

# **Annual SIA Investor Survey**

## **Attitudes Toward the Securities Industry**

**Prepared for:**



***November 4, 2004***

# Agenda

- Research Objectives and Methodology
- Highlights
- Perceptions of the Securities Industry
- Satisfaction with Broker/Adviser
- Investor Education
- Investor Outlook and Profile

# RESEARCH OBJECTIVES AND METHODOLOGY

# Background And Objectives

- The Securities Industry Association commissioned Wirthlin Worldwide to conduct the tenth annual SIA Investor Survey.
- The survey monitors investors' attitudes and opinions regarding:
  - Perceptions of the securities industry;
  - Major issues facing the securities industry;
  - Satisfaction with broker services; and,
  - Areas of strengths and weaknesses.

# Methodology

The study was conducted via telephone between August 2 and September 7, 2004. It is consistent with prior surveys as follows:

- Interviews were completed with 1,500 investors.
- The survey took an average of 20 minutes.
- The survey was conducted among:
  - Adults 18 or older
  - Primary financial decision-maker in household
  - \$50K+ household income
  - \$100K+ investable assets (not including home)
- Margin of error is  $\pm 2\%$  at the 95% confidence level.
- Percentage differences for year-to-year comparisons need to be 3% or greater to be statistically significant.

# HIGHLIGHTS

# Industry Perceptions Are Positive

- **Investors are more positive about the securities industry.**
  - Six in 10 are confident in the reforms the securities industry has made.
  - Favorability is 64% in 2004, up from 55% in 2003.
    - The current favorability rating is the highest it has been since the study began in 1995.
    - The “very favorable” rating is significantly lower in 2004 than in the 1997-2001 time period.
- **Satisfaction with brokers is high.**
  - Satisfaction with brokers is 90%, up slightly from the lowest score of 85% in 2002.
    - Satisfaction has been consistently high since this survey was launched in 1995.
  - Most investors believe the services provided by brokers or advisers are a good value for the money.

# There Is Room For Improvement

- **More needs to be done.**
  - The majority of investors say the industry being motivated by greed is a big problem (69%). This is up significantly from a few years ago – only 42% of investors shared this sentiment in 1999.
  - Investors are least satisfied with the following brokerage services:
    - “Helping manage all financial-asset needs.”
    - “Teaching how to make better investment decisions.”
    - “Monitoring accounts and suggesting changes.”
  - Split decision on mutual-fund governance.
    - Half of investors think the industry and regulators are doing a good job addressing mutual-fund problems.
    - Half think the industry and regulators are doing a poor job alleviating investors’ concerns.

# Education Is A Priority

- **Investors want more education from the industry.**
  - 84% think the industry should be doing more to educate investors.
    - This sentiment has been high since 1995.
  - The proportion of investors who believe “they know everything one needs to know” about investing has not risen above 6% since the study’s inception.
  - In 2004 more investors feel informed about their investment decision-making than was the case in 2003, though it is still a minority of all investors.
    - Four in 10 say they “know most of what they need to make good decisions” – this is compared to 33% in the past two years.

# Investor Outlook Is Driven By External Forces

- **External forces are driving opinion.**
  - Investors' top concerns are the political environment, the economy, and their own physical safety.
    - Accounting fraud is less a concern than it was last year.
    - Concerns about Wall Street and corporate America are down.
- **Cautious optimism** is the word of the day for investor sentiment.
  - Cautiousness remains; most investors are firmly in the middle between bearish and bullish.
  - However, investors expect an average return of 12.8% in 2004 and an average return of 14.1% in 2005 -- both figures significantly exceed historical return rates.

