

The CAQ's Sixth Annual

# Main Street Investor Survey



Commissioned by The Center for Audit Quality

September 2012



**CENTER FOR AUDIT QUALITY**

*Serving Investors, Public Company Auditors & the Markets*

[www.TheCAQ.org](http://www.TheCAQ.org)

Dear Friend of the CAQ:

As part of its efforts to enhance understanding of and confidence in capital markets, the CAQ has commissioned a yearly survey of U.S. individual investors since 2007. Each year the survey measures investor 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 asks about the financial and economic landscape.

This year's results suggest that confidence about domestic markets may have stabilized and perhaps even begun to rebound. In 2012, investors' confidence in U.S. capital markets increased four percentage points, to 65 percent, after declining or remaining static every year since 2008. Investors' ratings on two other key metrics—confidence in investing in U.S. companies and confidence in audited financial information—remained steady at 71 percent and 69 percent, respectively.

American investors also are more optimistic than not about the direction of the U.S. economy; the majority (70%) believe the U.S. economy will stay the same (39%) or improve (31%) over the next 12 months. Most investors (70%) report that they did not change their investment behavior in the months leading up to the survey.

Confidence in capital markets outside the U.S. fell eight percentage points to 35 percent, continuing a decline that began in 2008.

I hope you find, as we have, that the Main Street Investor Survey has been of particular importance in tracking the extent to which the financial crisis that began in 2008 has impacted investor confidence and behavior.



Cindy Fornelli  
Executive Director

**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; and
- Individuals who live in households with \$10,000 or more in investments—including stocks, bonds, mutual funds, IRAs, 401k, etc.

Thirty-six percent of survey participants say their portfolio is valued at between \$10,000 and \$99,999. Forty-one percent have portfolios of \$100,000 or more, with 31 percent of respondents reporting portfolio value of \$150,000 or greater. (25 percent did not know or refused to answer.)

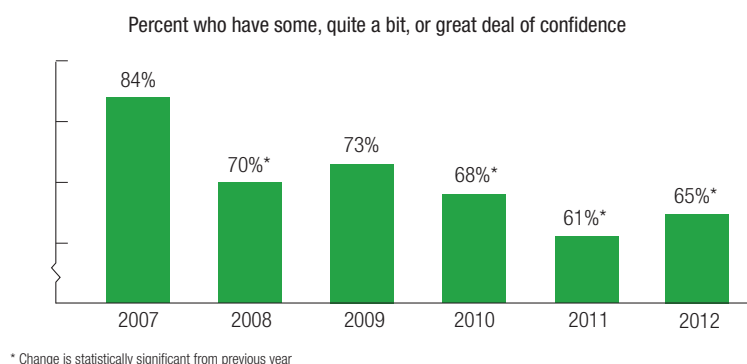
# Confidence Metrics

## Confidence in U.S. Capital Markets

Each year, the CAQ has asked investors how much confidence they have in U.S. capital markets. This year, almost two-thirds (65%) of investors indicate they have some, quite a bit, or a great deal of confidence in U.S. capital markets, an increase of four percentage points from 2011. This increase may signal that confidence in U.S. capital markets has stabilized and perhaps begun to recover from a 2011 low of 61 percent. However, the metric is still 19 percentage points below the pre-crisis confidence measure of 84%.

As in past years, investors with investments of \$100K or more have more confidence in U.S. capital markets than those whose invested assets are less than \$100K (75% vs. 57%).

*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?*



Since 2009, we have asked survey participants about the reasons underlying their level of confidence in U.S. capital markets. Investors were asked to give reasons to an open-ended question.

Investors that have at least some confidence in U.S. capital markets identified the same reasons as they did last year. The most frequent reasons given continue to be the economic news they see (37%) and trust in the government in general or in the President specifically (26%).

*Q: You indicated 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)*

	2009	2010	2011	2012
Based on information/economic data I read/see/hear	40%	31%*	36%*	37%
Confidence/Trust in US government and/or President	31%	22%*	25%	26%
Market is strong/Believe in market system	12%	15%	14%	16%
Recession is over or ending/Improving economy^	—	15%	10%*	10%
More/New government controls, regulations, transparency	4%	4%	3%	6%
New (or potential new) financial regulations/laws^	—	1%	3%	5%
Potential rolling back of financial regulations^	—	—	2%	5%

Notes: Multiple responses accepted. Data may add to >100% due to multiple responses; ^ New code added in 2010/2011; Only responses given by >4% in 2012 listed; \*Change is statistically significant from previous year

## Confidence in U.S. Capital Markets (continued)

The most frequent reason why investors have little or no confidence in U.S. capital markets is the state of the economy (37%). Moreover, 25 percent of this group cited too much government regulation, while 22 percent cited too little government oversight of financial markets. There also was an increase in mentions of the lack of available jobs throughout the country.

