



THE CAQ'S EIGHTH ANNUAL

Main Street Investor Survey | Focus on Weathering Risk

OCTOBER 2014



**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. investors as part of its efforts to enhance understanding of and confidence in capital markets. Each year, the Main Street Investor Survey measures retail 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 current financial and economic landscape and how it is impacting investors.



This year, confidence in investing in U.S. public companies reached an all-time high of 80%. Additionally, 73% 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 2013 and the highest level since 2009. The theme of this year's survey is "Focus on Weathering Risk," as we asked investors about their investment risk tolerance, the sectors that they view as the riskiest or safest, and their views on the biggest risk they face when investing.

The results show that about a third of investors are willing to take risk after doing their homework. When it comes to investment risks, they are most concerned about geopolitical instability, government regulation, and cyber and online security. We also uncovered interesting differences between male and female investors. For example, 54% of women in our survey describe themselves as "pretty cautious," while only 47% of men describe themselves that way. Women are also more inclined to invest in a company that is operating in a socially responsible or environmentally friendly fashion (40% for women, versus 29% for men).

With nearly a decade of comparative data, the Main Street Investor Survey provides a unique perspective on the views of retail investors as they've navigated through one of the most turbulent financial periods in U.S. history. Policymakers, the private sector, and the broader public can all benefit from these insights.

Sincerely,

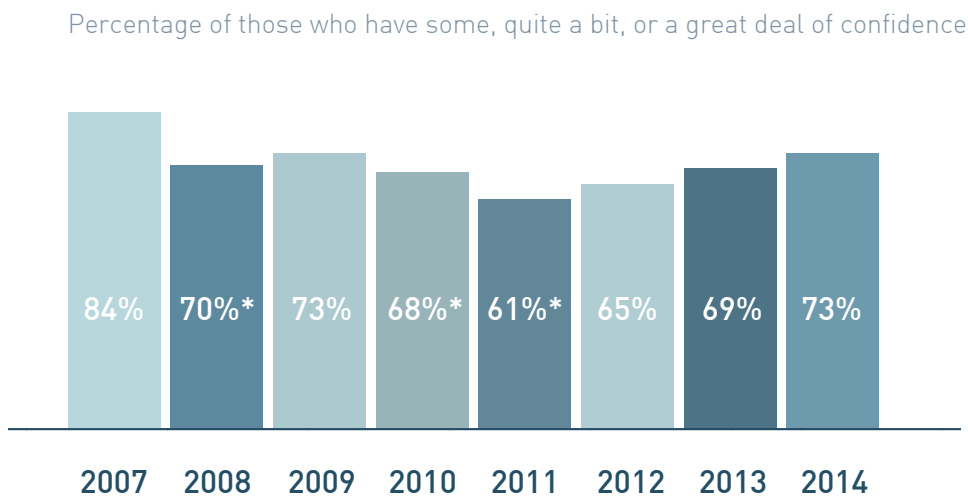
Cynthia Fornelli
Executive Director
Center for Audit Quality

Confidence in U.S. Capital Markets Continues Moving Upward; Reaches Level Last Seen in 2009

Each year since 2007, CAQ has asked investors how much confidence they have in U.S. capital markets. This year, almost three-quarters (73%) 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 2013 and the highest level since 2009.

This increase signals that confidence in capital markets has continued to stabilize and recover from a low of 61% in 2011. Though the upward trend continues, it is still 11 percentage points below the pre-crisis confidence measure of 84%.

FIGURE 1: Confidence in U.S. Capital Markets



*Change is statistically significant from previous year.
Note: For exact survey question, see appendix.

CONFIDENCE METRICS

Belief in the Capital Market System, Confidence in the U.S. Government and the President, and Personal Market Experiences Are the Top Drivers of 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 cited reasons for confidence in U.S. markets are: a general confidence in the strength of the market system or capitalism; confidence in the U.S. generally and specifically the government and the President; and observations of their own positive experiences with their personal investments recently.

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

	Total
Market is strong and in good shape/Believe in market system/ Capitalism works	15%
Confidence/Trust in U.S. government and/or President	15%
Based on personal experience with market/Personal investments are doing well	15%
Past performance/Historical evidence that the U.S. market always bounces back	13%
Recession is over/Ending/Improving economy	12%
Nothing specific/Gut feeling	6%
Specific economic indicators are good (unemployment, inflation, consumer confidence)	4%
Belief that the private sector will do well	3%
Advice/Information from reliable sources	3%
Other	8%

Notes: Asked of those with at least some confidence in U.S. capital markets.
Percentages based on those asked the question.
"Don't know/Refused" results not shown. Multiple responses accepted.
For exact survey question, see appendix.

Views of Economy and Government 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 reason given is a general impression that the economy is not doing well (24%). A close second (23%) blamed a lack of leadership, the President, or partisan bickering.

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

	Total
Impression that the economy is not doing well	24%
Lack of leadership/President/Partisan bickering	23%
Government interference/Policies	10%
Corporate greed/Growing gap between rich and poor	9%
Too much government spending/Debt	7%
Based on personal experience with market/Personal investments are not doing well	6%
Nothing specific/Gut feeling	6%
Fluctuation/Instability in U.S. stock market	4%
Other	6%

Notes: Asked of those with little or no confidence in U.S. capital markets.
 Percentages based on those asked question.
 "Don't know/Refused" results not shown.
 Multiple responses accepted.
 For exact survey question, see appendix.

