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# NASD Investor Education Foundation

## Military Personnel and Spouses Investor Literacy

Report of Research Findings

July 19, 2005

# Introduction

Established in 2003 by NASD, the primary private-sector regulator of America's securities industry, the NASD Investor Education Foundation's mission is to provide investors with high-quality, easily accessible information and tools to better understand investing and the markets.

On behalf of the NASD Investor Education Foundation, Applied Research & Consulting (ARC) conducted a nationally-projectable survey to measure the investor literacy levels of U.S. military personnel and their spouses and to identify potential communication strategies for raising these levels.

Between June 24 and July 4, 2005, ARC conducted an online survey of 1,592 qualified respondents (margin of error = +/- 2.6% at the 95% confidence level). Respondents were screened to include:

- Active military personnel and their spouses or partners; who are
- Primary or shared financial decision-makers; and
- Age 18 or older.

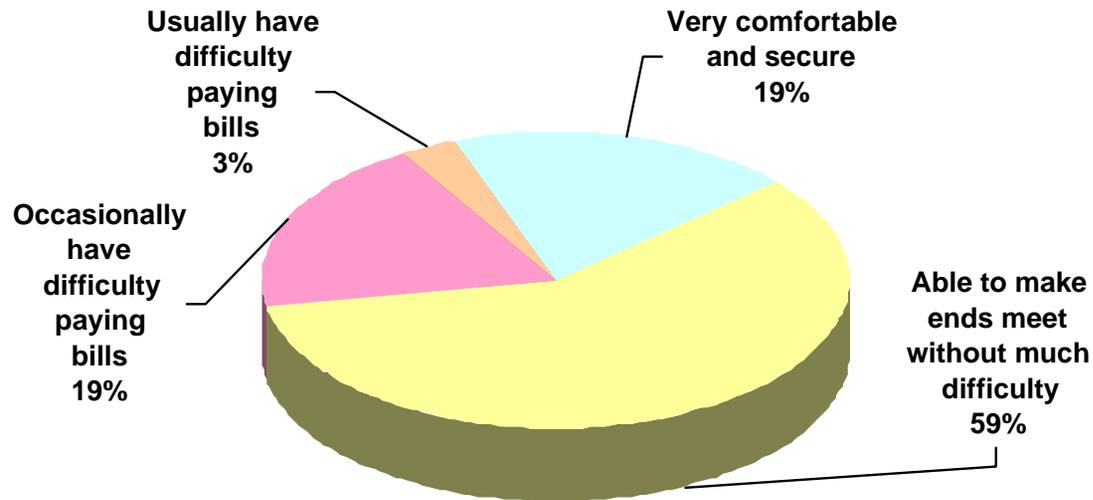
The sample included both investors (respondents who have invested in stocks, bonds, mutual funds, thrift savings plans, etc.) and non-investors.

This report summarizes the findings from this survey.

# Current Financial Condition

But almost a quarter of respondents (22%) reported “occasionally” or “usually” having difficulty paying bills.

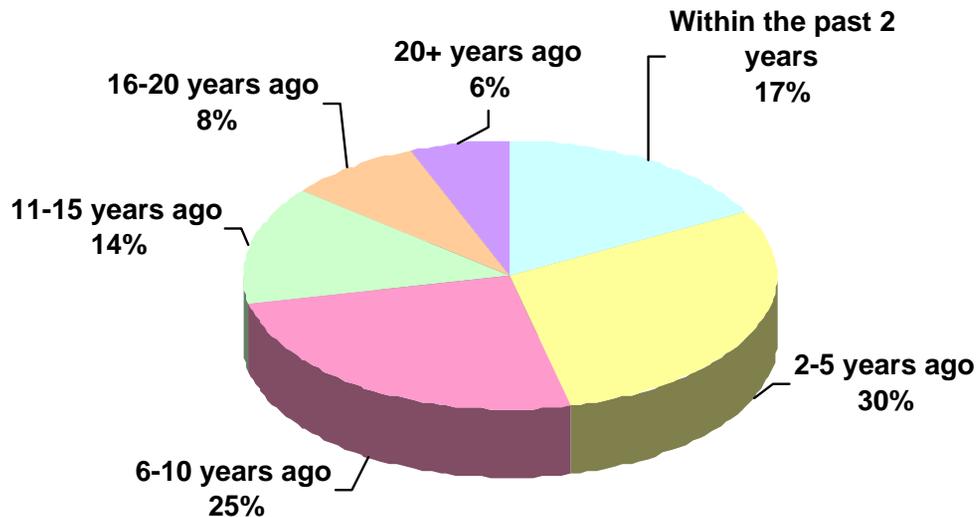
Which of the following best describes your current financial condition?



