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Executive Summary

2012 CSA Investor Index

Prepared for:



**Canadian Securities
Administrators**

**Autorités canadiennes
en valeurs mobilières**

2012 CSA Investor Index Survey

These materials are intended for use as general information to understand investor behaviour and the estimated incidence of investment fraud in Canada. They are not intended to provide specific investment, tax, legal, or accounting advice and should not be relied on for that purpose.

The conclusions drawn and opinions stated are those of the authors. Research for this study was conducted in May 2012.

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This report has been prepared by Innovative Research Group Inc. for the Canadian Securities Administrators, Investor Education Committee.

A full version of the report can be found at <http://www.securities-administrators.ca/investortools.aspx?id=1011>

Introduction

The *2012 CSA Investor Index* is the third survey on investment knowledge, investor behaviour, and incidence of investment fraud among Canadians conducted by the Canadian Securities Administrators (CSA). The previous two surveys were conducted in 2006 and 2009. The information and analysis from these surveys are intended to help the CSA Investor Education Committee develop and deliver programs to help investors make appropriate investment decisions, and recognize, avoid and report suspected fraudulent investments.

The CSA commissioned Innovative Research Group (INNOVATIVE) to design and conduct the *2012 CSA Investor Index*. Similar to the previous surveys, the 2012 survey looked at investment knowledge, investor behaviour, the incidence of “self-reported” investor fraud and awareness of securities regulators.

The 2012 survey also includes new questions in the following areas:

- **Investor knowledge:** Three standardized investment knowledge questions used in similar international studies were added to allow the CSA to gauge the financial literacy of Canadians.
- **Market expectations:** New questions were added to measure expectations about reasonable rates of return.
- **Role of social media in investing:** Several questions were added to understand the use of blogs and other social media tools as a source of investment information and investors’ reliance on social media for investing.

Methodology

INNOVATIVE interviewed 6,911 Canadian adults online between May 17 and 31, 2012 in English and French. The online study was used to develop a profile of Canadian investor segments and to provide a large sample of Canadians who have actually experienced fraud. The online sample was weighted by age, gender, and province and territory using 2011 Statistics Canada Census data to reflect the actual demographic composition of the population. A probability sample of this size would have an estimated margin of error of +/-1.4 percentage points, 19 times out of 20. The estimated margin of error would be larger within each sub-grouping of the sample.

Separately, INNOVATIVE interviewed 2,006 Canadian adults via telephone in May 2012. The telephone survey was used to verify distributions from the online survey on key weighting variables including incidence rates for particular investment behaviours and the number of Canadians who believe they have been a victim of investment fraud.

In this document, “respondents” and “Canadians” refers to the entire sample. “Investors” refers to the portion of the sample that has money set aside for the future, either through RRSPs, RRIFs, TFSAs, pension funds or securities, such as stocks, bonds and/or mutual funds.

A full version of the report can be found at <http://www.securities-administrators.ca/investortools.aspx?id=1011>

Key Findings

Canadians are still being approached with fraudulent investment opportunities

Just over one-quarter of Canadians (27%) believe they have been approached with a possible fraudulent investment at some point in their life¹. Over half of Canadians (56%) agree they are just as likely to be a victim of investment fraud as anyone else.

The estimated incidence of fraud victimization remains relatively unchanged since 2009 and 2006. 4.6% of Canadians believe they have been a victim of fraud, compared to 4.2% in 2009 and 4.0% in 2006. Just over half of victims (56%) lost all of the money they invested in the most recent fraudulent investment, down from 70% in 2006.

Canadians are reporting suspected fraud, but rates remain relatively low

The majority of Canadians (69%) disagreed with the statement "Reporting a fraudulent investment is more trouble than it's worth". Yet just 3-in-10 (29%) of those who believe they have been approached with a fraudulent investment said they reported the most recent occurrence to the authorities. Half (50%) reported it to either local police or the RCMP, while 4% reported it to their provincial or territorial securities regulator.

Saving and investing profile of Canadians

More Canadians are saving, with 72% having money set aside for the future. This is up from 65% in 2009 and 70% in 2006.

Slightly more than one-quarter (28%) of Canadians reported having no savings or investments set aside for the future. 17% have some savings, but do not own securities outside a company-managed pension plan, RRSP or RRIF.