# PERCEPTIONS OF THE SECURITIES INDUSTRY

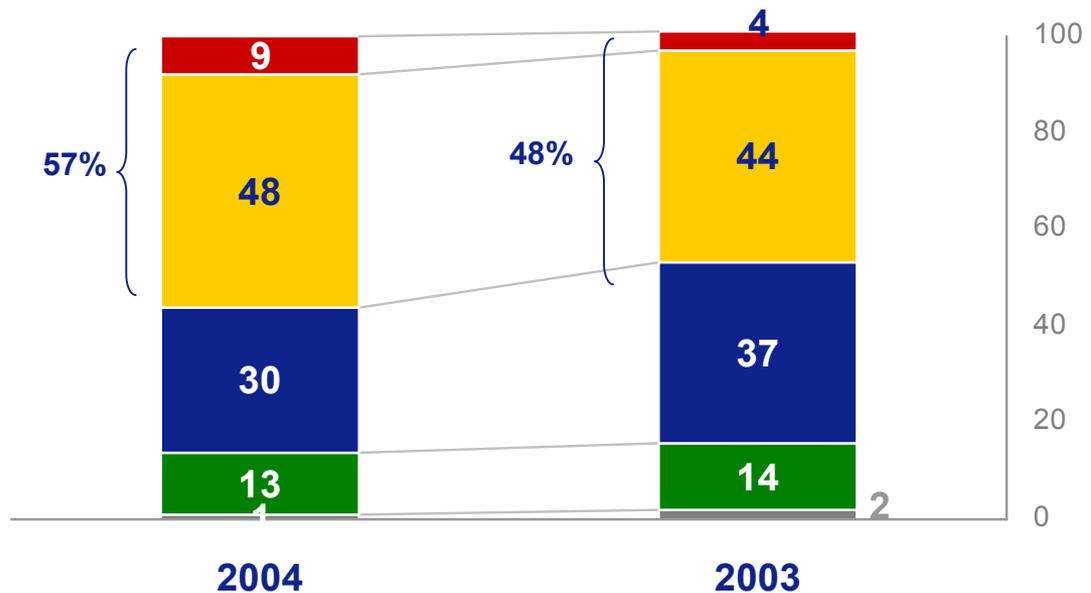
# Confidence In Industry Reforms Increased Since 2003

- Close to six in 10 investors report that they have confidence in the reforms the securities industry has made recently (57% vs. 48% last year) to reduce the types of abuses that have occurred in the past.

**Q** How much confidence do you have that the reforms made in the way the securities industry operates will reduce the kinds of abuses that have hurt investors in the past?

*Do you have...*

- A lot of confidence
- A moderate amount
- Just a little
- No confidence at all
- Not sure

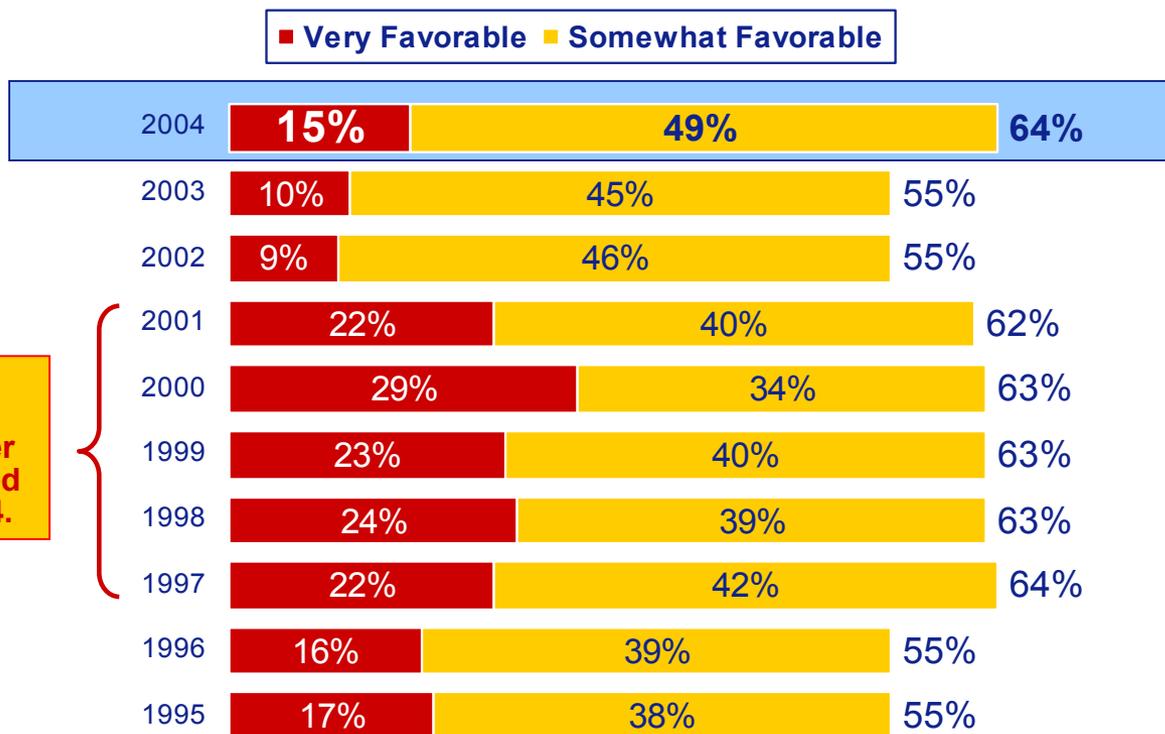


Base: N=1,500

# Perceptions Of The Securities Industry Improved From 2003

- This year, nearly two in three investors say they have a favorable opinion of the securities industry compared to just 55% in the past two years straight. Investors are feeling as positive as they had been six years ago.

