



Inside the Mind of the Investor

October 2013

THE CAQ'S SEVENTH ANNUAL

Main Street Investor Survey



CENTER FOR AUDIT QUALITY

Serving Investors, Public Company Auditors & the Markets

DEAR FRIEND OF THE CAQ,

Since 2007, the Center for Audit Quality (CAQ) has commissioned an annual survey of U.S. individual investors as a part of its efforts to enhance understanding of and confidence in capital markets. 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 publicly traded companies. The survey also asks about the financial and economic landscape.

This year's results show that investor confidence in U.S. capital markets has reached its highest level since 2009. Almost seven out of ten (69%) investors indicated they have some, quite a bit, or a great deal of confidence in U.S. capital markets. Additionally, confidence in investing in U.S. companies that are publicly traded has spiked to its highest level ever at 79%.



Investor confidence in capital markets outside the United States rebounded back to 2011 levels with a seven percentage point jump to 42 percent.

The theme of this year's survey is "Inside the Mind of the Investor." We added new questions for 2013 to gain greater insight into what makes investors tick. What do they care about? Whose investing advice do they value and what are their financial worries? Do they care about nonfinancial factors such as a company's corporate governance framework and if the company operates in a socially responsible manner?

The results suggest that a more socially conscious and connected generation of investors seems to be emerging.

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. The survey is also helping us to understand how new technology and a dynamic, global economy is impacting the investor.

Sincerely,

A handwritten signature in black ink that reads "Cynthia Fornelli".

Cynthia Fornelli
Executive Director

Confidence in U.S. Capital Markets Continues Moving Upward; Reaches Highest Level Since 2009

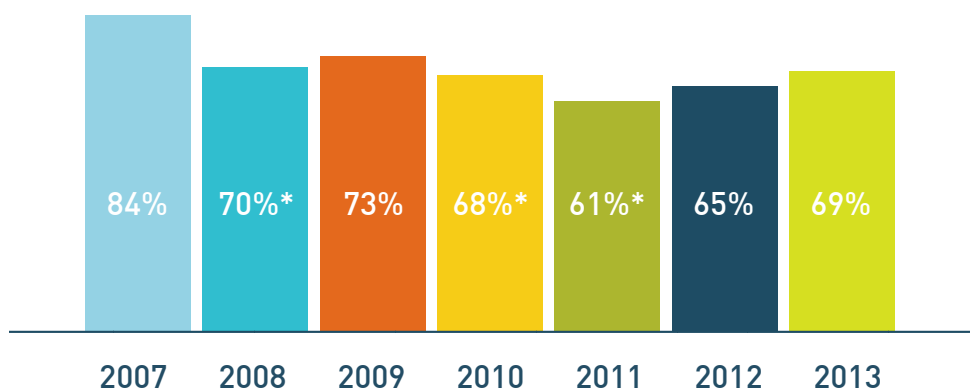
Each year since 2007, the CAQ has asked investors how much confidence they have in U.S. capital markets. This year, almost seven out of ten (69%) investors indicate they have some, quite a bit, or a great deal of confidence in U.S. capital markets—an increase of four percentage points from 2012 and eight percentage points since 2011.

This increase signals that confidence in capital markets has continued to stabilize and recover after declines between 2009 (73%) and 2010 (68%), and then again in 2011 when confidence bottomed out at 61 percent. Though the upward trend is continuing, it is still 15 percentage points below the pre-crisis confidence measure of 84 percent.

FIGURE 1: Confidence in U.S. Capital Markets

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

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?



*Change is statistically significant from previous year

Economic News Still 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 main reasons investors cite for feeling confident in U.S. capital markets have remained consistent over time. The most often cited reason for their confidence is the positive economic news or data investors are reading, seeing or hearing. The second reason is their trust in our government or current administration no matter the current party in power. And the third reason is an inherent belief in the strength and resilience of our market system.

FIGURE 2: Reasons for Confidence in U.S. Capital Markets

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)

	2009	2010	2011	2012	2013
Based on information/Economic data I read/see/hear/Improving economy/ Recession is ending	40%	46%	46%	46%	43%
Confidence/Trust in U.S. government and/or President	31%	22%*	25%	26%	22%
Market is strong/ Believe in market system	12%	15%	14%	16%	17%
More/New government controls, regulations, transparency	4%	4%	3%	6%	6%
New (or potential new) financial regulations/laws	-	1%	3%	5%	4%
Potential rolling back of financial regulations	-	-	2%	5%	3%
Financial information is independently audited	4%	3%	2%	3%	3%
U.S. tax rate	-	2%	2%	3%	1%
Other	6%	8%	7%	5%	13%

Notes: Asked of those with at least some confidence in U.S. capital markets. Percentages based on those asked the question. Data add to greater than 100 percent due to multiple responses

*Change is statistically significant from previous year

Government Actions and Poor Economic Conditions Are Most Frequent Reasons for Lack of Confidence in United States Markets

Those who have little or no confidence in U.S. capital markets were asked why they felt that way. The top reason given is too much government interference (30%). More than a quarter cited the economic crisis (26%) and just fewer than two in ten cited too little government oversight of financial markets (19%).

