

# Accessing the U.S. Retail Investor

November 2005



## Why Retail?

The U.S. retail investment community is the largest group of individual investors in the world with more than 84 million investors – so the question should be why *not* retail? Of the approximately 106.5 million households in the U.S., 49.5%, or 52.7 million households, own equities.<sup>1</sup> These households frequently access electronic and print financial media, are highly responsive to advertising and tend to follow a “buy-and-hold” strategy. U.S. investors have increasingly been hearing the message that they should diversify their portfolios with non-U.S. equities. In fact, according to John Nersesian, Managing Director of Nuveen Wealth Management Services, “among brokerage firms, the standard recommended portfolio allocation for international or global has recently increased to around 15 percent.”<sup>2</sup> Depository receipts (DRs) provide investors with an excellent means of international diversification.

At the same time, individuals in the U.S. have an increasing appetite for investing. Several factors have contributed to this growth, including wider usage of online discount trading, greater access to financial research via the Internet and an overall rise in disposable income. The scale of this segment lends itself to many opportunities for issuers to diversify their shareholder bases and enhance their stock’s liquidity.

## U.S. Retail Market Participants

The U.S. retail market can be divided into four primary groups: individual investors, retail brokers, managed accounts and investment clubs. It is important to be familiar with all of these groups to make an informed assessment on when and how to target this market.

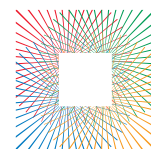
**Individual investors.** The 2005 “Voice of the American Shareholder” survey, recently conducted by The National Association of Investors Corporation, indicates that U.S. shareholders invest 15.8% of their portfolios internationally, up from 12.9% five years ago. The trend towards global diversification looks to continue as these shareholders expect to be investing 18.6% of their total portfolios internationally five years from now.<sup>3</sup>

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<sup>1</sup> Source: Investment Company Institute and the Securities Industry Association. “Equity Ownership in America, 2002.” 20 October 2005, <http://www.sia.com/research>

<sup>2</sup> Source: Nuveen Investments. “Going Global May Help Investors Balance Portfolios.” *Yahoo!Finance*. 12 September 2005, <http://biz.yahoo.com/bw/050912/125989.html?.v=1>

<sup>3</sup> Source: Fitzgerald, Kate. “Investors Consider Whether It’s Time To Go Global.” *Better Investing Magazine*. 55.2 (2005): 34-37.



Retail investors tend to be long-term, stable holders as compared to institutional investors, who often change their holdings on a daily basis. Indeed, 86% of U.S. individual investors say they engage in a buy-and-hold strategy.<sup>4</sup> They prefer a simple, understandable investment message and easy access to company information and research. An estimated 96% of U.S. individual investors prefer to buy products from companies in which they own an interest, making them very brand conscious.<sup>5</sup> This gives issuers, especially those with consumer-related products (automobiles, pharmaceuticals, etc.), the ability to leverage synergies between their commercial and financial presences in the U.S.

**Retail brokers.** U.S. retail brokers generally represent numerous individual investors. In 2002, 47% of U.S. investors reported using full-service brokers to make equity investments.<sup>6</sup> Global brokerage houses offer multiple account options for the individual investor. With most firms, the first step in setting up an account involves finding an appropriate financial advisor. The brokerage house often has the investor fill out a survey regarding his investment style and goals and assigns an advisor that fits his needs. Thus, to capture individual investor attention, emphasis should be placed on marketing a DR program to retail brokers and financial advisors.

**Managed accounts.** Several buy-side institutions (e.g., AIM, Alliance, Brandes, Evergreen, Fidelity, Janus, Lazard, Merrill Lynch, Oppenheimer) have established separately managed or “wrap” accounts, where retail investor client funds are placed with one or more money managers with administrative and management costs wrapped into one fee. The securities in the portfolio are personally owned by the investor but managed by a professional investment manager. The investor can designate basic requirements for his portfolio (e.g., no investment in tobacco), but otherwise the manager controls the portfolio allocation and decides when to buy and sell stock and other investment products. Over the past eight years, assets held in separately managed accounts have grown twice as fast as mutual fund assets, making this segment one of the fastest growing in the financial services industry.

