Response of **Gib Veconi, CEO, Peridrome Corporation**, to SEC Comment Request for Study Regarding Financial Literacy Among Investors

March 18, 2012

I have been involved in the retail securities industry for approximately 22 years. In that time, I have engineered operations and online services for self-directed investors, led industry initiatives to standardize and streamline inter-firm communications for originating and maintaining managed account products, and developed software solutions for automating wealth management client service.

There has never been a time in this country when it has been more important for individuals to understand the fundamentals of financial planning and investing. The historical pillars of financial security have disappeared for most Americans. It is no longer possible to depend upon a pension from one's employer in retirement, a continual rise in the equity in one's home, or even the long-term appreciation of the S&P 500. And although financial advisors have traditionally played an important role in helping individuals plan and invest for future needs, their services to a large extent have been available only to affluent investors. This has left a majority of middle- and working-class individuals and families unprepared to take responsibility for quantifying their goals, assessing investment risks and rewards, and managing their assets.

How will these individuals become financially literate? Several commenters have suggested that providing education at the point of sale of an investment product is not ideal given the potential for conflict. I agree, and also note that it seems unlikely that a focus on "disclosure" will result in a transfer of knowledge to investors so much as it will provide greater legal insulation to financial institutions and advisors. Nor is it reasonable to assume that individuals will submit to formal training to acquire the "information that retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product," as any financial advisor who has held an investor education session for 401(k) plan participants can tell us.

Over the last fifteen years, the Internet has played an important role in democratizing access to financial information, and empowering self-directed investors. But although millions of Americans now invest online, most investment-related content on the Internet today centers around buying and selling individual stocks and mutual funds. This type of content, while informative, nevertheless promotes a transactional, short-term perspective on investing that is not appropriate for most individuals. The collaborative nature of the financial advice process has so far proven to be more challenging to bring online. Several new entrants have launched financial advisory services online, but the new offerings tend to be either limited in scope, geared toward affluent investors, or both.

That doesn't mean, however, that the Internet shouldn't be part of the solution for financial literacy for individuals. The rise of social media is changing the way we communicate online, and its collaborative features have the potential to engage individuals in the planning and investing process in a way that has not been possible before. Today, individuals share everything from short "tweets" to polished home movies through outlets like Twitter, Facebook and YouTube. Studies have shown that many individuals already use social networks in an informal way to post questions about investing[1]. Tomorrow, social media can provide a channel not only for investor education in a collaborative context, but also a platform for investors to take ownership of their financial plans, and to share them with family, trusted friends and financial advisors for input. A recent survey by the Million Dollar Round Table found that individuals are more likely to trust themselves and their friends for help making investing decisions than they are financial advisors[2]. Future social networks that include planning tools, educational content, and exchange of information within a circle of trust can offer a level of investor engagement that is free of conflict and more effectively promotes financial literacy than a one-way pedagogical approach.

Other commenters have called for centralization of investor profiling, as opposed to the firm-specific questionnaires that are administered today. Creating a common standard for profiling investor risk tolerance would indeed ensure consistency and help the investor more easily compare financial advice from different sources. But we should not stop there. Online tools that enable an individual to develop and share a financial plan including life events, goals and assets will promote greater self-reliance and allow the individual to maintain a comprehensive view of his investments while optimizing his use of advice. Further, such an approach would also streamline the advisor's communications with clients, ultimately enabling advisors to serve a larger segment of the investing public.

Ironically, the promise of social finance suggests that the answer to increasing financial literacy may depend on less regulation, not more. Because it will empower individuals to self-administer profiles and plans that traditionally have been the province of registered advisers, social finance may blur the line between enabling the communication of financial information and providing financial advice. Regulators should begin to consider how best to support the greater autonomy of financially-literate users of future social finance networks, while preserving the public's interest in transparency and accountability from registered advisers.

Further, investing-specific software applications that have the granular access controls necessary for the sharing of sensitive personal information with trusted parties are beyond the scope of today's mainstream social media platforms. Existing industry and government regulation of social media is largely based upon its use in a non-collaborative context similar to traditional web and email communications. While this approach might be workable for advisor use of mainstream networks like Facebook and LinkedIn, it could prove to be a barrier to advisor participation in the types of interaction that social finance providers may offer in the future. Regulators should consider how current guidance should be extended to allow new social finance solutions to be more easily adopted by registered advisers.

---

[1] *Winning the Battle for the Wealthy Investor*: Cisco Internet Business Solutions Group, January 2011

[2] *Financial Harmony*, MRDT, June 2011