Investors' reasons for their lack of confidence have changed somewhat since 2012. Participants were more likely this year to cite issues of too much government involvement and corporate greed. There were decreases in mentions of the state of the economy, employment issues, and pace of the economic recovery.

FIGURE 3: Reasons for Lack of Confidence in U.S. Capital Markets

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?

	2009	2010	2011	2012	2013
Too much government spending / interference	15%	27%*	18%*	25%*	30%*
Economic Crisis / Recession / State of the Economy	23%	23%	26%	37%*	26%*
Weak government oversight of capital markets	14%	15%	12%	22%*	19%
Volatility of U.S. stock market	14%	10%	9%	12%	11%
Corporate greed	6%	8%	5%	6%	11%*
Lack of jobs / Outsourcing / Overseas investment	3%	6%	7%	13%*	8%
Pace of economic recovery	-	-	5%	11%	8%
Weakness of the U.S. dollar	7%	5%	5%	7%	6%

Notes: Asked of those with little or no confidence in U.S. capital markets.

Multiple responses accepted

Responses given by 5 percent or less are not shown in 2013

*Change is statistically significant from previous year

Confidence in Capital Markets Outside of the United States Rebounds Slightly

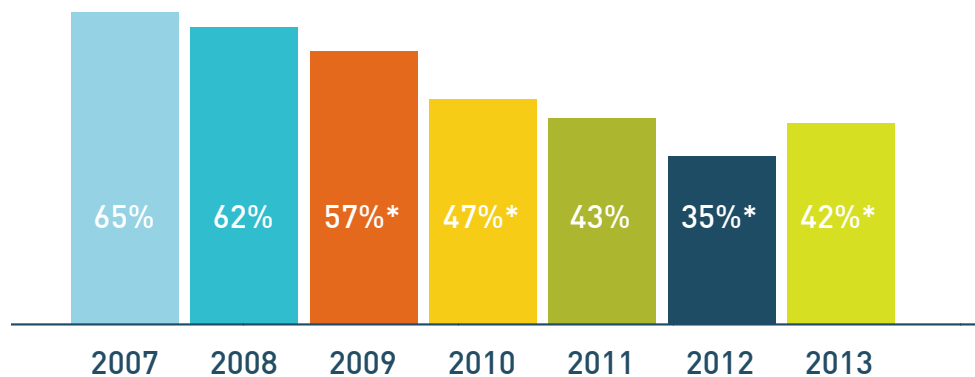
Confidence in capital markets outside the United States rebounded back to near 2011 levels with a seven percentage point jump to 42 percent. Investors appear to be divided with their confidence in capital markets outside the United States. Those with little or no confidence (41%) are nearly equal to those who do have at least some confidence (42%). Another 17 percent of investors are not able to rate their confidence in capital markets outside the U.S.

Though levels of American investors' confidence in non-U.S. capital markets have stabilized, it is still far from the levels last seen in 2009.

FIGURE 4: Confidence in Capital Markets Outside of the U.S.

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

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?



*Change is statistically significant from previous year

Concerns Surrounding Unstable Governments and International Political Turmoil Are Most Frequent Reasons for Lack of Confidence in Markets Outside of the United States

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 instability in foreign nations (27%) and bad economic conditions worldwide (22%).

Concerns about conditions in Europe dropped off significantly from a high of 27 percent in 2012 to 13 percent in 2013. Volatility of foreign markets is also seen as a larger threat to investors in 2013. There has been a consistent surge of investors citing it as a reason for their lack in confidence in foreign markets (8% in 2011, 14% in 2012, and 21% in 2013).

FIGURE 5: Reasons for Lack of Confidence in Capital Markets Outside U.S.

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)

	2011	2012	2013
Unstable governments/Political turmoil	6%	15%*	27%*
Debt problems/Bad economic climate worldwide, in other countries	23%	25%	22%
Lack of stability/Too volatile/Poor performance in overseas markets	8%	14%	21%
Debt crisis/Problems in Europe/Greece/Spain/Problems with euro	11%	27%*	13%*
Overseas markets more unstable than U.S./Don't trust them	5%	10%	12%
Lack of confidence in foreign leaders/political systems	5%	9%	12%
Don't know enough about markets overseas	9%	5%	8%
U.S. problems affect other markets and vice versa	6%	7%	6%
Lack of oversight/No controls in place	2%	4%	5%
Don't pay attention to markets overseas/Not invested	6%	5%	4%

Notes: Asked of those with little or no confidence in U.S. capital markets.

