantial gain	8	5*
Willing to take above-average risk for above-average gain	50	36*
Willing to take average risk for average gain	33	42*
Willing to take below average risk for below average gain	7	9
Unwilling to take any risk	2	7*

*Prospectus users and nonusers are statistically different at the 95 percent level.

^aMultiple responses included.

^bMultiple responses included. Some respondents bought more than one fund as part of their most recent purchases.

Note: Number of respondents varies.

Figure 11

Information Obtained from the Section 10(a) Prospectus by Respondents Using the Section 10(a) Prospectus

Items Obtained

(percent of respondents)

Past performance	55
Types of companies the fund invests in	53
Investment goals	53
Fees and expenses	50
Risk	42
Minimum investment	36
Price per share	27
Fund's narrative discussion of its performance during the last year	22
Shareholder services	20
Performance compared with index	17
Information on portfolio manager	15
Portfolio turnover	14

Number of Items Obtained

(percent of respondents)

One	18
Two	17
Three	13
Four	14
Five	13
Six or more	26
Mean number of items	4.0
Median number of items	4.0

Usual Readership of Section 10(a) Prospectus

(percent of respondents)

Read it cover to cover	15
Read most of it	46
Skim it or do not read it	39

Note: Number of respondents varies.

financial advisers before making their most recent purchases. In addition, fewer prospectus nonusers reported reviewing a great deal of information. Fifty-nine percent of respondents who did not refer to the Section 10(a) prospectus indicated they relied on only one source for fund information. (Figures 9 and 12).

More respondents who had not used a Section 10(a) prospectus owned sales-force distributed funds than did respondents who had consulted a Section 10(a) prospectus. In addition, fewer nonusers of the prospectus owned equity funds, and fewer reported being willing to take more than average risk with their fund investments (Figure 10).

Figure 12
Sources of Mutual Fund Information

Sources	Recent Buyers Who	
	Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
Sources (percent of respondents)		
Professional financial advisers	52	78*
Section 10(a) Prospectus	100	0*
Magazines, newspapers, and investment newsletters	46	16*
Annual reports	48	10*
Friends and family	23	23
Fund company newsletter or sales literature	33	12*
Fund company telephone representatives	24	10*
Mutual fund rating and information services	21	12*
Other	6	6
Number of Sources Used (percent of respondents)		
One	5	59*
Two	24	25
Three	26	9*
Four	22	5*
Five or more	23	3*
Mean number of sources	3.5	1.6*
Median number of sources	3.0	1.0*
Number of respondents	487	494

*Prospectus users and nonusers are statistically different at the 95 percent confidence level.

**SECTION III:
ASSESSMENT OF THE
SECTION 10(a) AND
PROFILE PROSPECTUSES**

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SECTION III:

ASSESSMENT OF THE SECTION 10(a) AND PROFILE PROSPECTUSES

Evaluation Methods

Respondents assessed the Section 10(a) and profile prospectuses from several perspectives and along a number of dimensions. Initially, they reviewed either the Section 10(a) prospectus or the profile prospectus and then evaluated the ease with which they could locate specific information. These included basic items such as 1) the minimum investment required, 2) investment goals, 3) investment risks, 4) fees and expenses, 5) redemption procedures, 6) historical performance, and 7) the types of securities in which the fund invests. Respondents also evaluated the clarity of the presentation of such information, and they indicated how valuable the prospectus was as a source of information for making an investment decision. If appropriate, they provided suggestions for improving the prospectus.

Upon completing responses to this series of questions, participants then repeated the procedure for the second prospectus. The order of the review was rotated so that half of the participants received the profile first, while the other half received the Section 10(a) prospectus first.

A final set of questions asked respondents to compare features of the profile prospectus with those of the Section 10(a) prospectus. In addition to an overall relative assessment of the two prospectuses, respondents compared their writing styles and usefulness for locating information, for comparing different funds, and for making investment decisions. Finally, respondents indicated the combination of the Section 10(a) prospectus and profile prospectus that they would like to receive from a mutual fund company.

Evaluation of the Section 10(a) Prospectus

The survey respondents did not find it easy to locate information in the Section 10(a) prospectus, as less than 40 percent reported that it was very easy to find any of the seven items of information they were asked to locate. For example, only 35 percent of respondents found it very easy to locate information on investment goals, and only 31 percent indicated it was very easy to locate information on the required minimum investment. The item the fewest respondents found very easy to locate was information on fund investment risks, which only 22 percent said was very easy to find.

The difficulty in locating information was not limited to those who had not consulted a Section 10(a) prospectus—it was also experienced by those who were users of the Section 10(a) prospectus. For example, only 28 percent of respondents who had used such prospectuses, and 23 percent of those who had not, indicated that it was very easy to locate information on the types of securities in which the fund invests.

Moreover, having located the various information items in the Section 10(a) prospectus, survey respondents generally did not find them especially easy to understand. With one exception, less than a third of respondents rated *any* of the items of information in the Section 10(a) prospectus as very easy to understand.²⁹ For example, only 21 percent found the description of fund risks or the types of securities in which the fund invests to be very easy to understand (Figure 13).

²⁹ Forty-nine percent of respondents said it was very easy to understand the minimum investment required by the fund.

Figure 13

Ease of Locating and Understanding Information in the Section 10(a) Prospectus

(percent of respondents indicating “very easy”)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Locate	Understand	Locate	Understand	Locate	Understand
Required minimum investment	31	49	32	55	30	44
Investment goals	35	28	37	32	33	24
Investment risks	22	21	21	23	22	19
Fees and expenses	28	25	31	28	25	21
How to redeem shares	31	31	33	35	29	28
Historical performance	30	23	31	26	28	20
Types of securities invested in	25	21	28	23	23	19

Note: Number of respondents varies. See Figures 34 and 35 in Appendix E for complete distributions of the data for all recent buyers.