**Q** In general, do you have a favorable or an unfavorable opinion of the securities industry as a whole?



**“Very Favorable” rating higher in this period than in 2004.**

Base: N=1,500

# Conflicts Of Interest And Ineffective Controls Still Perceived As Problems

- Investors rate greed, conflict of interest, and insufficient punishment for wrongdoers as *big* problems for the industry, which is comparable to 2003's results.
- This year, issues like account churning and too high commissions/transaction costs cropped up as bigger problems. 'Insufficient disclosure of fees' (a new issue to this survey) is seen as a *big* problem by almost half of investors.

**Q** Thinking more specifically now, please rate the extent to which each of the following items I read to you is a problem for the securities industry.

– % Say “Big Problem” on an aided basis –

		'03 %	'02 %	'01 %	'00 %	'99 %	'98 %	'97 %	'96 %	'95 %
Industry motivated by greed	69%	69	66	52	49	42	49	55	50	54
Financial advisers/firms putting their own interests ahead of investors'	64%	61	59	46	49	37	44	52	47	51
Industry's reluctance to punish wrongdoers	64%	66	68	41	44	34	41	47	45	50
Lack of internal controls to prevent irresponsible or wrongful actions	59%	55	54	33	39	28	33	39	38	41
Insider trading	53%	49	50	39	40	31	36	44	38	42
Insufficient disclosures of risks to investors	46%	46	45	34	41	27	34	38	37	41
Insufficient disclosure of fees to investors	39%	NA								
Transaction fees/commissions too high	37%	26	22	30	33	27	32	32	32	35
Account churning	40%	25	23	18	20	16	18	22	19	22

Base: N=1,500 Note: Not included this year: 1) Quality of stock research 2) Maintaining confidentiality of personal financial information.

# Investors Not Convinced That Mutual-Fund Problems Have Been Successfully Addressed

- Investors are almost equally split about the issue of how well the securities industry is handling mutual-fund regulation to stem the tide of abuses in that sector. Those who have a more negative perception about the industry's reaction are stronger in their views.

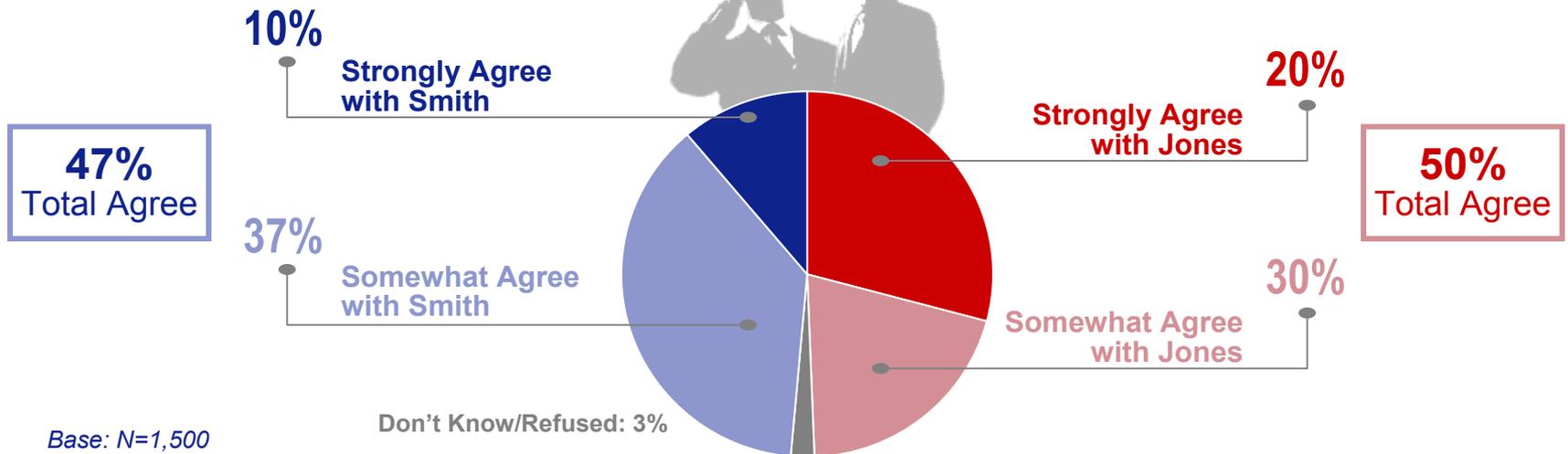
## Smith says:

*“The securities industry and its regulators are doing a GOOD job in addressing problems in mutual-fund regulation to avoid the scandals that we have experienced in the past few years.”*

## Statements Most Agree With New question

## Jones says:

*“The securities industry and its regulators are doing a POOR job in alleviating investor concern over the security of their mutual-fund investments.”*

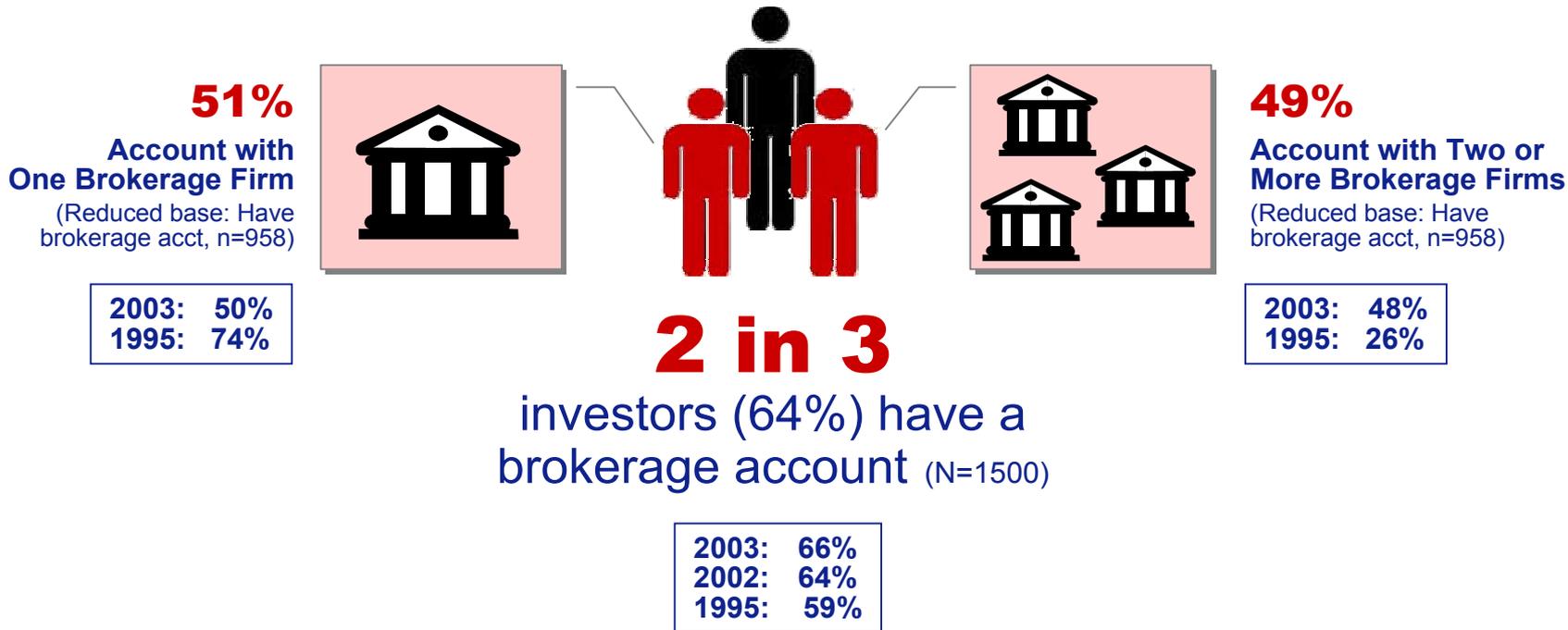


# SATISFACTION WITH BROKER/FINANCIAL ADVISER

# Two Out Of Three Investors Have A Brokerage Account

- Two-thirds of investors have a brokerage account, which is a similar proportion that has been reported in recent surveys.
- Just over half of those with an account say it is held with one brokerage firm and an almost equal proportion have multiple brokerage accounts. Compared to SIA's first survey, the trend to have multiple brokerage accounts has increased significantly (up from 26% in 1995).

