



Ipsos Reid

CSA Investor Index Study 2009

Prepared for:

Canadian Securities Administrators

Investor Education Committee

Executive Summary

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EXECUTIVE SUMMARY

Canadian provincial securities regulators provide information to help investors make appropriate investment decisions and recognize, avoid and report fraudulent investments. In 2006, the CSA Investor Education Committee conducted an inaugural CSA Investor Index study, designed to understand Canadians' knowledge about investments and experience with fraudulent attempts and provide a baseline for measurement. A partial follow-up survey was conducted in 2007. In May of 2009, Ipsos Reid was commissioned to conduct the first full follow-up of the 2006 study, to provide tracking for key metrics.

More specifically, the research investigates:

- ✓ Canadians' investment behaviour
- ✓ Knowledge and confidence about investing
- ✓ Investor understanding of financial fraud
- ✓ Canadians' experiences with financial fraud
- ✓ Variables associated with susceptibility to fraud
- ✓ Awareness of the provincial securities regulators

In addition, the CSA Investor Index 2009 includes a new section on the importance of education about personal finances and investing for young people.

Ipsos Reid interviewed 6,319 Canadian adults online, between July 20 and 27, 2009, comprised of two groups: 1) a "general population" sample, in which disproportionate sampling by province was used in order to provide reliable provincial samples, and 2) an over-sample of Canadians who say they have been victims of financial fraud.

Separately, Ipsos Reid asked several questions in a national telephone survey of 1,004 Canadian adults between July 21 and 23, 2009. This survey was conducted in order to verify distributions from the online survey on key weighting variables. Incidence rates were used to weight the online sample to make it representative of the Canadian population.

1.1 Highlights

- Canadians express confidence and believe that they are knowledgeable and responsible about investing. Yet, their behaviour may indicate otherwise.
- A majority of Canadians are not accessing information about investments, even though they believe that they would know where to go for this information.
- Fewer than half of Canadians have worked with their advisor or someone in a financial institution to create a formal assessment of their willingness to take risk. Among those who have, only half have reviewed their risk profile within the past year.
- Only one-in-four Canadians has a formal written financial plan that includes clear investment goals, despite the fact that two-thirds agree that having a formal, written financial plan is important for people like them.

- Most Canadians recognize various “flags” that indicate potential fraudulent investments. Yet, Canadians are more likely than in 2006 to trust fraud artists. The nature of fraudulent attempts may be changing as fewer are received by email. As a percentage of fraudulent attempts that have occurred other than by email exclusively, approaches are more likely to be personal, creating a stronger likelihood of trust.
- Fraud victims tend to be over-confident and to be more accepting of investment risk. Fraud victims are more likely to believe that people can be trusted, that risk = reward and that you can miss good opportunities by not acting immediately.
- A separate segment that has higher susceptibility to fraud is visible minorities. These investors are not over-confident, but are more aggressive with respect to taking risk with their investments. While not asked about in this survey, other research conducted by Ipsos Reid with first generation new Canadians (*Canadians & Financial Advice 2009*) does suggest that new Canadians have a higher propensity to trust those who are recommended by family or friends.
- A majority of parents claim to be at least somewhat confident in their ability to teach their children about personal finances and investing. Most agree that it is important to pass along personal experiences and insights to children and that teaching children financial skills is among the most important things a parent can do for their child.

1.2 Overview of Findings

Savings and Investments

- Most Canadians (85%) believe that it is important to build up your own personal savings and investments. A smaller percentage (65%) has some savings or investments set aside for the future. One-in-three (35%) do not have any savings or investments, an increase from 27 percent in 2006.
- Despite the fact that two-thirds of Canadians have some savings or investments, fully six-in-ten (60%) Canadians worry that they do not have enough savings to meet their financial needs.
- Canadians show signs of optimism. They are much more likely to agree (48%) than disagree (27%) that 2010 will be a good year for them financially. The vast majority of Canadians who own investment products plan to either stay invested (52%) or invest more (31%) over the next 12 months, while just under one-in-ten (8%) say they plan to reduce their investments.