With regard to the quantity of information, 41 percent of survey respondents felt that the Section 10(a) prospectus contained too much, 53 percent thought it contained the right amount, and 8 percent thought it had too little. Among respondents who had used a Section 10(a) prospectus, 54 percent said the Section 10(a) prospectus contained the right amount of information, and 36 percent thought it had too much. Among those who had not consulted a Section 10(a) prospectus, 52 percent thought the Section 10(a) prospectus contained the right amount of information, and 45 percent thought it had too much (Figure 14).

After reviewing the Section 10(a) prospectus, 26 percent of participants indicated that they would place it at or near the bottom of their information sources; 31 percent placed it near the middle. Even those respondents who had used a Section 10(a) prospectus in their most recent purchases assigned it to a relatively low position among their preferred information sources. Twenty-one percent of this group said the Section 10(a) prospectus was at or near the bottom of their information lists, and 27 percent placed it near the middle. Among those who had not consulted a Section 10(a) prospectus, 32 percent placed the document at or near the bottom of their information

sources and 34 percent near the middle. This finding suggests that a significant proportion of shareholders who do not consult the Section 10(a) prospectus are likely to remain so and will continue to rely upon other information sources (Figure 15).

Evaluation of the Profile Prospectus

Investors generally found it much easier to locate and understand the seven items of information in the profile prospectus than in the Section 10(a) prospectus. For example, 72 percent of respondents said it was very easy to locate information on fund risks in the profile prospectus, whereas only 22 percent so indicated for the Section 10(a) prospectus. Sixty-six percent of respondents said it was very easy to understand the discussion of fund investment goals presented in the profile prospectus, compared with 28 percent for the Section 10(a) prospectus.

Respondents who had used a Section 10(a) prospectus, as well as those who had not, rated the profile prospectus higher than the Section 10(a) prospectus. For example, 68 percent of respondents who had used a Section 10(a) prospectus, and 64 percent of those who had not, thought the profile prospectus’ description on

Figure 14
Assessment of Amount of Information in the Section 10(a) Prospectus
 (percent of respondents)

	All Recent Buyers	Recent Buyers Who	
		Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
The Section 10(a) prospectus has:			
Too much information	41	36	45*
Right amount of information	53	54	52
Too little information	8	11	5*
Number of respondents	994	483	511

*Prospectus users and nonusers are statistically different at the 95 percent level.

Figure 15
Placement of the Section 10(a) Prospectus as an Information Source
 (percent of respondents)

	All Recent Buyers	Recent Buyers Who	
		Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
At the top of the list	11	11	10
Near the top of the list	32	40	24*
Near the middle of the list	31	27	34*
Near the bottom of the list	18	16	20
At the bottom of the list	8	5	12*
Number of respondents	981	483	498

*Prospectus users and nonusers are statistically different at the 95 percent confidence level.

Figure 16

Ease of Locating and Understanding Information in the Profile Prospectus

(percent of respondents indicating “very easy”)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Locate	Understand	Locate	Understand	Locate	Understand
Required minimum investment	62	80	64	84	60	77
Investment goals	74	66	78	67	70	65
Investment risks	72	56	73	56	71	57
Fees and expenses	73	59	73	60	74	58
How to redeem shares	67	66	74	68	61	64
Historical performance	72	62	75	61	69	62
Types of securities invested in	57	49	63	50	52	49

Note: Number of respondents varies. See Figures 36 and 37 in Appendix E for complete distributions of the data for all recent buyers.

redemption procedures was very easy to understand. In contrast, only 35 percent of the users, and 28 percent of the nonusers, found the discussion presented in the Section 10(a) prospectus on this subject to be very easy to understand (Figure 16).

The profile prospectus appears to be of particular assistance to investors who found it very difficult to locate or understand information in the Section 10(a) prospectus. For example, among investors who found it very difficult to locate information on fund risks in the Section 10(a) prospectus, 80 percent found it easy to find such information in the profile prospectus. Similarly, of those investors who had extreme difficulty understanding the discussion of fund risks in the Section 10(a) prospectus, 33 percent said the passage on this subject in the profile prospectus was very easy to understand and 44 percent, somewhat easy. Forty-five percent of those who found the description of fund investment goals in the Section 10(a) prospectus very difficult to understand said the comparable discussion in the profile prospectus was very easy to understand. Moreover, 39 percent said it was somewhat easy to understand (Figure 17).

Most investors found the information in the profile prospectus to be complete: 70 percent of survey participants thought that it contained about the right amount of information, while 29 percent found the profile prospectus to be too short (see Figure 2 in the Executive Summary). The shorter length of the profile prospectus appealed especially to the survey participants who considered the Section 10(a) prospectus to be too long. Eighty percent of this group said that the profile prospectus contained about the right amount of information (Figure 18).