# Investment History

Over half of investors (53%) reported having first begun investing at least six years ago.

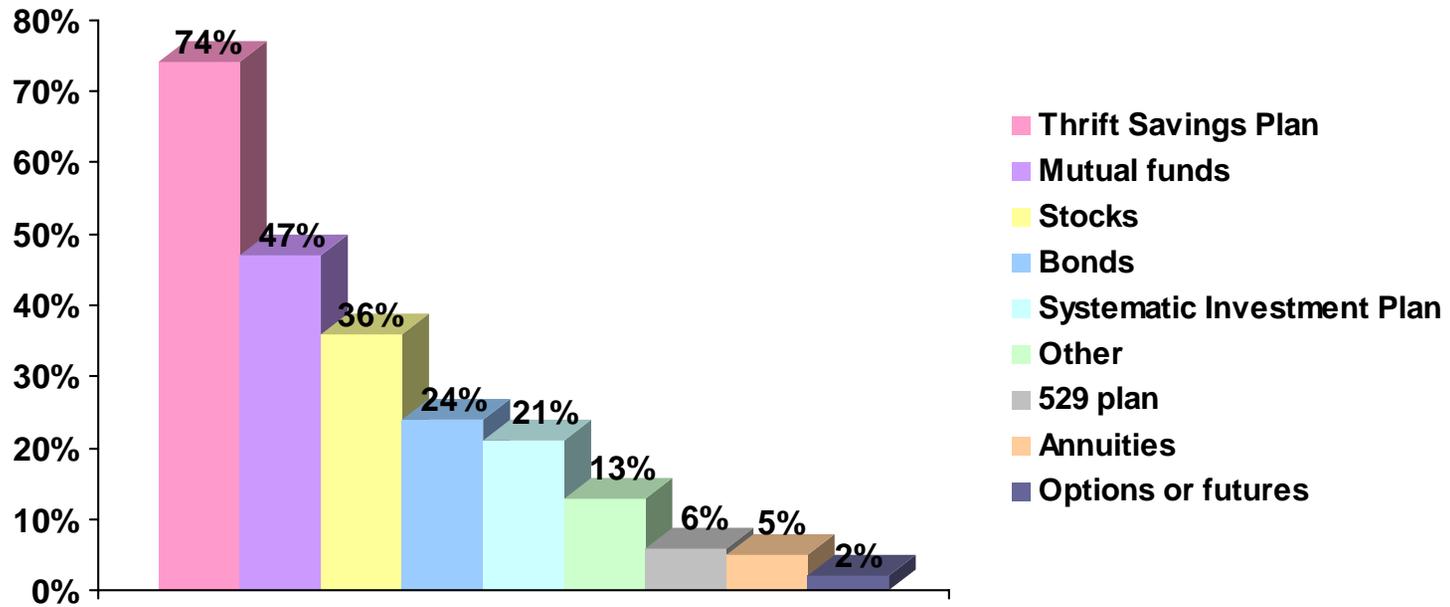
When did you first start investing?



# Current Investments

Three-quarters of investors (74%) reported owning mutual funds through a Thrift Savings Plan; about a third (36%) reported owning individual stocks.