Investor Confidence and Knowledge about Investments

- Eight-in-ten Canadians agree that it is their responsibility to acquire the skills they need to make sound investment decisions and agreement is stronger than in 2006 (32% agree strongly in 2009, compared to 27% in 2006).
- Over half of Canadians (56%) express confidence in their ability to make investment decisions, while two-in-five say they are not very (25%) or not at all confident (13%). The proportion who are confident has increased slightly since 2006 (51%).
- Over seven-in-ten agree that they know where to go to obtain information about investing in general (75%) or about specific investments (71%).

- Over eight-in-ten Canadians describe the need for reliable, unbiased information about investing as very (58%) or somewhat (26%) important.
- Though they recognize the need for reliable, unbiased information about investing and two-thirds own investments, many Canadians are not accessing information about investments. One-in-three Canadians (31%) say that they have sought information about investing in the past 12 months, while two-thirds (66%) have not. Even among the subgroup of active investors (those who trade at least once or twice annually), six-in-ten have looked for information in the past 12 months, while four-in-ten have not.
- Fewer than one-in-five looked for information about the return of an investment (18%), the risks of an investment (16%) and/or information about different types of investments (14%).
- Four-in-ten claim awareness of a provincial agency responsible for regulating financial investments in their province, while the majority say that they do not know if one exists. Among Canadian investors, just under half (46%) are aware of provincial regulators. Among those who have looked for investment information in the past 12 months, over half (55%) are aware. Only three percent have sourced information about investing from a provincial regulator (4% among those who have looked for investment information in the past 12 months).
- Young Canadians, aged 18-34 years of age, are less confident about making investment decisions and are significantly less likely to know where to go for information about investing or specific investments. Additionally, awareness of provincial regulators is lowest in this age group; few are aware.

Investor Risk Orientation

- While the majority of Canadians are somewhat (47%) or very conservative (17%) with respect to their investment style, one-in-three investors describe themselves as aggressive with respect to risk (5% very aggressive, 27% fairly).
- In 2009, fewer have reviewed the level of risk they are willing to take with their investments within the past year. Only half of investors have reviewed the level of risk they are willing to take (50%), compared to 62 percent in 2006.
- The level of trading frequency has increased since 2006. Thirty-six percent of investors buy or sell investments at least once per quarter, compared to 31 percent in 2006. The incidence of those buying or selling investments on a weekly basis has doubled to six percent, from three percent in 2006.
- Only three percent expect a negative return on their investments over the next 12 months. One-in-ten expect more than a 10% return.
- The incidence of entering contest, lotteries or sweepstakes is directionally higher, with 40 percent entering at least several times per month, compared to 37 percent in 2006.
- Higher income and education increase the likelihood of taking risk with investments. Males are more likely to describe themselves as aggressive with respect to investment risk, trade more frequently and expect higher returns.
- Canadians in B.C. are most likely to say they have an aggressive investment style and trade most frequently, while those in Quebec are more conservative and trade least frequently.

Financial Advisors and Financial Plans

- Fewer than half of Canadians (45%) say they have a financial advisor (consistent with 2006, when 42% said they had an advisor). More than nine-in-ten (92%) of those with a financial advisor are comfortable bringing forth concerns or questions when talking to their advisor.
- Just over four-in-ten (43%) Canadians have worked with their advisor or someone in a financial institution to create a formal assessment of their willingness to take risk.
- One-in-four (24%) Canadians say that they have a formal written financial plan that includes clear investment goals, despite the fact that two-thirds agree that having a formal, written financial plan is important for people like them.
- The likelihood of having an advisor increases with age. Among those who have an advisor, comfort level with their advisor, likelihood of having worked with a financial advisor on a formal risk assessment and likelihood of having a financial plan also increase with age.
- Canadians in Newfoundland and Labrador are least likely to have a financial advisor and are least likely to have a formal risk assessment or a formal written financial plan.