55% of Canadians own securities outside a company-managed pension plan, RRSP or RRIF. 34% are "passive investors" – adjusting their investment portfolios once or twice a year – while 21% are "active investors" – reviewing their portfolios and making adjustments at least once a quarter. Most investors (64%) describe their investment style as conservative or risk-averse.

The top three most commonly held investment products are mutual funds (62% of those with savings or investments set aside), term deposits or GICs (45%) and individually held stocks (33%).

At the time the survey was conducted (May 2012), investors were more optimistic about achieving their investment targets in the next 5 years (52% optimistic) than in the next 12 months (39% optimistic). Just

¹ Please note that the positioning of the question, "Do you think anyone has ever approached you with a possible fraudulent investment?" in the 2012 CSA Investor Index was different from the previous Indexes. In 2006 and 2009, the question was introduced (or "primed") with information about common investment fraud approaches. In 2012, this information was excluded in order to observe "unprimed" responses. This may have impacted responses, resulting in what looks to be a lower rate of fraud approaches compared to 2006 and 2009. Therefore, please use caution in making comparisons with results from 2006 (36%) and 2009 (38%) as the drop in percentage may be attributed to this.

over half (51%) of investors believed they would be able to maintain or increase their level of current income in the coming 12 months.

In terms of general conditions in the economy over the next 12 months, investors were more optimistic about economic growth (36% optimistic vs. 32% pessimistic). However, more investors were pessimistic than optimistic about the performance of the stock market, unemployment rates and inflation in the next 12 months.

Investor behaviour results are mixed

Almost 6-in-10 (57%) of Canadians say they are confident when it comes to making investment decisions. Investor confidence is higher (66%) among those who have savings and investments set aside for the future. However, results are mixed when it comes to investor behaviours, such as having a written financial plan, regularly reviewing and understanding their investment risk tolerance, and asking the right questions of their financial advisor.

- Nearly half (49%) of Canadians say they have a financial advisor, up from 46% in 2009 and 42% in 2006. However, 60% of those with a financial advisor have never done any form of background check on their advisor. Among the 38% who have done a background check on their advisor, the top sources used were the Internet and the advisor's employer.
- 60% of Canadians with financial advisors say they are very comfortable raising concerns and questions with their financial advisor. This is down slightly from 2009 (63% very comfortable raising concerns and questions).
- Nearly one-quarter (23%) of Canadians with a financial advisor don't know how they are compensated for their service. Whether or not they know how their financial advisor is compensated, 56% are unaware of how much they actually paid their advisor over the past year.
- Just over 3-in-10 Canadians (31%) say they have a formal written financial plan, up from 25% in 2009. Although more Canadians have a financial plan, they are reviewing it less frequently (78% say they reviewed their plan in the past 12 months, down from 83% in 2009).
- Of those who have savings or investments set aside for the future, almost half (49%) have within the past year thoroughly reviewed the level of investment risk they are willing to take. This is statistically the same as in 2009. Furthermore, most (81%) investors believe they understand how risky their investments are today.

2-in-5 Canadians failed the general investment knowledge test

One objective of the *2012 CSA Investor Index* was to assess the investment knowledge of respondents. Seven knowledge questions were used to create the *Investment Knowledge Index*. Three were standardized questions used in similar international studies and related to the concepts of simple compound interest, real compound interest and investment risk. The other four questions related to diversification, mutual fund returns, warning signs of fraud, and the relationship between interest rates and bonds.

Overall, 2-in-5 Canadians failed the general investment knowledge test included in the survey, answering fewer than four of the seven questions correctly. Based on the number of correct answers,

40% of respondents were categorized as low investment knowledge (0-3 correct answers), 34% as medium investment knowledge (4-5 correct answers) and 26% as high investment knowledge (6-7 correct answers).

Observations relating to demographics include:

- Older Canadians are more likely to be in the high knowledge category, while the majority (56%) of younger Canadians (18-34 years) fall into the low knowledge category.
- The majority (55%) of Canadians with annual household income under \$40,000 are in the low knowledge category, compared to 21% of those with a household income of \$100,000+.
- 63% of Canadians with no savings are considered low knowledge, compared to 23% of active investors.