CONFIDENCE METRICS

Confidence in Capital Markets Outside of the U. S. Continues to Hold Steady

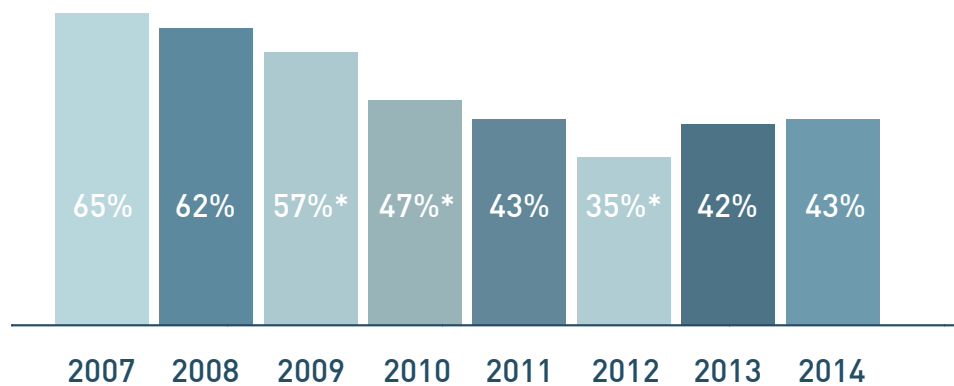
Confidence in capital markets outside the U.S. rebounded from a low of 35% in 2012 to 42% in 2013, and has stayed at nearly the same level this year (43%). Although total confidence is higher, this masks deep ambivalence below the surface: those who have little or no confidence (43%) equal the percentage who do have at least some confidence (43%). Another 14% of investors are not able to rate their confidence in capital markets outside the U.S.

Younger investors (18-34) and seniors (65+) are slightly less confident in overseas capital markets than middle age investors (35-49 and 50-64).

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



*Change is statistically significant from previous year.

Note: For exact survey question, see appendix.

Political Turmoil, Unstable Governments Among 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 U.S. were asked why they felt that way. The top reasons given are U.S. problems affecting other markets and vice versa (15%), unstable governments and political turmoil (12%), and the investors’ gut feelings or lack of trust in these markets (12%).

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

	Total
U.S problems affecting other markets and vice versa	15%
Unstable governments/Political turmoil	12%
Nothing specific/Gut feeling not to trust them	12%
Conflicts and turmoil overseas	11%
Don't know enough about markets overseas	10%
Don't pay attention to markets overseas/Not invested	9%
Bad economic climate worldwide, in other countries	9%
Lack of stability/Too volatile	8%
Debt crisis/Problems in Europe	5%
Events in the Middle East	3%
Other	6%

CONFIDENCE METRICS

Notes: Asked of those with little or no confidence in capital markets outside of the U.S.
 For exact survey question, see appendix.
 Percentages based on those asked question.
 "Don't know/Refused" results not shown.
 Multiple responses accepted.

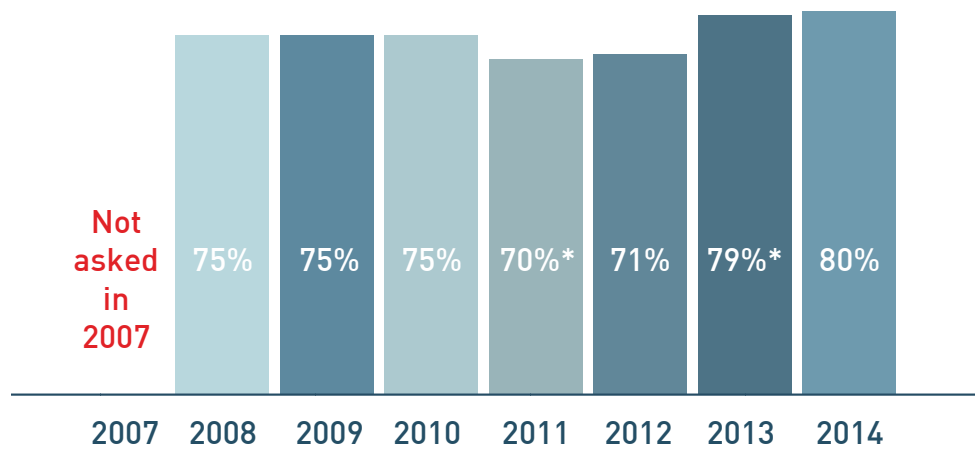
Confidence in Investing in U.S. Public Companies Highest Ever

This year, confidence in investing in U.S. companies that are publicly traded reached an all-time high of 80%.

Thirty-eight percent of these investors indicate they have a great deal of confidence or they have quite a bit of confidence in investing in U.S. companies that are publicly traded. This 38% finding also represents an all-time high.

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



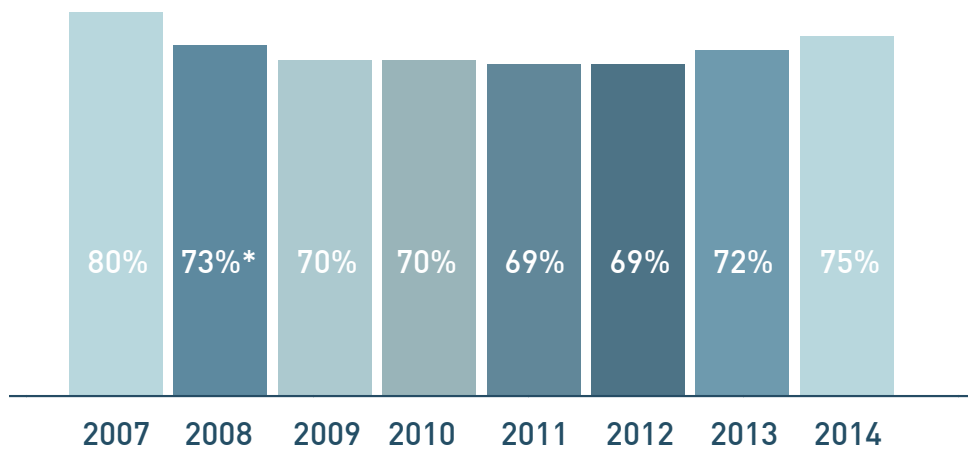
*Change is statistically significant from previous year.
Note: For exact survey question, see appendix.