*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)*

	2009	2010	2011	2012
Economic Crisis/Recession/State of the Economy	23%	23%	26%	37%*
Too much government regulation	15%	27%*	18%*	25%*
Weak government oversight of capital markets	14%	15%	12%	22%*
Lack of jobs	3%	6%	7%	13%*
Volatility of US stock market	14%	10%	9%	12%
Pace of economic recovery^	—	—	5%	11%
Bank failures	11%	4%	4%	10%
Weakness of the U.S. dollar	7%	5%	5%	7%
Financial troubles in Europe (Greece, Spain)^	—	1%	1%	6%
Corporate greed	6%	8%	5%	6%

Notes: Multiple responses accepted. Data may add to >100% due to multiple responses; Only responses given by >5% in 2012 listed; \*Change is statistically significant from previous year; ^ New code added in 2010/2011; ~This year, interviewers further probed those who answered "the economy" or "the recession" in order to get a better read on what underlies the lack of confidence in U.S. capital markets. Thus, this year's percentages overall are higher than last year's.

## Confidence in Audited Financial Information

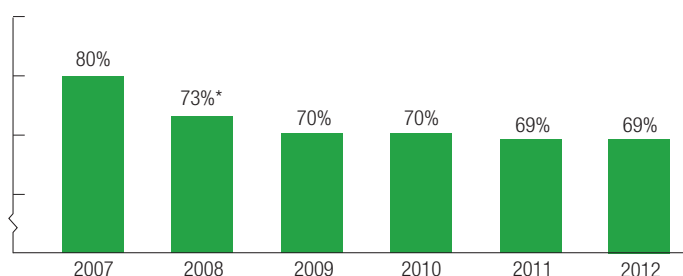
In the survey's first year (2007), which was conducted prior to the financial crisis, a large majority (80%) of investors expressed confidence in audited financial statements. Since 2008, confidence in audited financial information has held steady at around 70 percent.

Investors with investments of \$100K or more have more confidence in audited financial information than those with invested assets under \$100K (77% vs. 67%).

*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?*

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



\* Change is statistically significant from previous year

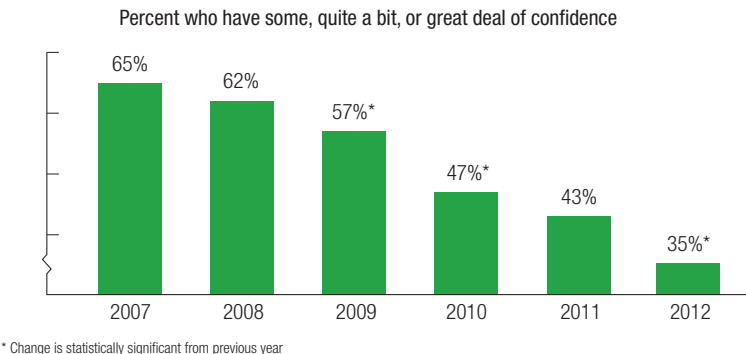
When asked if the recently-enacted Jumpstart Our Business Startups Act—which among other things, reduces some financial reporting requirements for emerging growth companies in order to encourage companies to go public—will have any impact on their investment decisions, 55 percent of investors surveyed said it would have no impact.

# Confidence in Capital Markets Outside of the United States

Confidence in capital markets outside the United States fell sharply, from 43 percent in 2011, to a new low of 35 percent. For the first time in the survey's history, more American investors say they lack confidence in markets outside the United States (53%) than say they have confidence (35%). Altogether, confidence in capital markets has fallen 30 percentage points since 2007.

Investors with over \$100K in investments have greater confidence in capital markets outside the United States than those with less than \$100K or more in investments (39% vs. 34%).

*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?*



Those who have little or no confidence in capital markets outside of the United States were asked why they felt that way. The most frequent reasons given were the European debt crisis/bad economic conditions worldwide (52%) and unstable governments/lack of confidence in other countries and their political or economic systems (24%).

