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Shareholder Statements in Need of Big Changes

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The amount of information fund investors receive is a central issue in the ongoing debate on industry reform. It's not just about content, however. Clarity is also key, but most firms are falling short in this area.

That's according to a soon-to-be-released study by **Dalbar**. The research firm has undertaken a massive examination of the statements the top 81 firms send to investors. It ranks the firms' statements from best to worst and offers examples of best practices.

State Street Research got the top marks with a score of 80.99 out of a possible 100 points. The firm's statements surpassed industry benchmarks in many areas, especially the account details and guidance, which other firms usually don't offer.

Rounding out the top four were **Waddell & Reed**, **AIM** and **Strong**. Those firms' statements earned "very good" designations. They were given scores of 73.11, 72.66 and 70.14, respectively. All utilize innovative features in their investor statements to enhance clarity.

That's the good news. But according to the study's results, the vast majority of firms' statements are not presented in such a clear, easy-to-understand manner. Of the 81 firms whose statements Dalbar examined, only State Street received an "excellent" ranking.

Another 30 were ranked "good," including **MFS**, **American Century**, **Delaware**, **Wells Fargo**, **T. Rowe Price** and **Alger**.

The remaining 47 firms did not qualify for a "good" rating, according to Dalbar president Lou Harvey.

Of those companies, **Merrill Lynch** ranked last. The survey's other bottom-dwelling statements include (in order from bottom to top): **Fortis**, **Goldman Sachs**, **Smith Barney**, **Thornburg**, **Evergreen**, **Seligman** and **Dreyfus**.

In developing the study, Harvey says, Dalbar spent more than a year working with industry participants and investor groups figuring out what made a good investor statement. It finally developed a list of objective criteria that would be used to evaluate each firm's statements.

Those criteria include metrics that span a range of areas including comprehensibility of the statement's calculations, clarity of its primary content, inclusion of shareholder-friendly features, absence of undesirable features and availability of secondary content.

The study further breaks those categories down into more specific items. That includes criteria such as whether the statement answers investors' primary questions, whether the statement tracks investors' progress toward their goals, and the statement's use of typefaces, white space and graphics that enhance readability.

Each question requires a yes or no answer. The idea was to provide a matrix of criteria that provides a final

ranking not influenced by subjective interpretations of the metrics.

The statements that finished at the top of the rankings stood head and shoulders above the other firms' in certain areas. For instance, State Street's statement provides a brief description that outlines the fund's objective, appropriate investors for it and its level of risk. It also calculates shareholders' personalized performance for their total portfolio as well as individual holdings.

Its presentation style is also strong. Dalbar notes that State Street Research statements combine text along with line charts, pie charts, tables and mathematical symbols to quickly communicate ideas. Statements contain enough white space to keep critical content prominent while avoiding overcrowding. Larger fonts are used for more important content and smaller fonts for secondary information. Statements also use borders, graphics and large font sizes to distinguish different sections.

In the case of the statements offered by Strong and Waddell & Reed, income is highlighted on the first page of the statement with a brief summary of total dividends and capital gains. Waddell & Reed also notifies investors of upcoming fees and allows them to deduct the fee from the account or send payment separately.

Meanwhile, AIM offers a simple "Account Options" table, showing which options have been selected for each holding. These include telephone redemption/exchange, reinvested dividends/capital gains, systematic withdrawal, automatic investments and automatic exchange. The company also encourages investors to interact via its website by describing the account details available there and tasks that can be conducted. It prominently labels this "Keep in Touch with Your AIM Accounts".

Helen Duskin, AIM's vice president of operations development and project services, says that the company is focused on providing clear, concise account information to its investors. Over the past few years, it has spent hours gathering feedback from investors and financial advisors with the goal of providing statements that are informative and easy to read.

"The newest features of our mutual fund statement focus on a first page at-a-glance view and additional graphics, while also reducing costs through the implementation of duplex printing, which is printing on both sides of the page," she says.

Stephen Busch, Delaware's vice president of operations, says the company redesigned its statements in early 2001.

"We got as much information as we could about what people wanted," he says. "Then we worked with our vendor to update them. We added personal performance, made the statements simple to read and put important information up front."

Harvey says the idea for the report originated with the Sarbanes-Oxley Act of 2001. But it could become even more important now, as Congress considers how to improve the information that investors receive from fund firms.

"With Sarbanes-Oxley, Congress introduced a new standard," he says. "They said you have to notify people of their holdings in a way they can understand. That language has carried through into several legislative initiatives since then."

While Congress is now focusing primarily on what kind of information different shareholder documents should contain, another industry observer says it's not unlikely that the readability of investor statements might eventually come into the spotlight.

That's because, in this climate of transparency and increasing disclosure, making sure that investors have all the information they need is paramount.

Niels Holch, an investor advocate and partner of law firm **McGuinness & Holch**, says that rulemakers should take a look at the study.

"Industry experts have a lot to contribute to this debate," he says. "Policy makers in Washington should look at everything, from whatever source, on this topic. Ultimately, though, it will be the SEC's decision as to what kinds of things improve investor statements."

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