

# How Does Simplified Disclosure Affect Individuals' Mutual Fund Choices?

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**Abstract:** We conduct an investment experiment designed to evaluate how the SEC's Summary Prospectus proposal—which seeks to simplify mutual fund disclosure—affects individual investors' mutual fund choices. Our subjects are Harvard staff members who allocate one equity portfolio and one bond portfolio. Subjects are randomly assigned to receive either statutory prospectuses or Summary Prospectuses. We find no evidence that the Summary Prospectus affects the quality of portfolio choices. The principal welfare gain from the Summary Prospectus appears to come from allowing investors to spend less time and effort to arrive at a portfolio decision similar to what they would have chosen after reading only the statutory prospectus.

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There has been a growing consensus that the average investor has a hard time understanding the statutory prospectuses mutual funds distribute. In the words of the Securities and Exchange Commission (SEC), “Prospectuses are often long... Too frequently, the language of prospectuses is complex and legalistic, and the presentation formats make little use of graphic design techniques that would contribute to readability.”<sup>1</sup> Partly as a result, two-thirds of investors do not read the prospectus before purchasing mutual fund shares (Investment Company Institute, 2006).

Motivated by these concerns, the SEC proposed introducing a new disclosure document in Release No. 33-8861, published on December 14, 2007. Mutual funds would have the option of sending investors this two to four page document, dubbed the “Summary Prospectus,” instead of the statutory prospectus. The Summary Prospectus would contain key information about the mutual fund’s investment objectives, strategies, risks, costs, and performance. All this information is already present in existing fund literature (the statutory prospectus, the Statement of Additional Information (SAI), and the shareholder report).

To our knowledge, there was no empirical investigation prior to the proposal’s release of how the Summary Prospectus would affect investors’ portfolio choices. This paper fills some of this gap. We recruited 186 Harvard staff members to participate in a portfolio allocation experiment. All subjects allocated two hypothetical \$100,000 portfolios: one among four actively managed equity mutual funds, and one among four actively managed bond mutual funds. Subjects’ payments depended on how their chosen portfolios actually performed subsequent to the experimental session and were on the order of \$100 per subject.

We randomized each subject into one of three information conditions. In the first condition, subjects received only the funds’ statutory prospectuses. In the second condition, subjects received only the funds’ Summary Prospectuses, which we constructed based on the SEC proposal’s specifications. In the third condition, subjects received the Summary Prospectuses but could additionally receive the statutory prospectuses upon request. Subjects were also randomly assigned to be paid based on

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<sup>1</sup> SEC Release No. 33-8861

either their subsequent one-month portfolio return or their subsequent one-year portfolio return.

We find that providing the Summary Prospectus does not meaningfully alter subjects' investment choices. Average portfolio fees and past returns are similar whether or not subjects receive the Summary Prospectus. However, subjects receiving the Summary Prospectus spend less time on their investment decision. Thus, the principal welfare gain from the Summary Prospectus appears to come from allowing investors to spend less time and effort to arrive at a portfolio decision similar to what they would have chosen after reading only the statutory prospectus. There are also environmental benefits from the much shorter length of the Summary Prospectus, which saves paper.

An advantage of using laboratory experiments to evaluate policy proposals is that results can be produced extremely rapidly. We learned of the Summary Prospectus proposal in mid-January 2008, and we were able to finish collecting data and tabulate preliminary results by the end of February 2008. In the future, quickly executed laboratory experiments may become a common part of the policy proposal evaluation process.

The paper proceeds as follows. Section I provides additional detail on the Summary Prospectus proposal. We describe our experimental design in Section II. Section III discusses the experimental results, and Section IV concludes.

## **I. Background on the SEC Disclosure Proposal**

In Release No. 33-8861, the SEC describes its proposal as follows:

“We are proposing an improved mutual fund disclosure framework that is intended to provide investors with information that is easier to use and more readily accessible, while retaining the comprehensive quality of the information that is available today. The foundation of the proposal is the provision to all investors of streamlined and user-friendly information that is key to an investment decision.”

The proposal introduces a short Summary Prospectus document, which mutual fund companies would have the option of sending to investors instead of the full statutory prospectus in order to satisfy the prospectus delivery obligations under the Securities Act of 1933. In other words, investors would see a two to four page booklet rather than a

document that often runs hundreds of pages. Investors receiving the Summary Prospectus could also receive the longer statutory prospectus via mail or Internet upon request.

Appendix A shows the sample Summary Prospectus that the SEC included in its proposal. The document begins with a description of how one can receive the statutory prospectus and other fund documents. It then displays the following information about the fund:

- Investment objective
- Fees and expenses
- Historical portfolio turnover rate
- Principal investment strategies
- Principal risks
- Historical returns
- Top ten portfolio holdings
- Investment advisor
- Portfolio manager
- How to purchase and sell fund shares
- Dividend, capital gain, and tax information
- Payments the fund makes to broker-dealers and other financial intermediaries

All of this information can already be found in the statutory prospectus, the Statement of Additional Information (SAI), or the shareholder report.