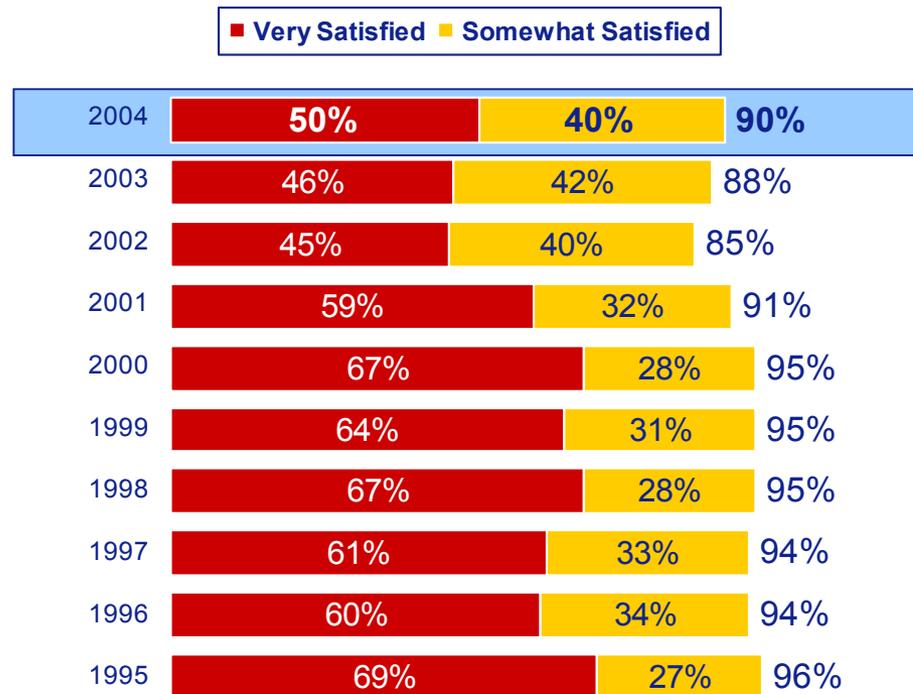
**Q** Do you currently have a brokerage account?  
In total, how many brokerage firms do you have an account with?



# Overall Satisfaction With Broker/Financial Adviser Remains Strong Though Still Below Historic Highs

- For those with a brokerage account, their levels of satisfaction with their broker continue to climb up to the peak reported in the 1995-2000 time periods.

**Q** Thinking about your primary broker or financial adviser, how satisfied are you with the service you receive from your broker or financial adviser?



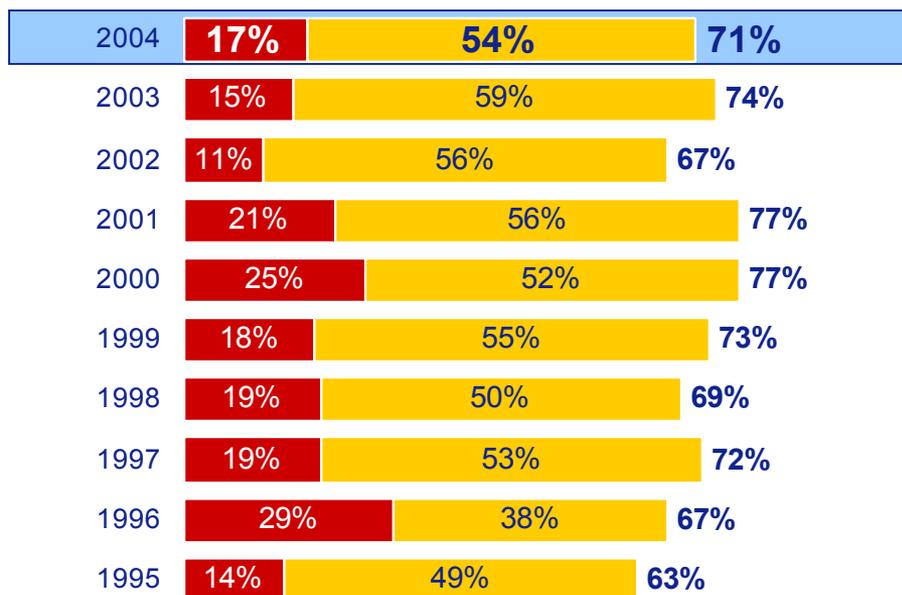
Reduced base (have a broker/financial adviser): n=958 (64% of total)

# Services Provided By Broker/Financial Adviser Continue To Be Perceived As Good Value By Most

- Ratings are below the high levels of 2000-2001.

**Q** Please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with the statement, "The services provided by brokers or financial advisers are a good value for the money."