Observations relating to investor behaviour include:

- 60% of high-knowledge respondents say that in the past year, they have thoroughly reviewed the level of risk they are willing to take, compared to 51% of medium-knowledge and 36% of low-knowledge respondents.
- Among those with a financial advisor, high- (43%) and medium-knowledge (37%) respondents are more likely than low-knowledge (34%) respondents to do a background check on their advisor.
- High- (38%) and medium-knowledge (36%) respondents are equally likely to have a formal, written investment plan. Among low-knowledge respondents, only 22% have a written financial plan.
- High-knowledge (60%) investors are more likely than mid- (51%) and low-knowledge (36%) investors to thoroughly review the level of risk they're willing to take with their investment portfolios on an annual basis. Furthermore, high-knowledge (90%) investors are more likely than mid- (83%) and low-knowledge (67%) investors to agree they understand how risky each of their investments is today.

Many Canadians have unrealistic expectations of market returns

For the purposes of this study, a “reasonable” market rate of return was considered to be anything less than an annual return of 4%².

When asked what they think the annual rate of return on the average investment portfolio is today, 12% of Canadians gave a realistic estimate, 29% provided unrealistic estimates and 59% explicitly chose not to hazard a guess.

Results were similar when asked about the annual rate of return on their personal investment portfolio: 17% of investors had realistic expectations, 33% had unrealistic expectations and 51% of respondents said they did not know.

² For the purposes of this study, the authors consider a “reasonable” market rate of return today as anything less than 4%. This is based on the 5-year nominal return of 4.1% on 3-month treasury bills, all Canadian bonds, and the TSX Composite Index between 2007 and 2011.

Looking at the results against the *Investment Knowledge Index*, almost one-quarter (24%) of high-knowledge investors had realistic expectations of the annual rate of return on their personal investment portfolio, while 16% of medium-knowledge and 9% of low-knowledge investors had realistic expectations.

Canadians are starting to use social media as an investment tool

With millions of Canadians now using Facebook, Twitter and LinkedIn, social media is changing the way people obtain and share information. As such, the CSA wanted to know what role, if any, this new medium is playing among Canadian investors, and whether or not social media influences their investment decisions. The CSA plans to use this information to identify and monitor emerging trends, and to track the impact and role of social media in future studies.

Canadians are starting to use social media as a source of investment information, but traditional channels still dominate:

- 7% of Canadian investors said they used social media as one of their sources when they last looked for information about investing. The most common source of information is traditional finance professionals (68%), such as financial advisors, planners, bankers or brokers.
- However, when provided with a list of social media platforms, 35% of Canadians said they used at least one of them as a source of information about investing. This number is higher among younger respondents (52% of 18-34-year-olds).
- Almost one-quarter of Canadians (24%) have seen investment opportunities advertised on social media, and 4% of Canadians have pursued an investment opportunity that they learned about through social media.
- Facebook was the most prevalent platform, reported by 42% of those who further pursued an investment opportunity they learned about through social media.
- 70% of those who further pursued investment opportunities through social media said that they independently verified the information about the last investment they pursued. However, the most commonly cited source for verification was “the Internet”.
- However, when Canadians were asked about the reliability of a number of potential investment information channels, Facebook was near the bottom, ranking just above online classifieds and just below SMS text messages.
- More traditional information channels, such as face-to-face meetings, were deemed the most reliable source when making investment decisions.

2-in-5 Canadians are aware of their provincial securities regulator

- Nationally, 2-in-5 respondents (39%) know there is a provincial or territorial government agency responsible for regulating financial investments in their province or territory (38% in 2009).
- When prompted with the name of their securities regulator, 36% of Canadians said they are “very” or “somewhat” familiar with the agency.

- Nationally, 10% of Canadians have visited their provincial securities regulator’s website at least on one occasion. Aside from visiting their regulator’s website, 5% of Canadians have ever contacted their agency.
- The primary reasons for visiting the website and/or contacting a provincial regulator were for general information, curiosity and research.

About the Canadian Securities Administrators

The Canadian Securities Administrators (CSA), the council of securities regulators of Canada’s provinces and territories, coordinates and harmonizes regulation for the Canadian capital markets. The CSA protects Canadian investors from unfair, improper, or fraudulent practices and fosters fair and efficient capital markets. Part of this protection is educating investors about the risk, responsibilities and rewards of investing. Through its Investor Education Committee, the CSA works to facilitate access to objective investment information and to help retail investors make informed investment decisions.

To learn more about the CSA, visit www.securities-administrators.ca.

About Innovative Research Group

Innovative Research Group, Inc. (INNOVATIVE) is a national public opinion research and strategy firm with offices in Toronto and Vancouver. The firm provides critical information needed to assess and overcome public affairs and corporate communications challenges, identify and evaluate potential solutions, and monitor outcomes.

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