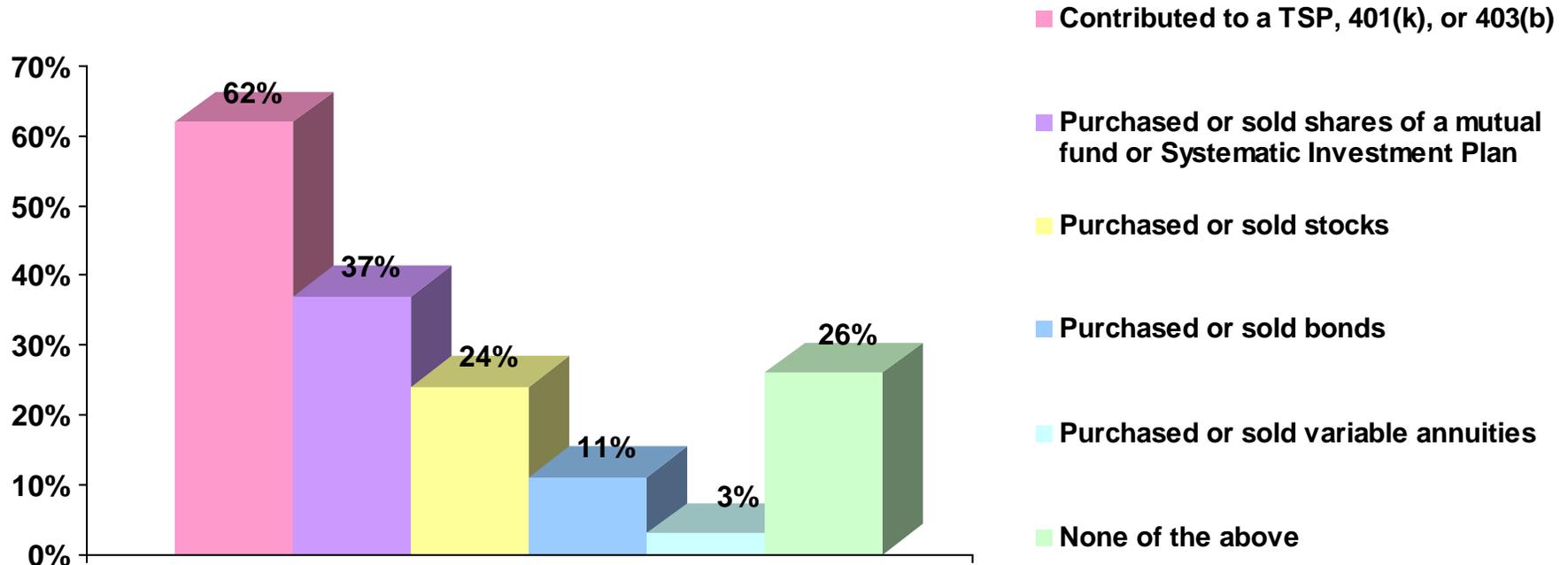
**Which of the following types of investments do you currently own? (multiple responses accepted)**



# Recent Investment Activity

Well over half of respondents (62%) reported regular contributions to a tax-deferred investment plan; but about a quarter (26%) – hereafter referred to as “non-investors,” as opposed to “investors” – reported no investment transactions in the past two years.

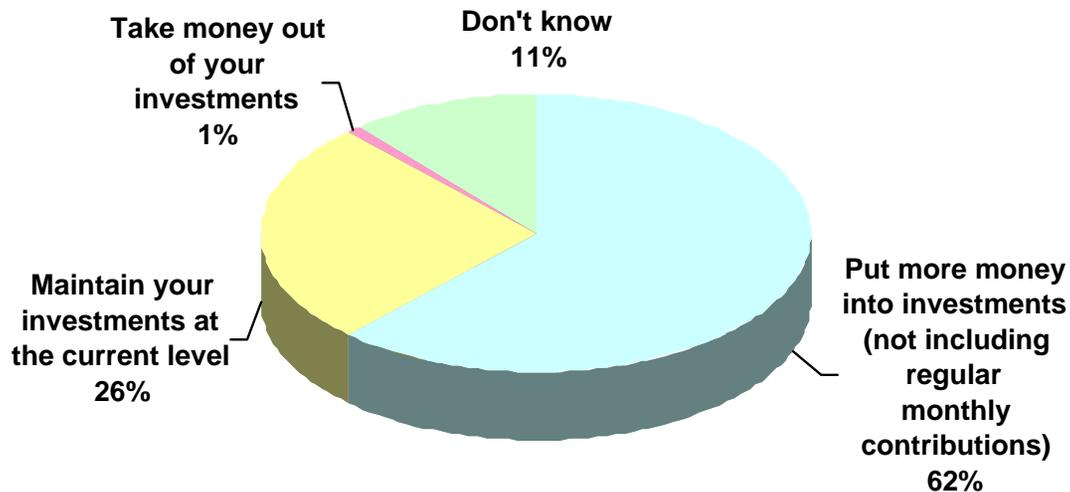
**Which of the following transactions have you and/or your spouse conducted within the past two years?**



# Investment Plans

Over half of investors (62%) said they expected to increase their investment levels in the next year.

