

Special Notice

Investor Education

FINRA Requests Comment on Effective Methods to Educate Newer Investors

Comment Period Expires: August 30, 2021

Summary

Over the past 18 months, U.S. securities markets have experienced dramatic volatility. At the same time, individual investors entered the markets in unprecedented numbers—often through self-directed accounts at online brokers—drawn in part by reduced barriers to entry, such as low- and no-commission trading and the ability to purchase fractional shares. Increased retail market participation can benefit individuals by potentially encouraging higher levels of savings and wealth accumulation—and it can benefit the markets in the form of greater liquidity.

As markets and trading platforms evolve, and as evidence emerges to suggest that newer retail investors have markedly different attitudes, characteristics and behaviors than their more experienced counterparts, the time is ripe to rethink how best to engage and educate investors with a diverse array of needs and priorities, especially those who opt not to work with an intermediary such as an individual registered investment professional.

This *Special Notice* seeks comments that will help inform and guide the investor education initiatives FINRA and the FINRA Investor Education Foundation (the FINRA Foundation) undertake. In particular, we seek input from firms, investors, investor advocates, academics and other stakeholders who are knowledgeable about investor behavior regarding the most effective methods for educating newer investors. This *Notice* is not focused on existing regulatory requirements applicable to member firms and their interactions with investors.

Questions concerning this *Special Notice* should be directed to:

- ▶ Gerri Walsh, Senior Vice President, Office of Investor Education, at InvestorEducation@finra.org.

June 30, 2021

Suggested Routing

- ▶ Compliance
- ▶ Legal Operations
- ▶ Senior Management

Action Requested

FINRA encourages all interested parties to comment on the *Special Notice*. The comment period ends August 30, 2021. Comments must be submitted through one of the following methods:

- ▶ online using FINRA's comment form for this *Notice*;
- ▶ emailing comments to pubcom@finra.org; or
- ▶ mailing comments in hard copy to:

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

To help FINRA process comments more efficiently, persons should use only one method to comment on the *Special Notice*.

Important Notes: All comments received in response to this *Special Notice* will be made available to the public on the FINRA website. In general, comments will be posted as they are received.¹

Background and Discussion

FINRA and the FINRA Foundation have long provided free, unbiased information and tools to help retail investors protect themselves and better understand basic principles of investing and the markets. These resources range from plain-language content on FINRA's website that explains emerging products, popular strategies and current market trends to interactive tools.² They also include a series of online micro-courses,³ optimized for mobile technology, that cover essential topics for new investors—from setting investment goals to understanding risk and return. We reach retail financial consumers in a variety of ways, including:

- ▶ direct engagement, both in-person and virtual;
- ▶ digital channels such as websites, podcasts, videos, apps, and both casual and immersive games;
- ▶ collaboration with broker-dealers and nonprofit networks;
- ▶ training of academic or nonprofit intermediaries who have touchpoints with key audience segments; and
- ▶ distribution through FINRA and FINRA Foundation channels and through paid and earned marketing campaigns, all of which leverage traditional and social media platforms.

The FINRA Foundation also undertakes and sponsors research to better understand investor behavior, attitudes, knowledge and preferences. For example, a recent collaboration⁴ with the National Opinion Research Center (NORC) at the University of Chicago revealed useful insights about new investors—meaning people who opened a non-retirement investment account for the first time during 2020. The study explored their characteristics, motivations, the types of accounts they opened and their investment knowledge and practices. Among other findings, we learned:

- ▶ The majority of new investors were under the age of 45, had lower incomes, held smaller account balances and were more racially and ethnically diverse than investors who already owned taxable investment accounts prior to 2020—people the researchers described as either experienced or holdover investors.
- ▶ New investors typically had less investment knowledge when compared to other investors—according to both their own assessments and objective measurements. For example, new investors on average could correctly answer only 1.4 out of 5 investment knowledge questions.
- ▶ Nearly half (48 percent) of new investors reported accessing their account primarily through a mobile app.
- ▶ While all investors reported relying on a variety of information sources when making financial decisions, differences emerged by experience level. New investors were most likely to seek information from friends, colleagues or family members instead of from financial professionals or personal research.

An earlier research collaboration between the FINRA Foundation and NORC⁵ revealed that, despite dramatic market volatility related to the COVID-19 pandemic during early 2020, investor optimism about the stock market remained high. In fact, one in five survey respondents indicated an increased interest in investing. This interest was related to age, with twice as many respondents under the age of 30 (32 percent) reporting an increased interest in investing, compared to those over the age of 60 (15 percent). Of note, the research found that those with the highest levels of investment knowledge were least likely to express an increased interest in investing.⁶ This could suggest that some of those whose interest in investing increased the most during last year's market volatility might not have the knowledge to make sound investment decisions.

FINRA and other securities regulators have long maintained that investor education is an important component of investor protection. The value of investment knowledge is evident in a growing body of research finding that higher levels of investing literacy correlates with better financial decision making and reduce fraud susceptibility.⁷ Further, a report by the FINRA Foundation and the Global Financial Literacy Excellence Center at George Washington University School of Business (GFLEC) found that investors who have a high level of investment knowledge are more likely to have planned for retirement, less anxious about their finances, and more likely to have emergency savings.⁸

Moreover, greater access to and participation in the capital markets can be tremendously valuable with regard to the ability of individuals to increase their wealth and to save for longer term financial goals such as paying for college or graduate school (for oneself or for a family member), purchasing a home or living well in retirement. That said, investing poses the risk of monetary loss, which can in turn lead to potential loss of confidence or willingness to remain in the markets for those who have a negative experience with investing.