Investor Behaviour – Most Recent Financial Investment

- Half of Canadian investors had their most recent investment opportunity recommended to them while they were discussing their investments with their advisor or someone from their bank. They are the least likely group to have personally researched the investment.
- Three-in-ten came across the opportunity on their own; they cite the internet, a prospectus or investment marketing materials, newspaper or television as the source. They are most likely to have personally researched the investment (72%) and say that they proceeded cautiously; only 15 percent invested immediately, while 79 percent took the time to think about it.
- One-in-ten invested in an opportunity that someone approached them with directly; they cite their financial advisor or someone from their bank, but just as many found their investment opportunity from a family member or someone they work with. Just over half researched the investment personally and four-in-ten invested immediately. They were also the most likely to be told to act immediately (37%).
- In total, one-in-four investors invested immediately with their most recent investment, a directionally higher incidence than in 2006, and one-in-four agree that if you do not act immediately on a new investment opportunity, you may miss a good opportunity. Significantly more potential investors than in 2006 are also being told to act immediately; 15 percent of investors overall were told that they needed to act immediately so as not to miss the investment opportunity, compared to 10 percent in 2006.
- Young Canadians, 18-34 years of age, the group that is less confident about making investment decisions and significantly less likely to know where to go for information, are far more likely to have been told to act immediately and are most likely to have acted immediately.
- Those with high income and education are more likely to have personally researched their investment and to be confident about understanding their recent investment in detail.

Experience with Fraud Attempts

- Most Canadians recognize various “flags” that indicate potential fraudulent investments. Eight-in-ten believe that no written information or a reluctance to provide it, a strong push to act now and a guarantee of high returns with little or no risk are strong indicators of fraud. Six-in-ten agree that the availability of inside information is a strong indicator. Fewer than one-in-four agree that one of the best ways to make money in the market is to look for inside tips or that most people can be trusted.
- Just under four-in-ten Canadians (38%) believe that they have been approached with a possible fraudulent investment, a level that is relatively consistent compared to 2006 and 2007. Among those approached, a much lower number say that all fraudulent attempts came via email spam (21%, compared to 38% in 2006).
- Among those who had been approached from sources other than email exclusively, more than one-in-four were approached over the telephone, while one-in-five were introduced to a fraud artist through a friend, neighbour, co-worker or family member.
- Levels of trust developed with the person who offered the fraudulent investment are higher than in previous years. More than one-in-ten (12%) developed a very strong or somewhat strong level of trust. Canadians who own a home and other real estate and who have higher income and/or higher education are more likely to have been approached and are more likely to have developed a sense of trust.
- Those who have been approached are more likely to report the fraudulent attempt to the authorities. One-in-four (26%) say that they reported the attempt (compared to 17% in 2007 and 14% in 2006).
- At the same time, the incidence of thinking that it is important to report even the suspicion that someone has approached them with an investment fraud has declined since 2006, most likely because it was email spam, they did not think that reporting it would do anything/make a difference and/or did not want to be bothered.
- Canadians in B.C. and in Manitoba are notably more likely to say that they have been approached, while those in Quebec are considerably less likely. Personal introductions from a friend, neighbour, etc. and door-to-door solicitations are more common in Quebec and, consistent with personal introductions being more likely, Quebecers are more likely to have developed a sense of trust

Fraudulent Investments

- Among those who believe that they have been approached, one-in-ten (11%) say that have actually invested money in what turned out to be a fraudulent investment. As a percentage of total Canada, this means that four percent of Canadians have been fraud victims, the same incidence as in 2006 and 2007.
- However, there is an increase relative to 2007 in the incidence of fraud victims who say they have invested in fraudulent investments more than once. The amount invested has also increased.
- More than three-in-four told their friends or family about the investment fraud, a higher level of disclosure than in 2006. Their friends and family are more likely to feel that the investment fraud was at least partially the victim’s own fault.

- Attempted fraud, for half of the victims, occurred while they were experiencing changes in their lives; for more than one-in-ten, when starting a new job and/or losing their old job. Other life events correlated with fraud attempts are receiving a financial windfall, getting divorced or separated and being within five years of retirement.