In response to an open-ended question asking for ways to improve the profile prospectus, the most frequent suggestions were to include information about specific securities and industries in which a fund has investments, to provide more detailed discussions and descriptions on all items, and to add more information on the performance of the fund. A few respondents, for example, suggested that the profile prospectus contain one- and five-year performance data. (The profile prospectus instructions, consistent with SEC rules, require disclosure of total return for

Figure 17

Ease of Locating and Understanding Selected Information in the Profile Prospectus for Respondents Indicating the Same Information Was Difficult to Locate or Find in the Section 10(a) Prospectus

	Information Difficult to Locate in Section 10(a) Prospectus		
	Risks of Investing in the Fund	Fund Investment Goals	Types of Securities the Fund Invests in
Percent of Respondents Indicating for the Profile Prospectus			
Very easy to locate	80	68	41
Somewhat easy to locate	7	7	27
Number of respondents	89	57	61
Information Difficult to Understand in Section 10(a) Prospectus			
	Risks of Investing in the Fund	Fund Investment Goals	Types of Securities the Fund Invests in
Percent of Respondents Indicating for the Profile Prospectus			
Very easy to understand	33	45	39
Somewhat easy to understand	44	39	27
Number of respondents	72	44	67

Figure 18

Assessment of the Amount of Information in the Profile Prospectus by Recent Buyers' Assessment of the Amount of Information in the Section 10(a) Prospectus

(percent of respondents)

	Recent Buyers Who Indicated that the Section 10(a) Prospectus Contained		
	Too Much Information	Right Amount of Information	Too Little Information
Assessment of the Amount of Information in the Profile Prospectus			
Too much information	1	2	0
Right amount of information	80	66	35
Too little information	19	32	65
Number of respondents	402	521	78

one-, five-, and ten-year periods for stock and bond funds, or for the period since the fund's inception if it has been in existence for less than ten years. Most of those respondents who suggested one- and five-year performance data either reviewed profile prospectuses for money market funds or for stock and bond funds that had been in existence less than five years.) Nonetheless, only an aggregate of 27 percent of all respondents offered these and other suggestions for improvement (Figure 19).

The survey indicates a high level of acceptance of the profile prospectus with regard to investment decisionmaking. Sixty-six percent of survey participants indicated that the profile prospectus would be at or near the top of the sources they would consult when making a fund purchase decision. This was true both for those who had and for those who had not consulted a Section 10(a) prospectus in their most recent fund purchases. Sixty-five percent of Section 10(a) prospectus users, and 67 percent of nonusers, placed the profile prospectus at or near the top of their lists of information sources (Figure 20). In contrast, only 51 percent of Section 10(a) prospectus users and 34 percent of nonusers indicated that the Section 10(a) prospectus would be at or near the top of their list.

Relative Assessment of the Section 10(a) and Profile Prospectuses

Specific Attributes

Based on investors' individual evaluations of each type of prospectus, it appears likely that many investors would find the profile prospectus to be more useful in making investment decisions than the Section 10(a) prospectus. Investors were asked to compare the two types of prospectuses with respect to their writing styles, usefulness for making purchase decisions, usefulness for locating specific information, and usefulness for comparing different funds.

Writing Style

Investors overwhelmingly considered the writing style of the profile prospectus to be superior to that of the Section 10(a) prospectus. Ninety-two percent of survey participants rated the writing style of the profile prospectus as either excellent or good, whereas only 57 percent gave these ratings to the Section 10(a) prospectus. Sixty-five percent of respondents rated the profile prospectus higher than the Section 10(a) prospectus on this attribute.

Figure 19

Open-ended Suggestions for Additional Information to be Included in the Profile Prospectus^a

(percent of respondents)

Include a list of the companies/industries in which the fund invests	10
Provide more historical information on the fund, such as one- and five-year performance data	6
Expand all information provided	6
Provide more information on the risks of the fund	3
Provide more information on fees	2
Provide more information on the fund manager	2
Have performance comparisons to other funds or an index	2
Number of respondents	987

^aAll open-ended responses with similar meanings were grouped together; multiple responses included.

Figure 20
Placement of the Profile Prospectus as an Information Source
 (percent of respondents)

	Recent Buyers Who		
	All Recent Buyers	Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
At the top of the list	23	24	23
Near the top of the list	43	41	44
Near the middle of the list	25	24	26
Near the bottom of the list	7	10	5*
At the bottom of the list	2	2	2
Number of respondents	989	478	511

*Prospectus users and nonusers are statistically different at the 95 percent confidence level.

Moreover, such assessments were shared by a majority both of investors who *had* used a Section 10(a) prospectus and those who had *not*. Ninety-one percent of users and 94 percent of nonusers evaluated the language used in the profile prospectus as excellent or good. In contrast, only 62 percent of users and 52 percent of nonusers viewed the writing style in the Section 10(a) prospectus as excellent or good. Altogether, 62 percent of respondents who had consulted a Section 10(a) prospectus, and 67 percent of those who had not, rated the writing style of the profile prospectus better than that of the Section 10(a) prospectus (Figures 21 and 22).

Usefulness for Making Purchase Decisions

With regard to usefulness for making purchase decisions, 77 percent of investors rated the profile prospectus as either excellent or good, whereas 60 percent gave this evaluation to the Section 10(a) prospectus. Prospectus users' and nonusers' assessments of the profile prospectus on this attribute were similar. Seventy-four percent of users and 80 percent of nonusers rated the profile prospectus as either excellent or very good for making purchase

decisions. Both groups also rated the Section 10(a) prospectus lower than the profile prospectus on this attribute. In addition, among nonusers, the profile prospectus received more excellent ratings than did the Section 10(a) prospectus; 37 percent of nonusers rated the profile prospectus as excellent for making fund purchase decisions, while only 18 percent gave the Section 10(a) prospectus this rating.

Among investors who had used a Section 10(a) prospectus in the past, 39 percent rated the profile higher than the Section 10(a) prospectus for usefulness in making purchase decisions; another 28 percent rated the profile as the equal of the Section 10(a) prospectus. In sum, 67 percent of Section 10(a) prospectus users found the profile prospectus to be at least as useful as the Section 10(a) prospectus in making a purchase decision. Altogether, 52 percent of nonusers gave the profile prospectus a higher evaluation than they gave the Section 10(a) prospectus on this attribute (Figures 23 and 24).