The SEC's proposal also requires that every statutory prospectus add to its front something similar to the Summary Prospectus: a three to four page summary section with key information about the fund, including investment objectives and strategies, risks, costs, and performance. In this paper, we focus on the effect of introducing the Summary Prospectus because it is the more radical proposed change. The summary section added to the statutory prospectus would likely have an effect that is directionally similar to the Summary Prospectus, but attenuated because it is part of a long document that often goes unread.

## II. Experimental Design

During February 2008, we recruited 186 non-faculty Harvard employees drawn from the ranks of the administrative, professional, clerical, and technical staff.<sup>2</sup> We paid subjects a \$20 participation fee and promised them an additional payment that depended on their investment decisions, as described below.

Upon entering the study, subjects received instructions that they were going to make investment choices for two hypothetical \$100,000 portfolios. One portfolio could only be invested in stock mutual funds; the other could only be invested in bond mutual funds. We would then select one portfolio based on whether the high temperature at Logan Airport on a future date was even or odd. We would pay subjects 0.1% of the selected portfolio's value at the end of the investment period. For example, if the portfolio's terminal value was \$100,000, subjects would receive a \$100 portfolio-based payment.

Subjects entered their portfolio allocations onto choice sheets. One sheet listed a menu of four equity mutual funds, and the other listed a menu of four bond mutual funds. Appendix B reproduces an example of a choice sheet.

Each choice sheet was one page long and had three sections. The first section explained the purpose of the experiment—to allocate a hypothetical \$100,000 among the four listed equity or bond mutual funds—and described the payment scheme. The second section gave a numerical example of how the portfolio payout would be calculated. The third section contained a matrix in which participants entered their investment allocation. Participants were instructed to allocate their investment across as many or as few funds as they desired, subject to two constraints: (1) they had to allocate exactly \$100,000 in total, and (2) they had to satisfy the minimum opening balance requirement for any fund to which they made an allocation. We imposed the latter restriction to mimic the constraints that an investor would face when making a real investment in these funds. The minimum opening balance for each fund was listed next to the column where participants were to write their selected allocation.

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<sup>2</sup> We actually recruited 314 subjects, but we discard the data of 125 subjects because errors in the experimental materials distributed to those subjects makes interpreting their choices problematic. We discard an additional three subjects in order to make the frequency of menus in each condition equal.

We randomly assigned subjects to one of three information conditions. In the “Prospectus” condition, subjects received only the eight funds’ statutory prospectuses when making their investment decision. In the “Summary Prospectus” condition, subjects received only Summary Prospectuses which we constructed for the funds based upon the sample Summary Prospectus provided in the SEC’s proposal. (Appendix C describes in more detail how we constructed these Summary Prospectuses.) In the “Summary Prospectus+” condition, subjects initially received only the Summary Prospectuses but could also receive the statutory prospectuses upon request. This latter condition was designed to mimic the SEC proposal, which allows firms to primarily distribute the Summary Prospectus while giving investors the option to request the statutory prospectus if desired.

Half of subjects made the equity allocation before the bond allocation; the other half made the allocations in reverse order. At any given moment in the experiment, subjects possessed only one investment choice sheet and one set of fund documents. That is, when subjects were making their equity allocation, they only possessed materials relevant to the equity funds available to them. Similarly, subjects only possessed materials relevant to bond funds when making their bond allocation.

We also randomly varied the subjects’ investment horizon. Half of subjects would receive their portfolio payments based upon their portfolio’s value at the end of one month. The other half would receive their portfolio payments based upon their portfolio’s value at the end of one year. We promised to pay subjects soon after their investment period ended.

Finally, we randomly assigned subjects to receive one of ten fund menus. Each menu consisted of a sub-menu of four equity funds and a sub-menu of four bond funds. To construct the fund menus, we randomly selected ten equity funds and ten bond funds from the CRSP mutual fund universe which satisfied the following criteria: (1) they had a share class with a front-end load (Class A) and a share class with no front-end load (Class C), (2) they were active in 2007, (3) their S&P style code was Equity Large Cap Growth, Equity Large Cap Value, or Equity Large Cap Blend for equity funds and Fixed Income High Yield for bond funds, (4) they were not a “fund of funds” or an index fund, (5) they were available to retail investors, (6) they were open to new investments in 2007, (7) they

reported historical return information, and (8) they did not have special characteristics like a religious affiliation, social investment objectives, investments limited to a single sector, or a tax-managed strategy.

We then created ten distinct menus of funds from these ten equity and ten bond funds. The first five menus satisfied the following requirements: (1) each fund appeared in exactly two of the five menus, with one menu offering the Class A shares of that fund, and the second offering the Class C shares of the fund, (2) the same fund did not appear twice in the same menu (e.g. Fund 1's Class A and Fund 1's Class C were not in the same menu), and (3) every menu offered two fund share classes with front-end loads (Class A) and two fund share classes with no front-end loads (Class C). The next five menus were created based on the first five menus by inverting the share classes of each menu. For example, if one sub-menu offered Bond Fund 1 – Class A, Bond Fund 2 – Class C, Bond Fund 3 – Class A, and Bond Fund 4 – Class C, its inverted sub-menu would offer Bond Fund 1 – Class C, Bond Fund 2 – Class A, Bond Fund 3 – Class C, and Bond Fund 4 – Class A.

