

“The Fifth Annual Main Street Investor Survey”

Remarks by

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This time last year we thought the financial crisis may be coming to an end. The markets were up, with the Dow above 10,000, and some economists expected that lower interest rates combined with less inflated home prices could have a positive effect on the economy. In short, things seemed better.

But this year economic growth has been slower than hoped: housing prices are still stalled even though interest rates are low, and unemployment still hovers at over 9 percent. The European debt crisis – and what it could mean for the United States and others around the globe -- has dominated the domestic press. Throughout 2011, and in particular, in recent weeks, the markets have vacillated between fear and hope on an almost daily basis.

What does this all mean to investors? How do they make sense of the economic news along with company specific information? How do they adjust their economic activities in response?

We hope to answer these questions and others this morning.

The CAQ

I am the Executive Director for The Center for Audit Quality (CAQ). We are an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high quality performance by public company auditors by convening and collaborating with other stakeholders and advocating policies that promote public company auditors’ objectivity, effectiveness and responsiveness to dynamic market conditions.

The Main Street Investor Survey

Given that our mission is to enhance investor confidence in our markets, when we started operations in 2006, we wanted to find out where that confidence stood. We wanted to know whether the Sarbanes Oxley Act was working. Did the reforms of placing explicit requirements on company management for financial reporting, and bringing public company auditors under the oversight of an independent regulator help restore investor confidence in our capital markets and in financial reporting more specifically?

Accordingly, in 2007, we initiated what we now call the Main Street Investor Survey. Each year the survey - which has been conducted by an independent polling organization, the Glover Park Group - asks the same four key questions about *investor* confidence. We also ask a few questions aimed at issues that seemed particularly relevant the year of polling. We are not aware of similar surveys that focus on

individual investor confidence in the capital markets – a topic related to, but not the same as, consumer confidence, which is closely watched and reported on.

Our Main Street Survey targets “individual investors.” To qualify for the survey, an individual must have at least \$10,000 invested in stocks, bonds, mutual funds, or a self-directed IRA or 401(k) retirement account. The Glover Park Group polls 1,000 investors in order to secure a plus or minus 3 percentage point accuracy rate.

Let me give you an overview of this year’s survey respondents

- 34 percent had investments between \$10,000 and \$75,000 – and 25 percent had investments of \$150,000 or more
- 51 percent had incomes ranging from \$40,000 to \$150,000
- 43 percent were employed full time and 32 percent were retired

Key Confidence Questions and Results

Our four core questions ask:

1. How much confidence do you have in U.S. capital markets? Why or why not?
2. How much confidence do you have in capital markets outside of the U.S.? Why or why not?
3. How much confidence do you have in audited financial information released by publicly-traded U.S. companies?

And, in 2008, we added the fourth question, which is:

4. How much confidence do you have investing in U.S. companies that are publicly-traded?

So...What were this year’s results? How do they compare with prior years? What are we learning about investors?

Confidence in U.S. Capital Markets and Confidence in Capital Markets Outside of the U.S.

As I mentioned, the first year of our survey was 2007 – things were rosy and the numbers reflected flush capital markets:

- 84 percent of investors polled had a “great deal,” “quite a bit” or “some” confidence in U. S. capital markets
- 65 percent had confidence in capital markets outside of the United States
- 80 percent had confidence in audited financial information released by publicly-traded companies

But the real value of the survey is the information that we’ve collected for the years since 2007 -- years in which the United States has been mired in a widespread – and lingering – financial crisis.

In 2008, confidence in domestic markets dropped precipitously: from 84 percent down to 70 percent, while confidence in overseas markets (which largely avoided the mortgage crisis that year) dropped only 3 percentage points to 62 percent. Since then, confidence in U.S. capital markets has drifted up or down a few percentage points each year until this year when it fell 7 additional points to a low of 61 percent.

I say “a low of” 61 percent, but frankly 61 percent confidence in our capital markets is still impressive given market gyrations.

Confidence in Capital Markets Outside of the U.S.

In 2010, Europe joined the party with its unfolding sovereign debt crisis. As a result, confidence in overseas markets last year fell to 47 percent and this year to 43 percent.

Confidence in U.S. Publicly-Traded Companies

Nevertheless – and even more interesting – confidence in U.S. companies clocked in at 75 percent for 2008 and in years 2009 and 2010 investors expressed the same 75 percent confidence level in U.S. publicly-traded companies.

