Center for Audit Quality (CAQ)
Research Highlights
September 2009

In a telephone survey conducted August 27 – September 3, 2009, The Glover Park Group and the CAQ fielded its Third Annual CAQ Individual Investor Survey, which included a series of questions related to investing, the capital markets and investor confidence. A summary of the findings representing 1,000 investors nationally are included below.

With a sample of this size, one can say with 95% certainty that the results have a margin of error of +/- 3 percentage points of what they would be if the entire population of investors had been polled. In this survey, "investors" are defined as:

- Adults (18+)
- Primary/shared decision-makers for handling household's savings and investments
- Reside in a household with $10,000 or more in investments – including stocks, bonds, mutual funds, IRAs, 401k, etc.

Confidence in capital markets:

- After dropping precipitously from 2007 (84%) to 2008 (70%), in the past 12 months, investors' confidence in the U.S. capital markets appears to have stabilized, rising slightly to 73% of investors indicating they have either some, quite a bit or a great deal of confidence in U.S. capital markets today (+3). (Q5)

    - The top three reasons investors say they have <u>at least some</u> confidence in the U.S. capital markets are information on economic data investors have seen, read or heard (40%), confidence/trust in the U.S. government and President Obama (31%), and a belief that the market is strong (12%). (Q6)

    - The top reasons investors say they have <u>little or no confidence</u> in the U.S. capital markets are the economic recession in general (23%), too much government spending/interference (15%), weak government oversight of the capital markets (14%), and volatility in the U.S. stock market (14%). (Q7)

- Investor confidence in capital markets outside the United States continues to slide; at 57%, the percentage of investors that have at least some confidence in foreign capital markets is down five points from 2008 (62%) and eight points overall since 2007 (65%). (Q8)

- Confidence investing in U.S. publicly-traded companies has remained stable since 2008; three in four investors (75%) indicate they are at least somewhat confident, unchanged from last year. (Q9)

- Investors continue to adapt to the economic environment; 61% of investors say they have changed their investment behavior in the last six months. The most frequently reported changes include choosing to invest less (22%), diversifying investments (8%), leaving current investments alone (7%), and taking a more conservative investing approach (6%). (Q13/14)

Confidence in audited financial information:

- The percentage of investors who have at least some confidence in audited financial information released by publicly traded companies has declined slightly over the last year, from 73% to 70%, but within the poll's margin of error, with a plurality of investors (42%) expressing some confidence. (Q10)

Economic outlook:

- Investors are split on how much longer they think the current recession will last; a slim majority believes the end may be in sight. Half of investors believe the current recession will last only another six months (15%) or another year (35%). Slightly less than half (47%) believe the recession will last a bit longer, with 22% believing it will last another two years and 25% feeling it will last more than two years. (Q23)

- There is no clear consensus on the impact of the economic stimulus. Roughly a third of investors (34%) believe the economic stimulus money is having an "insignificant impact on the economy," while another third (33%) believes the economic stimulus money is having a positive impact on the economy. Slightly more than one in five investors (23%) believe the economic stimulus money will make the economy run too hot, causing inflation to rise. (Q26)

- On the other hand, investors overwhelmingly agree (71%) that the financial crisis of 2008 demonstrates the need for a more globally consistent approach to standards, regulation, and enforcement in such areas as accounting, auditing, ethics and supervision, with nearly half of all investors (48%) strongly agreeing. (Q25)

- When asked what needs to happen with financial regulation, twenty-two percent believe we need an entirely new set of financial regulations, while twice as many (44%) believe we need tougher enforcement of existing regulations. Just 18% say that nothing more needs to be done to existing financial regulations since the market is currently self correcting, and ten percent of investors believe we need to reduce existing regulations. (Q24)

Protecting investor interests:

- When asked who does the best job of protecting their interests, investors say they themselves do it best (25%), followed by government regulations and oversight (13%), and auditors who audit publicly traded companies (13%). (Q11)
  - When asked who else does a good job of protecting investor interests, auditors emerge as a clear protector of investors**.** Looking at investors' top choices combined, individual investors themselves (38%), auditors (27%), and government regulations and oversight (23%) come out on top. (Q12)
- When asked to select which regulatory structure they think would best protect investors – a council or a single regulatory body – no clear preference emerges; in fact, nearly one in four (23%) could not even answer the question. For those who did feel they could offer an opinion, opinions were decidedly mixed. Four in ten (44%) investors think a council of agencies charged with monitoring systemic risk that could impact the entire financial sector would do the best job of protecting investors while 33% say investors would be better protected by specifically tasking a single regulatory agency (33%). (Q27)

Deterring fraud:

- Enforcing stronger penalties for those who commit fraud would do the most to enhance the detection and deterrence of corporate fraud (56%) according to investors. Another preferred way of enhancing the detection of fraud is to increase transparency of company financial information (36%). (Q28)
  - Other, less preferred means of enhancing the detection and deterrence of fraud include "providing enhanced training…for public company auditors" (18%), educating corporate boards and management better (16%), developing best practices by sector (13%), and establishing an entity to collectively share information and learn from previous frauds (12%).

Keys to investment decisions:

- Investors were asked to evaluate what pieces of information they considered important when deciding to invest. The pieces of information that were of highest importance include: (Q15-22)
    - Financial performance measures (62%)
    - Disclosures about off-balance sheet entities (47%)
    - Compensation and incentives for senior executives (42%)

Key Information in Investment Decision-Making Process
(ranked by very important)

Q: As you evaluate publicly-traded companies to determine whether or not to invest, how important are the following pieces of information in your decision-making process? Would you say each statement is very important, fairly important, or not important when you decide whether or not to invest, or do you not know?	Very Important %	Fairly Important %	Not Important %
Q. 15 Financial performance measures	62	26	6
Q. 16 Disclosures about off-balance sheet entities	47	24	12
Q. 19 Compensation and incentives for senior executives	42	24	27
Q. 18 Management's commentary on the risks facing the business	39	36	19
Q. 22 Sustainability or climate change information	34	33	23
Q. 17 Management's commentary on the business's performance	33	34	26
Q. 21 Environmental performance indicators	26	37	26
Q. 20 Non-financial performance indicators	25	40	18