



Setting the global standard for investment professionals

7 June 2011

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Comment Request on Existing Private and Public Efforts to Educate Investors

Dear Ms. Murphy:

CFA Institute¹ appreciates the opportunity to comment on investor education efforts as the SEC prepares its study on financial literacy for retail investors. CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

Executive Summary

CFA Institute believes that the integrity of our financial markets depends, in part, on informed and empowered investors who understand the range and pitfalls of investing options. In order to achieve this state, the retail investor, in particular, must have information that fosters an understanding of the investment decision-making process and ongoing resources that build on this foundation. While our members largely consist of those who have successfully completed the Chartered Financial Analyst Examination Program and earned their CFA designations, CFA Institute continues to provide resources aimed at helping the individual (retail) investor develop this kind of understanding.

¹ CFA Institute is a global, not-for-profit professional association of over 105,400 investment analysts, advisers, portfolio managers, and other investment professionals in 139 countries, of whom 94,508 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 58 countries and territories.



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Discussion

CFA Institute has long supported providing investors with the information they need in order to make meaningful investment decisions. In supporting this position, we recognize that more information is not necessarily helpful unless the information is presented clearly, in plain English and provides disclosures that investors need to understand to be able to make informed decisions about relevant investment offerings and financial products that meet their particular needs.

An overwhelming amount of information currently is provided by the industry and financial services providers. The sheer volume of this information may not only confuse investors but also may obscure certain factors fundamental to the investment process. This overabundance of information may leave investors not knowing how to begin or even what questions to ask.

We believe that an effective investor education program must hone in on identifying, and making readily available, the kinds of information that form basic building blocks that individual investors can eventually use to broaden their understanding of investing fundamentals. To this end, CFA Institute has created and offers a broad range of informational resources, both in terms of subject areas and depth of analysis, that would allow an individual to pick and choose the information that is most helpful to them. We also offer a Forbes/CFA Institute Investment Course that allows investors to customize the curriculum according to their interests and needs.

Resource Materials Aimed at the Individual Investor

CFA Institute offers a wide range of resources that give retail investors information on the basics of investing and investment insights (www.cfainstitute.org/about/investor/Pages/index.aspx). We believe these offerings serve as a beginning and continuing guide for even the beginner investor. Topics, with accompanying materials, include

- Where Do I Begin?
- What Should I Ask Myself?
- How Do I Choose an Investment Services Provider?
- Where Can I Find More Information?
- So You Think You Understood the Financial Crisis?
- Investment Wisdom From Hollywood, and
- Rock ‘n Roll Investment Tips

An additional section on the CFA Institute website provides information on how to find an adviser. Yet another section entitled “Investor Tools” provides additional readings and multimedia resources. Expressly intended to help investors make informed investment decisions, this section provides over 25 resource documents that have been written with retail investors in mind. Categorized into three broad groups--Evaluating Investments, Investment Advice, and Making Plans—the areas covered through readable and plain English documents include:



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- Alternative Investments
- Municipal Bonds
- Five Things about Bond Funds
- Avoiding Investment Fraud
- Having Difficult Discussions with Your Financial Adviser
- Offshore Investing
- Planning your Parents' Retirement
- Working with an Adviser
- Socially Responsible Investing
- Reassessing Your Portfolio
- Due Diligence after Madoff
- Saving for College, and
- Planning for Family Transitions

Also provided are guides on long-term care insurance and planning for college expenses. All of these complementary documents and guides are designed to address various phases and subject areas of an investor's life and portfolio.

In addition, CFA Institute offers investors the ability to customize their own education through the Forbes/CFA Investment Course, along with multimedia supplements (consisting of webcasts/podcasts, articles and quizzes). This resource, which provides more in-depth information, can be ordered from the CFA Institute Website and contains various chapters addressing the following areas:

- Building Capital
- How Securities Markets Function
- Selecting a Broker and Trading
- Tax-Favored Investment Strategies
- Reading Financial Statements
- Sources for Investment Information
- Common Stocks and Economic Indicators
- Fundamental Analysis
- Technical Analysis
- Fixed Income
- Derivatives
- Mutual Funds, and
- Rules of Thumb and Key Phrases



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CFA Institute Publications and Resources

CFA Institute also publishes position papers and other complementary guidelines tailored to use by the retail investor (www.cfapubs.org/loi/ccb). These include

- Shareowner Rights across the Markets: A Manual for Investors
- Shareowner Rights across the Markets: 2011 Update
- Elements of An Investment Policy Statement for Individual Investors, and
- The Corporate Governance of Listed Companies: A Manual for Investors (Second Edition)

This list of retail investor-oriented publications is not static but evolves as additional areas of investor interest and need are identified.

Focus for Investor Education Programs

The release asks for comments on the types of investor behaviors or other topics that warrant investor education programs. We believe that retail investors could benefit from concentrated educational efforts particularly in three areas.

Given the complexity and sophistication of today's investment options, the average retail investor most likely will need the help of an investment adviser. We therefore believe investors need straightforward information on how to choose an adviser, including a discussion of the standards of care offered by different service providers and the potential conflicts of interest between financial services providers and financial products.

We also believe that investors should become well-versed in making fundamental asset-allocation decisions. In order to work effectively with an investment adviser and actively participate in making investment decisions, an investor needs to understand the effects of diversification and the risks of equity investing.

Similarly, investors need to understand the parameters and track records of active versus passive investing. Given the numbers of households investing in mutual funds, investors also need direct and understandable information about mutual fund expenses, including management fees and tax consequences, and the differences between mutual funds and index funds.

Conclusion

While it may not be feasible to provide retail investors with all of the information they need to become informed and empowered decision-makers and to do so in one place, CFA Institute seeks to provide retail investors with a range of informational tools with which they can understand the fundamentals of investing and build their knowledge base over time. We hope



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that this may serve as a viable example of the kinds of information that will prove most helpful to the individual investor in navigating the investment arena.

Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at kurt.schacht@cfainstitute.org or 212.756.7728; or Linda L. Rittenhouse at linda.rittenhouse@cfainstitute.org or 434.951.5333.

Sincerely,

/s/ Kurt N. Schacht

Kurt N. Schacht, CFA
Managing Director
Standards & Financial Market Integrity
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/s/ Linda L. Rittenhouse

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