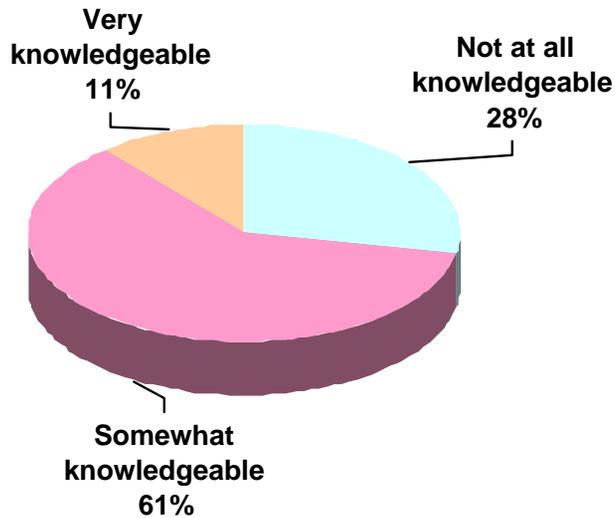
Over the next year, do you expect to...



# Investment Knowledge

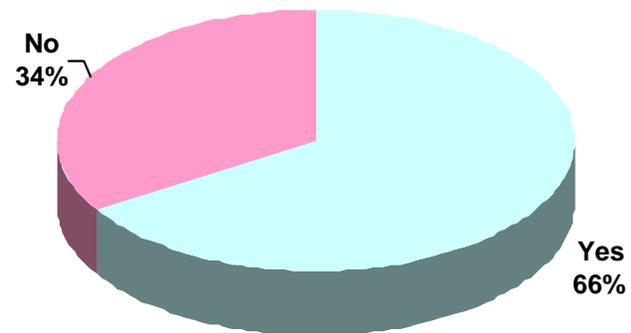
72% of respondents described themselves as “somewhat knowledgeable” or “very knowledgeable” about investing; two-thirds (66%) reported a recent increase in knowledge level.