Confidence in Audited Financial Information Continues to Climb

Confidence in audited financial information released by publicly traded U.S. companies continues to climb, nearing the previous high of 80% recorded in 2007. Today, three-quarters of investors (75%) now have confidence in audited financial statements.

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



*Change is statistically significant from previous year.

Note: For exact survey question, see appendix.

CONFIDENCE METRICS

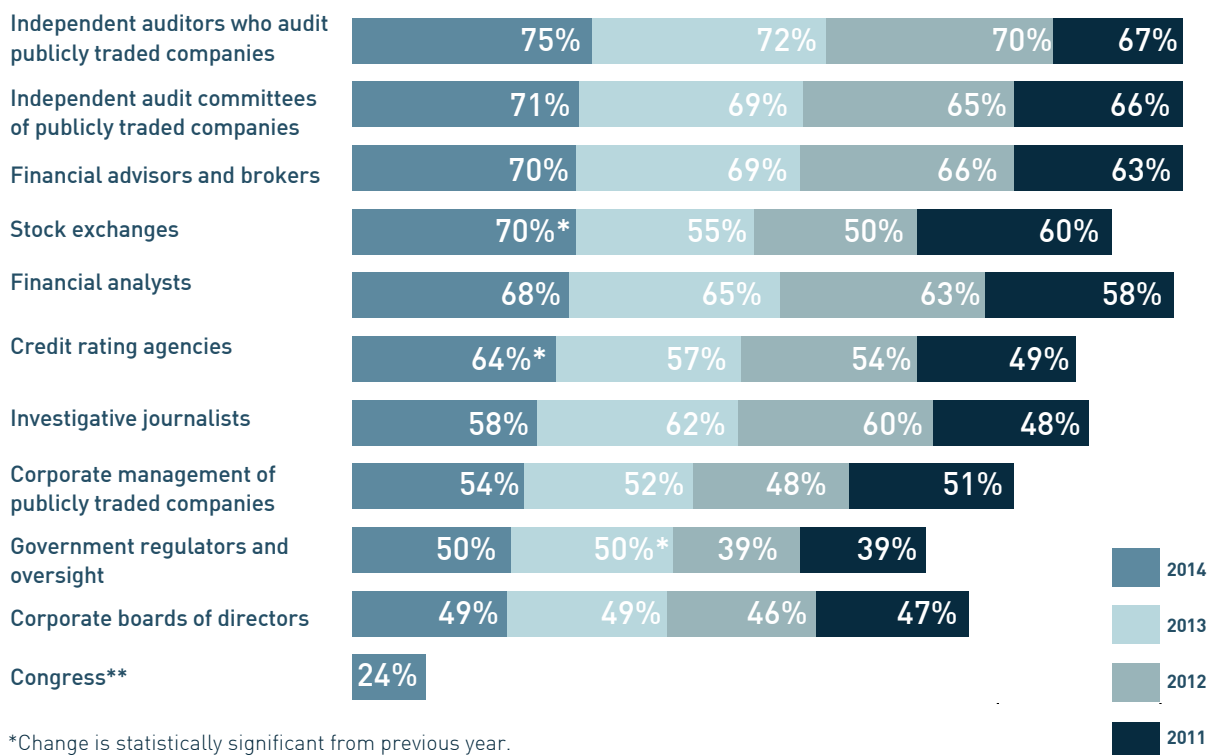
Auditors Continue to Top the List of Entities Investors Say Are Looking Out for Their Interests

This survey queries investors on 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 (75%). Independent audit committees (71%), financial advisers and brokers (70%), and stock exchanges (70%) follow closely. The biggest gain in confidence seen this year was in stock exchanges which rose from 55% in 2013 to 70% this year.

Investors with over \$50,000 in investments and those with incomes over \$100,000, as well as those investors who describe themselves as risk-takers or those willing to take risks after completing adequate research, are more likely than any other groups to have confidence in independent auditors, independent audit committees, financial advisers, and the stock exchanges.

FIGURE 8: Confidence in Entities to Look Out for Investors



*Change is statistically significant from previous year.

** Not included in 2012 or 2013.

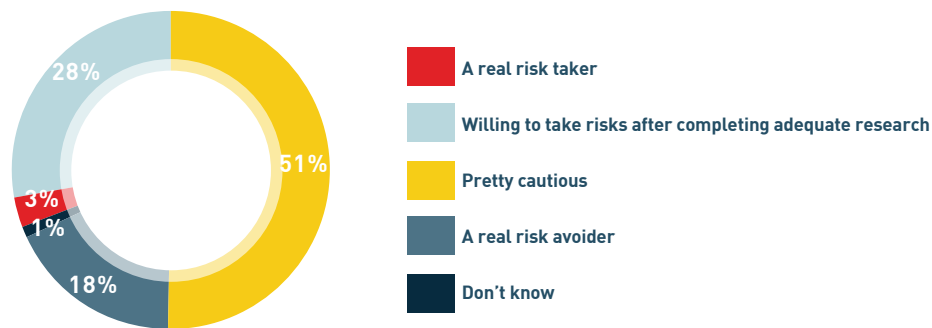
Note: For exact survey question, see appendix.