*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)*

Debt crisis in Europe/bad economic climate worldwide	52%
Unstable governments/political turmoil/lack of confidence in other countries leaders or political systems	24%
Lack of stability/too volatile/poor performance of overseas markets	14%
Overseas markets more unstable than U.S.	10%
U.S. problems affect other markets and vice versa	7%
Don't know enough about markets overseas	5%
Don't pay attention to markets overseas/not invested	5%
Should invest in U.S. for sake of our economy	5%

Notes: Asked of those with little or no confidence in capital markets outside the U.S., n=545; Multiple responses accepted. Data may add to >100% due to multiple responses; Only responses given by >4% listed



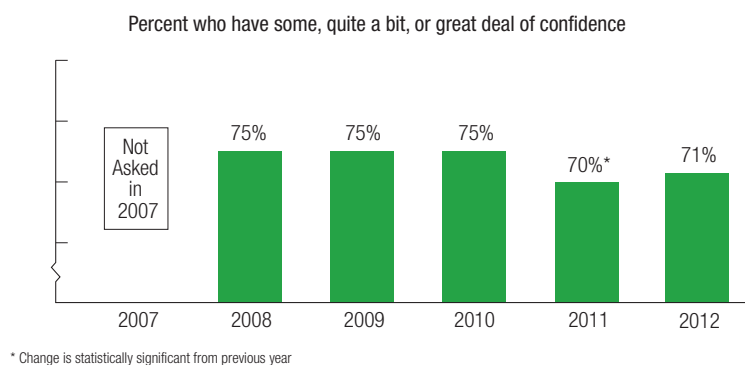
## Confidence in Investing in U.S. Public Companies

While remaining steady at 75 percent from 2008 to 2010, investor confidence in investing in U.S. publicly traded companies dropped to 70 percent in 2011. This year, confidence in investing in U.S. companies that are publicly traded leveled off at 71 percent.

Investors with \$100K or more in investments have more confidence in investing in U.S. public companies than those with invested assets under \$100K (81% vs. 66%).

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***Q: How much confidence would you say you have today investing in U.S. companies that are publicly traded? 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?***



# Other Survey Results

## Investment Behaviors

Since we began asking about changes in investment behavior in 2008, we have seen a steady increase in the number of investors who report that their investment behavior had not changed in the six months prior to the survey. This year, 70 percent say their behavior has not changed, up from 64 percent in 2011, 52 percent in 2010, and 39 percent in 2009. Among those who have made changes this year, the most prevalent changes were taking a more conservative approach to investing (10%) and investing less money (6%).

*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)*

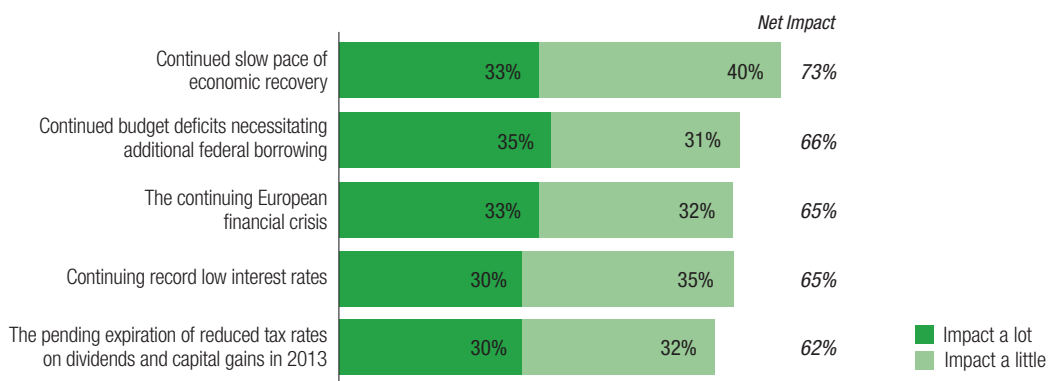
	2008	2009	2010	2011	2012
Investment Behavior Has Not Changed	40%	39%	52%*	64%*	70%*
Investment Behavior Has Changed	60%	61%	48%*	35%*	29%*
<i>Changes in investment behavior</i>					
More conservative approach	0%	6%	6%	12%*	10%
Invested less money	23%	22%	18%*	10%*	6%

Notes: Only those changes mentioned by >5% listed; Percentages based on total; \* Change is statistically significant from previous year

## Economic Issues and Events That May Affect Investment Behavior

Investors were asked the extent to which five factors may affect their investment behavior in the next year. Nearly three-quarters (73%) say the continued slow pace of economic recovery will impact their investment behavior; a third (33%) believe the slow recovery will impact their plans a lot.