Unfortunately, there were errors in the Summary Prospectuses we constructed for one equity fund and one bond fund. We therefore drop subjects offered these two funds from our analysis, whether or not they received a Summary Prospectus.<sup>3</sup> Because four out of the ten menus we constructed contained a problematic fund, our sample is reduced by 40%. Table 1 displays features of the eighteen mutual funds that remain in our sample.

In total, there were 36 experimental conditions: three information treatments  $\times$  two investment horizons  $\times$  six fund menus). There are an equal number of subjects within each cell. In particular, each menu  $\times$  investment horizon combination appears the same number of times within each information condition. Therefore, we can compare mean allocations across information conditions without worrying that menu or investment horizon effects are confounding these comparisons.

After submitting their portfolio choices, subjects filled out a questionnaire that included demographic and financial literacy questions.

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<sup>3</sup> Every subject who was offered one problematic fund was offered the other problematic fund as well.

### III. Results

Table 2 shows the characteristics of our subject sample by information condition. Subjects are about 39 years old on average, and about two-thirds are female. Almost all subjects are college graduates, and over half have some graduate education. About a fifth are able to correctly identify the types of securities a money market fund holds when asked a multiple-choice question modeled on a question in the John Hancock Eighth Defined Contribution Plan Survey.<sup>4</sup> This compares favorably to the 8% of the John Hancock sample who were able to answer the question correctly.

Our subjects also understand the concept of diversification. On average, they rate a Fortune 500 stock as riskier than a U.S. equity mutual fund on a five-point scale. In contrast, John Hancock respondents on average thought that the stock of their own company was *less* risky than an equity mutual fund. However, this comparison is potentially confounded by the fact that John Hancock respondents were asked about the stock of their own employer, whereas our subjects were asked about the stock of a typical Fortune 500 company.

Despite being more financially literate than the average American, most of our subjects do not have much confidence in their investment abilities. Over half describe themselves as a “less than knowledgeable” or “not at all knowledgeable” investor.

Comparing across information conditions, the prospectus-only group is slightly more male than the others. Subjects in the prospectus-only group are also more likely to have a graduate degree, although subjects in the other group are more likely to have at least some graduate school education. Controlling for gender and educational attainment through dummy variables in a regression does not qualitatively change our portfolio choice results.

Table 3 shows how the Summary Prospectus affected investment decisions. Because almost none of the subjects in the Summary Prospectus+ condition asked to see a statutory prospectus, we pool the Summary Prospectus and Summary Prospectus+ conditions in the remaining analysis. The table reveals no statistically significant differences in average front-end load, back-end load, expense ratio, total fees, past one-

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<sup>4</sup> The question text is, “Which of the following types of investments are found in a money market fund? (*You may check more than one type.*)” The possible choices are short term U.S. government bonds, corporate bonds, stocks, and none of the above.

year return, or past long-horizon return when subjects receive the Summary Prospectus. The point estimates indicate that in general, subjects receiving the Summary Prospectus pay more in fund fees and choose funds with higher past returns, although the bond portfolios in the one-year investment horizon condition have point estimates that go in the opposite direction.

One important test of sensible investment behavior is an increasing avoidance of loads as the investment horizon shrinks. Over a one-year investment horizon, a fund with a 2% load would be preferred over a no-load fund if the load fund's expected annual return is at least  $1/0.98 - 1 = 2.0$  percentage points higher than the no-load fund. Over a one-month investment horizon, the load fund's annual expected return would have to be at least  $(1/0.98)^{12} - 1 = 27.4$  percentage points higher, which is extremely unlikely.

Table 3 shows that the Summary Prospectus does not cause subjects to avoid loads more aggressively as the investment horizon shrinks. When choosing equity portfolios using only the statutory prospectus, the average front-end load paid in the one-month condition is perversely higher than the average front-end load paid in the one-year condition by 9 basis points. When subjects receive the Summary Prospectus, they choose an average front-end load that is 2 basis points lower in the one-month condition than in the one-year condition. However, we cannot reject the hypothesis that the Summary Prospectus and statutory prospectus have an equivalent effect on front-end loads as the investment horizon shrinks; the two-sided  $p$ -value of the difference in differences is 0.78. In the bond portfolios, subjects receiving only the statutory prospectus pay lower front-end loads in the one-month condition than in the one-year condition. Unlike for the equity portfolios, this 25 basis point drop is greater than the 11 basis point drop among subjects receiving the Summary Prospectus. Again, the difference in the differences is not significant (two-sided  $p$ -value = 0.70).<sup>5</sup> In summary, there is no evidence that the Summary Prospectus causes subjects to respond to mutual fund fees more optimally.

