1.1 Introduction

Despite large budgets and millions of dollars being spent on advertising campaigns by investment companies looking to sell their financial products, the knowledge of investment products, strategies, and related tax laws is still very low among most Americans. (Alexander, Jones and Nigro, 2001). The overall education level of Americans continues to grow with the number of college graduates on the rise, however, the level of understanding about investment products and how they work remains low in comparison to this growth in education. A 1994 survey by John Hancock Mutual Life Insurance Co. found that more than one-third of the respondents believed it was impossible to lose money in a bond fund, while twelve percent believed it was impossible to lose money in an equity fund or said they did not know. How to properly manage and invest one’s assets has a large impact on financial success, however, consumers have very low knowledge of the investment industry, how investment products work, and how investments may help improve their financial standing. Most investors appear to be naive, having little knowledge of the strategies or financial details of their investments (Capon and Prince 1996). Other than Social Security and pension benefits, and illiquid housing wealth, the typical (American) family has very limited resources to meet unforeseen expense (Poterba, Venti and Wise 1996). Investors may not be alone in benefiting from an increase in investor knowledge and the implications for investment firms are also discussed throughout this paper.
This lack of knowledge is despite large budgets of the investment companies that seek to get their financial products noticed. Financial marketing campaigns can be seen regularly on television and heard daily on radio commercials. Even well-known American sports teams play in stadiums named after large financial firms, but many people still do not seem to understand the products being advertised. Financial firms pay large sums of money to advertise through these avenues in the hopes of gaining brand recognition and improving their brand equity, but they put little emphasis on actually getting the potential customers to understand the products they are offering.

*Bank of America pays $7 million per year for naming rights to Carolina Panthers Stadium*
Lincoln Financial pays $6.7 million per year for naming rights to the Eagles Stadium.

This type of branding is not seen in Malaysia although it would seem possible that as companies grow and look to gain worldwide presence, they may look to use sporting stadiums in Malaysia as an avenue to spread their message. Branding has been shown to be an important factor in terms of customer loyalty with corporate brand image very important in directly influencing consumer loyalty (Faridah 2009).

In a study that looked at name recognition, among other factors, researchers found that asset allocation was also influenced by non-normative factors, in particular, a strong home bias and asset name familiarity (Weber Siebenmorgen and Weber 2005). Respondents reported a greater feeling of competence when evaluating domestic and familiar assets, which translated into a lower estimate of asset risk. In the case of asset name familiarity, its effect of perceived riskiness completely accounted for its effect on asset selection. In the case of home bias there was an additional effect on asset allocation, i.e., domestic assets were more likely selected above and beyond
the home bias effect already included in investors’ judgments of risk (Weber et al.). This study points to a potentially disturbing trend for investors who independently choose their own investments since domestic and familiar investments are not necessarily less risky, but the perception that they are can lead to a less than optimal portfolio.

Many of the large investment firm institutions spend a good portion of their revenue on rewarding the financial professional that sell their financial products to the customer. The use of commissions to pay and reward financial professionals is a popular way for these companies to do business, and in effect, this constitutes their marketing efforts in many ways. This practice can lead to financial professionals that are little more than sales people with little training about the products they are selling. From personal experience the financial training is often second to sales training for financial advisors. This situation leads to a high turnover rate among financial professionals whose main focus is on the sale of financial products, and whose incomes are largely based on commissions from those sales. The high turnover leads to frustrated consumers who rely on their financial advisor to lead them through the potential minefield of financial products offered.

One possible way to improve the knowledge transfer to investors is through required reading for investors when they purchase investment products. Currently investment firms are required to give investors prospectuses at the time or purchase and investors often are required to indicate on their account application that they have read and understood the provided material. How often the prospectus is actually read and understood is open to debate. While recent “plain English” and profile prospectus
initiatives of the SEC are sensible, it is highly unlikely that more regulation of disclosure of information at the time of sale will alleviate these shortcomings (Alexander et al.).

1.2 Study Significance

The marketing strategy of financial investment firms is generally focused on selling their products and services. Their focus is not to increase the public’s knowledge of the investment industry, how the markets work, or exactly what the financial products are comprised of. This focus leads to a relationship with the public that primarily revolves around the selling and purchase of a product and service that is largely based on trust. The trust revolves around the investor’s general lack of knowledge about the products and the services they are purchasing. For most people that work with a financial advisor, what they are actually buying is a relationship that they hope will allow them to have financial success. For many consumers of this product the only basis for choosing and advisor is either word of mouth through recommendations, or the relationship they build with the financial advisor. What is lacking in this transaction is an understanding of the product and service they are buying. In the end, they are buying a relationship and some expectation of service, but not a product. The underlying investment that is purchased is often, at best, only vaguely understood both in terms of how it performs, and how it costs.