Figure 21
Evaluation of the Writing Style of the Section 10(a) and Profile Prospectuses
 (percent of respondents)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus
Excellent	14	54	15	53	13	56
Good	43	38	47	38	39	38
Fair	32	7	29	8	34	6
Poor	12	1	9	1	14	1
Number of respondents	985	994	480	481	505	513

Figure 22
Evaluation of the Writing Style of the Profile Prospectus Relative to the Section 10(a) Prospectus
 (percent of respondents)

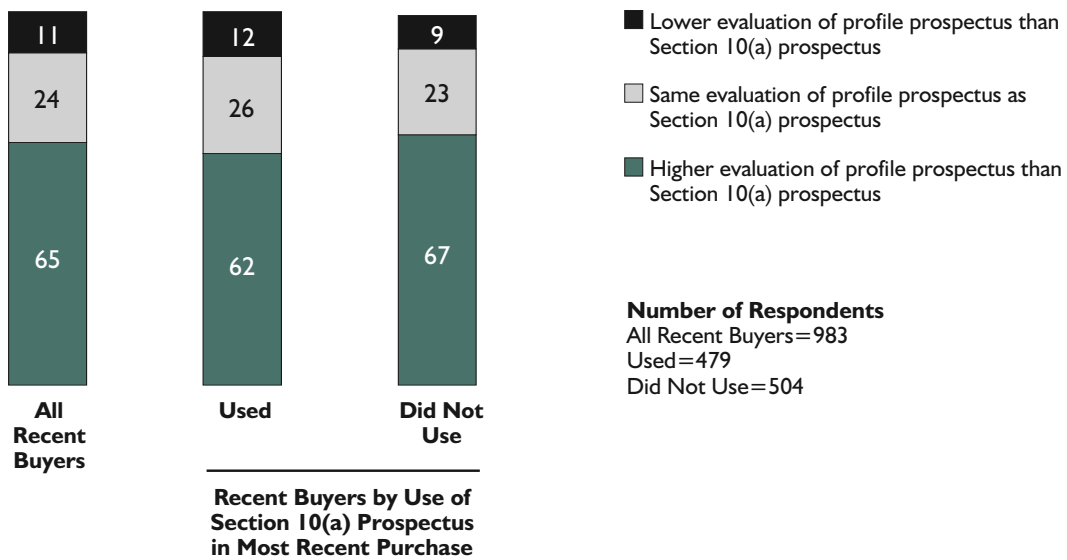


Figure 23

Evaluation of the Usefulness of the Section 10(a) and Profile Prospectuses for Making Purchase Decisions

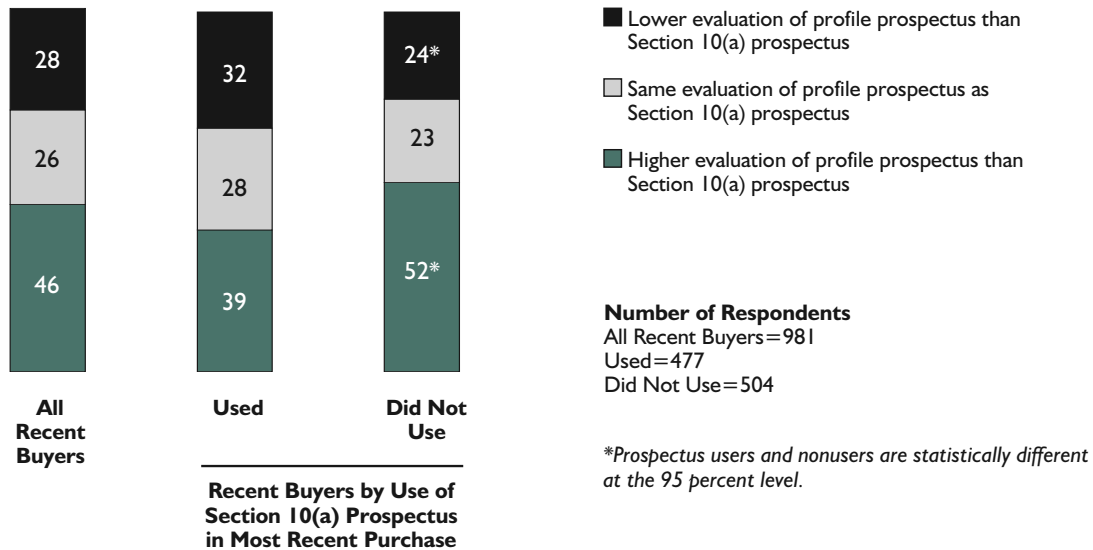
(percent of respondents)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus
Excellent	23	35	28	33	18	37
Good	37	42	39	41	35	43
Fair	28	18	26	21	31	16
Poor	12	5	7	5	16	4
Number of respondents	982	990	478	479	505	511

Figure 24

Evaluation of the Usefulness of the Profile Prospectus for Making Purchase Decisions Relative to the Section 10(a) Prospectus

(percent of respondents)



Usefulness for Locating Specific Information

Investors rated the profile prospectus more positively than the Section 10(a) prospectus with regard to its usefulness for locating specific information. For example, 89 percent of respondents gave the profile prospectus an excellent or good rating on this attribute, while only 50 percent gave the Section 10(a) prospectus either of these ratings. A total of 66 percent of investors rated the profile prospectus more highly than the Section 10(a) prospectus for locating specific information. Such ratings prevailed among those who had used the Section 10(a) prospectus as well as among those who had not (Figure 25 and Figure 26).