**Investment clubs.** Investment clubs are groups of people who pool their money to make investments. Generally, these clubs are organized as partnerships and after the members study multiple investment options, the group decides to buy or sell based on a majority vote. The National Association of Investors Corporation (NAIC) is the largest of such organized entities in the U.S., with approximately 18,000 investment clubs under its auspices.

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<sup>4</sup> Source: Investment Company Institute and the Securities Industry Association. “Equity Ownership in America, 2002.” 20 October 2005, [www.sia.com/research/](http://www.sia.com/research/)

<sup>5</sup> Source: The National Association of Investors Corporation

<sup>6</sup> Source: Investment Company Institute and the Securities Industry Association. “Equity Ownership in America, 2002.” 20 October 2005, [www.sia.com/research/](http://www.sia.com/research/)

## Accessing the U.S. Retail Investor: Best-Practice Examples from Award-Winning Companies

### Internet Tools

A comprehensive investor relations (IR) website is a key factor in efficiently attracting and retaining investors. According to IR Web Report, an online investor relations resource, 90% retail investors who use the Internet consult company websites to confirm investment ideas and decisions.<sup>7</sup> Not only can a comprehensive IR website help would-be investors with their decisions, it can also meet the information needs of an audience that expects responsive service and ready access to information regarding dividends, corporate actions, proxy voting and company/financial news.

IR websites regularly include the following elements: share price links, annual reports, financial news, quarterly earnings releases, financial calendars and IR contacts. However, companies specifically interested in attracting retail investors are taking their IR websites a step further, providing this audience with high-quality, easy-to-understand, personalized information. Some examples follow.

**GE**, winner of IR Magazine's *2004 & 2005 Best Communications with the Retail Market* award, has a specific area on its IR website dedicated to retail IR. The page provides information on retail investor meetings, investment opportunities and monthly financial updates as well as access to user-friendly brochures and updates on key business events and news, with links to more detailed information. The website also contains a quarterly retail investor newsletter which includes the following information: ticker symbol, exchange, share price, P/E ratio, dividend yield, market capitalization, shares outstanding, revenue, earnings per share, corporate strategy, and business model. The site provides users with direct purchase and dividend reinvestment information as well.

**Microsoft**, winner of IR Magazine's *2000 Best Communication with the Retail Market* award, provides a similar service on its website. It offers a free, quarterly newsletter that delivers financial and company highlights to investors' e-mail accounts.

**Petrobras**, the Brazilian petroleum company and winner of IR Magazine's *2005 Brazilian Best Communication with the Retail Market* award, has an individual investor page on its website. It includes several links to information on the company's strategic plan, business model, financial results and corporate governance.

**BP**, winner of IR Magazine's *2005 Best Investor Relations to the UK Shareholder* award, includes a page on its website dedicated to helping retail investors make investment decisions. The page offers interactive tools for comparing BP's financial and operational figures; an introduction to the stock market, including its potential risks and rewards; energy market information; and sections on building a portfolio.

Companies are also leveraging the Internet to allow individual shareholders to communicate with executives via real-time dialogue. For example, Petrobras uses the Internet to host a "chat" with retail investors following its conference calls with the investment community. These chats are hosted by the company's Individual Investment Manager and cover topics such as quarterly results, dividend policy and business strategy.

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<sup>7</sup> Source: *IR Web Report*, "How Credible is your IR Website?" October 27, 2005.  
<http://www.irwebreport.com/features/040601.htm>

### Brand Name Leveraging

U.S. retail investors are often brand-name conscious, investing in securities of companies whose products they easily recognize. And because they may prefer to buy products from companies in which they are invested, gaining brand visibility in the U.S. financial markets can be beneficial on the consumer side.