A Slight Majority of Investors Describe Themselves as “Pretty Cautious”

Investors were asked to describe their risk tolerance. A slight majority of investors describe themselves as “pretty cautious.” More than one in four (28%) describe themselves as willing to take risks after completing adequate research; only 3% describe themselves as a real risk taker.

There are no discernable groups that stand out as self-described risk takers. But men are slightly more likely than women (33% to 23%) to say they are willing to take risks after completing adequate research. Women are more likely than men to describe themselves as pretty cautious (54% to 47%). Investors with higher amounts invested and higher incomes are more likely to say they are willing to take risks than those with less invested and with lower incomes. And retirees are more likely to indicate they are risk avoiders.

FIGURE 9: Self-Described Risk Tolerance



Note: For exact survey question, see appendix.

Investors Are Looking for Investments That Provide Steady, Longer-Term Income

Investors were asked to look ahead to the next 12 months and predict which type of investments they plan to make.

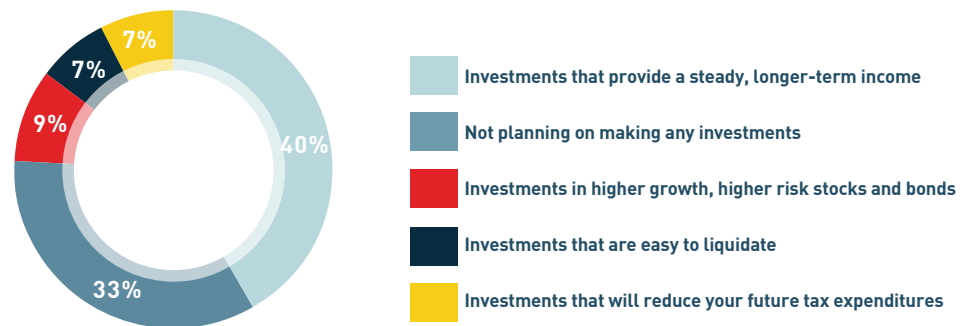
Four in 10 investors say they are planning on making investments that provide steady, longer-term income.

Those that describe themselves as risk takers or willing to take risks are five times more likely to plan to make investments in higher growth, higher risk stocks and bonds (21%) than those who describe themselves as cautious or risk avoiders (4%).

One in three investors say they are not planning on making any investments.

The following groups are less likely to plan on making any investments in the next 12 months: under \$50,000 in investments (52%), women with under \$100,000 in investments (49%), under \$50,000 in income (44%), Seniors (42%), and Millennials (41%). Investors nearing retirement (age 50-64) are more likely to plan to make investments that provide steady, longer-term income (47%).

FIGURE 10: Investment Strategy for Next 12 Months



Note: For exact survey question, see appendix.

Industry Sector and Historic Stock Performance Are Top Two Factors for Investors When Looking to Invest

Investors were asked the extent to which a set of factors may affect their investment decision-making process. No one single factor drives their investment decisions; instead, the spectrum of information investors use to evaluate investments continues to be comprehensive.

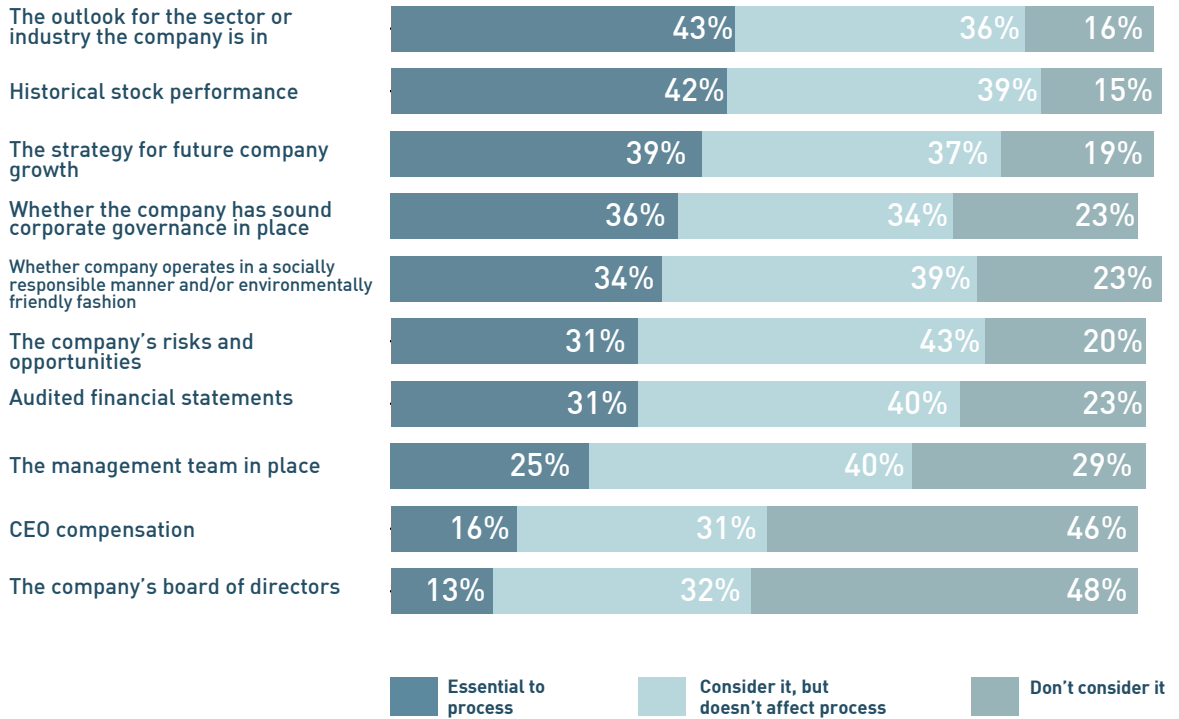
The sector or industry the company is in is what most investors say is essential to their decision-making process when looking to invest in a publicly traded company (43%). This is followed by the historical stock performance of the company (42%), the strategy for future company growth (39%), and whether the company has sound corporate governance in place (36%).