Usefulness for Comparing Different Funds

The survey design did not call for actual use of Section 10(a) or profile prospectuses to make comparisons between or among funds. Nevertheless, the profile prospectus was rated more highly than the Section 10(a) prospectus for this purpose. Sixty percent of respondents gave the profile prospectus either an excellent or good rating on this attribute, whereas 50 percent gave such evaluations to the Section 10(a) prospectus. Respondents who had used the Section 10(a) prospectus in their most recent purchases, however, gave the Section 10(a) prospectus and the profile prospectus fairly similar ratings for comparing different funds. Fifty-two percent of this group evaluated the Section 10(a) prospectus as excellent or good on this attribute, and 55 percent gave these ratings to the profile prospectus. Among respondents who had not consulted a Section 10(a) prospectus, 66 percent rated the profile prospectus either excellent or good for comparing different funds, significantly more than the 47 percent recorded for the Section 10(a) prospectus. As a group, 73 percent of respondents evaluated the profile prospectus the same as or higher than the Section 10(a) prospectus on this attribute (Figure 27 and Figure 28).

Overall Assessment

The favorable evaluation of specific attributes of the profile prospectus carried over to survey participants' overall assessment of the two types of prospectuses. Forty-two percent of respondents gave the profile prospectus an overall rating of excellent, compared with only 15 percent for the Section 10(a) prospectus. In contrast, only 18 percent rated the profile prospectus either fair or poor, whereas 49 percent assigned one of these two ratings to the Section 10(a) prospectus. Fifty-nine percent of respondents evaluated the profile prospectus more highly than the Section 10(a) prospectus, while 21 percent rated the Section 10(a) prospectus more highly than the profile.

Even those investors who used a Section 10(a) prospectus in their most recent purchases gave a higher overall assessment to the profile prospectus than to the Section 10(a) prospectus. For example, 37 percent of prospectus users gave the profile prospectus an overall assessment of excellent; only 17 percent awarded this same rating to the Section 10(a) prospectus. Altogether, 53 percent of respondents who had used a Section 10(a) prospectus gave the profile prospectus a higher overall rating than the Section 10(a) prospectus (see Figure 3 in the Executive Summary and Figure 29).

Prospective Use of the Profile Prospectus

The vast majority of participants indicated that they would be very likely to use the profile prospectus to make investment decisions, if it were available. Among those who had *not* used a Section 10(a) prospectus in their most recent purchases, 61 percent said they were very likely to read the profile prospectus. Thus, it would appear the profile prospectus may provide a very useful new source of information for those mutual fund buyers not inclined to use the Section 10(a) prospectus.

Figure 25
Usefulness of the Section 10(a) and Profile Prospectuses for Locating Specific Information

(percent of respondents)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus
Excellent	17	57	20	57	15	56
Good	33	32	32	31	34	34
Fair	35	9	37	10	34	8
Poor	15	2	12	2	17	2
Number of respondents	983	993	478	481	505	513

Figure 26
Evaluation of the Usefulness of the Profile Prospectus for Locating Specific Information Relative to the Section 10(a) Prospectus

(percent of respondents)

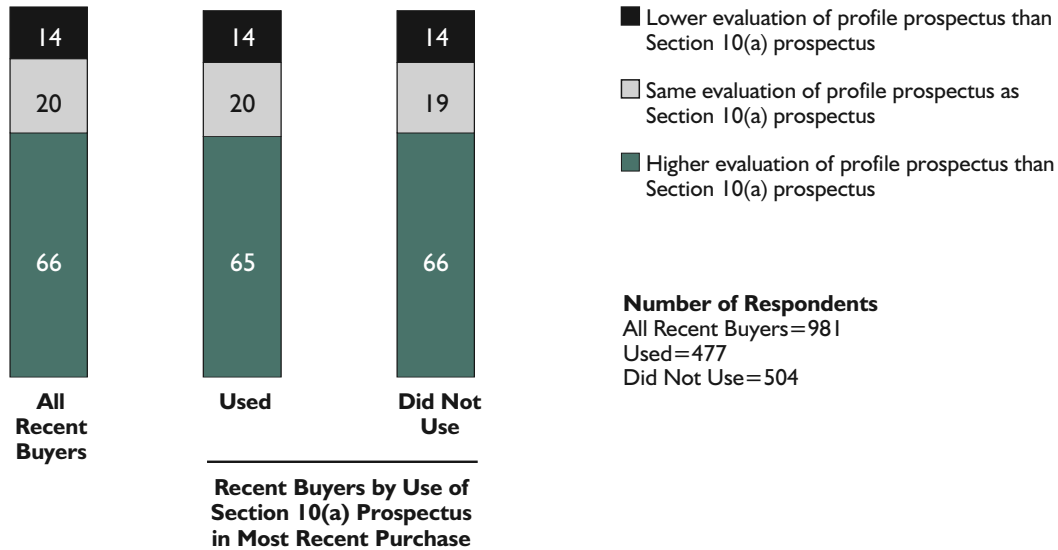


Figure 27

Evaluation of the Usefulness of the Profile Prospectus for Comparing Different Funds Relative to the Section 10(a) Prospectus

(percent of respondents)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus
Excellent	16	26	19	23	12	29
Good	34	34	33	32	35	37
Fair	33	26	31	28	35	24
Poor	17	13	17	16	17	10
Number of respondents	979	989	478	480	501	509

Figure 28

Evaluation of the Usefulness of the Profile Prospectus for Comparing Different Funds Relative to the Section 10(a) Prospectus

(percent of respondents)