If a company's brand isn't readily recognizable by retail investors, performance results can speak for themselves. **RPM International**, which won IR Magazine's award for *Best Communications with the Retail Market 2003*, is a holding company with subsidiaries that produce coatings and sealants. Because the holding company is not well-known in the retail investment community, the company uses its IR website to make a connection between the corporation and its brands. It includes the following quote on its website to demonstrate its attractiveness to retail investors:

*"Creating value for shareholders continues to be one of RPM's main goals...RPM's success over the years has not gone unrecognized...In fact, RPM has long been a favorite of investment clubs, individual investors and investment publications...Today, the company has approximately 115 million shares outstanding owned by 300 institutional investors and 104,000 individual investors."*

### Retail Broker Marketing

As retail brokers represent many individual investors, targeting them along with financial advisors is a highly efficient way to capture individual investor attention. Large global brokerage houses include Merrill Lynch, Morgan Stanley, UBS and Citigroup. Regional brokerage firms include AG Edwards, Raymond James, Wachovia, Edward Jones, RW Baird, William Blair and Charles Schwab.

Companies with IR success stories often follow a strategy of targeting retail brokerage firms. For instance:

**GE** spends a significant amount of time presenting corporate strategy and financial information to brokerage houses around the country. The company's website includes a retail-meeting calendar that discloses cross-country meetings scheduled with major brokerage firms in cities across the United States.

**Cemex**, a company long-recognized for its achievements in retail IR, hosts up to 30 meetings per annum for brokers with high-net-worth clients. These efforts have contributed to Cemex's substantial retail shareholder base.

**Volvo**, another company with a dedicated retail IR team, conducts an annual retail IR roadshow where management meets with top brokerages invested in the company's stock to highlight various financial issues such as returns and dividend payouts.

### Retail Investor Conferences

Conferences have become increasingly popular venues for individuals with a strong interest in investing. An example is InterShow's *The World Money Show*, held every February. Here investors learn about various international investment vehicles and how to identify global investment opportunities. Participants also improve their knowledge of capital markets through advice from the nation's leading investment experts. Investors learn which stocks, bonds and alternative investments the experts are investing in, where they see the most efficient investing opportunities and how they are safeguarding and growing their portfolios. The Money Show website states that its signature event attracts approximately 12,000 high-net-worth investors, 40% of whom have investment portfolios of \$500,000 or greater.

Additionally, The National Association of Investors Corporation (NAIC), a non-profit organization comprised of investment clubs and individual investors, hosts the *Better Investing National Convention*

every November. The conference attracts approximately 1,000 investors who are leaders of investment clubs from around the United States. The leaders attend the conference to participate in educational seminars about investing and to look for new investment ideas to bring back to their respective investment clubs. According to its website, NAIC has a total membership of approximately 199,000 and represents portfolios of approximately \$117 billion.

## The Bank of New York: Facilitating Retail Investor Outreach

As the world's leading depository bank, we maintain established relationships with key parties throughout the U.S. retail market. We leverage these connections to bring our clients together with market influencers. This brings real value to issuers interested in penetrating this market as we facilitate strategic introductions that would not otherwise occur. A sampling of our retail investor outreach initiatives follows.

***Retail Brokerage Branch Visits and Managed Account Meetings.*** We arrange presentations directly with brokerage firms and portfolio managers and coordinate all necessary corresponding arrangements. These meetings allow our DR clients to communicate directly with financial advisors at some of the most profitable, high-net-worth retail branches and financial institutions across the country, without spending time or effort on planning them.

***Squawk Box Calls.*** This tool is one of the most efficient ways for a DR issuer to communicate its corporate strategy to the retail brokerage community. The calls are typically 10 to 25 minutes long and are broadcast to the firm's global financial advisory community. Each call begins with a brief introduction of the company by a research analyst or equity sales officer. Next a senior executive gives a brief presentation on the company, including, but not limited to, a discussion of recent financials, new strategies and/or corporate achievements and an outlook for future growth. The call ends with a short question-and-answer session. We conveniently arrange these calls with Bank of America, Citigroup, Merrill Lynch, Morgan Stanley and UBS.