With the advent of investment trading via the internet and an increase in employee sponsored plans, many investors have turned into do-it-yourselves when it comes to putting their nest egg to work for them. In this scenario, one that does not include the advice of an investment professional,
investors are left up to their own knowledge to make decisions that can greatly impact their future and the future of their families. However, for many of these investors they are lost in the terms, options and prices of the products they are buying. This lack of knowledge about how the product works and what it costs would seem to be unrivaled in any other retail format. This idea is especially concerning when considering the impact that investment decisions can have on one's financial security.

As with most service products, the challenges in selling a non-tangible product can certainly arise. Even more difficult is that financial firms are selling a service that is nearly impossible to duplicate (market performance), or predict. In essence, financial firms have to sell the service based on the idea that they will do the best they can for their clients. Some years there might be negative performance and that can be difficult for clients to accept. This difficulty in quantifying the service can certainly be bridged with the help of financial advisors. Financial advisers have uniformly high levels of customer orientation, which should help them achieve successful relationships with their clients (Halstead, Jones, Lesseig and Smythe 2008). These findings suggests that having customer orientation might have a positive impact on overall income, which should serve as additional motivation for advisers to adopt a greater customer orientation. There certainly needs to be more study in this area and the work by Lesseig et al. can’t be completely counted on as they only surveyed financial advisors. The best measure of the effectiveness of financial advisors would be from the client perspective. Unfortunately a survey of clients would also be limited to if clients really understand what they are invested in, how it is supposed to work and what
proper advice is. The ideal work in this area would seem to be a study of investor’s view of financial advisor performance compared to client portfolio performance relative to the market. In addition, what should not be ignored and is the focus of this paper, is that increasing investor knowledge would allow them to have a better understanding of what their investments are doing and what their financial advisor is doing for them. Increasing investor’s knowledge would seem to be the key whether clients wanted to invest on their own or with the help of a financial professional.

Investor knowledge is again largely ignored in a work by Kahneman and Riepe (1998) when they look at beliefs, preferences and biases that investment advisors should know about. The culmination of their work was to put together a checklist that financial advisors should ask their clients. Printed below is the checklist that Kahneman and Riepe developed. Only number nine eludes somewhat to the idea of increasing investor knowledge.

**Table 1.1 Perceived Risk**

How frequently do you do each of these tasks?

1. Encourage clients to adopt a broad view of their wealth, prospects and objectives.
2. Encourage clients to make long-term commitments to policies.
3. Encourage clients not to monitor results too frequently.
4. Discuss the possibility of future regret with your clients.
5. Ask yourself if a course of action is ‘out of character’ for your client.
6. Verify that the client has a realistic view of the odds, when a normally cautious investor is attracted to a risky venture.
7. Encourage the client to adopt different attitudes to risk for small and for large decisions.

8. Attempt to structure the client’s portfolio to the ‘shape’ that the client likes best (such as insuring a decent return with a small chance of large gain).

9. Make clients aware of the uncertainty involved in investment decisions.

10. Identify the aversion of your clients to the different aspects of risk, and incorporate their risk aversions when structuring an investment program.

So whether it is education by financial advisors or investment firms itself, there seems to be little effort in way of making sure that investor’s knowledge is the focus.

1.3 Scope and Research Questions

The scope of this study will look to determine if there is a marketing opportunity for investment firms when it comes to educating their clients, or potential clients, about the products they are selling in contrast to the current marketing landscape for financial firms that focuses primarily on branding. What is important for investment firms to understand is would a more financially educated public be more likely to use the products investment firms offer. This information could be specifically helpful if more people begin to self-direct their own investment accounts and bypass the traditional financial advisor/sales approach. In general, would a better educated public be more likely to purchase financial products in lieu of relying on a commission orientated financial advisor? If education can be shown to be a key determinant in the purchasing decision then this would allow investment firms to shift their advertising budgets towards better education of the public,
instead of simply trying to sell their products. If a better-educated public is more likely to invest into the market, the end result could be additional inflows of funds into the hands of investment companies, which is the primary focus of investment firms; to increase their assets under management.

1.4 Organization:
To determine if an increase in knowledge would in fact have an impact on one’s desire to invest, this study will review the survey results from a sampling of U.S. Citizens who are at least eighteen years of age. The study focused on trying to determine what factors may impact someone’s desire to invest. Factors that were looked at included age, education and current investment knowledge. The study looked for a link between the variables and the end result that is desired by many investment companies, a willingness to invest. An established relationship between these factors could begin to establish a new direction for marketers to focus their efforts, apart from the traditional branding focus. Included in the study is the effect that age and education have on the willingness to invest. These factors are important to narrow the possible market segment that investment firm marketers are likely to focus their attention. If it can be found that increased investment knowledge will increase someone’s likelihood to invest, than it could be even more focused as to what age and education level to target.
Figure 1.1 Framework

Marketing Impact

Barriers to Invest

Age

Current Knowledge

Education