



## The CAQ's Fifth Annual Main Street Investor Survey

### – Key Findings –

**Conducted by:  
The Center for Audit Quality**

**October 2011**

## Center for Audit Quality Fifth 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 1,003 investors was conducted from September 6-14, 2011 via telephone using a standard random digit dial (RDD) methodology. Interviews were conducted with respondents on landline and cellular telephones. 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 U.S. Capital Markets Drops

Each year since 2007, CAQ has asked investors how much confidence they have in U.S. capital markets. This year, six-in-ten (61%) investors indicate they have some, quite a bit, or a great deal of confidence in U.S.

capital markets today, a decline of seven percentage points from 2010.

Confidence in U.S. capital markets declined 14 percentage points between 2007 and 2008 and then remained steady from 2008 to 2009. Over the past two years – that is since 2009 – confidence has dropped steadily.

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 (70% vs. 57%).



## 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 (36%); and trust in the government in general or in the President specifically (25%). Some also cite the strength of the market (14%) and perceptions that the recession is over or is winding down (10%).

The reasons investors give have changed somewhat since last year. This year, more cite the positive economic news and data they have been exposed to than did last year (36% vs. 31%). However, fewer cite perceptions that the recession is over or is winding down this year (10%) than did last year (15%).

Figure Two: Reasons for Confidence in U.S. Capital Markets			
	2009	2010	2011
Based on information/economic data I read/see/hear	40%	31%*	36%*
Confidence/Trust in US government and/or President	31%	22%*	25%
Market is strong	12%	15%	14%
Recession is over/ending^	-	15%	10%*
More/New government controls, regulations, transparency	4%	5%	6%
Financial information is independently audited	4%	3%	2%
U.S. tax rate	-	2%	2%
Potential rolling back of financial regulations	-	-	2%
Other (VOL.)	6%	8%	7%
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 add to >100% due to multiple responses ^ New code added in 2010 *Change is statistically significant from previous year			

## Economic Crisis/Recession and Too Much Government Spending/Interference Are Most Frequent Reasons 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 the economic crisis/recession in general (26%) and too much government spending/interference (18%). Some also cite weak government oversight of the capital markets (12%) and volatility in the U.S. stock market (9%).

Investors' reasons for their lack of confidence are similar to what they were in 2010, with one exception: fewer cite government spending and interference this year than last (18% vs. 27%).

Figure Three: Reasons for Lack of Confidence in U.S. Capital Markets			
	2009	2010	2011
Economic Crisis/Recession	23%	23%	26%
Too much government spending/interference	15%	27%*	18%*
Weak government oversight of capital markets	14%	15%	12%
Volatility of US stock market	14%	10%	9%
Lack of jobs/outsourcing	3%	6%	7%
Pace of economic recovery	-	-	5%
Weakness of the U.S. dollar	7%	5%	5%
Bank failures	11%	4%*	4%
Credit crunch	4%	3%	3%
Financial information isn't audited thoroughly/enough	5%	1%*	3%
Home foreclosure crisis	5%	1%	1%
<p>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)</p> <p>Notes: Asked of those with little or no confidence in U.S. capital markets. Multiple responses accepted Only answer given by 4% in 2009, 2010 or 2011 or more listed *Change is statistically significant from previous year</p>			