It was only this year that investor confidence in companies fell five percentage points to 70 percent – no doubt in reaction to the rollercoaster behavior of the markets that has been occurring on a daily basis. To me, this is a surprising and heartening number.

On the other end, those who stated that they had very little or no confidence in public companies has grown from 20 percent in 2008, to 24 percent in 2011. Still not bad.

I am very interested in what our panel has to say about these numbers. But it seems to me that investors are able to separate the general economic “noise” from the actual performance of particular companies.

By the way – I’d better tell you now that I am not an economist or analyst: this is my personal “armchair” diagnosis – which is why we have assembled our panel of experts. And my opinions are not those of the CAQ’s Board or its members.

Confidence in Audited Financial Information

As I mentioned earlier, the CAQ was established to promote audit quality and thereby increase confidence in our capital markets. Therefore, the fourth key question we ask is “how much confidence do you have in audited financial information released by publicly-traded U.S. companies? “

We introduce that question by reminding investors that publicly-traded companies are required to put out regular financial reports and that before they are published certain information in those reports is required by law to be audited by an independent external audit firm.

In 2008, in the throes of the financial crisis, 73 percent of investors had “some to a great deal of confidence” in audited financial information (only 20 percent had “very little or no confidence”). This year – 2011 – 69 percent of investors have confidence (and 26 percent are not confident).

I think these results demonstrate a deeply-ingrained trust in the information publicly-traded companies publish. I would further posit that this confidence is based, in large part, on the fact that financial statements are audited by independent external auditors. And, I would say that much of the distrust that was engendered by the Enron and other financial reporting scandals 10 years ago has been replaced by a renewed sense of trust – and reliance – on the audit profession.

A related question that we asked this year is how much confidence investors have in the various players that help protect them. Investors had the highest level of confidence in independent auditors at 67 percent, followed by financial advisers and brokers at 66 percent, and coming in third, with 63 percent, were independent audit committees. This, in my view, is further evidence of the trust placed in the independent auditor.

Financial Literacy

While the confidence numbers that we’ve seen over the past five years are impressive compared to economic indicators, we still would like to see them bounce back and even exceed 2007 levels. In my mind, investor confidence could be improved if they knew more about the rigors of the financial reporting process. Last summer the SEC sought public comment on the effectiveness of existing private and public efforts to educate investors.

The CAQ looked around and did not see a lot of easily accessible, plain language information about public company audits and auditors. To address that void, we have published two high level booklets: the Guide to Public Company Auditing and the In-Depth Guide to Public Company Auditing (which goes into a bit more detail but is not at all technical).

But we really wanted to expand our reach to the general public: our children, parents and grandparents. Accordingly, we are in the process of developing a series of brief 3 minute educational videos – for YouTube and our new CAQforInvestors website. The first “The System of Investor Protection” was released last week. It establishes our genre - film noir – and introduces the individuals who have responsibilities in the financial reporting supply chain: *(hold up postcard)*

- Ledger Lines, an external auditor with a granite chin
- Lotta Charts, a CFO and a whiz with the books
- Indy Pendent, the chair of an audit committee and a man of integrity
- Ida Figures, an internal auditor who’s hell on the numbers, and
- Johnny Law, the cop on the beat making sure that everyone is playing by the rules

The video was playing by the registration desk this morning – I hope you saw it. There are postcards that you can pick up with the web address – please take one and pass the word. Our next videos, which we

plan to release later this year, will provide an overview of the financial statement audit and of the important relationship between the audit committee and the auditor.

Closing

We have a full morning ahead – I and I think you'll find it both stimulating and informative.

But before today's program began, one more finding. One of the items we wanted to know in the survey this year was whether anything about the financial markets keeps individual investors up at night. We offered a number of options: not being able to pay the rent or bills, unemployment, availability of credit, among others. The most frequently cited concern was not having enough money for retirement (59 percent) and not being able to afford health care in the case of serious illness or injury (54 percent).

As you came in this morning, you saw a video of impromptu interviews held in late September with individual investors on the street.

We asked those folks on the street the same question about what keeps them up at night.

When we asked this gentleman what keeps him up at night, here's what he said: (the quote that the baby keeps him up).

Thank you. Enjoy your morning.