Multiple responses accepted

Only specific responses given by more than 4 percent displayed in 2013

*Change is statistically significant from previous year

Confidence in Investing in U.S. Public Companies Highest Ever

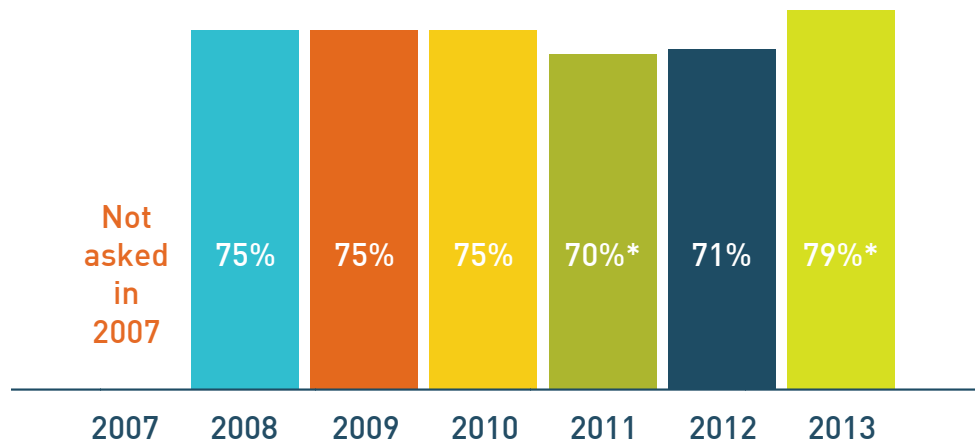
Confidence in investing in U.S. companies that are publicly traded had remained stable at 75 percent for the first three years this question was asked. In 2011 confidence had dropped five percentage points to 70 percent and was stable at 71 percent in 2012.

This year, confidence in investing in U.S. companies that are publicly traded has spiked to its highest level ever at 79 percent.

FIGURE 6: Confidence in Investing in U.S. Companies that are Publicly Traded

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

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?



*Change is statistically significant from previous year

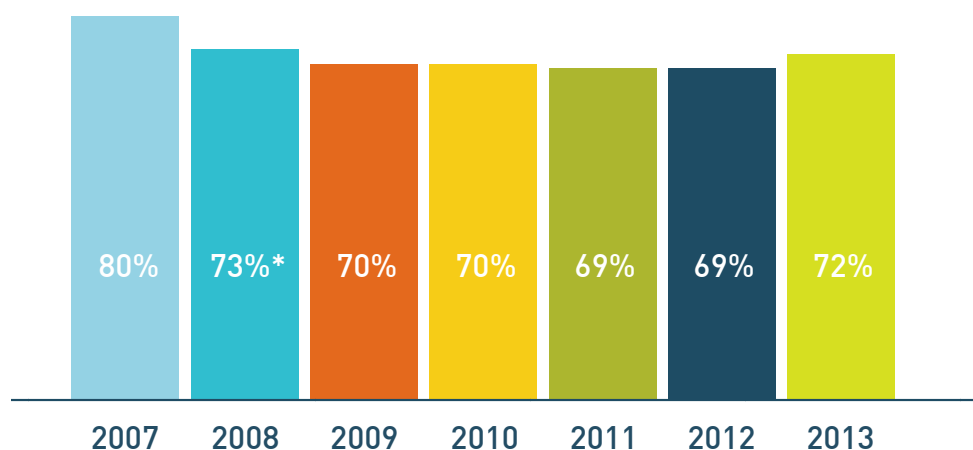
Confidence in Audited Financial Information Sees Slight Uptick

In 2007, 80 percent of investors expressed confidence in audited financial statements. After declining in 2008, confidence in audited financial information released by publicly traded U.S. companies has been steady over the past four years with just over two-thirds of investors expressing at least some confidence. This year saw a slight uptick with just over seven in ten (72%) investors expressing at least some confidence.

FIGURE 7: Confidence in Audited Financial Information Released by Publicly Traded U.S. Companies

Percentage of those 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?



*Change is statistically significant from previous year

Investors Feel Similar About Economic Outlook and Personal Financial Situation as Last Year

Investors were asked how they expected the nation's economy to fare over the next 12 months. They were also asked the same about the future of their own personal or family finances.

Though there was a slight increase in the number who thought the economy would be getting better (35% in 2013 versus 31% in 2012), this was offset by increases in those who thought the economy would get worse (23% in 2013 versus 20% in 2012).

As in 2012, a strong majority (62%) of investors today expect their own personal or family financial situation to stay about the same over the next 12 months.

FIGURE 8: Future Economic Outlook

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



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?