## Confidence in Capital Markets Outside the United States Continues to Ebb

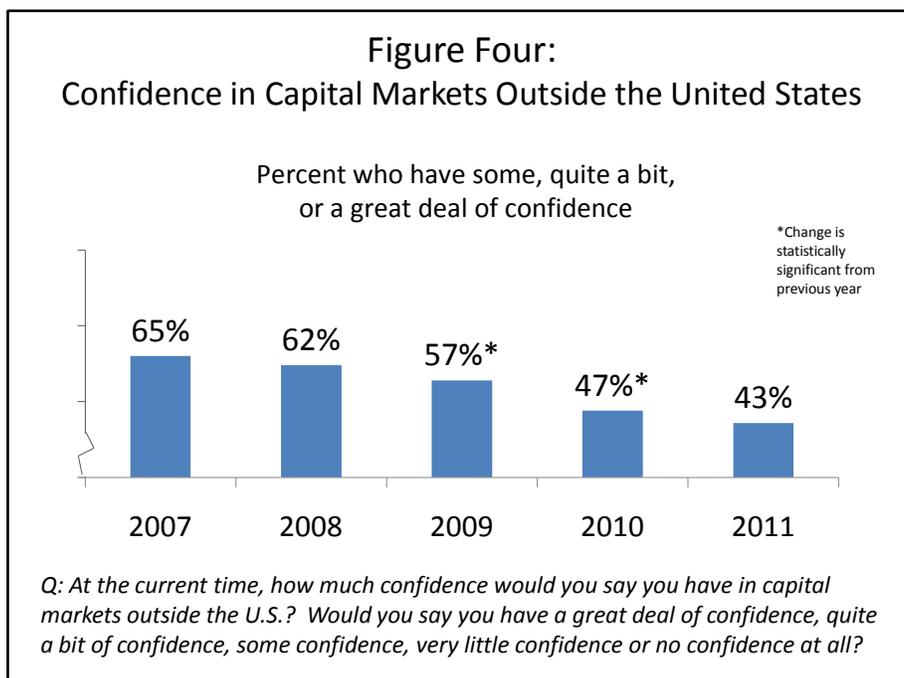
Confidence in capital markets outside the United States fell from 47% to 43% in 2011.

Although this decline is not statistically significant, its direction indicates a further eroding of confidence in these markets.

Currently, as many American investors say they have no confidence in markets outside the United States (42%) as say they do have confidence (43%). It is also worth noting that,

as in previous years, 15% were unable to answer this question. Altogether, confidence in capital markets outside the United States has fallen 22 percentage points since 2007.

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 (47% vs. 40%). Not surprisingly, investors who indicate they have investments outside the U.S are more confident in these markets than those that do not (61% vs. 30%).

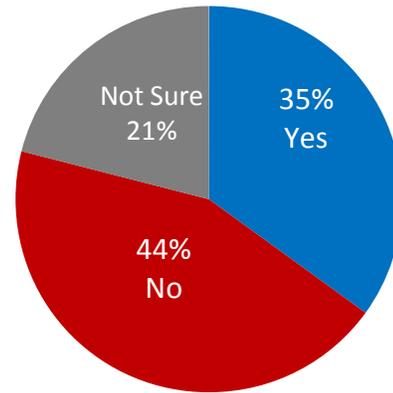


## Not Many Invest Overseas

When asked if their current portfolio includes investments outside of the United States, a majority of investors say it does not (44%) or they aren't sure (19%). A little more than a third of investors (35%) report that their current portfolio does include investments outside of the United States.

Here again, the wealthiest investors – those with investments of \$100K or more – are more apt to say their current portfolio contains investments outside of the United States than those whose invested assets are less than \$100K (49% vs. 28%).

Figure Five:  
Few Invest Overseas



*Q: As far as you know, does your current portfolio include investments outside the U.S.? If you are not sure, please say so.*

**Events and Bad Economic Climate Worldwide and in Europe are Most Frequent Reasons for Lack of Confidence in Markets Outside of the U.S.**

Those who have little or no confidence in capital markets outside of the United States were asked why they felt that way. The top two reasons given are the debt problems and bad economic climate worldwide (23%) and the debt crisis and problems in Europe or Greece specifically (11%).