Over three in 10 investors say audited financial statements are essential to their decision-making process (31%) compared to less than a quarter (23%) who say they don't consider them at all when looking to invest.

A company's board of directors and CEO compensation does not have much influence on investors' decisions. In fact, nearly half of investors say that the amount of compensation CEOs receive (46%) or the company's board of directors (48%) is not something they consider when making investment decisions.

Whether the company is operating in a socially responsible manner and/or operating in an environmentally friendly fashion is more likely to be viewed as essential to female investors (40%) than male investors (29%).

FIGURE 11: Assessment of Factors on Future Investment Decision Making



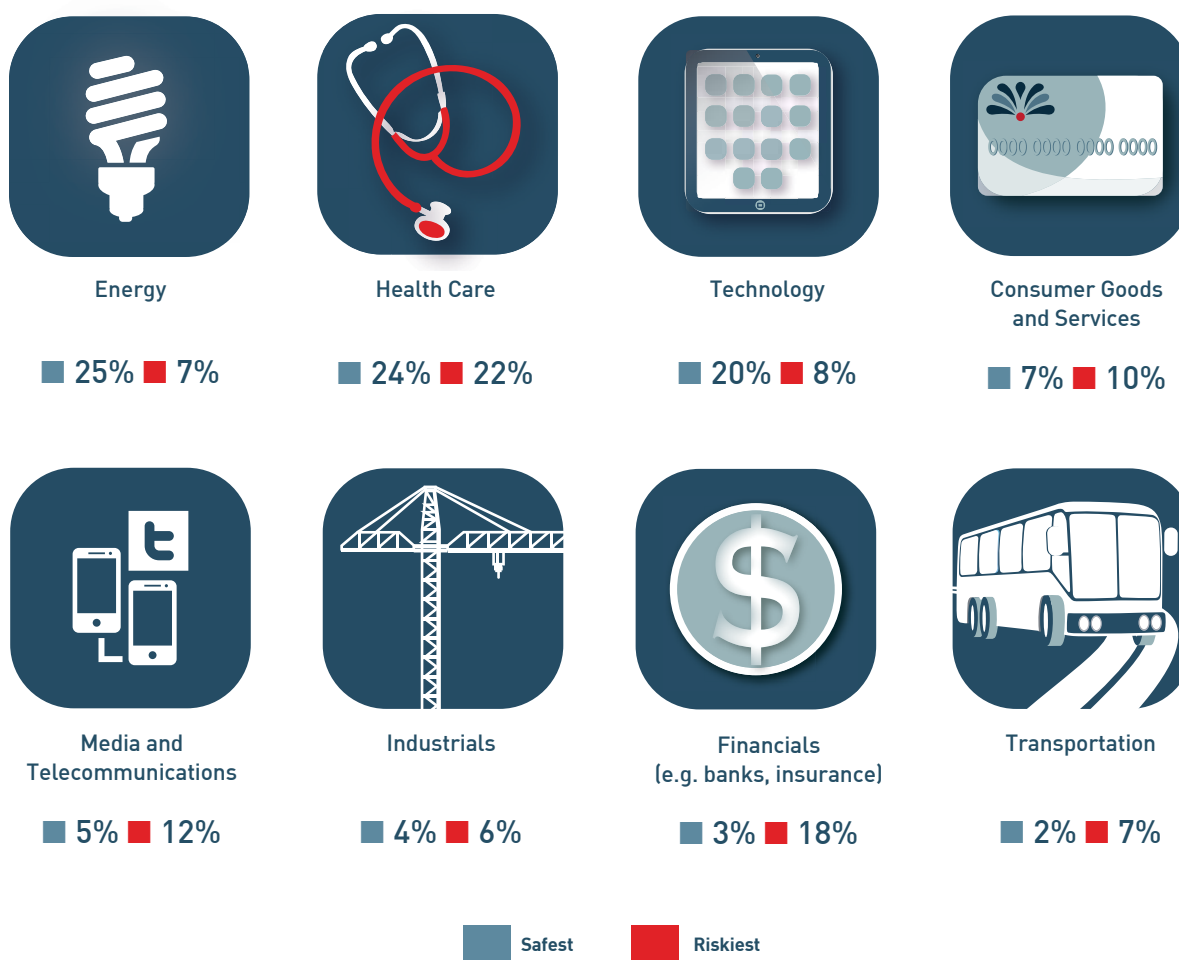
Notes: Don't know/Refused is not shown.
For exact survey question, see appendix.

Energy, Health Care, and Technology Seen as Safest Sectors to Invest in Over the Next Year

Investors see energy (25%), health care (24%), and technology (20%) as the safest sectors to invest in over the next 12 months. The financial sector is viewed as one of the riskiest for future investment.