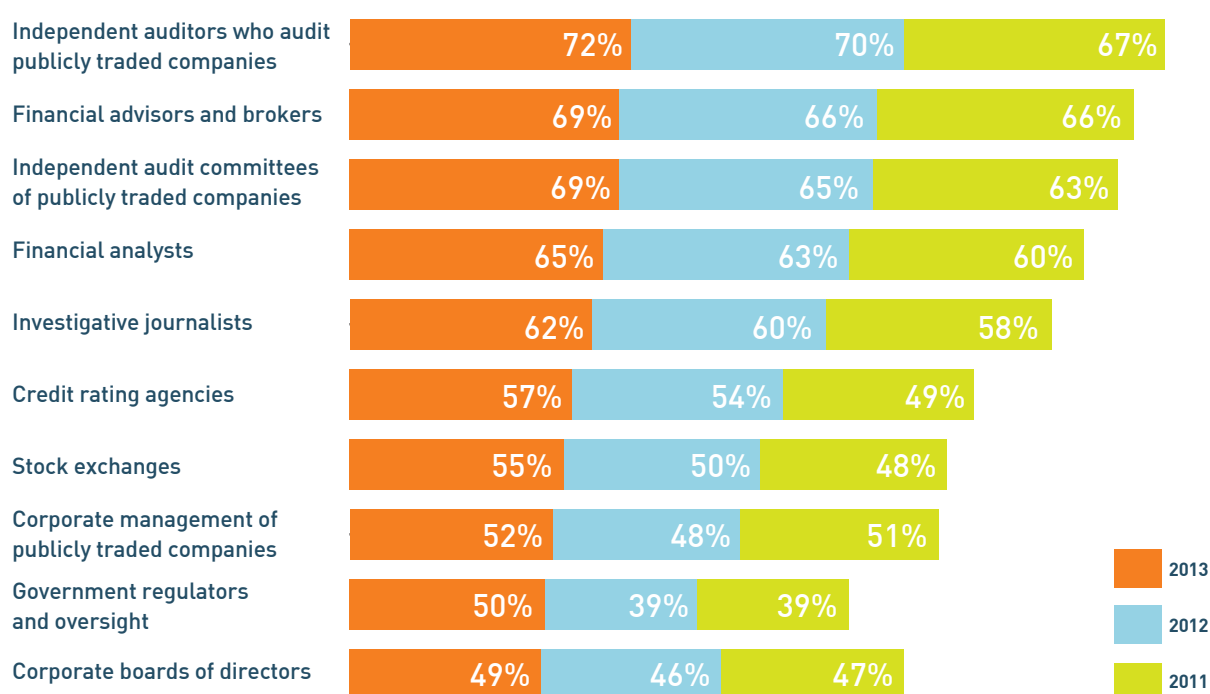
Auditors Still Top the List of Entities Investors Say Are Looking Out for Their Interests; Gains Also Seen Across the Board

Since 2011, 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.

As in past years, investors express the most confidence in independent auditors (72%), followed by financial advisors and brokers (69%), and independent audit committees (69%). All entities across the spectrum saw an increase in confidence in 2013. This is best highlighted by the 11 percentage point increase in confidence in government regulators and oversight.

FIGURE 9: Confidence in Entities to Look Out for Investors

Q. — There are a number of different players that have roles in helping to advance investor protection for those who put their money in the capital markets. How much confidence do you have that [entity] is effective in this role in looking out for investors?



Inside the Mind of the Investor: Influences on Investment Behaviors

MOST SAY THEIR INVESTMENT BEHAVIOR HAS NOT CHANGED

Seven in ten (70%) investors indicate that they made no change to their investment strategy over the past 12 months. This is consistent with a similarly worded question asked in 2012 where the same number (70%) also indicated they made no change to their investment behavior.

Notably, however, among the 29 percent of investors who did change their investment behavior in 2013, three times as many investors say they invested more (21%) than say they invested less (8%).

