CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

The CAQ's Fourth Annual Individual Investor Survey

"The Main Street Investor Survey"

– Key Findings –

Conducted by:
The Center for Audit Quality

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www.TheCAQ.org

Center for Audit Quality
Fourth Annual Main Street Investor Survey

The Center for Audit Quality (CAQ) is 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, convenes and collaborates with other stakeholders to advance the discussion of critical issues requiring action and intervention, and advocates policies and standards that promote public company auditors' objectivity, effectiveness and responsiveness to dynamic market conditions. The CAQ is based in Washington, D.C. and is affiliated with the American Institute of Certified Public Accountants.

As part of its efforts to enhance understanding of and confidence in capital markets, the CAQ has conducted a yearly survey of U.S. investors since 2007. Each year the survey measures investors' confidence in U.S. capital markets, global capital markets, and audited financial information, as well as confidence in investing in U.S. publicly-traded companies. The survey also looks at current events in the world of finance and economics as they relate to investors' perceptions and behaviors.

Methodology

This survey of 1,001 investors was conducted from July 14-22, 2010 via telephone using a standard random digit dial (RDD) methodology. The survey is a project of the CAQ and the Glover Park Group.

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.

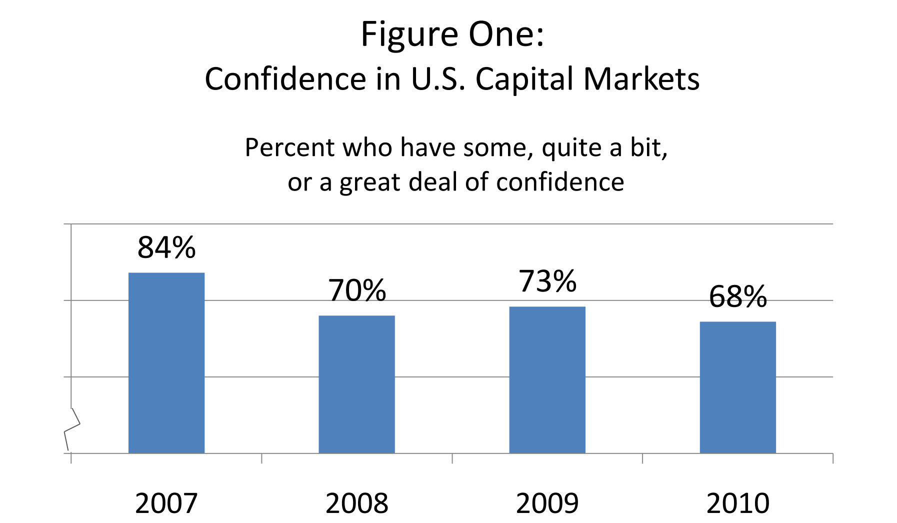
In this survey, "investors" are defined as:

- Adults (18+)
- Individuals who are the primary decision-makers for handling their household's savings and investments, or share this role equally with another household member
- Individuals who live in households with $10,000 or more in investments – including stocks, bonds, mutual funds, IRAs, 401k, etc.
- In the analysis below, high net worth investors are the subsample of investors with $100,000 ($100K) or more in investments.

Key Findings

Confidence in US Capital Markets Drops, But Remains Fundamentally Solid

Each year, survey respondents have been asked how much confidence they have in U.S. capital markets. After dropping precipitously from 2007 (84%) to 2008 (70%), confidence in U.S. capital markets stabilized in 2009. In the past 12 months, investors' confidence in U.S. capital markets has dropped five percentage points. Two-thirds (68%) of investors indicate they have some, quite a bit, or a great deal of confidence in U.S. capital markets today.



Q: At the current time, how much confidence would you say you have in U.S. capital markets? Would you say you have a great deal of confidence, quite a bit of confidence, some confidence, very little confidence or no confidence at all?

The wealthiest investors – those with investments of $100K or more – have more confidence in U.S. capital markets than those whose invested assets are less than $100K (74% vs. 66%).

Positive Economic News Is the Top Reason Given for Confidence in U.S. Markets

Those who expressed at least some confidence in U.S. capital markets were asked why they felt that way. The top responses given are: the economic news and data they see (31%); trust in the government in general or in President Obama specifically (22%); strength of the market (15%); and perceptions that the recession is over or is winding down (15%).