Understanding Successful Fraud Attempts

Who is approached?

- Canadians who are more likely to be approached with a fraudulent investment:
 - Are “DIYers”: They are more likely to research their investments on their own, believe that they are very familiar with their most recent investment and could explain the risks and benefits in detail, and have looked for information about investing in the past 12 months.
 - Are more likely to take risk with investments: They expect higher returns on their investments, consider themselves very or fairly aggressive with respect to willingness to take risk to achieve above-average returns and choose more aggressive investments/portfolios, even though the downside is higher.
 - Trade at least monthly.
 - Are more active online: They purchase goods and services on the internet and/or by telephone at least every couple of months.
 - Are male and have higher levels of education.
 - Are less likely to work with advisors (even if they have one): They are more likely to have been approached directly on their most recent investment and are less likely to rely on their advisors when it comes to making decisions about investments.
 - Are confident and believe that they are knowledgeable about investments: They know where to go for information about investing in general and are very or somewhat confident about making investment decisions.

Who is a victim?

- Once approached, different factors predict who is likely to be a victim of fraud. While actively researching investments may increase the likelihood of being approached, this does not increase the likelihood of investing in fraudulent investments. The strongest predictors of being a victim relate to over-confidence, attitudes about investments and level of investment activity.
- Canadians who are more likely to invest in a fraudulent investment:
 - Are over-confident: They make decisions on their own as opposed to sharing decision making with someone else in the household and they are very confident about making investment decisions.
 - Are “DIYers”: They are the most likely group to have looked for information about investing in the past 12 months and believe that they are very familiar with their most recent investment and could explain the risks and benefits in detail.

- Are more likely to be frequent traders (trade on a weekly basis).
 - Are risk-oriented with investments and attitudinally: One-in-five expect returns of 10% or more and one-in-ten consider themselves very aggressive, willing to take risk to achieve above-average returns. They are more likely to agree that the riskier the investment, the greater the reward, that most people can be trusted and that if you do not act immediately you may miss a good opportunity. They enter contests, lotteries and/or sweepstakes frequently.
 - Are highly educated: Half have college or university undergraduate degrees, one-in-ten have post-graduate degrees.
 - They are more likely to own both their home and other real estate.
 - Gender is not related to the likelihood of having ever invested in a fraudulent investment, although those who have invested more than once are far more likely to be male.
- A separate segment that has higher susceptibility to fraud is visible minorities. These investors are not over-confident, but are more aggressive with respect to taking risk with their investments.

Young People and Investing

- Almost nine-in-ten indicate that a financial advisor is an important source of information for young people and half believe that a financial advisor is the most important source. Other important sources are a bank or financial institution's website, information/newsletters sent from a financial advisor or institution, research reports, financial or business media, books and prospectuses or annual reports.
- Just under six-in-ten agree that parents are an important source of information for young people, half feel that family and friends are important and just under four-in-ten agree that schools and teachers are important. Only two-in-ten feel that the responsibility should fall primarily to the parents.
- Seven-in-ten Canadians feel that children should be taught about finances and investing in junior high/ middle school or high school.
- Half of Canadian parents have taught their children about finances and investing. One-in-four young parents with young children say they have taught their children about personal finances and investing, while half of parents with teenagers have taught them. Seven-in-ten older parents (who have children aged 18 or older) say they have taught their children.
- Two-in-three parents claim to be confident in their ability to teach their children about personal finances and investing, although not overwhelmingly so (half claim to be only somewhat confident).
- On the whole, the vast majority (eight-in-ten or more) agree that it is important to pass along personal experiences and insights to children and that teaching children financial skills is among the most important things a parent can do for their child.
- Eight-in-ten also agree that it is important to find outside sources of information for teaching purposes. Fewer, seven-in-ten, agree that they know where to go for information to aid in their teaching and only one-in-four strongly agree that they know where to go.

- If they were looking for information to teach their children, seven-in-ten parents consider a financial advisor the most important source. Three-in-ten name parents and books. One-in-five consider teachers among the most important sources of information.