THOSE INCREASING STAKES IN MARKET DIVERSIFIED; THOSE INVESTING LESS WERE MORE CONSERVATIVE

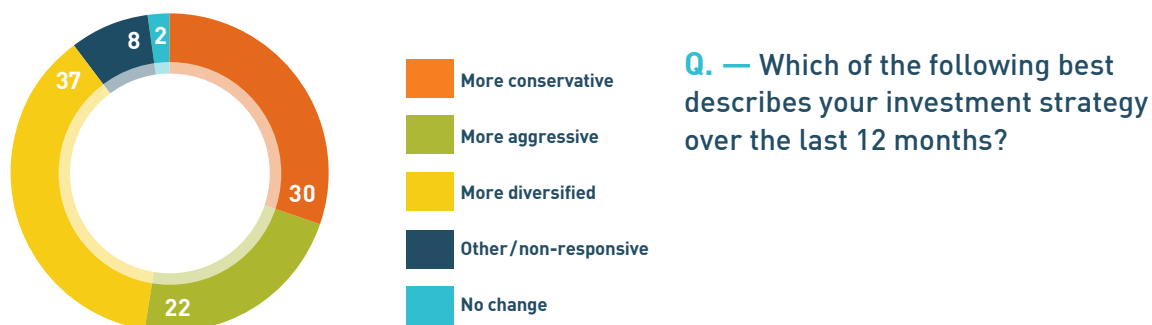
Over one-third (37%) of investors who had invested more over the past year focused largely on diversifying their portfolios. Slightly less than one third (30%) of those who invested more were more conservative in their approach than in years past. One in five investors who invested more (22%) took a more aggressive route over the past 12 months.

Of the 8 percent of investors who indicated that they had invested less over the past 12 months, a strong majority (63%) invested more conservatively than they normally did. Only 15 percent said that they were more diversified in their investments.

FIGURE 10: Changes in Investment Behavior over Past 12 Months



FIGURE 11: Investment Strategy over Last 12 Months: Those Who Invest More



INVESTORS WHO INVESTED MORE TOOK ADVANTAGE OF THE STOCK MARKET

Those who invested more or less over the past 12 months were also asked about their specific investment actions over the past 12 months. Of those who invested more, strong majorities invested in money market and mutual funds (74%) or purchased stock in U.S. companies (60%).

Of those who indicated that they had invested less, a majority indicated that had sold investments in the past year (56%). Two in five said they either purchased stock in a U.S. company (40%) or invested in money markets or mutual funds (39%).

FIGURE 12: Investment Strategy over Last 12 Months: Those Who Invest Less

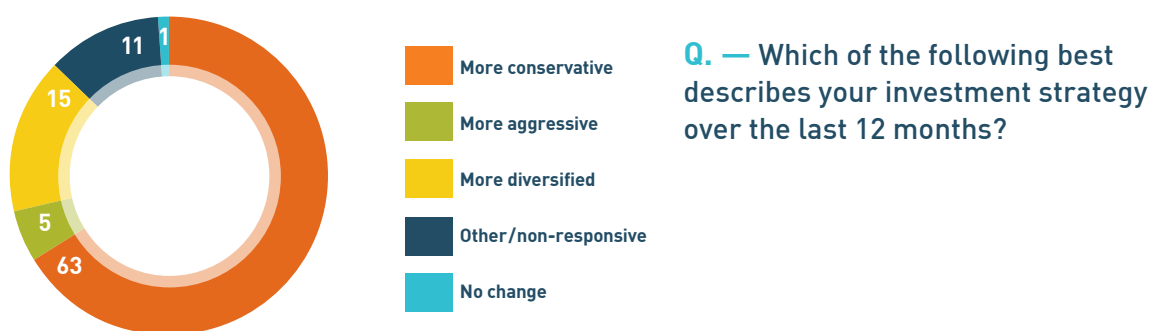
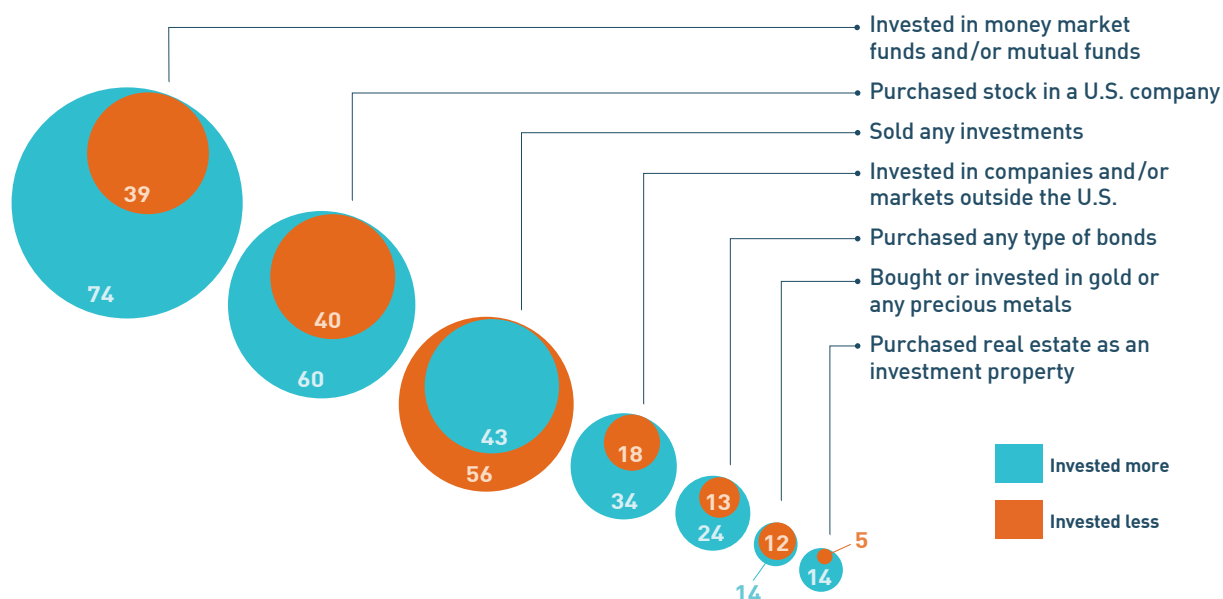