We are mindful that no single educational strategy will appeal to, or meet the needs of, every audience segment. As the FINRA Foundation's National Financial Capability Study⁹ makes clear, when one disaggregates data by gender, race and ethnicity, income, education attainment, household structure and age, differences emerge and inequalities abound among measures of financial capability, participation in securities markets, access to beneficial products and services, risk tolerance and knowledge. We are further cognizant that engaging people in financial capability building and investor education experiences can be a struggle, even as communications channels have expanded. Paradoxically, people have become easier to contact but arguably harder to influence, perhaps due to the abundance of messages and growing competition for people's time and attention.

We are further mindful that individual investors who work with a registered financial professional—such as an individual registered with FINRA—often receive from that person educational information that can be critical to their making informed investment choices. The relationship between an investor and a registered professional is also subject to extensive regulation—for example, registration with FINRA is governed by rigorous qualification, testing and continuing education requirements, and the ongoing interactions between a FINRA-registered financial professional and their customer is subject to a range of SEC and FINRA rules, firm supervision and regulatory oversight. In conducting its investor education initiatives, FINRA does not seek to supplant or undermine those critical relationships, and instead can work to help educate the individual investor about how to select a registered professional, on the one hand, and provide the financial professional with appropriate resources or otherwise help support that relationship on the other.

Request for Comments

As the related fields of financial wellness and investor education evolve, FINRA and the FINRA Foundation periodically reassess where to focus attention and how best to allocate and deploy their financial and human capital resources. This involves striking a balance between developing innovative strategies on one hand and figuring out how to reach people using existing strategies on the other. It also involves conducting or sponsoring research to benchmark and track investor behaviors, attitudes and knowledge and to determine which strategies work well for promoting informed decision making among various subsets of the population.

Given the recent influx of novice retail investors into U.S. securities markets coupled with rapid advancements in technology, FINRA requests comments from firms, investors, investor advocates, academics, investor and financial education providers (for-profit and nonprofit) and other stakeholders concerning effective ways to reach today's investors. We are especially interested in comments pertaining to younger, novice investors and people who have yet to participate in investing outside an employer-sponsored retirement plan.

In particular, we request comments on the following questions:

1. What is the single most neglected area in the field of investor education? How might this area be developed?
2. Which methods of educating investors have worked best to increase investor knowledge among self-directed retail investors? Please describe the modes and channels used to reach people and the demographic characteristics of the target audience for such efforts. What should be FINRA's role with regard to educating self-directed investors?
3. Which education methods have worked best among investors who receive advice from registered financial professionals? Please describe the modes and channels used to reach people and the demographic characteristics of the target audience for such efforts. What should be FINRA's role with regard to educating investors who receive recommendations from registered financial professionals?
4. What types of effective educational interventions have the highest potential to influence the behavior of investors, particularly newer investors? What are the costs of implementing such interventions?
5. What metrics do you use to track the results of educational interventions? To what extent do these results change over time?
6. What experience and evidence of effectiveness can you share regarding the integration of investor education into other types of service delivery (such as workforce development, general financial planning or client cultivation)?

7. What lessons have been learned from qualitative or quantitative study of target audiences, input from behavioral science professionals, data analytics or other inputs regarding effective ways to educate investors generally and newer investors specifically?
8. Does simulated trading help educate investors or potential investors about different aspects of investing, such as risk, diversification, costs and performance?
9. For broker-dealers and other financial services firms that offer investor education resources through mobile apps or websites, what has been your experience regarding customer usage of the tools and information you offer? Which platforms and modalities have the highest utilization? Which have been most effective? Have you measured changes in investor knowledge? If so, how and with what results?
10. How might FINRA and the FINRA Foundation best serve the field of investor education?

Endnotes

- 1 Parties should submit in their comments only personally identifiable information, such as phone numbers and addresses, that they wish to make available publicly. FINRA, however, reserves the right to redact, remove or decline to post comments that are inappropriate for publication, such as vulgar, abusive or potentially fraudulent comment letters. FINRA also reserves the right to redact or edit personally identifiable information from comment submissions.
- 2 See [FINRA Investor Tools and Calculators](#).
- 3 FINRA, [Follow a Course to Smart Investing](#).
- 4 FINRA Investor Education Foundation & NORC at the University of Chicago, [Investing 2020: New Accounts and the People Who Opened Them](#) (Feb. 2021). Additional issue briefs prepared as part of this research collaboration are available on the [Foundation's website](#).
- 5 FINRA Investor Education Foundation & NORC at the University of Chicago, [The Impact of Pandemic-Related Volatility on Stock Market Expectations and Participation](#) (Oct. 2020).
- 6 *Ibid.*
- 7 See, e.g., FINRA Investor Education Foundation, [Understanding and Combating Financial Fraud](#), a collection of research studies sponsored by the FINRA Foundation that examines factors contributing to fraud victimization and susceptibility and explores the efficacy of interventions and preventative measures aimed at protecting financial consumers.
- 8 FINRA Investor Education Foundation & Global Financial Literacy Excellence Center at the George Washington University School of Business, [New Evidence on the Financial Knowledge and Characteristics of Investors](#) (Oct. 2019).
- 9 FINRA Investor Education Foundation, [National Financial Capability Study](#). In addition, as part of the National Financial Capability Study, the Foundation conducts a triennial survey of U.S. adults who own investments outside of retirement accounts. This in-depth exploration of investors yields rich data on the types of products, strategies and platforms that investors use, as well as their behaviors, beliefs, attitudes and knowledge—all of which can be analyzed by different demographic variables. See FINRA Investor Education Foundation, [National Financial Capability Study](#).