The reasons investors give have changed since last year. This year, fewer cite the economic news and data they have been exposed to than did last year (31% vs. 40%). Fewer cite their trust in government or in President Obama specifically than did so last year (22% vs. 31%).

Investors' reasons for confidence in the market do not differ by amount invested. Those with invested assets of $100K or more cite the same reasons as those with investments under $100K.

Figure Two:
Reason for Confidence in U.S. Capital Markets

	2009	2010
Based on information/economic data I read/ see/ hear	40%	31%
Confidence/Trust in US government and/or Obama	31%	22%
Market is strong	12%	15%
Recession is over/ending (New Code)	-	15%
More/New government controls, regulations, transparency	4%	5%
Financial information is independently audited	4%	3%
U.S. tax rate	0%	2%
Other (VOL.)	6%	8%

Q: You indicated that you have at least some confidence in U.S. capital markets. For what reasons do you have confidence in U.S. capital markets? (OPEN END W/PRE-CODES)
Notes: Asked of those with at least some confidence in U.S. capital markets.
Data adds to >100% due to multiple responses

Government Actions and Poor Economic Conditions Are Most Frequent Reason for Lack of Confidence in U.S. Markets

Those who have little or no confidence in U.S. capital markets were asked why they felt that way. The top two reasons given are too much government spending/ interference (27%) and the economic crisis/recession in general (23%). Some also cite weak government oversight of the capital markets and volatility in the U.S. stock market.

Investors' reasons for their lack of confidence have shifted since 2009. Specifically, more cite government spending and interference this year than last (27% vs. 15%). Fewer investors mention bank failures than did in 2009 (4% vs. 11%). Mentions of audit shortcomings and the foreclosure crisis also dropped in the last year.

Figure Three:
Reason for Lack of Confidence in U.S. Capital Markets

	2009	2010
Too much government spending/interference	15%	27%
Economic Crisis/Recession	23%	23%
Weak government oversight of capital markets	14%	15%
Volatility of US stock market	14%	10%
Lack of jobs/outsourcing	3%	6%
Weakness of the U.S. dollar	7%	5%
Bank failures	11%	4%
Credit crunch	4%	3%
Financial information isn't audited closely enough	5%	1%
Home foreclosure crisis	5%	1%

Q: You indicated that you have little or no confidence in U.S. capital markets. For what reasons do you have little or no confidence in U.S. capital markets? (OPEN END W/PRE-CODES)
Notes: Asked of those with little or no confidence in U.S. capital markets.
Multiple responses accepted
Only answer given by 4% in 2009 or 2010 of more listed

Investors' reasons for lack of confidence in U.S. capital markets do not differ by amount invested.

Confidence in Capital Markets Outside the United States Declines Sharply

Confidence in capital markets outside the United States continued a slide that began in 2008. Indeed, this year's decline was the steepest to date: confidence fell 10 percentage points from 2009 to 2010. It has fallen 18 percentage points overall since 2007. Currently, less than half of American investors (47%) have confidence in markets outside the United States. It is also worth noting that, as in previous years, 15% of investors were unable to answer this question.

Figure Four:
Confidence in Capital Markets Outside the United States

Q: At the current time, how much confidence would you say you have in capital markets outside the U.S.? Would you say you have a great deal of confidence, quite a bit of confidence, some confidence, very little confidence or no confidence at all?

Investors with investments of $100K or more have greater confidence in capital markets outside the United States than those with less than $100K invested do (53% vs. 42%).

Confidence in Investing in U.S. Public Companies Remains Stable

Confidence in investing in U.S. companies that are publicly-traded has remained stable since 2008; three in four investors (75%) indicate they are at least somewhat confident, unchanged from 2009 (75%) and 2008 (75%).

Here again, higher net worth investors have more confidence investing in U.S. publicly-traded companies (81%) than those with less than $100K invested do (68%). This was also the case in last year's survey. In 2009, higher net worth investors had more confidence investing in U.S. publicly-traded companies than those with less invested did (83% vs. 70%).

Fewer Changes in Investor Behavior

In 2008 and 2009, six in ten investors reported that they had changed their investment behavior in the previous six months due to the state of the economy. Since 2009, the number of investors adjusting their investment behavior in reaction to economic conditions has dropped 13 percentage points. This year, investors are about equally divided between those who say they have changed their behavior (48%) and those who say they have not (52%).