Figure Six: Reasons for Lack of Confidence in Capital Markets Outside U.S.	
	2011
Debt problems / bad economic climate worldwide, in other countries	23%
Debt crisis / problems in Europe / Greece (specifically)	11%
Don't know enough about markets overseas	9%
Lack of stability / too volatile / poor performance in overseas markets	8%
Don't pay attention to markets overseas / not invested	6%
Unstable governments / political turmoil	6%
U.S. problems affect other markets and vice versa	6%
Lack of confidence in foreign leaders / political systems	5%
Overseas markets more unstable than U.S. / don't trust them	5%
Should invest in U.S. for sake of our economy	5%
Media reports	4%
Lack of oversight / no controls in place	2%
No specific reason	6%
Other	7%
<p><i>Q: You indicated that you have little or no confidence in capital markets outside of the U.S. For what reasons do you have little or no confidence in capital markets outside of the U.S.? (OPEN END)</i></p> <p>Notes: Asked of those with little or no confidence in U.S. capital markets. Multiple responses accepted</p>	

### Confidence in Investing in U.S. Public Companies Declines for the First Time

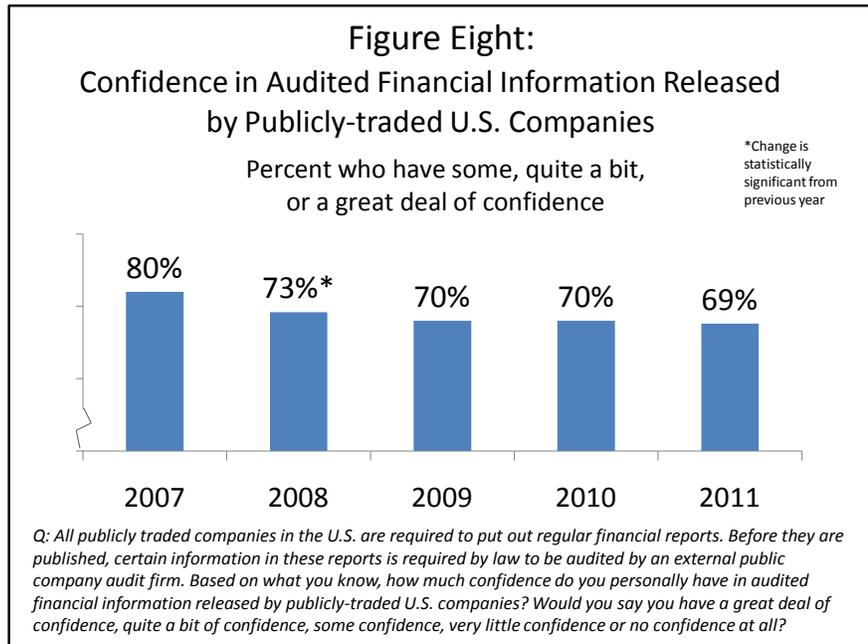
Confidence in investing in U.S. companies that are publicly-traded had remained stable at 75 percent since first asked in 2008. This year, however, confidence dropped five percentage points to 70 percent.

Here again, higher net worth investors have more confidence investing in U.S. publicly-traded companies (79%) than those with less than \$100K invested do (63%).