**How knowledgeable are you about investing?**



**52% of non-investors said they were “not at all knowledgeable.”**

**Has your overall level of knowledge regarding investing increased over the past three years?**

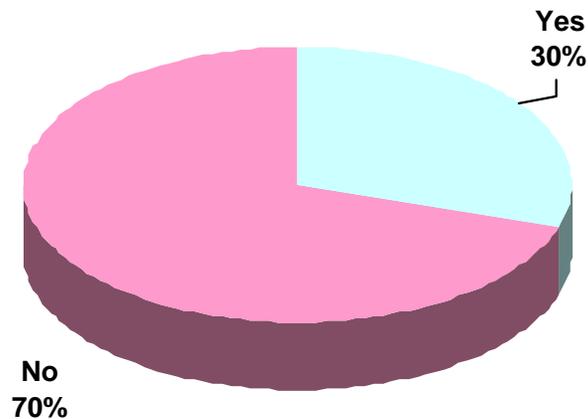


**59% of non-investors said their knowledge has not increased.**

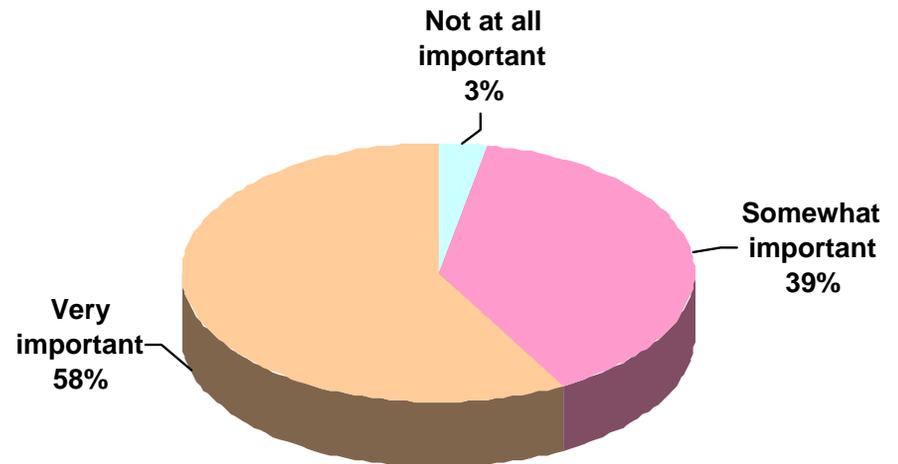
# Past Trouble and Future Knowledge

Nearly a third of respondents (30%) reported a negative investment experience that could have been avoided with greater knowledge. Over half (58%) said that becoming more knowledgeable is “very important.”

**Have you had a negative experience in the market that could have been avoided had you known more at the time?**



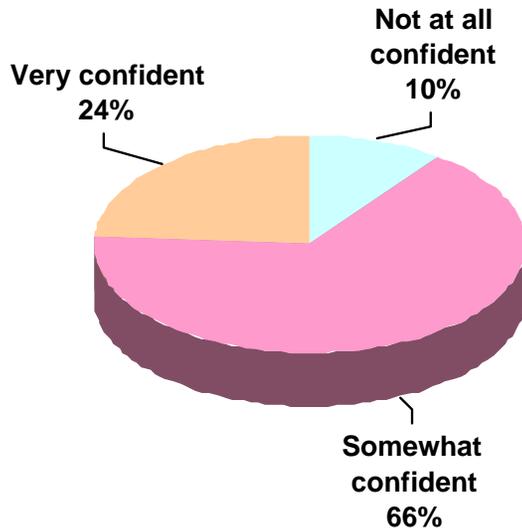
**How important is it to you, personally, to become more knowledgeable about investing?**



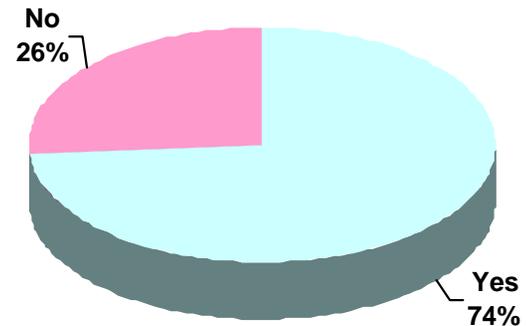
# Financial Management Confidence

90% of respondents described themselves as “somewhat confident” or “very confident” about managing their finances; and about three-fourths (74%) reported a recent increase in confidence.

**How confident are you about managing your finances?**



**Has your overall level of confidence about managing your finances increased over the past three years?**



# Basic Market Knowledge Questions

The following table shows the percentage of military investors who answered each of the Basic Market Knowledge questions correctly. Note: Only 29% of investors received a passing score (at least 7 out of 10 correct answers).

Basic Market Knowledge questions	% Correct
Relative safety of different kinds of bonds	87%
Definition of a stock	84%
Relationship between risk and return	72%
Definition of a bond	69%
Type of investment yielding best average return	50%
Reasonable long-term annual return from mutual fund	43%
Definition of a "junk bond"	42%
Insurance against stock market losses	37%
Relationship between bond prices and interest rates	34%
Definition of a "no load" mutual fund	24%

# Passing Rates By Sub-Population

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

Above the Norm	Passing	Below the Norm	Passing
Investors	29%	Non-Investors	5%
Men	32%	Women	10%
Older (40 and over)	35%	Younger (Under 29)	11%
Higher income (\$50K+)	35%	Lower income (<\$50K)	10%
White	25%	Non-White	17%
College grads	39%	Non-College grads	12%
Primary decision-makers	30%	Shared decision-makers	17%
Active service member	26%	Non-Active spouse	10%
Officer pay grade	52%	Enlisted pay grade	15%
More savings	30%	Less savings	8%
Less debt	27%	More debt	15%