In the rapidly evolving health care sector, investors see both opportunity and peril. Investors see health care as both a safe and risky investment, with more than one in five investors (22%) considering it the riskiest sector. Twelve percent of investors think that media and telecommunications is the riskiest sector, and one in 10 think that consumer goods and services is the riskiest.

FIGURE 12: Safest and Riskiest Sector



Note: For exact survey question, see appendix.

Strong Majority Continues to Rely on Financial Planners/ Advisors/Brokers

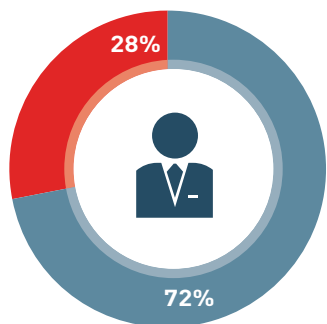
Investors were asked if they used any of the six sources shown in figure 13 as they think about investing in a publicly traded company. Over seven in 10 (72%) say that they rely on their financial planner (or equivalent) as a source for information and advice on investments. Investors also look to financial reports from publicly traded companies (57%), financial newspapers/periodicals (55%), and investors' family and friends (55%) as sources of information and advice.

Notably, nearly six in 10 (57%) said that they never rely on "financial experts on television, radio, websites, or blogs" for information and advice on investing. Three-quarters of investors (75%) 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 less than a quarter (22%) do use social media at least some of the time as a source for information and advice when it comes to investing.

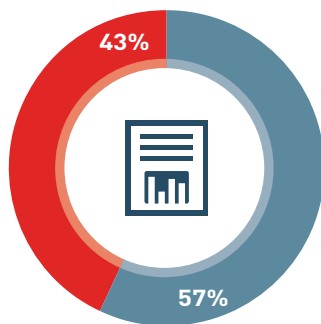
Those with investments under \$100,000 and younger investors (ages 18-34) are more likely to turn to social media than those with higher amounts invested and older investors. Women with over \$100,000 in investments rely on a financial planner more so than men with over \$100,000 invested.

Almost half of investors (48%) say they would trust a financial planner, advisor, or broker the most as a source for investment information and advice. Smaller numbers of investors (14%) would place the most trust in financial newspapers and periodicals or the business or financial section of a daily newspaper or family, friends, and colleagues.

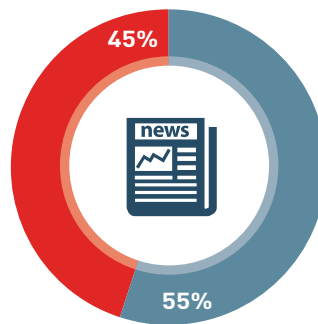
FIGURE 13: Sources of Investment Information and Advice



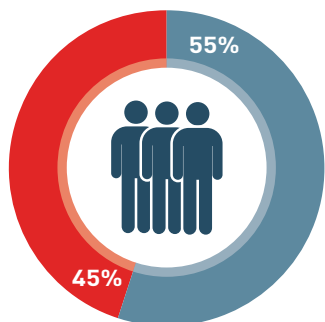
A financial planner, advisor, or broker



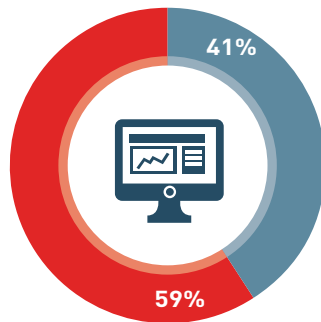
Financial reports released by publicly traded companies



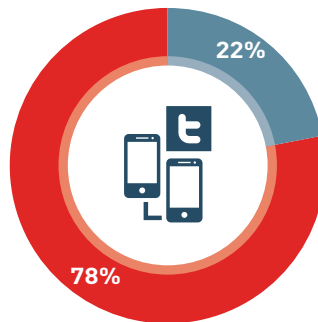
Financial newspapers and periodicals, or the business or financial section of a daily newspaper



Family, friends, and colleagues



Financial experts on television, radio, websites, or blogs



Social media

■ At least some of the time
 ■ Never or don't know

Note: For exact survey question, see appendix.

Personal Relationship and Track Records Are the Largest Drivers of Trust

Investors were also asked why they trusted a particular source for investment information and advice. Over two in 10 (22%) investors mention a personal relationship as why they trust their preferred source for investment information and advice. This is driven largely by those that trust financial planners or family and friends the most. Those investors that trust financial media the most for their investment information and advice do so because they feel they are objective and reliable.

FIGURE 14: Reasons for Trust in Sources for Investment Advice

	Total	Financial planner / Advisor	Family, friends	Financial media
Personal relationship/Honest with me/ Trustworthy	22%	29%	38%	3%
Track record/Past experience	19%	29%	6%	8%
That's their job/Motivated to do well	14%	20%	15%	6%
Expert/Knowledgeable (general)	11%	11%	14%	9%
Objective/Reliable	10%	2%	8%	34%
Because they do good research and are well informed	8%	4%	8%	17%
Helps me understand/I can verify	6%	2%	3%	14%
Because of audits	3%	-	1%	1%
Better than nothing/I just do	3%	3%	1%	3%