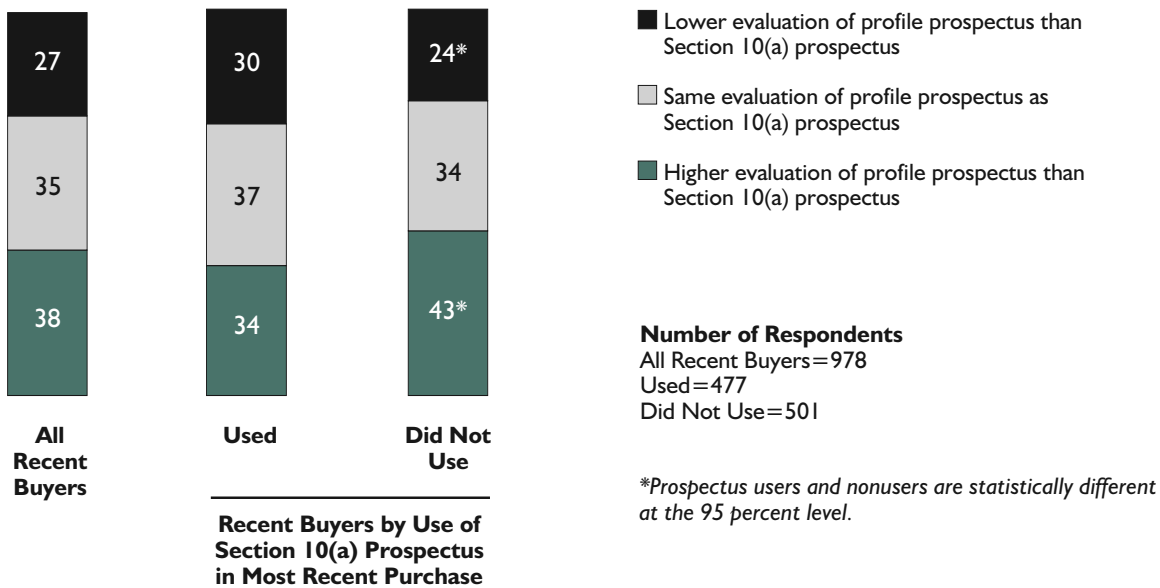


Figure 29
Overall Assessment of the Section 10(a) and Profile Prospectuses
 (percent of respondents)

	Recent Buyers Who					
	All Recent Buyers		Used a Section 10(a) Prospectus in Most Recent Purchase		Did Not Use a Section 10(a) Prospectus in Most Recent Purchase	
	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus	Evaluation of Section 10(a) Prospectus	Evaluation of Profile Prospectus
Excellent	15	42	17	37	13	47
Good	36	39	39	40	34	39
Fair	32	15	31	19	33	12
Poor	17	3	13	4	20	3
Number of respondents	980	991	477	480	503	510

An even higher percentage of those who *had* used the Section 10(a) prospectus—71 percent—reported that they were very likely to read the profile prospectus, if it were available. It would appear that, for these individuals, the profile offers substantial utility for the investment decisionmaking process. As seen in Chapter 2, such individuals tend to review a wide variety of materials when evaluating investments (Figure 30).

Highlighting the role that the profile prospectus might play as a source of investment information, 66 percent of investors indicated that they preferred either to receive only the profile prospectus or to receive the profile prospectus *and* have the option to request the Section 10(a) prospectus. This preference regarding the profile prospectus was evident among both those who had used and those who had not used the Section 10(a) prospectus, although a greater proportion of the nonusers than users preferred receiving only the profile prospectus (Figure 31).

Figure 30

Likelihood of Using the Profile Prospectus if It Were Available to Investors

(percent of respondents)

	All Recent Buyers	Recent Buyers Who	
		Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
Very likely	66	71	61*
Somewhat likely	28	22	33*
Somewhat unlikely	4	4	4
Very unlikely	3	4	2
Number of respondents	990	478	512

*Prospectus users and nonusers are statistically different at the 95 percent level.

Figure 31

Preference for Receiving the Section 10(a) and Profile Prospectuses

(percent of respondents)

	All Recent Buyers	Recent Buyers Who	
		Used a Section 10(a) Prospectus in Most Recent Purchase	Did Not Use a Section 10(a) Prospectus in Most Recent Purchase
Prefer to receive the profile prospectus	66	60	71
Only the profile prospectus	20	14	26*
Only the profile with the option to receive the Section 10(a) prospectus upon request	46	46	45
Prefer to receive both the Section 10(a) and the profile prospectuses together	23	26	19*
Prefer to receive the Section 10(a) prospectus	12	15	9
Only a Section 10(a) prospectus	9	11	7
Only the Section 10(a) prospectus with the option to receive the profile prospectus upon request	3	4	2
Number of respondents	994	480	514

*Prospectus users and nonusers are statistically different at the 95 percent level.

APPENDICES

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APPENDIX A:

Participating Complexes and Funds

American Express Financial Corporation

Equity: New Dimensions Fund
Bond: High Yield Tax-Exempt
Money Market: Cash Management Fund

Bank of America N.T. & S.A. (Pacific Horizon Funds)

Equity: Capital Income Fund
Bond: California Tax-Exempt Bond Fund
Money Market: Prime Fund

Capital Research and Management Company (American Funds)

Equity: EuroPacific Growth Fund
Bond: The Bond Fund of America
Money Market: The Cash Management Trust
of America

The Dreyfus Corporation

Equity: Strategic Income
Bond: International Equity Fund, Inc.
Money Market: Liquid Assets, Inc.

FMR Corp.

Equity: Fidelity Growth and Income Portfolio
Bond: Fidelity Intermediate Bond Fund
Money Market: Spartan U.S. Treasury Money
Market Fund

Scudder, Stevens & Clark, Inc.