**Confidence in Audited Financial Information Remains Steady**

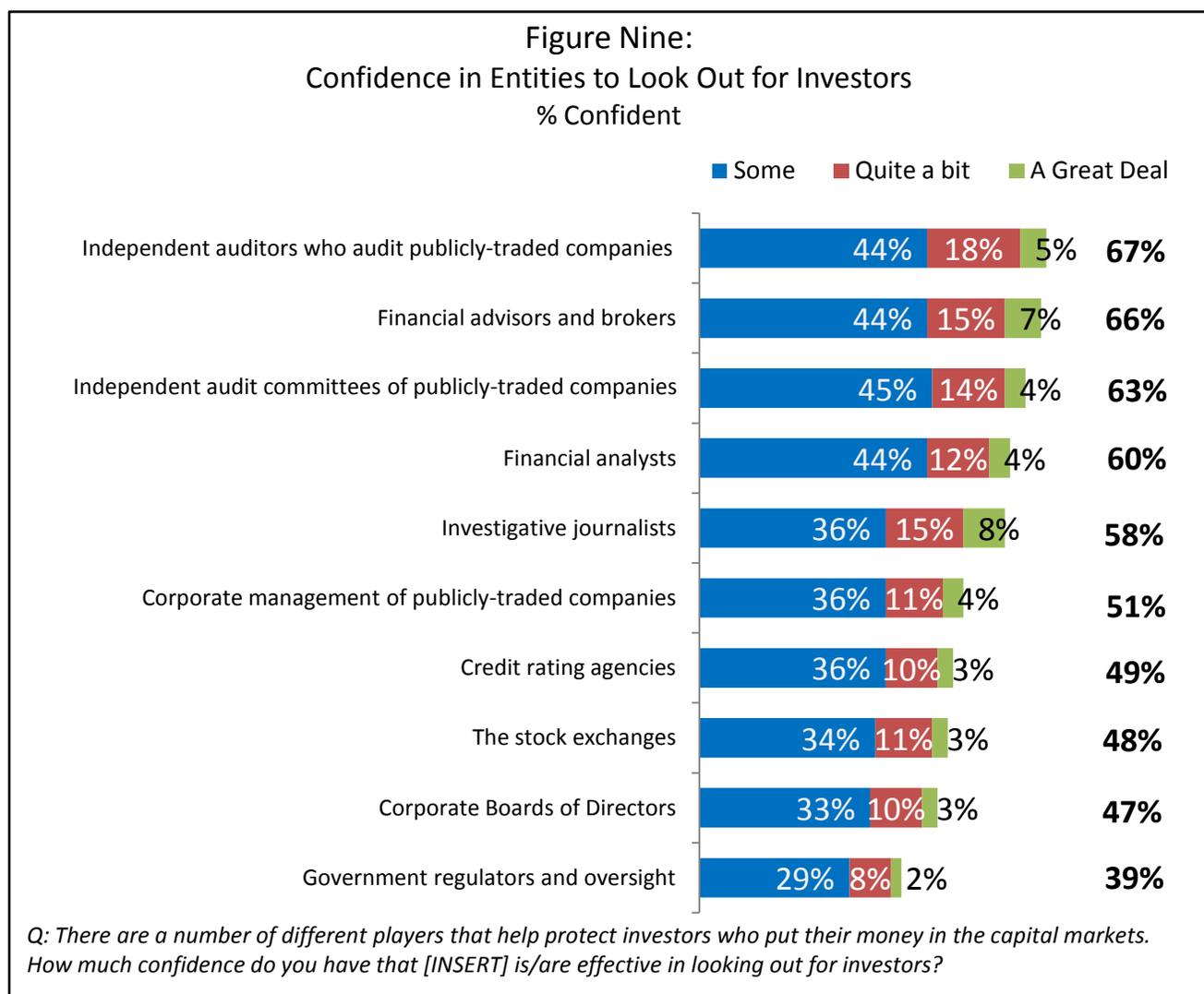
In 2007, 80 percent of investors expressed confidence in audited financial statements. After declining to 70 percent in 2009, confidence in audited financial information released by publicly-traded U.S. companies has remained unchanged.



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 (77% vs. 65%).

### Auditors – along with Financial Advisors and Brokers and Audit Committees – Top the List of Entities Investors Say are Looking out for Investor Interests

Respondents were asked how much confidence they have in a number of different entities when it comes to effectiveness in looking out for investors' interests. While less than 1 in 4 investors express a great deal or quite a bit of confidence in any of the entities tested, investors express the most confidence in independent auditors, independent audit committees and financial advisors, brokers and analysts as the entities most likely to be looking out for them. Two-thirds of investors (67%) are confident that auditors who audit publicly-traded companies are effective in looking out for investors. A similar number (66%) are confident that financial advisors and brokers are effective in looking out for investors. Majorities of investors are also confident in independent audit committees of publicly-traded companies (63%), financial analysts (60%), investigative journalists (58%) and corporate management of publicly-traded companies (51%).



