



## **Senior Investor Literacy and Fraud Susceptibility Survey Executive Summary**

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Between November 2 and December 7, 2006, Applied Research and Consulting (ARC) conducted a telephone survey of 500 qualified respondents. Qualified respondents were primary or shared financial decision-makers age 60 or older and were screened as follows:

- 325 respondents between the ages of 60 and 75
- 125 respondents over age 75
- 123 respondents attended a free seminar
- 200 respondents were “Active Investors,” having made an investment transaction in the last 12 months

The sample was obtained through a random dialing technology for 250 of the respondents, and by purchasing a pre-established list of affluent seniors for the other 250 respondents in order to ensure the survey would include a measurable population of active investors and seniors who have attended an investment seminar.

The survey had a number of distinct components:

- Senior Profile
- Investment Attitudes
- Senior Knowledge
- Investment Behaviors and Experience
- Investment Seminars

### **I. Senior Profile**

Respondents to the survey represented a wide range of seniors:

- 90% own their own home
- 86% are Caucasian
- 85% live in a single-family home
- 79% are retired
- 65% are male
- 61% live with a spouse (55%) or other family member
- 60% have no debt other than a mortgage or car loan
- 58% are married and 20% are widowed
- 57% are age 70 or older
- 54% have a college or post graduate degree
- 52% are very comfortable and secure; only 11% have difficult paying bills

50% have annual household income of less than \$50,000; 33% have a household income of \$50,000 to \$100,000; and 17% a household income over \$100,000.

48% are Active Investors, having made an investment transaction in the past 12 months; 38% are Inactive Investors; and 18% are non-investors. The most common transactions in the past 12 months were the following:

- 32% purchased or sold stocks
- 28% purchased or sold mutual funds
- 20% purchased or sold bonds
- 12% purchased or sold annuities
- 6% purchased or sold a partnership
- 5% purchased or sold insurance for investment purposes

Most Active Investors began investing in their 20's or 30's (60%) and have a wide range of investments in both taxable and tax-deferred accounts (59%).

67% of Active Investors report that over the next year they will maintain or increase investment levels.

61% of Active Investors use a financial professional, but only 22% rely on the professional "completely."

- 60% of respondents with a financial professional have worked with him or her for 10 years or more

Not surprisingly, investments among Active Investors are primarily for retirement (57%) and guaranteeing income for a spouse or partner (26%). This is more than twice the rate for Non Active Investors and Non-Investors, who report only 27% for retirement and 25% for spouse or partner income.

## II. Investment Attitudes

92% of respondents described themselves as "somewhat confident" or "very confident" about managing their finances; and 68% reported a recent increase in confidence in the past three years.

78% of respondents described themselves as "somewhat knowledgeable" or "very knowledgeable" about investing.

Only a little over half of respondents (59%) think it is at least "somewhat important" to become more knowledgeable about investing, and interest in becoming more knowledgeable dropped with age. This is significantly less than the respondents to our 2003 Investor Survey and 2005 Military Survey where 97% in both surveys thought it was important to become more knowledgeable about investing.

Importance of Increasing Knowledge	Seniors (2006)	Military (2005)	All Investors (2003)
Very important	21%	58%	44%
Somewhat Important	38%	39%	53%
Not at all important	41%	3%	3%

While no single investing topic captured the interest of a majority of respondents, they were most interested in learning about their rights and responsibilities.

### III. Senior Knowledge

The overall passing rate (7 out of 10 correct responses) on the Basic Market Knowledge Test was significantly higher for seniors (44%) than that of all investors (35%).

Basic Market Knowledge Questions	Seniors (2006)	All Investors (2003)
Definition of a stock	69%	79%
Definition of a bond	67%	70%
Which type of bond is safest?	83%	84%
<b>Reaction of bond price to interest rates</b>	<b>58%</b>	<b>39%</b>
Definition of "junk bond"	53%	51%
Definition of "no-load" mutual fund	25%	21%
True or False: Investments that are riskier tend to provide higher returns over time than investment with less risk	73%	72%
<b>Annual return on diversified mutual fund</b>	<b>70%</b>	<b>40%</b>
<b>Best average returns generated by stocks</b>	<b>68%</b>	<b>51%</b>
Which organization insures against losses in the stock market	37%	38%