Among those who have made changes, the most prevalent change was investing less money in the markets. Eighteen percent of investors say they have invested less money in the past six months due to the economy. This is down slightly from 2009 (22%) and 2008 (23%). Other frequently reported changes include diversifying investments (7%) and investing more conservatively (6%). The number of investors who say they have left their investments alone has dropped steadily from 15% in 2008 to just 3% today.

Figure Six: Changes in Investment Behavior in Reaction to Economy

	2008	2009	2010
Investment Behavior Has Not Changed	40%	39%	52%
Investment Behavior Has Changed	60%	61%	48%
Changes in investment behavior			
Invested less money	23%	22%	18%
Diversified my investments	11%	8%	7%
More conservative approach	0%	6%	6%
Left my current investments alone	15%	7%	3%
Invested more	3%	5%	3%
Financially unable to invest more	5%	4%	3%

Q. Given the current state of the economy, would you say your investment behavior has changed in the last six months? IF YES: How would you say your behavior has changed? (OPEN END W/PRE-CODES)
Note: Only those changes mentioned by 3% or more of participants shown.

The likelihood of changing one's investment behavior does not differ by amount invested; those with $100K or more invested (48%) and those with investments under $100K (48%) are equally likely to report changes in their behavior. However, there is one slight difference in *how* investment behavior has changed; those with less than $100K invested were more likely to say they invested less (20%) than those with $100K or more invested (15%).

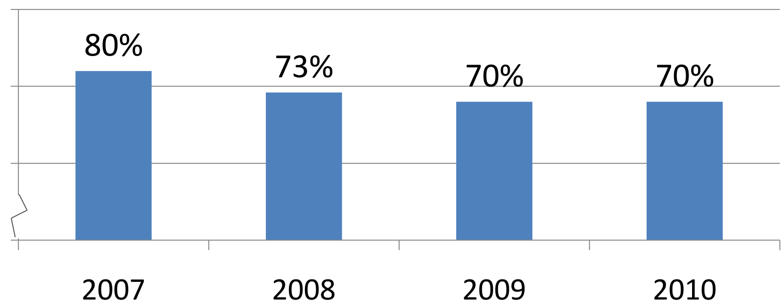
Confidence in Audited Financial Information Remains Steady

In 2007, 80 percent of investors expressed confidence in audited financial statements. After declining to 70 percent in 2009, confidence in audited financial information released by publicly-traded U.S. companies has remained unchanged.

High net worth investors (those with investments of $100K or more) have more confidence in audited financial information than those with invested assets under $100K (76% vs. 66%).

Figure Seven:
Confidence in Audited Financial Information Released by Publicly-traded U.S. Companies

Percent who have some, quite a bit, or a great deal of confidence



Q: All publicly traded companies in the U.S. are required to put out regular financial reports. Before they are published, certain information in these reports is required by law to be audited by an external public company audit firm. Based on what you know, how much confidence do you personally have in audited financial information released by publicly-traded U.S. companies? Would you say you have a great deal of confidence, quite a bit of confidence, some confidence, very little confidence or no confidence at all?

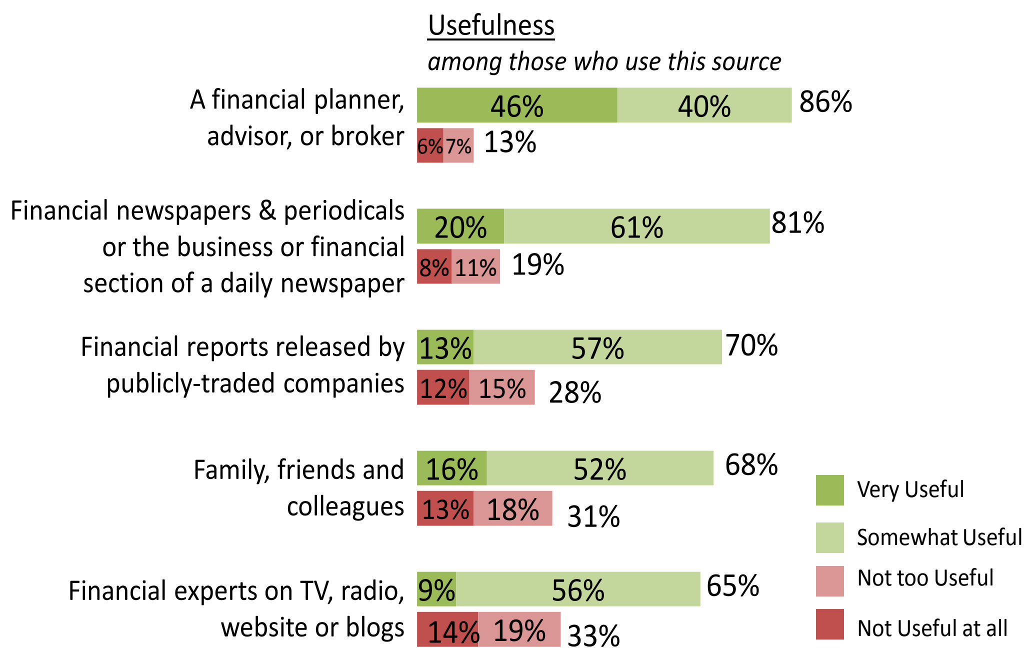
Financial Reports Released by Publicly-Traded Companies Considered Useful by Most Investors