*Q: I am interested in knowing whether different economic issues and events may affect your investment decisions and behavior in the next year. For each of the following, please tell me whether this will impact your investment plans in the next year a lot, a little, or not at all.*

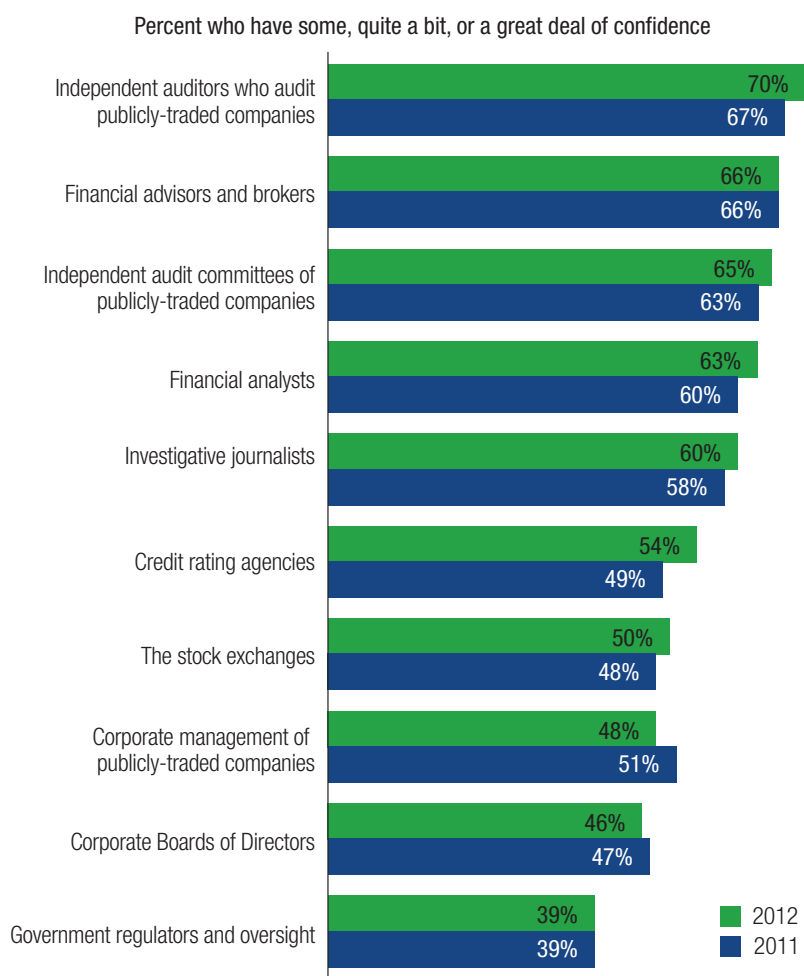


Investors also were asked whether they anticipate any other economic issues will impact their investment decisions in the coming year. A small majority (59%) did not foresee other economic issues impacting their investment patterns. Among those who did, the most frequent response was the outcome of the presidential election (30%).

## Entities Investors Say Are Looking Out For Their Interests

In each of the last two years, respondents were asked how much confidence they have in various entities when it comes to effectiveness in looking out for investors' interests. As in 2011, investors express the most confidence in independent auditors (70%), followed by financial advisors and brokers (66%) and independent audit committees (65%).

*Q: There are a number of different players that help protect investors who put their money in the capital markets. How much confidence do you have that [ITEM] is/are effective in looking out for investors?*



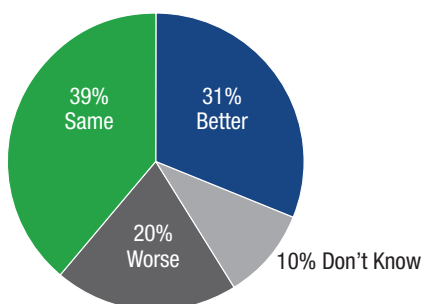


## Opinions on the Economy

Seven in ten (70%) investors believe the nation's economy will stay the same or get better over the next 12 months. One in five investors (20%) believes the nation's economy will get worse over the next 12 months.