Equity: Value Fund
Bond: Emerging Markets Income Fund
Money Market: U.S. Treasury Money Fund

T. Rowe Price Associates, Inc.

Equity: Equity Income Fund
Bond: New Income Fund
Money Market: Prime Reserve Fund

The Vanguard Group, Inc.

Equity : Windsor II
Bond: New York Tax-Free Fund
Money Market: Money Market Reserves

APPENDIX B:

Profile Prospectus Prototype

August 1, 1995

FUND PROFILE

GROWTH & INCOME PORTFOLIO

Growth & Income is a stock fund whose goal is to seek high total return through a combination of current income and capital appreciation.

August 1, 1995

The Fund Profile contains key information about the fund. More details appear in the fund's accompanying prospectus.

GROWTH & INCOME PORTFOLIO

Essential Questions Every Investor Should Ask

1. What is The Fund's Goal?

Growth & Income Portfolio is a stock fund whose goal is to seek high total investment return.

2. What is The Fund's Investment Strategy?

The fund invests mainly in domestic and foreign stocks of companies that pay current dividends and offer potential growth of earnings. The fund may also invest in other types of equity securities and debt securities.

3. What Are The Significant Risks?

The performance of the fund depends on the value of its holdings. Stock values fluctuate in response to the activities of individual companies, and general market and economic conditions. In the short term, stock prices can fluctuate dramatically in response to these factors. Bond values fluctuate based on changes in interest rates and in the credit quality of the issuer. Lower-rated bonds may be particularly sensitive to these factors. Investments in foreign securities involve risks that are in addition to those of U.S. investments, including increased political and economic risk, as well as exposure to currency fluctuations. When you sell your shares of the fund, they may be worth more or less than what you paid for them.

4. Is The Fund Appropriate For Me?

The fund may be appropriate for investors who are willing to ride out stock market fluctuations in pursuit of potentially high long-term returns. The fund is designed for those who seek a combination of growth and income from equity and some bond investments. The fund is not by itself a balanced investment plan.

5. What Are The Fund's Expenses?

Shareholder transaction expenses are charges you pay when you buy, sell or hold shares of a fund. Sales charge waivers or reductions may be available.

Maximum sales charge on purchases (as a % of offering price)	3%
Maximum sales charge on reinvested distributions	None
Deferred sales charge on redemptions	None
Exchange fee	None
Annual account maintenance fee (for accounts under \$2500)	\$12.00

Annual fund operating expenses are paid out of the fund's assets. Expenses are factored into the fund's share price or dividends and are not charged directly to shareholder accounts. The following are projections based on historical expenses and are calculated as a percentage of average net assets.

Management fee	0.52%
12b-1 fee	None
Other expenses	0.30%
Total fund operating expenses	0.82%

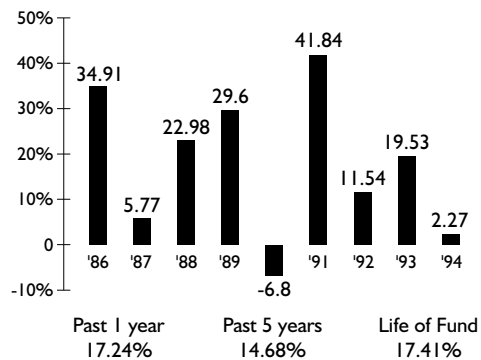
Examples: Let's say, hypothetically, that the fund's annual return is 5% and that its operating expenses are exactly as just described. For every \$1,000 you invested, here's how much you would pay in total expenses if you close your account after the number of years indicated:

After 1 year	After 3 years	After 5 years	After 10 years
\$38	\$55	\$74	\$128

These examples illustrate the effect of expenses, but are not meant to suggest actual or expected costs or returns, all of which may vary.

6. How Has The Fund Performed?

Annual Total Returns (not load adjusted)



Average Annual Total Return for the periods ended June 30, 1995

Total returns are based on past results and are not an indication of future performance. The fund commenced operations on December 30, 1985.

7. Who Is The Fund's Investment Manager?

XYZ Company is the fund's investment manager.

8. How Do I Buy Shares?

Complete the enclosed application or call 1-800-XXX-XXXX to open your account by exchange or bank wire. The minimum initial investment is \$2,500. The minimum additional investment is \$250.

9. How Do I Sell Shares?

You may redeem all or a portion of your shares on any business day by written request, telephone or wire transfer.

10. How Are Distributions Made?

The fund distributes substantially all of its net income and capital gains to shareholders each year. Normally, dividends are distributed in March, June, September, and December. Capital gains are distributed in September and December. Distributions are reinvested automatically in additional shares unless you elect another option.

11. What Services Are Available?

XYZ Company provides a wide variety of services including 24-hour telephone service providing information and assistance, periodic statements and reports, regular investment plans, and free exchanges among XYZ funds. XYZ reserves the right to modify or withdraw the exchange privilege.

APPENDIX C:

Section 10(a) Prospectuses Paired with the Profile Prospectuses Used in the Research

	Profile Prospectuses	Section 10(a) Prospectuses
Equity	Dreyfus International Equity Fund	Dreyfus Growth and Income
	T. Rowe Price Equity Income Fund	T. Rowe Price Over-the-Counter Fund
	Vanguard Windsor II	Vanguard Explorer Fund
	Scudder Value	Scudder Capital Growth
Bond and Income	The Bond Fund of America, Inc.	The Intermediate Bond Fund of America
	Pacific Horizon Funds, Inc., California Tax-Exempt Bond	Pacific Horizon Funds, Inc., Corporate Bond Fund
Money Market	Fidelity Spartan U.S. Treasury Money Market Fund	Fidelity Daily Income Trust
	American Express Cash Management Fund	American Express Tax-Free Money Fund

Appendix D:

Characteristics of Survey Respondents

Demographic and Financial Characteristics

The recent mutual fund buyers who participated in the assessment of the profile prospectus have demographic characteristics similar to those of shareholders nationwide. Fifty-eight percent of financial decisionmakers in the study are male, 75 percent are married, 78 percent are employed, and 60 percent have a college degree. Also similar to shareholders nationwide is recent buyers' median household income of \$62,500. However, the household financial assets of recent buyers tend to be greater

than those of all shareholders—\$87,500, compared with \$50,000.³⁰ Sixty-six percent of respondents listed saving for retirement as their primary financial goal (Figure 32).