There is also no strong evidence that the Summary Prospectus made subjects feel better about their investment decision. Table 4 shows the distribution of answers to two

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<sup>5</sup> A similar analysis for back-end loads is hindered by the fact that almost none of the funds charged a back-end load for holdings of a year or more. Looking just at the levels (rather than changes) of back-end loads paid, there is no clear pattern. Compared to those who received only the statutory prospectuses, subjects who received the Summary Prospectuses paid lower back-end loads in their equity portfolio and higher back-end loads in their bond portfolio.

sets of questions subjects answered after making their portfolio allocations. The first set of questions asked—separately for the equity portfolio and the bond portfolio—how likely subjects were to change their allocation if they consulted a professional investment advisor. The second set asked—again separately for the two portfolios—how confident subjects were that the allocation was the right one for them. None of the answer frequencies differ significantly between the prospectus-only and Summary Prospectus conditions.

Even though the actual quality of portfolio choices appears to be unaffected by the Summary Prospectus, subjects who received the Summary Prospectus spent significantly less time on average making their two portfolio allocations—only 22.5 minutes, versus 31.2 minutes for subjects who received only the statutory prospectuses. Therefore, the Summary Prospectus’s primary welfare benefit may operate through the time-saving channel, rather than the portfolio-improvement channel.

Table 5 shows how participants rated the importance of various factors for their investment choice on a five-point scale. Past fund performance over the past year, past fund performance since inception, and investment objectives are ranked as the three most important factors across all information conditions. However, subjects receiving the Summary Prospectus tended to rank past one-year performance as more important than fund performance since inception. A desire to diversify across funds was also ranked as somewhat important. Subjects in the Summary Prospectus conditions reported putting a little more weight on the diversification motive than subjects receiving only the statutory prospectus.

#### **IV. Conclusion**

We have evaluated the effect simplified mutual fund disclosure documents proposed by the SEC would have on individuals’ investment choices by running an experiment where subjects made incentive-compatible portfolio allocations. On the positive side, the Summary Prospectus reduces the amount of time spent on the investment decision without adversely affecting portfolio quality. On the negative side, the Summary Prospectus does not appear to improve portfolio quality.

## References

Choi, James J., David Laibson, and Brigitte C. Madrian, 2008. “Why Does the Law of One Price Fail? An Experiment on Index Mutual Funds.” NBER Working Paper 12261.

Investment Company Institute, 2006. “Understanding Investor Preferences for Mutual Fund Information.” Washington, D.C.: Investment Company Institute.

## Appendix A. The SEC’s Sample Summary Prospectus (from Release No. 33-8861)

Hypothetical Summary Prospectus – Prepared By SEC Staff – For Illustrative Purposes Only

### THE XYZ BALANCED FUND

(Class A and Class B Shares)

### SUMMARY PROSPECTUS

November 1, 2007

Before you invest, you may want to review the Fund’s prospectus, which contains more information about the Fund and its risks. You can find the Fund’s prospectus and other information about the Fund, including the statement of additional information and most recent reports to shareholders, online at [Web address]. You can also get this information at no cost by calling 1-800-000-0000 or by sending an e-mail request to [e-mail address]. The Fund’s prospectus and statement of additional information, both dated April 27, 2007, and most recent report to shareholders, dated June 30, 2007, are all incorporated by reference into this Summary Prospectus.

**Investment Objective:** Income and capital growth consistent with reasonable risks.

**Fees and Expenses of the Fund:** The tables below describe the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ Funds.

Shareholder Fees (fees paid directly from your investment)		
	Class A	Class B
Maximum Sales Charge (Load) Imposed on Purchases (as percentage of offering price)	5.75%	None
Maximum Deferred Sales Charge (Load) (as percentage of the lower of original purchase price or sale proceeds)	None	5.00%

Annual Fund Operating Expenses (ongoing expenses that you pay each year as a percentage of the value of your investment)		
	Class A	Class B
Management Fees	0.66%	0.66%
Distribution (12b-1) Fees	0.00%	0.75%
Service (12b-1) Fees	0.23%	0.23%
Other Expenses	0.28%	0.46%
<b>Total Annual Fund Operating Expenses</b>	<b>1.17%</b>	<b>2.10%</b>

#### Example

The Example below is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Class A (whether or not shares are redeemed)	\$687	\$925	\$1,182	\$1,914
Class B (if shares are redeemed)	\$713	\$958	\$1,329	\$1,974
Class B (if shares are not redeemed)	\$213	\$658	\$1,129	\$1,974

**Hypothetical Summary Prospectus – Prepared By SEC Staff – For Illustrative Purposes Only**

**Portfolio Turnover**

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or “turns over” its portfolio). A higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund’s performance. During the most recent fiscal year, the Fund’s portfolio turnover rate was 63% of the average value of its whole portfolio.