Investors were asked about the usefulness of five sources of investment information and advice. By far the most useful source is a financial planner, advisor, or broker. Among those who get advice or information from such a financial professional, nearly nine in ten (86%) find it useful and almost half (46%) find it *very* useful. Most investors (81%) also find financial newspapers and periodicals useful.

Seventy percent of investors find financial reports released by publicly-traded companies useful. Investors' opinions about the usefulness of these financial reports do not differ by amount invested.

Figure Eight:

Usefulness of Sources of Investment Information and Advice



Q: I am going to read a list of sources of investment information and advice. For each, please tell me how useful you find this source. If you do not use the source please tell me and we will move on. How useful is the information or advice you get from ______? Very useful, somewhat useful, not too useful, not useful at all or don't you use this source?

Auditors, Regulators, Financial Professionals and Journalists Do the Best Job of Protecting Investor Interests

Respondents were asked who or what (other than investors themselves) does the best job of protecting investors' interests. Auditors who audit publicly-traded companies share the top spot with government regulations and oversight, financial professionals, and investigative journalists. A third of investors (32%) say auditors are among the top two, and 16 percent select auditors as the single group that does the best job protecting investors' interests.

It is also worth noting that almost one in five (17%) volunteer that they do not believe any of the eight entities does a good job.

Investors' opinions about who does the best job protecting investors do not differ by amount invested.

Figure Nine:
Best Investor Protection

	Combined*	First Choice Only
Auditors who audit publicly-traded companies	32%	16%
Government regulations and oversight	30%	17%
Financial analysts and brokers	27%	17%
Investigative journalists	26%	15%
Institutional investors	11%	6%
Corporate Boards of Directors	9%	4%
Stock exchanges	8%	4%
Corporate management	6%	2%
Other (VOL.)	3%	2%
None of the above (VOL. 1st Choice)		17%

Q. There are a number of different entities, individuals and processes that help protect investors who put their money in the capital markets. In your opinion, other than individual investors themselves, which of the following does the best job of protecting investor interests? And aside from ______, who else does a good job of protecting investor interests?

Notes: * Data exceed 100% due to multiple response
VOL = volunteered response

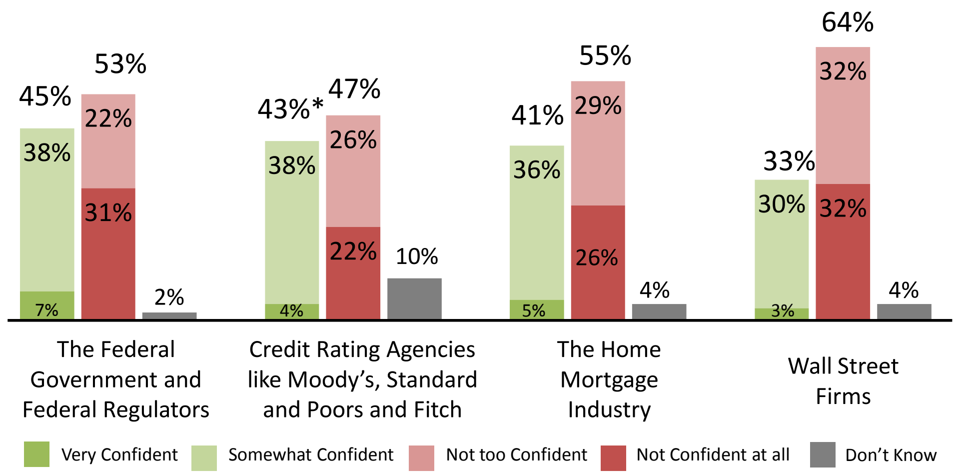
Investors Lack Confidence that Measures Are Being Put in Place to Forestall Another Financial Crisis

Investors were asked how confident they are that various entities are putting measures in place that will decrease the likelihood of another financial crisis. None of the four entities asked about inspire confidence in a majority of investors. Forty-five percent of investors have confidence in the federal government's efforts, though less than one in ten (7%) say they are very confident.