■ Strongly Agree ■ Somewhat Agree



Base: N=1,500

# Top Measures For Brokers/Financial Advisers Remain Pretty Consistent With Last Year

- Investors give particularly high scores this year to “easy access to account information,” “returning calls promptly,” and brokers being “friendly and helpful.” These scores are on par with scores in 2003.

**Q** In your view, does your (primary) broker or financial adviser do an excellent job, good job, only a fair job, or a poor job in each of the following areas? Question asked differently in 1995.

	■ Excellent job ■ Good job		– Excellent/Good Job –								
			'03 %	'02 %	'01 %	'00 %	'99 %	'98 %	'97 %	'96 %	
Provides me with easy access to my account information	58%	34%	92%	91	90	91	NA	89	NA	92	89
Returns my calls promptly	48%	35%	83%	83	80	84	86	86	87	88	88
Is friendly and helpful	46%	38%	84%	87	83	89	92	87	89	91	89
Keeps me regularly informed about the performance of my investments	34%	38%	74%	77	69	81	79	81	80	82	80
Has a track record of strong performance	34%	40%	74%	73	60	81	83	81	82	81	79
Helps me develop my overall investment strategy and asset allocation	30%	40%	70%	68	61	74	75	74	74	69	67

Reduced base (have a broker/financial adviser): n=958 (64% of total)

# Bottom Measures Are Mostly Rated Lower Than In 2003

- This year there was a dip in satisfaction levels with brokers/advisers on “keeps my best interest at heart” (drop of 6%), “has reasonable fees and commissions” (drop of 5%), and “teaches me how to make better investment decisions” (drop of 5%). However, these declines are not as bad as those observed in 2002.

**Q** In your view, does your (primary) broker or financial adviser do an excellent job, good job, only a fair job, or a poor job in each of the following areas? Question was asked differently in 1995.

	■ Excellent job ■ Good job		– Excellent/Good Job –								
			'03 %	'02 %	'01 %	'00 %	'99 %	'98 %	'97 %	'96 %	
Keeps my best interest at heart in making or suggesting investments	30%	38%	68%	74	64	79	79	78	80	76	78
Has reasonable fees and commissions	25%	42%	67%	74	66	79	81	78	78	73	79
Keeps me informed about new investment opportunities	24%	40%	64%	64	53	71	74	72	72	69	72
Monitors my account and suggests changes	26%	36%	62%	64	54	71	70	71	73	71	72
Teaches me how to make better investment decisions	20%	34%	54%	59	49	67	68	65	69	64	63
Helps me manage all of my financial-asset needs (banking, insurance, mortgage, bill payments, credit cards)	14%	29%	43%	32	NA	NA	NA	NA	NA	NA	NA

Reduced base (have a broker/financial adviser): n=958 (64% of total)

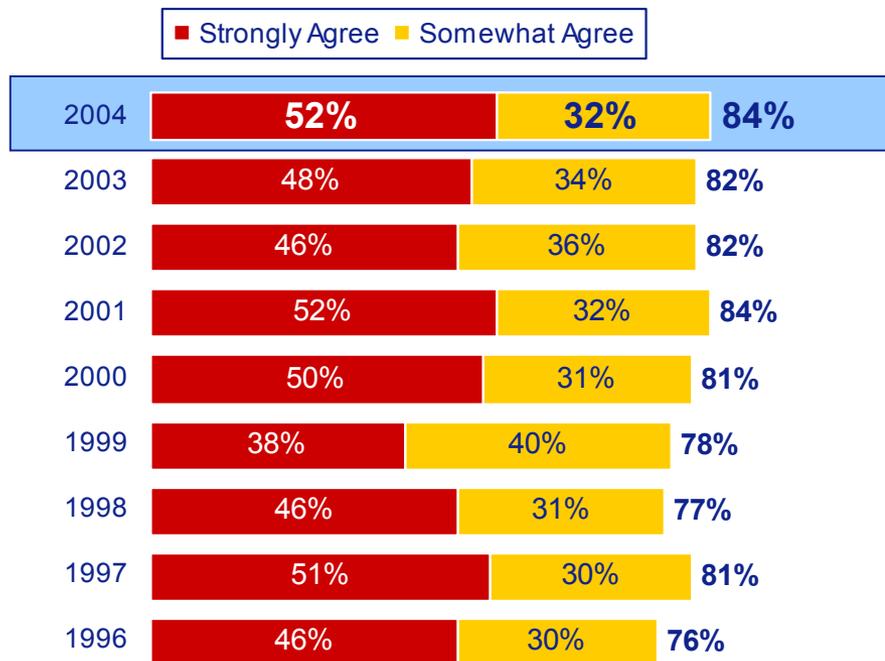
# INVESTOR EDUCATION

# Investors Still Perceive That The Securities Industry Should Do More To Educate Investors

- Investors concur that more needs to be done by the securities industry to educate the public about better investing. Over half strongly agree with this assessment with 84% agreeing overall. This proportion has been high since the survey's inception.
- Investors are most likely to admit they wish they knew more about the different types of investments available to them, and the risks associated with the investments.