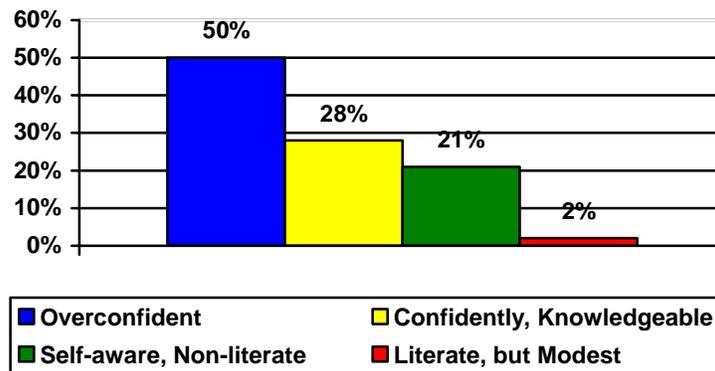
As expected, male respondents and those with more investment experience passed at a significantly higher rate than other respondents.

In an effort to segment respondents, we classified seniors based on their self-reported investment knowledge versus their actual knowledge as tested by the Basic Market Knowledge Test.

Self-Reported Knowledge	Basic Market Knowledge Test Pass	Basic Market Knowledge Test Fail
Not at all knowledgeable	Literate, but Modest	Self-aware, Non-literate
Somewhat + Very knowledgeable	Confidently Knowledgeable	Overconfident

Based on this segmentation, a majority of respondents (50%) are Overconfident about their knowledge of investing (report being knowledgeable, but failed the Basic Market Knowledge Test).

#### Classifying Respondent Knowledge



38% of senior respondents who are classified as Overconfident do not find becoming more knowledgeable about investing important.

Inactive Investors are more likely to be Overconfident (55%) than Active Investors (49%) or Non-investors (43%).

Active Investors are more likely to be Confidentially Knowledgeable (42%) than Inactive Investors (18%) or Non-investors (5%).

#### **IV. Investment Behaviors and Experience**

55% of respondents lost money on an investment

- 19% of those who lost money attribute the loss to being misled or defrauded and 78% of those misled or defrauded did not report it

The “Confidentially Knowledgeable” are most likely to admit that they have been victims of fraud.

#### **V. Investment Seminars**

78% of respondents received an invitation to a free investment seminar and almost 60% have received 6 or more invitations to free seminars in the last 3 years.

- 34% received 10 or more invitations to free seminars in the last 3 years
- 25% received 6 to 10 invitations
- 27% received 3 to 5 invitations
- 14% received 1 or 2 invitations

Seniors who received 6 or more invitations in the last 3 years are:

- More likely to be younger (under 70) and less likely to be retired
- More likely to have greater total assets (especially over \$750K)
- Significantly more likely to pass the Basic Market Knowledge Test
- More likely to find it important to become more knowledgeable about investing and also more likely to feel their knowledge of investing has increased in the past 3 years
- Less likely to have worked with a financial professional for more than 10 years
- More likely to completely rely on the professional
- More likely to have lost money on an investment because it was “just a bad investment”

25% of all respondents have attended at least one seminar in the past three years

- 82% of attendees heard about the seminar through direct mail.
- 74% of attendees were satisfied with the information presented
- 51% of attendees would attend another investment seminar
- 2% of attendees invested in what was being recommended

Seminar salespeople are thought of as friendly (93%) and authoritative (90%). Very few attendees felt pressured to invest (12%). However, salespeople did use some common persuasion tactics:

- 59% of attendees reported that the product had been endorsed by reputable companies or individuals
- 47% of attendees reported that that the salesperson made claims about how great the product was compared to other investments
- 23% of attendees reported that there was a limited amount of time to make a decision
- 22% of attendees reported that the salesperson drew attention to the fact that other investors in the room had decided to invest

34% of seminar attendees were contacted by a seminar-sponsor after the seminar about buying an investment product

- 9% of those contacted decided to invest
- Similar to at the seminar, the salesperson was friendly (100%) and authoritative (86%). However, more respondents felt pressured to invest (21%) and there was an increased incidence of persuasion tactics:
  - 60% reported that that the salesperson made claims about how great the product was to other investments
  - 53% reported that the product had been endorsed by reputable companies or individuals
  - 37% reported that the salesperson drew attention to the fact that other investors in the room had decided to invest
  - 30% reported that there was a limited amount of time to make a decision