FIGURE 13: Where Investors have Made Changes in Their Portfolios

Q. — In the last 12 months, have you...?



Note: Asked of those who said they had invested either more or less in the past 12 months.

Essential Decision Making Information for Investors When Looking to Invest

Investors were asked how essential various pieces of information were to their decision making process when looking to invest in a publicly traded company. More than four in ten investors (44%) say the sector or industry the company is in is essential to their decision making process. A similar number (43%) say whether or not a company has sound corporate governance in place is essential, followed by a company's key strengths and weaknesses (42%), its strategy for future company growth (41%), the outlook for the industry (41%), the company's risks and opportunities (40%), and whether or not the company is behaving in a socially responsible/environmentally friendly fashion (40%).

These data indicate that the spectrum of information investors look to for insight is expanding beyond traditional quantitative performance measures, such as historic stock performance or projected earnings.

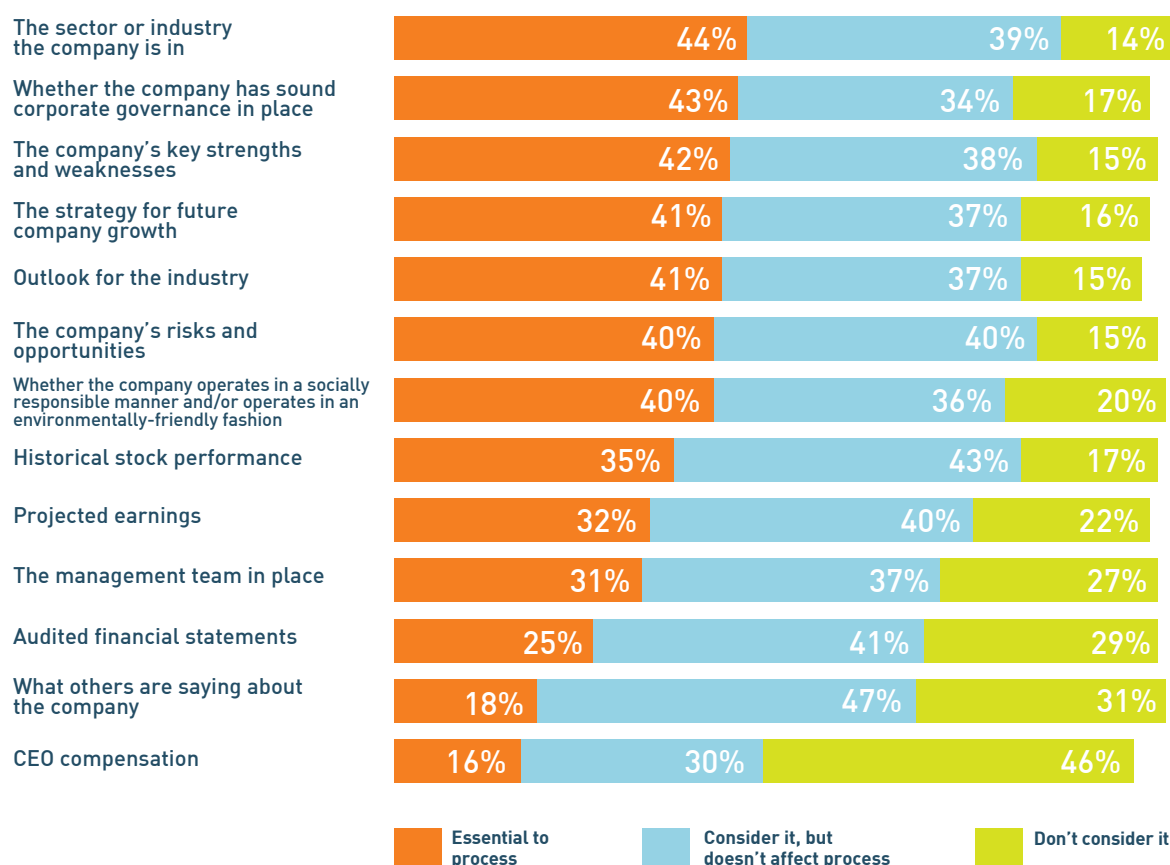
Roughly the same number of investors say audited financial statements are essential to their decision making process (25%) as say it does not factor into their decision making process (29%) when looking to invest.