***Fact Sheet Development.*** A fact sheet tells a company's investment story and summarizes key financial highlights. It typically includes such information as: business strengths and competitive advantages, corporate strategy, key business drivers, financial highlights and achievements. We consult with issuers as they develop fact sheets as part of a campaign targeting the retail investment community.

***Investor Relations Website Review.*** We can conduct a comprehensive review of an issuer's IR website for content items that matter to retail investors and benchmark the website against accepted best practices. If aspects of the website need to be further developed, we can refer issuers to third-party firms that provide our clients with discounted services.

***Better Investing Magazine Placements.*** This monthly NAIC publication keeps members apprised of the latest investment and education opportunities. NAIC members are a prime audience as they have average household incomes of \$114,000, invest \$131 million of new money monthly and tend to follow buy-and-hold strategies with relatively low turnover. We help issuers place corporate profiles and/or facts sheets in the magazine.

***Retail Investor Conferences.*** The Bank of New York is a regular sponsor of many retail investor-focused conferences such as *The Money Show*, the *Better Investing National Convention*, and *The Louis Rukeyser Investor Fair*. Clients are invited to set up a kiosk within our exhibit area to present their company's investment case to attendees.

**WILink Annual Report Service.** This service targets high-net-worth investors through more than 70 publications and online services including *The Wall Street Journal*, *Barron's*, Yahoo! Finance and Bloomberg. We help clients get a club symbol (♣) placed next to their stock listings in these popular resources, which lets potential investors know they can request a free investor kit on these companies. Moreover, through The Bank of New York's DR website, [www.adrbny.com](http://www.adrbny.com), investors can access WILink's annual report service, which allows them to request material on participating companies free of charge. Each investor that uses the service is required to provide his/her name, address and email address (if request is online). This information is stored and made available to participating companies.

Through WILink's other web-based services, we can assist issuers with webcasting events for the retail community such as chats, virtual forums and roadshows.

**DR-Related Investment Vehicles.** U.S. retail investors are increasing their investment in baskets of securities that represent a particular sector, investment theme or index.

**Exchange-Traded Funds: BLDRS Funds.** One such investment product is exchange-traded funds (ETFs), which are instruments that represent baskets of securities but are listed on an exchange and trade like typical stock. Experts project that in several years the market value of ETFs will exceed \$500 billion. Recognizing the opportunities presented by ETFs, The Bank of New York developed a full array of services to support ETFs and similar products. An example is BLDRS, a family of ETFs based on The Bank of New York ADR Index. Sponsored by NASDAQ Global Funds, Inc., BLDRS funds are made up of four ETFs – two market index funds and two regional index funds. Each share of a BLDRS fund represents an undivided interest in an entire portfolio of DRs.

**HOLDERS<sup>SM</sup> Trusts: DR-Based Baskets of Securities**

HOLDERS trusts are baskets of securities for investors desiring exposure to a particular industry sector or investment theme. The Bank of New York, as trustee for HOLDERS trusts, issues a DR that represents a basket of pre-selected DRs or stocks of U.S. companies. The constituent companies have been selected by Merrill Lynch.

**www.adrbny.com.** Our specialized website is widely recognized as the definitive source for DR market intelligence. Our data-rich site offers customized information on all DRs worldwide. Simple navigation lets investors, brokers and other interested parties search by country, industry, region or exchange for the information they need. It also lets them establish personalized DR program watchlists. Moreover, our regular updates keep them apprised of the day's top-performing and most actively traded issues along with relevant news items.

**To Learn More**

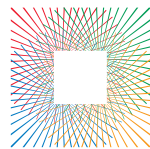
For more details on how The Bank of New York can bring you closer to the U.S. retail investor community, please contact any of the following experts:

Alexis Vasquez Meissner	+1 212 815 2711 avasquez@bankofny.com
Ricardo Marine	+1 212 815 4693 rmarine@bankofny.com
Nina Camera	+1 212 815 5822 ncamera@bankofny.com
Emily Gamble	+1 212 815 3098 egamble@bankofny.com

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The Bank of New York Company, Inc.  
One Wall Street  
New York, NY 10286  
[www.bankofny.com](http://www.bankofny.com)

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