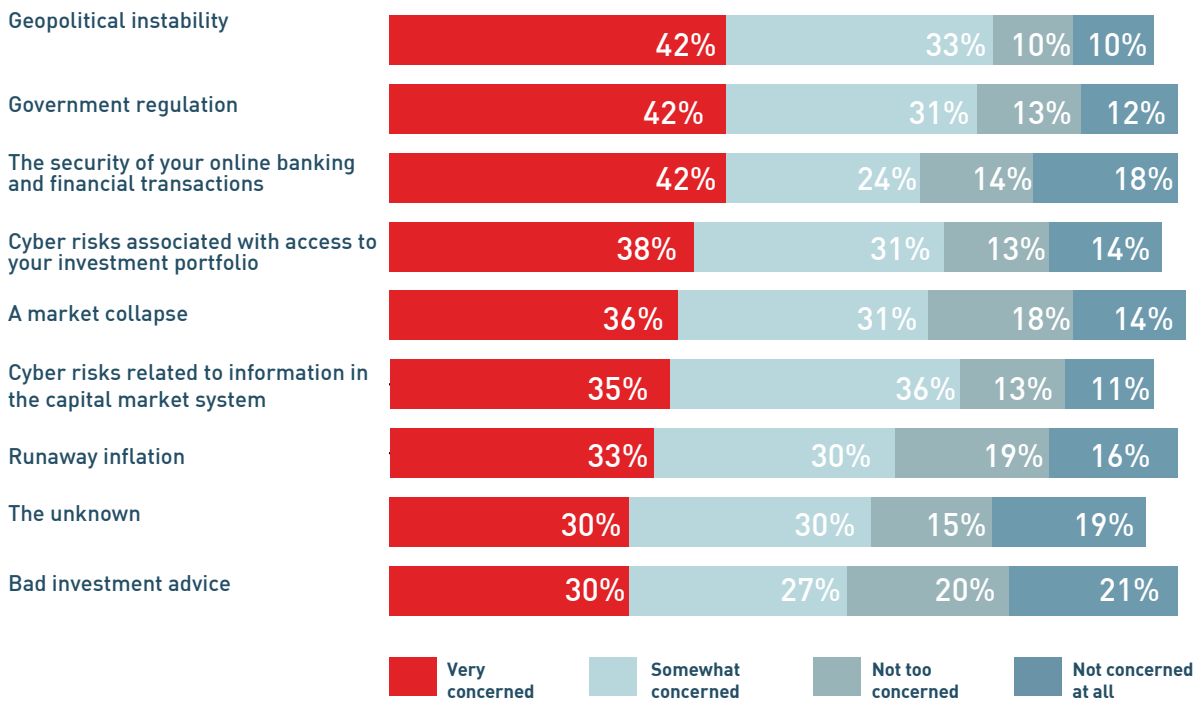
Notes: Asked of those who selected a source of information and advice that they place trust in the most. Multiple responses accepted. For exact survey question, see appendix.

Geopolitical Instability and Government Regulation Rank Highest Among Investor Concerns

Survey respondents were asked how concerned, if at all, they are about a number of potential risks they face as investors. Geopolitical instability (75%) and government regulation (73%) are what concerns them the most.

Investors are also concerned about cyber risks related to information flowing through the capital market system (71%) and their investment portfolio (69%). Two-thirds (66%) worry about a market collapse, the security of their online banking and financial transactions, or runaway inflation. Other concerns include the unknown (60%) and bad investment advice (57%), although the percentage saying they are very concerned is much more muted.

FIGURE 15: Concerns About Risk to Investment Portfolio*



*Ranked by very concerned.

Note: For exact survey question, see appendix.

FINANCIAL CONCERNS

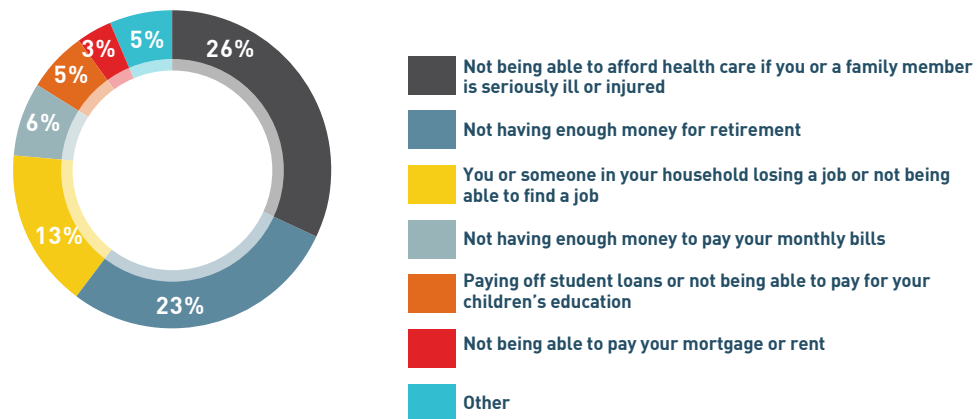
Investors Are Most Concerned About Not Being Able to Afford Health Care and Not Having Enough Money for Retirement

Investors were asked to choose the biggest threat to them and their family's financial well-being.

Over a quarter of investors (26%) say that not being able to afford health care if they or a family member is seriously ill or injured is the biggest threat to them and their family's financial well-being. This was closely followed by 23% of investors who say that not having enough money for retirement is the biggest threat. Another 13% are concerned about them or someone in their household losing a job or not being able to find a job.

Lower-income investors (household incomes of \$50,000 or less) along with younger (ages 18-34) and older investors (65+) are more likely to view the biggest threat to their family's financial well-being as not being able to afford health care. Affluent female investors (with investments of over \$100,000) are more likely (31%) to see not having enough money for retirement as their biggest threat than affluent male investors (17%).

FIGURE 16: Biggest Threat to Investors' and Families' Well-Being



Note: For exact survey question, see appendix.