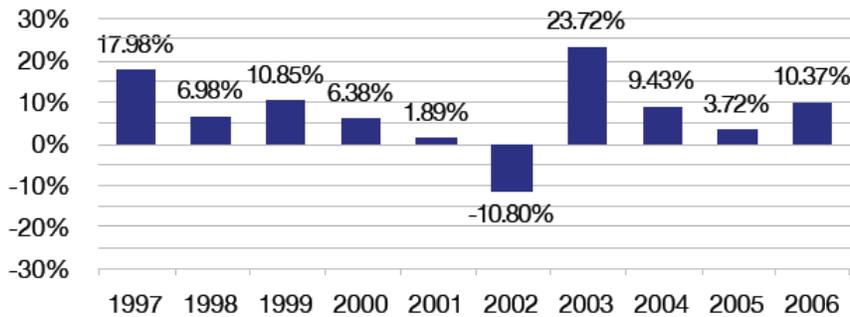
**Principal Investment Strategies:** The Fund invests mainly in common stocks, bonds, and notes of U.S. and foreign companies. . . . .  
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**Principal Risks:**

- You could lose money by investing in the Fund.
- Risk Number Two – . . . . .  
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- Risk Number Three – . . . . .  
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- Risk Number Four – . . . . .  
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 . . . . .
- Risk Number Five – . . . . .  
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**Annual Total Return:** The following bar chart and table provide some indication of the risks of investing in the Fund. The bar chart shows changes in the Fund’s performance from year to year for Class A shares. The table shows how the Fund’s average annual returns for 1, 5, and 10 years compared with those of a broad measure of market performance. The Fund’s past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future.

Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.



Best Quarter (ended 6/30/03): 12.08%. Worst Quarter (ended 9/30/01): -11.06%. The year-to-date return as of the most recent calendar quarter, which ended September 30, 2007, was 7.03%.

**Hypothetical Summary Prospectus – Prepared By SEC Staff – For Illustrative Purposes Only**

Average Annual Total Returns for Periods Ended December 31, 2006			
	1 Year	5 Years	10 Years
Class A (Return Before Taxes)	4.04%	5.72%	7.26%
Class A (Return After Taxes on Distributions)	2.48	4.52	5.05
Class A (Return After Taxes on Distributions and Sale of Fund Shares)	2.30	4.34	4.90
Class B (Return Before Taxes)	4.38	5.62	7.12
S&P 500 Index (reflects no deduction for fees, expenses or taxes)	15.79%	6.19%	8.42%

The after-tax returns are shown only for Class A shares and are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Top Ten Portfolio Holdings (percent of total net assets) as of September 30, 2007			
Rank	Security	Rank	Security
1	XYZ, Inc. (3.0%)	6	The DEF Co. (1.3%)
2	The ABC Co. (2.3%)	7	The NOP Corp. (1.3%)
3	XYZ Growth, Inc. (1.7%)	8	HIJ Co. (1.1%)
4	The TUV Corp. (1.6%)	9	ABC Corp. (1.0%)
5	QRS Co. (1.4%)	10	OPQ, Inc. (0.9%)

**Investment Adviser:** XYZ Management Company, LLC

**Portfolio Manager:** John E. Smith, CFA, Vice President and Equity Portfolio Manager of XYZ Management Company, LLC. Mr. Smith has managed the Fund since 2005.

**Purchase and Sale of Fund Shares:** You may purchase or redeem shares of the Fund on any business day online or through our Web site at [Web address], by mail (XYZ Funds, Box 1000, Anytown, USA 10000), or by telephone at 800-000-0000. Shares may be purchased by electronic bank transfer, by check, or by wire. You may receive redemption proceeds by electronic bank transfer or by check. You generally buy and redeem shares at the Fund's next-determined net asset value (NAV) after XYZ receives your request in good order. NAVs are determined only on days when the NYSE is open for regular trading. The minimum initial purchase is \$2,500. The minimum subsequent investment is \$100 (or \$50 under an automatic investment plan).

**Dividends, Capital Gains, and Taxes:** The Fund's distributions are taxable, and will be taxed as ordinary income or capital gains, unless you are investing through a tax-deferred arrangement, such as a 401(k) plan or an individual retirement account.

**Payments to Broker-Dealers and Other Financial Intermediaries:** If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may influence the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's Web site for more information.

## Appendix B. Sample Experimental Investment Choice Sheet

### Choose a stock mutual fund portfolio

Please allocate \$100,000 among the four **stock** mutual funds listed below. You may choose to allocate all \$100,000 to one fund or allocate your investment evenly or unevenly across as many funds as you like.

If your stock portfolio is chosen for payment based on Logan Airport's February 28 temperature, we will calculate how much money a real investor would get back if he or she sent \$100,000 to the stock funds below according to the allocation that you choose, assuming that each fund received the investment at 3:00 P.M. on February 29, 2008, and the investments were sold at 3:00 P.M. on March 31, 2008. We will pay you 0.1% of whatever the investment is worth at the end of the investment period.

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#### PAYOFF CALCULATION EXAMPLES

Example #1: Suppose selling your hypothetical investment on March 31, 2008 would give you \$110,000. Then we would pay you (in addition to the \$20 participation payment you will receive today) \$110, which is 0.1% of \$110,000.

Example #2: Suppose selling your hypothetical investment on March 31, 2008 would give you \$85,000. Then we would pay you (in addition to the \$20 participation payment you will receive today) \$85, which is 0.1% of \$85,000.