Please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with the statement, "The securities industry should be doing more to educate the public about how to make good investments."

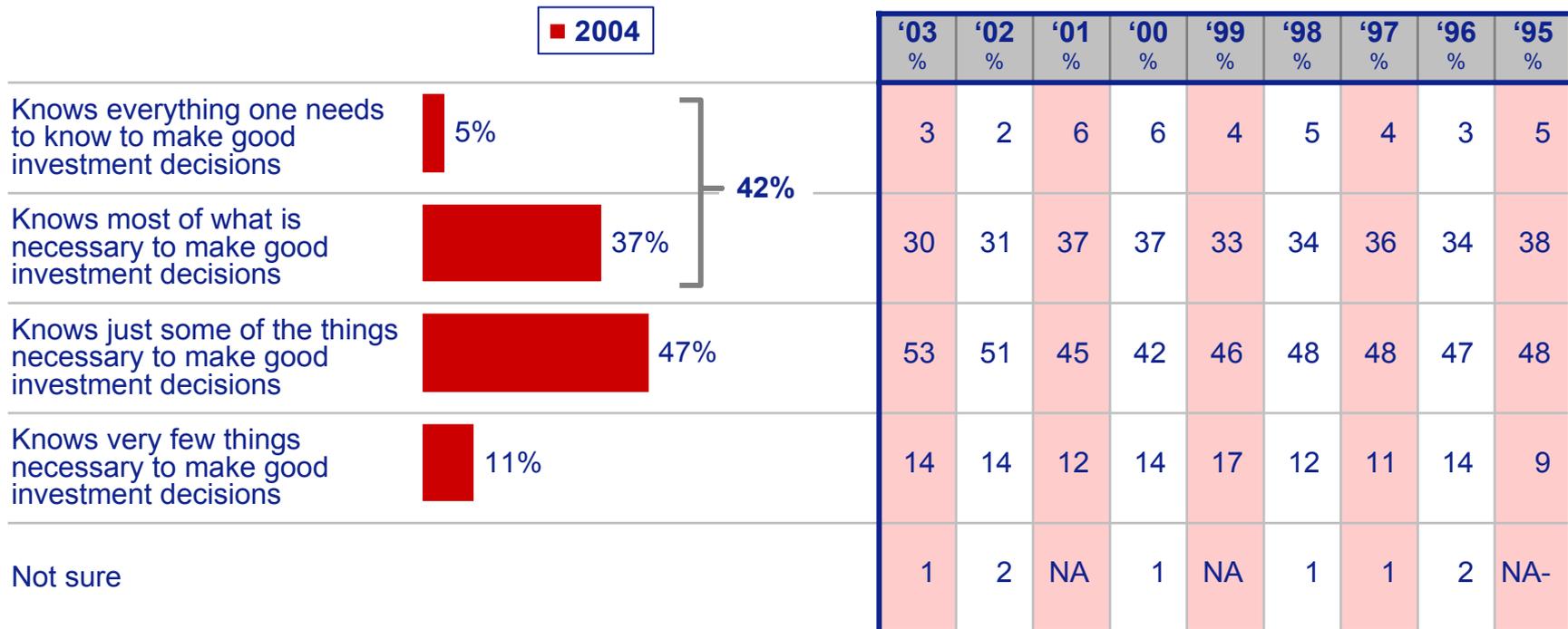


Base: N=1,500

# While Investors Feel More Informed About Investing This Year, They Still Need Help

- In 2004 investors are significantly more inclined than in 2003 to feel more informed about their investment decision-making. Four in 10 say they know most of what they need to know to make good decisions – this is compared to 33% in the past two years. However the proportion who report they “know everything one needs to know” is still small (just 5%) and has not increased above 6% since the study’s inception.