## Most Say Their Investment Behavior Has Not Changed

In 2008 and 2009, majorities of investors reported that they had changed their investment behavior in the previous six months due to the state of the economy. In 2010, investors were about equally likely to say they had (48%) and had not (52%) changed their investment behavior. This year, the majority of investors (64%) say they have *not* changed their behavior, almost double the number who say they have (35%) made changes.

Among those who have made changes, the most prevalent changes were taking a more conservative approach to investing (12%) and investing less money (10%). In past years, the most common change in investment behavior was investing less money.

Figure Ten: Changes in Investment Behavior in Reaction to Economy				
	2008	2009	2010	2011
Investment Behavior Has <u>Not</u> Changed	40%	39%	52%*	64%*
Investment Behavior Has Changed	60%	61%	48%*	35%*
<i>Changes in investment behavior</i>				
More conservative approach	0%	6%	6%	12%*
Invested less money	23%	22%	18%*	10%*
Diversified my investments	11%	8%	7%	4%
Left my current investments alone	15%	7%	3%	2%
Financially unable to invest more	5%	4%	3%	2%
Invested more	3%	5%	3%	1%
<i>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)</i> <i>Note: Only those changes mentioned by 3% or more of participants shown.</i> *Change is statistically significant from previous year				

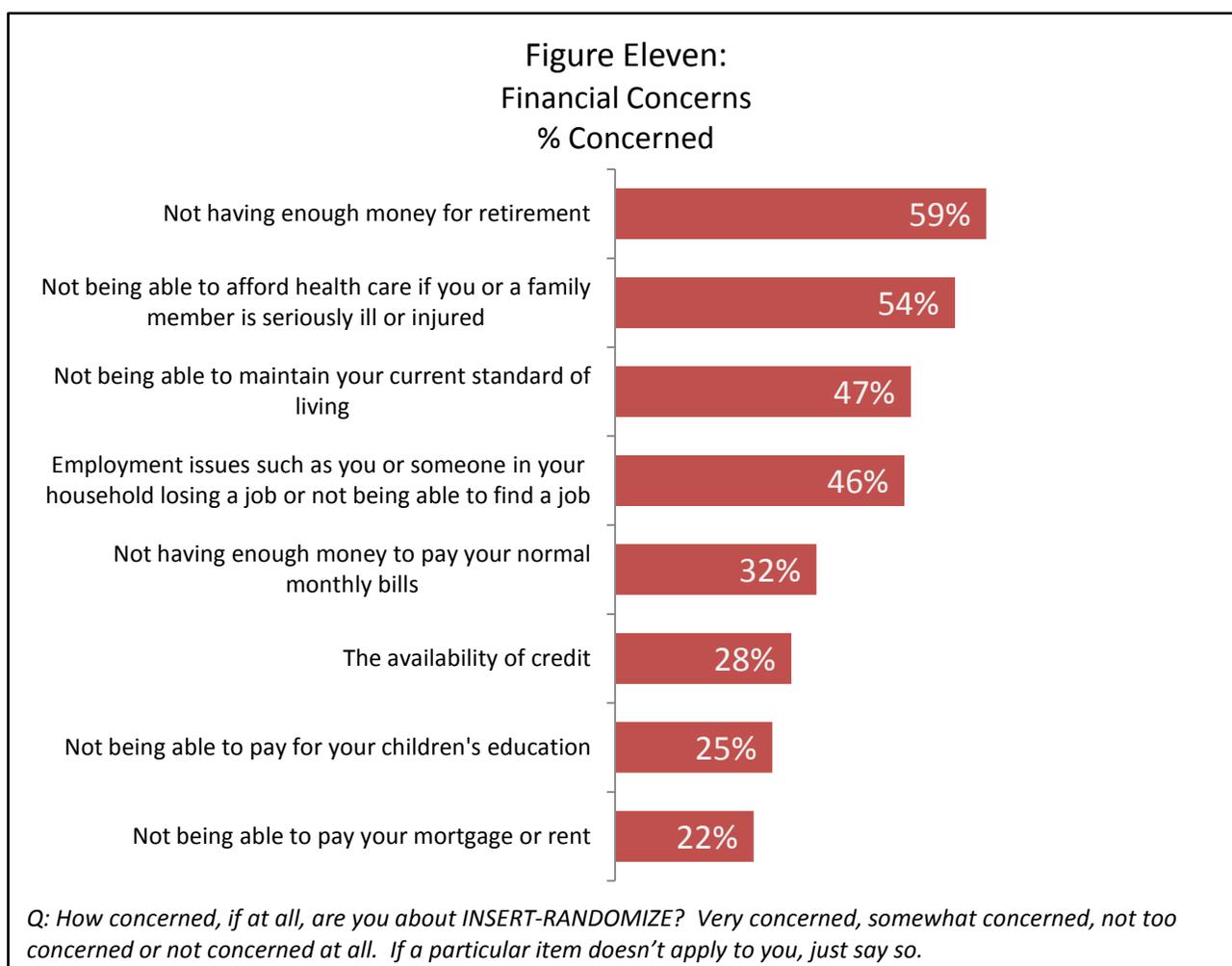
## Those with Pensions Are Confident in Their Pension Plan