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Below is the menu of mutual funds from which you may choose.

- Write the dollar amount you would like to allocate to each fund in the last column
- You may invest in as many or as few funds as you choose
- Please be careful to allocate a total of exactly \$100,000
- If you put money in a fund, that amount must satisfy the minimum opening allocation requirement

Stock Mutual Fund	Symbol	Minimum Opening Allocation if Buying Shares in Fund	Your Allocation in Dollars (column must sum to \$100,000)
SunAmerica Growth and Income - Class A	SEIAX	\$500	
American Century Fundamental Equity - Class A	AFDAX	\$2500	
MFS Value Fund - Class C	MEICX	\$1000	
Dreyfus Premier Core Value Fund - Class C	DCVCX	\$1000	

→ Information about these 4 stock mutual funds is attached ←

Any portfolio allocations which violate minimum opening allocation requirements or which fail to total \$100,000 will be ineligible for the investment payout.

## Appendix C. Creating the Summary Prospectus

To create the Summary Prospectus documents used experiment, we attempted to mimic as closely as possible the sample Summary Prospectus provided by the SEC. In the instances of ambiguity, we made a few decisions and assumptions:

- We limited the number of share classes included in the Summary Prospectus to five due to space limitations. If a fund had more than five share classes, we chose the first five share classes presented in the prospectus, while ensuring that the relevant Class A and Class C shares were included.
- When possible, we used the exact text from the statutory prospectus in the “Investment Objective,” “Principal Investment Strategies,” “Principal Risks,” and “Portfolio Manager” sections of the Summary Prospectus. In instances where the descriptions provided in the statutory prospectus were too long, we extracted the most relevant several sentences.
- For the sake of not introducing any new information, we generally did not include any information in the Summary Prospectuses that could not be found in the statutory prospectus, the Statement of Additional Information (SAI), annual report, or most recent shareholder report distributed to subjects. The only exception was the data on top ten portfolio holdings. In instances that funds did not provide this information in their fund literature, we used information from an online finance website.
- Below the “Shareholder Fees” table we included a footnote about additional restrictions relevant to the profiled share classes, such as minimum investment amounts and whether share classes were restricted to institutional investors or retirement plans. We did so because fees are often considerably lower for institutions, retirement plans, and large investment amounts. We did not want experimental subjects to think that we were systematically offering them the least attractive share classes available, when in fact we were offering them share classes consistent with their hypothetical principal amount and retail status. Furthermore, we believed that in any final regulation, the SEC would require the Summary Prospectus to disclose these restrictions.

- Some funds did not decompose 12b-1 fees into “Distribution” and “Service” fees. When this occurred, the total amount of 12b-1 fees was listed under “Distribution” fees.

**Table 1. Mutual Fund Shares Offered in the Experiment**

This table lists characteristics of the mutual fund shares that were offered to subjects in the experiment. For Class A shares, the front-end load varied according to the investment amount. Expense ratios in the table reflect fee waivers. The prospectuses listed historical returns for only one of each fund's share classes. The table shows the returns for the share class reported in the prospectus. The longest-horizon return reported in the prospectus is either the return since fund inception (if the fund has been in existence for fewer than ten years) or the ten-year return.

Panel A: Equity funds							
	Share class	Front-end load	Expense ratio	Back-end load	Past one-year return reported in prospectus	Longest-horizon return reported in prospectus	Inception date
Allegiant Large Cap Growth Fund	A	3.75% to 5.50%	1.08%	0%	7.35%	7.23%	4/15/1991
	C	0%	1.92%	1% if held < 18 months			1/27/2000
American Century Fundamental Equity	A	3.75% to 5.50%	1.20%	0%	23.88%	18.10%	11/30/2004
	C	0%	2.04%	1% if held < 12 months			11/30/2004
Dreyfus Premier Core Value Fund	A	3.50% to 5.75%	1.08%	0%	21.00%	9.81%	2/6/1947
	C	0%	1.92%	1% if held < 12 months			1/16/1998
MFS Emerging Growth Fund	A	3.75% to 5.75%	1.08%	0%	7.54%	6.96%	9/13/1993
	C	0%	1.92%	1% if held < 12 months			4/1/1996
MFS Value Fund	A	3.75% to 5.75%	1.08%	0%	20.67%	13.24%	1/2/1996
	C	0%	1.80%	1% if held < 12 months			11/5/1997
Oppenheimer Capital Appreciation	A	3.75% to 5.75%	0.96%	0%	7.51%	10.04%	1/22/1981
	C	0%	1.80%	1% if held < 12 months			12/1/1993
Sentinel Common Stock Fund	A	3.00% to 5.00%	1.08%	0%	16.00%	9.07%	1/2/1934
	C	0%	2.16%	1% if held < 12 months			5/4/1998
SunAmerica Growth and Income	A	3.75% to 5.75%	1.44%	0%	14.71%	7.68%	7/1/1994
	C	0%	2.64%	1% if held < 12 months			2/2/1998
Van Kampen Equity Growth	A	3.75% to 5.75%	1.20%	0%	5.76%	4.19%	5/28/1998
	C	0%	2.04%	1% if held < 12 months			5/28/1998

