Stupid is as stupid does
What investors don't know is definitely hurting them

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SANTA MONICA, Calif. (MarketWatch) -- Most investors are stupid. At least that's what the Securities Investor Protection Corp. says; most even don't possess basic investment skills.

"Few investors possess [the] needed blend of basic knowledge and smart behavior," SIPC found in survey released last week. SIPC is the agency that insures against losses in brokerage accounts up to $500,000.

Not all brokerage accounts are insured by SIPC, a fact most investors don't know either. Nor do they know what types of losses SIPC insures.

Ah, me. What do they know? Well, that they should review their brokerage/account statements, as 90% do. They also understand they should diversify, as 74% do. Unfortunately, this knowledge doesn't translate into action: more than three-quarters of those responding to the SIPC survey admitted they don't posses the knowledge to "behave" properly in the financial markets.

Wake up, we're talking about you here.

For example, less than half (41%) of investors understand that when interest rates go up, bond prices fall. What's more: almost one-third of you predict bonds will move in the wrong direction, while 16% say bond prices will remain the same. Fourteen percent of you are dumbstruck: either you didn't know or didn't answer.

This illiteracy is Wall Street's fault. For years, brokerage houses have extolled their investor-education programs. They have even banded together through the Securities Industry Association, setting up an investor-education site, siainvestor.org. Its top "Hot Topics?" Annuities and mutual funds.

But don't expect anything too deep. Unless, of course, you're considering borrowing against your home equity to invest in an annuity. (Don't.) Otherwise, the site basically explains what these investment products are. Important for all you cave dwellers. And it just posted new content on hedge funds -- explaining what they are.

What's really happening is that Wall Street is providing mere lip service to the dilemma that has fewer than two in five investors knowing how sales commissions or fees work. Fewer than three out of five have ever read a prospectus, and most have never checked the background of their financial adviser because they (you) "trust" him or her.

"It is important that they [investors] learn the behavioral process of investing -- such as checking the background of a stockbroker or investment adviser -- that may prove to be just as critical to their success in the long run," says Investor Protection Trust president Don Blandin. "The task of making American investors wiser and safer is by no means an impossible job, but it is a long road on which those of us in this field still have a quite a ways to go." IPT, the survey's co-sponsor, was founded in 1988.
1993 to help educate the public as part of a multistate settlement to resolve charges of misconduct in the investment industry.

It should be pointed out that the survey was comprised of "sophisticated" investors. "It was carefully designed to focus only on the most active U.S. investors, as opposed to including those who participate in the markets in a purely passive way through their workplace retirement plans," says Graham Hueber at Opinion Research Corp., which designed the poll.

SIA, The National Association of Securities Dealers and individual brokerages conduct polls like these frequently for their own benefit. Sometimes they even admit, as Citigroup recently did regarding separately managed accounts, that their advisers are selling products for different reasons than those for which their customers are buying. Citigroup has a dedicated investor-education department and site (albeit being given more prominence after it reached in 2003 a $400 million settlement with regulators for improper research and investment-banking practices.)

It isn't in these firms' or groups' best interest to keep investors informed. You know that, right? Without the value added of knowledge, financial advisers are like Betamax technicians.

To be sure, they had their time and place. But in today's Information Age, investors themselves are empowered to educate, buy, sell and trade online. There isn't really a need for advisers anymore.

Wall Street, if it indeed smartened up, would realize the benefits of an educated client-base. Class-action lawsuits are rampant and cost the industry billions of dollars. Most of these cases rely on the lawyer's cat in the yard: investor suitability. Derisively claim an investor was sold a product for which they are deemed unsuitable and you have yourself a slam-dunk case.

Educate the public and you have more suitable investors. More suitable investors and less lawsuits. Better relationships would be established and more sophisticated products and services could be sold. Everyone then would make more money, the point, after all, to investing.

But for that to occur both Wall Street and investors have to get smart.