The credit rating agencies get similar confidence ratings. Ten percent volunteer that they do not know enough about the agencies' efforts to say if they are confident that the agencies are putting measures into place that will make a future financial crisis less likely. Four in ten (41%) have confidence in the efforts of the home mortgage industry. Wall Street firms inspire the least confidence. Almost twice as many investors say they do *not* have confidence in Wall Street (64%) as say they do (33%), and a full third express no confidence at all in the firms' efforts.

Investors' levels of confidence in these four entities do not differ by amount invested.

Figure Ten:
Confidence in Entities Deploying Measures
to Prevent Another Financial Crisis



Q: How confident are you that _____ [is/are] putting measures into place that will make another financial crisis less likely in the future? Are you very confident, somewhat confident, not too confident or not confident at all?
** Adds to 43% due to rounding*

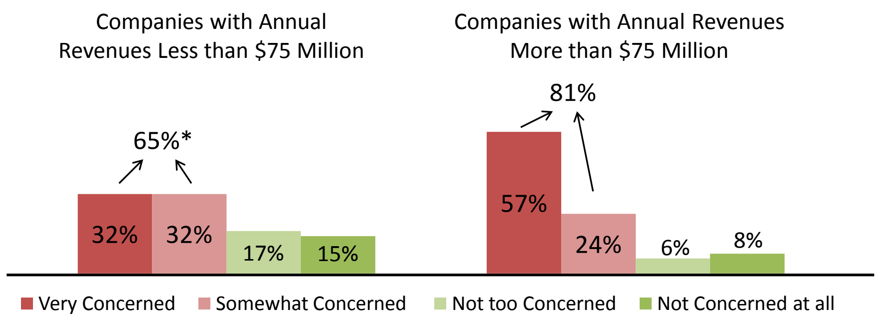
Investors Are Concerned About Exempting Companies from a Requirement that Independent Auditors Evaluate Public Companies' Financial Reporting Systems

Investors are concerned about exempting companies from an existing regulation that requires independent auditors to evaluate the systems companies use for generating their financial information.

Investors were informed that the President had just signed legislation exempting companies with market capitalization under $75 million from having to comply with the provision of the Sarbanes-Oxley act of 2002 (SOX) that requires that independent auditors evaluate the systems that public companies use for generating their financial information. When asked how concerned they are about this, almost two-thirds (64%) say they are concerned, including a third who are *very* concerned.[1]

Figure Eleven:

Concerns about Exemptions from SOX's Provision that Independent Auditors Evaluate Public Companies' Financial Reporting Systems



INTRODUCTION: As you may know, in 2002 following several corporate scandals such as WorldCom and Enron, Congress passed the Sarbanes-Oxley Act. This legislation, commonly called SOX, was designed to reduce the likelihood of corporate accounting fraud. A provision of SOX requires that independent auditors evaluate the systems that public companies use for generating their financial information.

Q1: The President just signed legislation that exempts companies with annual revenues of less than $75 million from having to comply with this provision of SOX. As an investor how concerned are you, if at all, that these smaller public companies will be permanently exempted from this provision of SOX?

** Adds to 65% due to rounding*

Q2: Congress may also consider extending this exemption to public companies with revenues above $75 million. How concerned, if at all, would you be if larger companies were exempted from this provision of SOX?

[1] The question wording was modified during the field period as outside events warranted. At the start of fielding it read, "Congress is considering…" On the second day of fielding and after the Senate passed the final financial regulatory reform legislation, the wording was changed to "Congress just passed…" And just prior to the end of our field period and after the President signed the legislation into law, the wording was changed to "The President just signed…"

Investors are even more concerned about the possibility of this exemption being extended to public companies with market capitalization of more than $75 million (81%). Over half (57%) are very concerned about this possibility.

Overall, investors' concerns about these changes to SOX were high regardless of the amount of their investments.