A company's management team and the opinions that others may have of the company are not considered essential and do not appear to have much influence on investors decisions in the end. Finally, although this is a popular topic in recent years, nearly half of investors (46%) say that the amount of compensation CEOs receive is not something they consider when making investment decisions.

FIGURE 14: Assessment of Factors on Future Investment Decision Making

Q. — How much, if at all, do each of the following nonfinancial factors influence your decision making process when you are looking to invest in a publicly traded company? Is it essential to your decision making process; you consider it, but it doesn't strongly affect your decision one way or the other; or you don't consider it, and it does not factor into your decision making process?

FIGURE 14: Assessment of Factors on Future Investment Decision Making



Note: Don't know/Refused is not shown

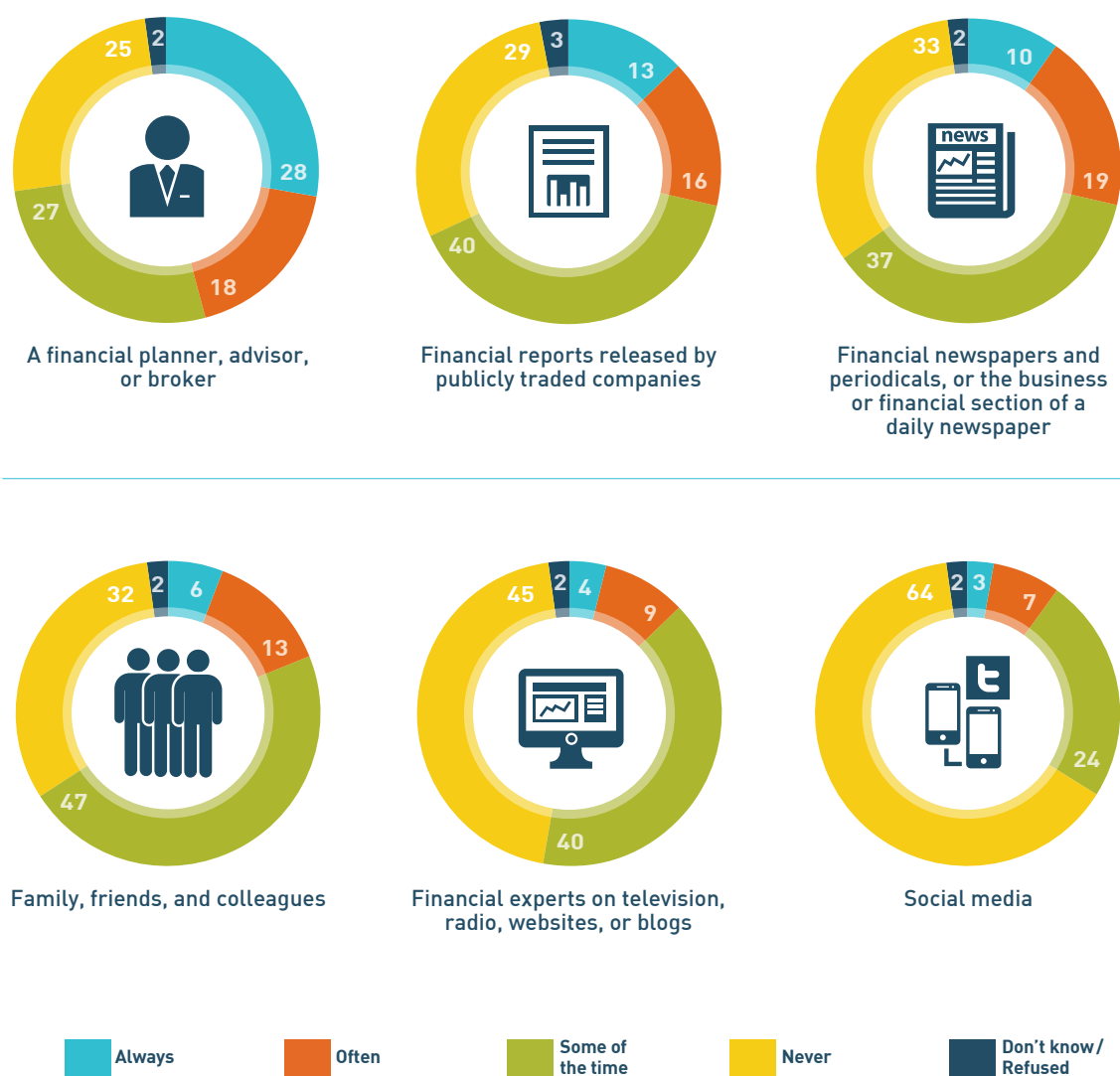
Strong Majority Rely on Financial Planners/Advisors/Brokers

Investors were asked if they used any of the following six sources (see page 16) as they think about investing in a publicly traded company. Nearly three in four (73%) said that they relied on their financial planner (or equivalent) as a source for information and advice on investments. Financial reports from publicly traded companies (69%), financial newspapers/periodicals (66%), and investors' family and friends (66%) were also seen as sources of information and advice by two-thirds or more.