Half (50%) of investors report that they or their spouse has a traditional pension plan. Investors who are still working and have pension plans are optimistic that their pension funds will be there for them when they retire. Indeed, almost nine in ten (86%) have at least some confidence that their pension funds will be there when they retire.

## Money for Retirement and Health Care Emergencies Are Financial Concerns

Respondents were asked whether a number of financial concerns keep them up at night. The financial concerns that most trouble investors – in fact, the only two that weigh heavy on the minds of over half the investors – are not having enough money for retirement (59%) and not being able to afford health care if a household member was seriously ill or injured (54%).

At first glance these findings suggest most investors are feeling relatively secure. However, there are differences among different classes of investors. Majorities of those with less than 100K in investment are concerned about not only retirement funds (69%) and health care emergencies (59%), but also not being able to maintain their current standard of living (53%) and employment issues (51%).



Investors were also asked whether if any other financial concern keeps them up at night. One in five (20%) said yes. The most commonly mentioned concerns were about general economic conditions in the U.S. and world (12%) and lack of confidence in the federal government (12%).

**Investors Have Varied Reasons for Optimism About Future of U.S. Economy; Over a Third Are Unable to Point to Any Promising Signs**

Respondents were asked an open-ended question about what, if anything, makes them optimistic about the future of the U.S. economy at this time.

More than a third (37%) of investors could not name anything that made them optimistic. Those with less than \$100,000 in investments were more likely than those with bigger nest eggs to report that they could not find any reason for optimism (42% vs. 32%).

**Figure Twelve:  
Reasons for Optimism in the Future of U.S. Economy**

2011	
Nothing / additional negative comment	37%
Prospects of change in presidential leadership / next election	17%
Past history / always comes back	11%
Spirit, ingenuity of our people / America	9%
General hope / optimism / non-specific positive comment	6%
President Obama's leadership	5%

*Q: What, if anything, makes you optimistic about the future of the U.S. economy at this time?  
Multiple responses accepted  
Only answers given by 5% of more listed*

Among those who could respond with something they see as a cause for optimism, the most frequent responses cite the potential political change in the next election (17%) and the U.S. economy's past recoveries (11%).

**A Quarter Plan on Making Major Purchase in the Coming Year**

Respondents were asked if they are planning on making any major purchases such as a home or car or taking a dream vacation in the coming year. A quarter of investors (25%) indicate they have such plans, whereas 74% of investors do not.