Panel B: Bond funds							
	Share class	Front-end load	Expense ratio	Back-end load	Past one-year return reported in prospectus	Longest-horizon return reported in prospectus	Inception date
DWS High Income Fund	A	3.50% to 4.50%	0.84%	0%	10.27%	5.99%	1/26/1978
	C	0%	1.68%	1% if held < 12 months			5/31/1994
Eaton Vance Floating-Rate & High Income	A	1.75% to 2.25%	0.96%	0%	6.14%	4.21%	5/7/2003
	C	0%	1.80%	1% if held < 12 months			9/5/2000
Federated High Income Bond Fund	A	3.75% to 4.50%	1.20%	0%	10.48%	5.71%	11/30/1977
	C	0%	2.04%	1% if held < 12 months			4/30/1993
Goldman Sachs High Yield	A	3.00% to 4.50%	1.08%	0%	11.29%	7.12%	8/1/1997
	C	0%	1.92%	1% if held < 12 months			8/15/1997
HSBC Investor High Yield Fixed Income	A	3.50% to 4.75%	0.72%	0%	10.49%	10.49%	11/18/2005
	C	0%	1.56%	1% if held < 12 months			12/14/2005
Loomis Sayles High Income	A	3.50% to 4.50%	1.08%	0%	13.86%	3.93%	2/22/1984
	C	0%	1.92%	1% if held < 12 months			3/2/1998
Oppenheimer Champion Income	A	3.50% to 4.75%	1.08%	0%	9.19%	5.96%	11/16/1987
	C	0%	1.92%	1% if held < 12 months			12/1/1993
Pioneer High Yield	A	3.50% to 4.50%	1.08%	0%	10.60%	13.20%	2/12/1998
	C	0%	1.80%	1% if held < 12 months			2/12/1998
Wells Fargo Advantage Strategic Income	A	3.50% to 4.50%	1.08%	0%	11.04%	9.96%	11/30/2000
	C	0%	1.80%	1% if held < 12 months			11/30/2000

**Table 2. Subject Characteristics**

This table shows experimental subject characteristics in each experimental information condition.

	Prospectus	Summary Prospectus	Summary Prospectus+
<i>Average age</i>	39.5	38.8	39.7
<i>Percent male</i>	44%	31%	37%
<i>Highest education</i>			
High school or less	2%	2%	3%
Some college	7%	6%	5%
College degree	34%	31%	26%
Some graduate school	10%	26%	23%
Graduate degree	47%	35%	44%
<i>Knows what money market fund holds</i>	21%	18%	24%
<i>Average risk rating (1 to 5; higher = riskier)</i>			
Fortune 500 stock	3.51	3.25	3.37
U.S. equity mutual fund	3.00	3.02	2.93
<i>How knowledgeable of an investor do you consider yourself to be?</i>			
Very knowledgeable	0%	2%	0%
Relatively knowledgeable	10%	10%	13%
Somewhat knowledgeable	34%	31%	49%
Less than knowledgeable	39%	43%	17%
Not at all knowledgeable	17%	14%	21%
Sample size	<i>N</i> = 62	<i>N</i> = 62	<i>N</i> = 62

**Table 3. Subjects' Investment Choices**

Standard errors are in parentheses below the point estimates. Expense ratios in the monthly condition are equal to the reported expense ratio net of waivers divided by twelve. Back-end loads in the yearly condition were not assessed for those funds whose back-end loads expire after twelve months (all but Allegiant Large Cap Growth Fund Class C).

Panel A: Equity portfolio						
	One-month investment horizon			One-year investment horizon		
	Prospectus	SP/SP+	Difference	Prospectus	SP/SP+	Difference
Front-end load	2.23%	2.56%	0.32%	2.14%	2.58%	0.43%
	(0.24)	(0.15)	(0.27)	(0.24)	(0.15)	(0.27)
Back-end load	0.55%	0.47%	-0.08%	0.11%	0.06%	-0.05%
	(0.05)	(0.04)	(0.06)	(0.04)	(0.02)	(0.04)
Expense ratio (prorated)	0.13%	0.13%	0.00%	1.64%	1.56%	-0.08%
	(0.00)	(0.00)	(0.01)	(0.06)	(0.04)	(0.06)
Total fees	2.92%	3.16%	0.24%	3.89%	4.20%	0.31%
	(0.19)	(0.11)	(0.21)	(0.19)	(0.12)	(0.22)
Past one-year return	13.61%	13.99%	0.38%	13.68%	14.55%	0.88%
	(0.81)	(0.59)	(1.01)	(0.73)	(0.55)	(0.93)
Longest-horizon past return in prospectus	9.34%	9.51%	0.17%	9.44%	9.71%	0.27%
	(0.38)	(0.34)	(0.55)	(0.45)	(0.32)	(0.56)
Panel B: Bond portfolio						
	One-month investment horizon			One-year investment horizon		
	Prospectus	SP/SP+	Difference	Prospectus	SP/SP+	Difference
Front-end load	1.84%	1.81%	-0.03%	2.09%	1.92%	-0.17%
	(0.18)	(0.15)	(0.25)	(0.24)	(0.14)	(0.26)
Back-end load	1.15%	1.28%	0.13%	0.00%	0.00%	0.00%
	(0.08)	(0.08)	(0.13)	(0.00)	(0.00)	(0.00)
Expense ratio (prorated)	0.12%	0.12%	0.00%	1.45%	1.45%	0.00%
	(0.003)	(0.00)	(0.00)	(0.05)	(0.03)	(0.05)
Total fees	3.11%	3.21%	0.10%	3.54%	3.37%	-0.17%
	(0.17)	(0.16)	(0.25)	(0.19)	(0.11)	(0.21)
Past one-year return	10.50%	10.69%	0.194%	10.79%	10.55%	-0.24%
	(0.20)	(0.12)	(0.22)	(0.18)	(0.12)	(0.21)
Longest-horizon past return in prospectus	7.64%	7.41%	-0.23%	7.26%	7.84%	0.57%
	(0.27)	(0.23)	(0.38)	(0.33)	(0.25)	(0.43)