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*Q: During the next 12 months, do you think the nation's economy will get better, get worse, or stay about the same?*



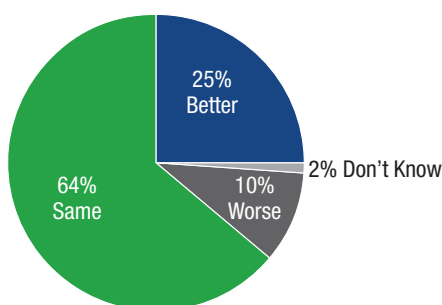
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## Personal Financial Situations and Spending

Nearly two-thirds (64%) of investors expect their personal financial situation to remain the same over the next year. A quarter expect to see an improvement (25%) and one in ten (10%) foresee their financial situation getting worse in the upcoming year. This varies somewhat by income. Those with household incomes under \$50,000 are more likely than those with incomes of \$50,000 or more to say they anticipate their personal financial situation will deteriorate (16% vs. 7%).

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*Q: During the next 12 months, do you expect your personal or family's financial situation to get better, get worse, or stay about the same?*



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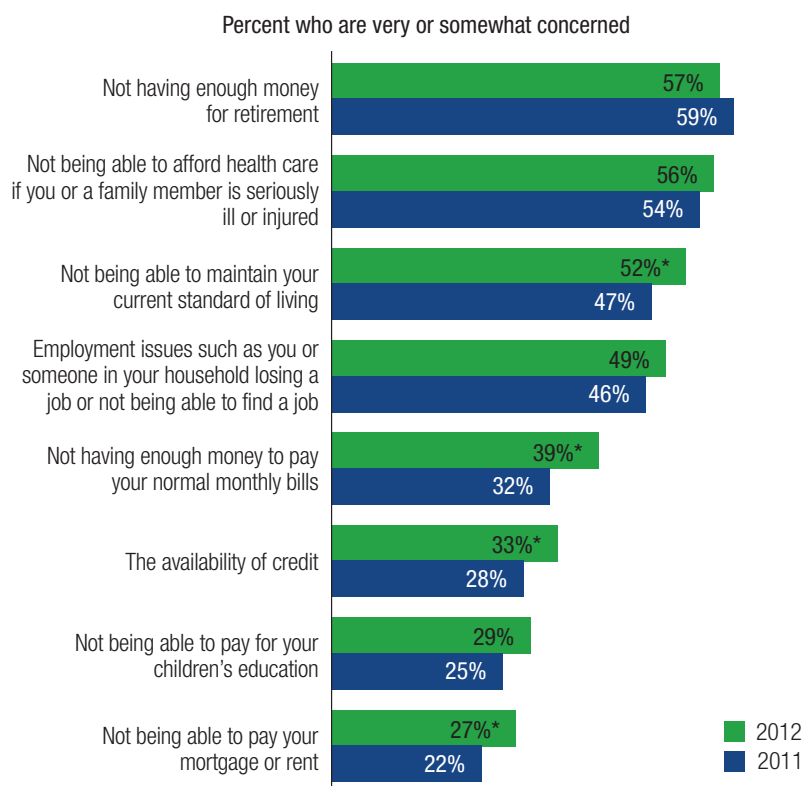
In a different question, participants were asked whether they planned on making any major purchases such as a car, home, or dream vacation in the coming year. As was the case in 2011, 25 percent of investors are planning to make such a purchase.

Those with household incomes under \$50,000 are much less likely than those with higher incomes to say they plan on making a large purchase of this sort (11% vs. 31%).

## Top Economic/Financial Concerns

For a second year in a row, investors were asked whether a number of specific financial concerns keep them up at night. The three financial concerns that trouble more than half of respondents are not having enough money for retirement (57%); not being able to afford health care if a household member were seriously ill or injured (56%); and not being able to maintain their current standard of living (52%).

*Q: How concerned, if at all, are you about [ITEM]? Very concerned, somewhat concerned, not too concerned, or not concerned at all?*



\* Change is statistically significant from previous year

Overall, investors' 2012 concerns are in line with their concerns in 2011. However, we have seen slight movement in the number of investors who are concerned about things such as being able to maintain their standard of living (rising from 47% to 52%); not being able to pay their normal monthly bills (32% to 39%); the availability of credit (28% to 33%); and housing costs (22% to 27%).

Investors with pension plans who are still working are generally optimistic about their pension plan; almost eight in ten (79%) have at least some confidence that their pension funds will be there when they retire, and over half (54%) have a great deal or quite a lot of confidence. Still, one in five (20%) reports having very little or no confidence that their pension funds will be there when they retire.

## Methodology

This survey of 1,003 investors was conducted from July 17-23, 2012 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 +/- 3.2 percentage points of what they would be if the entire population of investors had been polled.

## About the CAQ

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.



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1155 F Street NW | Suite 450  
Washington, D.C. 20004

202-609-8120 | [TheCAQ.org](http://TheCAQ.org)