Notably, nearly half (45%) said that they never relied on "financial experts on television, radio, websites, or blogs" for information and advice on investing. A majority of investors (64%) said that they never use social media as a source for information and advice as they think about investing in a publicly traded company. However, a little more than one third of investors (34%) do use social media at least some of the time as a source for information and advice when it comes to investing.

FIGURE 15: 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 much you use this source as you think about investing in a publicly traded company. If you do not use the source in question please tell me and we will move on. How much do you use [named source]? Do you use them always, often, some of the time, or never?



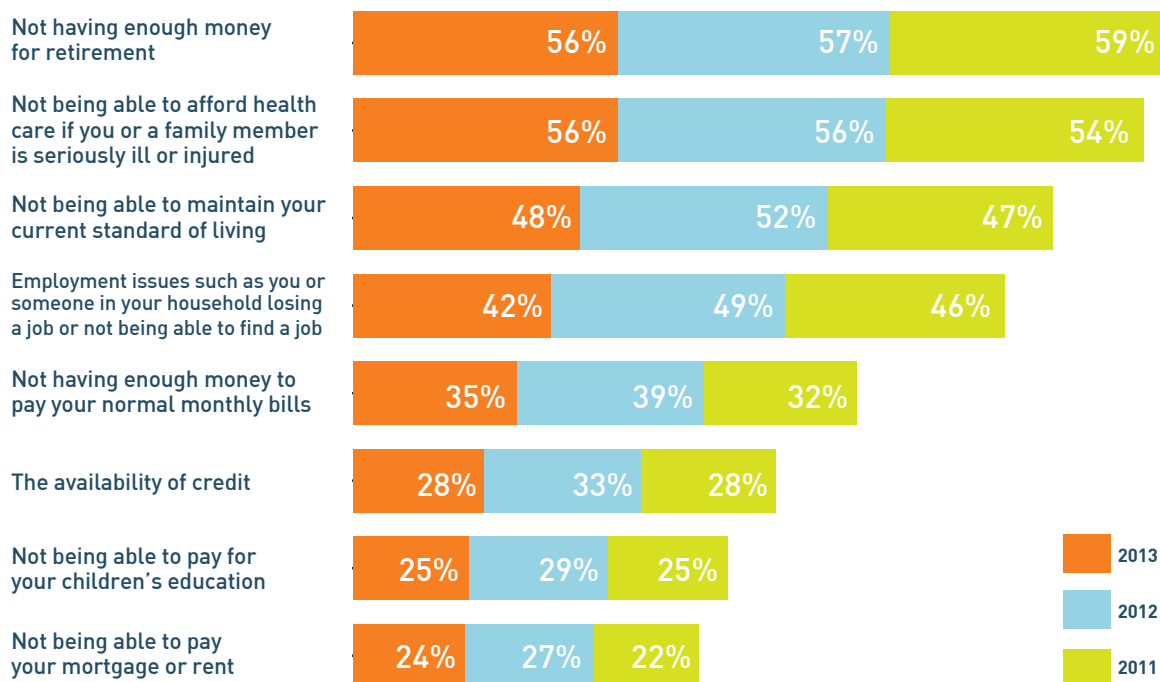
Money for Retirement, Health Care Emergencies, and Lifestyle Maintenance Still Top Financial Concerns

For the third year in a row, investors were asked whether a number of financial concerns keep them up at night. The three financial concerns that trouble more than half of investors are not having enough money for retirement (56%), not being able to afford health care if a household member was seriously ill or injured (56%), and not being able to maintain their current standard of living (48%).

Overall, investors' 2013 concerns are in line with their concerns in past years. However, there has been a turnaround in the number of investors who are concerned about being able to maintain their standard of living (52% to 48%), the number who are concerned about employment issues (49% to 42%), and the number who are concerned about not being able to pay their normal monthly bills (39% to 35%).

FIGURE 16: Financial Concerns

Q. — How concerned, if at all, are you about [named statement]? Very concerned, somewhat concerned, not too concerned or not concerned at all. If a particular item doesn't apply to you, just say so. [Percentage concerned]



Center for Audit Quality

Seventh Annual Main Street Investor Survey

METHODOLOGY

This survey of 1,013 investors was conducted from August 14-20, 2013 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 percent 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.

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, 401(k)s, etc.

About the Center for Audit Quality

The Center for Audit Quality 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.

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