Mutual Fund Ownership Characteristics

Recent mutual fund buyers' median length of fund ownership is six years, compared with a median of nine years for all shareholders. The median amount invested in mutual funds for recent buyers was \$17,500 at the time of the survey, or 20 percent of median household financial assets. For all shareholders, not just those in the survey,

Figure 32

Demographic Characteristics of Recent Buyers and All Shareholders^a

	Recent Buyers	All Shareholders
Median		
Age	43 years	44 years
Household income	\$62,500	\$60,000
Household financial assets ^b	\$87,500	\$50,000
Percent of Respondents		
Male	58	57
Married	75	71
Completed college or postgraduate	60	58
Completed graduate school	20	20
Employed full- or part-time ^c	78	80
Retired from lifetime occupation	18	18
Primary financial goal is saving for retirement	66	NA

^aBased on telephone interviews with 1,165 mutual fund shareholders conducted in July and August 1995.

^bExcludes primary residence and assets in employer-sponsored retirement plans.

^cIncludes self-employed.

NA= Not asked

Note: Number of respondents varies.

³⁰ The median household income and median amount of household financial assets is based on category data.

Figure 33

Mutual Fund Ownership Characteristics of Responding Recent Buyers Compared with All Shareholders

	Recent Buyers	All Shareholders
Median per Household		
Financial assets held in mutual funds	\$17,500	\$18,000
Number of funds owned	3	3
Percent of financial assets held in funds	20%	36%
Length of fund ownership	6 years	9 years
Percent		
Mutual funds owned: ^a		
Equity mutual funds	64	73
Bond and income mutual funds	63	49
Money market mutual funds	43	52
Primary mutual fund channel:		
Full-service broker	29	30
Discount broker	8	8
Insurance agent	7	12
Bank representative	9	10
Financial planner	13	14
Directly from fund company	31	21
Other (e.g., accountant or lawyer)	32	5

^amultiple responses included

Note: Number of respondents varies.

the median amount invested in mutual funds is \$18,000, equal to 36 percent of median household financial assets.³¹

The median number of mutual funds owned by survey respondents is three, the same median as the entire shareholder population. The composition of recent buyers' mutual fund portfolios differs somewhat from shareholders nationwide, with more respondents owning bond and

income funds and fewer owning equity and money market funds than all U.S. shareholders. The recent buyers who participated in the survey primarily purchase mutual funds from either a full-service broker or directly from a fund company. Nationally, the majority of shareholders primarily purchase mutual funds from these two channels (Figure 33).

³¹ The median amount invested in mutual funds and the median amount invested in household financial assets are both based on category data. The percent of household financial assets invested in mutual funds is the proportion derived from dividing the median amount in mutual funds into median household financial assets.

APPENDIX E:

Supplemental Data

Figure 34

Ease with Which Recent Buyers Locate Information in the Section 10(a) Prospectus

(percent of respondents)

	Very Easy	Somewhat Easy	Somewhat Difficult	Very Difficult	Number of Respondents
Required minimum investment	31	38	24	7	997
Investment goals	35	42	17	6	993
Investment risks	22	41	29	9	997
Fees and expenses	28	39	23	10	996
How to redeem shares	31	43	20	6	997
Historical performance	30	38	23	10	996
Types of securities invested in	25	44	24	6	996

Figure 35

Ease with Which Recent Buyers Understand Information in the Section 10(a) Prospectus

(percent of respondents)

	Very Easy	Somewhat Easy	Somewhat Difficult	Very Difficult	Number of Respondents
Required minimum investment	49	34	13	4	994
Investment goals	28	46	22	4	996
Investment risks	21	42	30	7	995
Fees and expenses	25	40	27	8	988
How to redeem shares	31	44	19	6	992
Historical performance	23	40	27	10	989
Types of securities invested in	21	43	29	7	993

Figure 36

Ease with Which Recent Buyers Locate Information in the Profile Prospectus

(percent of respondents)

	Very Easy	Somewhat Easy	Somewhat Difficult	Very Difficult	Number of Respondents
Required minimum investment	62	25	11	3	997
Investment goals	74	22	4	1	997
Investment risks	72	23	4	0	999
Fees and expenses	73	22	5	0	994
How to redeem shares	67	25	7	1	998
Historical performance	72	21	5	2	996
Types of securities invested in	57	28	11	5	998

Figure 37

Ease with Which Recent Buyers Understand Information in the Profile Prospectus

(percent of respondents)

	Very Easy	Somewhat Easy	Somewhat Difficult	Very Difficult	Number of Respondents
Required minimum investment	80	14	4	2	998
Investment goals	66	26	7	1	996
Investment risks	56	32	11	1	997
Fees and expenses	59	29	11	1	999
How to redeem shares	66	26	6	2	998
Historical performance	62	27	9	3	998
Types of securities invested in	49	31	15	4	997

APPENDIX F:

Investment Company Institute's Profile Prospectus Working Group

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