**Table 4. Subjects' Confidence in Their Investment Choices**

Each of the questions below was asked separately for the equity portfolio and the bond portfolio. Standard errors are in parentheses below the point estimates.

	Equity portfolio			Bond portfolio		
	Prospectus	SP/SP+	Difference	Prospectus	SP/SP+	Difference
<i>How likely is it that you would change your allocation among equity/bond mutual funds if you consulted a professional investment advisor?</i>						
Not at all likely	4.9%	6.5%	1.6%	1.7%	4.0%	2.4%
	(2.8)	(2.2)	(3.7)	(1.7)	(1.8)	(2.8)
Somewhat likely	49.2%	48.0%	-1.2%	50.0%	46.0%	-4.0%
	(6.5)	(4.5)	(7.9)	(6.5)	(4.5)	(7.8)
Very likely	45.9%	45.5%	-0.4%	48.3%	50.0%	1.7%
	(6.4)	(4.5)	(7.8)	(6.5)	(4.5)	(7.8)
<i>How confident are you that the allocation among equity/bond mutual funds you chose is the right allocation for you?</i>						
Very confident	3.3%	4.9%	1.6%	5.0%	1.6%	-3.4%
	(2.3)	(2.0)	(3.2)	(2.8)	(1.1)	(2.6)
Relatively confident	29.5%	29.3%	-0.2%	15.0%	25.0%	10.0%
	(5.9)	(4.1)	(7.2)	(4.6)	(3.9)	(6.5)
Somewhat confident	31.1%	39.0%	7.9%	38.3%	40.3%	2.0%
	(6.0)	(4.4)	(7.6)	(6.3)	(4.4)	(7.7)
Less than confident	31.1%	21.1%	-10.0%	36.7%	25.8%	-10.9%
	(6.0)	(3.7)	(6.7)	(6.3)	(3.9)	(7.2)
Not at all confident	4.9%	5.7%	0.8%	5.0%	7.3%	2.3%
	(2.8)	(2.1)	(3.6)	(2.8)	(2.3)	(3.9)

**Table 5. Importance of Various Factors in Subjects' Investment Choices**

Each cell reports the average importance the factor had on the relevant subsample's investment decision, as elicited in the debriefing surveys. There were five possible responses, from "not important at all" to "very important." We assigned integers 1 through 5 to each possible response, with *higher* integers corresponding to greater importance. Each factor's ordinal rank for the relevant subsample is in parentheses, with *lower* integers corresponding to greater ordinal importance.

	Equity portfolio		Bond portfolio	
	Prospectus	SP/SP+	Prospectus	SP/SP+
Quality of document(s) explaining mutual fund	3.21 (4)	3.24 (5)	3.08 (5)	3.16 (5)
Brand recognition	2.16 (8)	2.85 (7)	2.38 (8)	2.74 (8)
Past experience with fund companies	1.98 (9)	2.15 (9)	1.85 (9)	2.15 (9)
Fund fees, expenses, and loads	2.93 (6)	3.14 (6)	2.93 (6)	3.07 (6)
Minimum opening balance requirements	1.50 (11)	1.78 (11)	1.53 (11)	1.84 (11)
Investment objectives	3.64 (3)	3.75 (2)	3.70 (3)	3.83 (2)
Fund performance over the past year	3.67 (2)	3.83 (1)	3.72 (2)	3.84 (1)
Fund performance since inception	3.84 (1)	3.60 (3)	3.77 (1)	3.58 (3)
Fund performance over different horizon	2.90 (7)	2.76 (8)	2.83 (7)	2.84 (7)
Customer service of fund	1.73 (10)	1.99 (10)	1.78 (10)	1.97 (10)
Desire to diversify across funds	3.10 (5)	3.31 (4)	3.10 (4)	3.17 (4)