Center for Audit Quality

Eighth Annual Main Street Investor Survey

METHODOLOGY

This survey of 1,049 investors was conducted from August 12-20, 2014 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 +/- 3.0 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) plans and the like.

Appendix: 2014 Main Street Investor Survey Questions

Figure 1: At the current time, how much confidence would you say you have in the U.S. capital markets?

Figure 2: 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?

Figure 3: 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 the U.S. capital markets?

Figure 4: At the current time, how much confidence would you say you have in capital markets outside of the U.S.?

Figure 5: 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 the U.S. capital markets?

Figure 6: How much confidence would you say you have today investing in U.S. companies that are publicly traded?

Figure 7: 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?

Figure 8: 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 [INSERT] is/are effective in this role in looking out for investors?

Figure 9: Which of the following statements best describes your tolerance for risk?

Figure 10: Looking ahead to the next 12 months, which ONE of the following statements most closely describes type of investments you plan to make?

Figure 11: When thinking about the specific investments you might make, how much, if at all, do each of the following factors influence your decision making process when you are looking to invest in a publicly traded company? [READ ITEM] 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 12: Of the following industry sectors, which do you think is the safest one to invest in over the next 12 months? Which industry sector do you think is the riskiest one to invest in over the next 12 months?

Figure 13: 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 [INSERT]? Do you use them always, often, some of the time or never?

Figure 14: Why do you trust [INSERT] the most as a source of investment information and advice?

Figure 15: And when thinking about risk to your overall investment portfolio, how concerned, if at all, are you about the following [INSERT]? Very concerned, somewhat concerned, not too concerned, or not concerned at all?

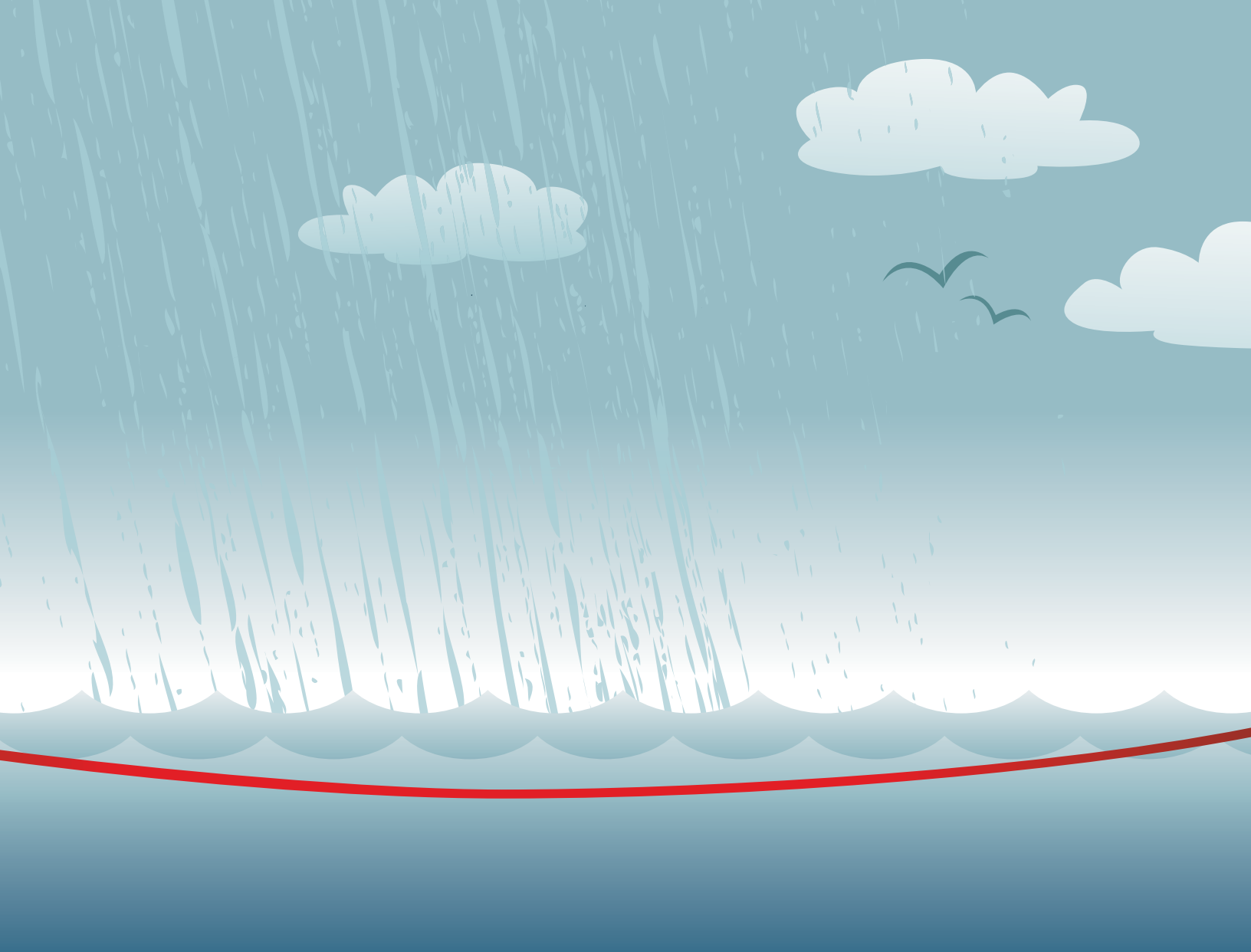
Figure 16: Of the following, which is the ONE biggest threat to you and your family's financial well-being?



About the Center for Audit Quality

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 CPAs.

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