**Q** Thinking about the kinds of information needed to make good investment decisions, would you describe yourself as someone who:



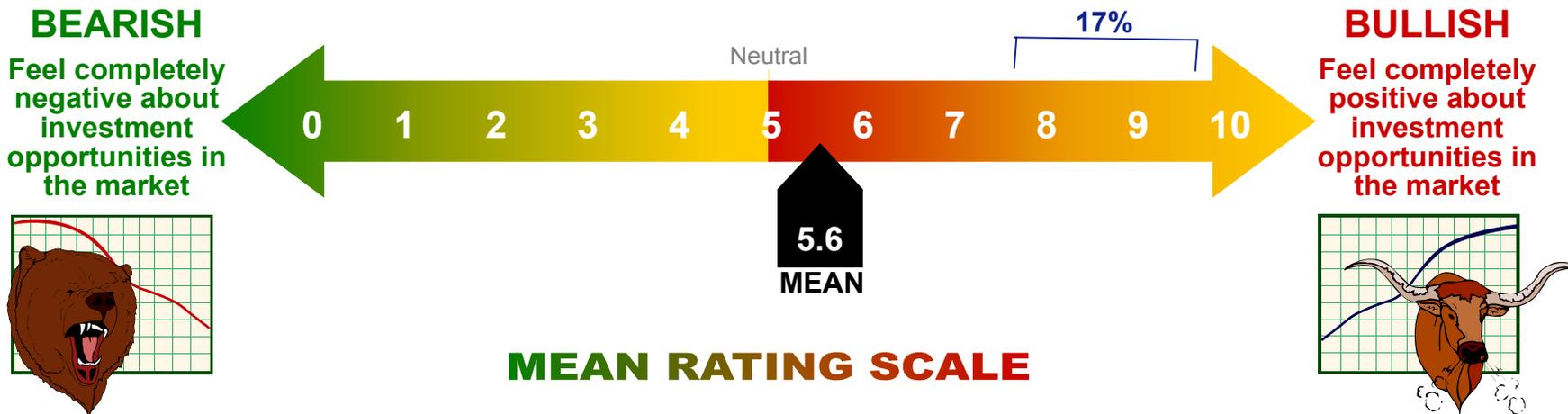
Base: N=1,500

# INVESTOR OUTLOOK AND PROFILE

# View On Current Investing Climate Is Neutral

- Overall, investors are neutral about the current investment climate and lean just slightly more bullish. Just 17% report being bullish about market prospects.
- Retired investors are completely neutral about market prospects.

**Q** I'd like you to rate your view of the current environment for personal investing using a scale of 0-10 where 0 means you feel completely negative about investment opportunities in the market (or bearish about market prospects) and 10 means you feel completely positive about investment opportunities in the market (or bullish about market prospects). A score of 5 would mean that you are neutral about the market. Where do you rate yourself on this scale? *This is a new question.*



Base: N=1,500

# Investors' Top Concerns Include Political Environment And The Economy

- The presidential elections top investors' lists of concerns by a notable margin. Compared to a year ago, an equally high proportion are concerned about the economy. Considerably fewer investors, however, are worried about corporate governance issues, accounting fraud, losing money, and low corporate earnings. This year though, there is significantly greater concern about the threat of terrorism.

**Q** Using a 5-point scale, where 5 means you are "very concerned" and 1 means "not at all concerned," please tell me how concerned you feel about each when it comes to making investments in the stock market.

Top 2 Box % (Percent saying "5" or "4")	■ 2004	2003	2002
		Top 2 Box %	Top 2 Box %
Upcoming presidential elections	60%	NA	NA
State of the U.S. economy	52%	54%	44%
Accounting fraud at U.S. corporations	51%	60%	65%
Fear of losing money	46%	51%	49%
Threat of terrorism	43%	28%	32%
How corporations are governed	42%	57%	NA
Lack of trust in Wall Street	34%	35%	38%
Lack of trust in brokers/fin'l advisers (general)	30%	31%	33%
Low corporate earnings	28%	35%	38%
Personal job security	27%	NA	NA
Lack of trust in your own broker/fin'l adviser*	13%	14%	13%

Base: N=1,500

\* Reduced base (Those have an account with brokerage firm): n=555

# Expectations For Investment Returns Are More Realistic Than In The Past But Still Too High

**Q** *What do you expect your investment return to be for the full-year 2004? That is, the percentage change in the total value of your investment portfolio for the whole year. This is a new question.*

**Q** *What do you expect your investment return to be for the full-year 2005? That is, the percentage change in the total value of your investment portfolio for the whole year. This is a new question.*

Most expect an average return of ...

**12.8%**  
in 2004

**14.1%**  
in 2005

\*In past surveys the question asked was “What do you consider to be a respectable rate of return on your investments.”

Median %:

2003: 10%

2001: 19%

2002: 13%

2000: 33%

2002: 19%

1999: 30%

Base: N=1,500