NASD
Investor Education Foundation

Military Personnel and Spouses
Investor Literacy

Report of Research Findings
July 19, 2005
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?

- Able to make ends meet without much difficulty: 59%
- Very comfortable and secure: 19%
- Occasionally have difficulty paying bills: 19%
- Usually have difficulty paying bills: 3%
Over half of investors (53%) reported having first begun investing at least six years ago.
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?

- Contributed to a TSP, 401(k), or 403(b)
- Purchased or sold shares of a mutual fund or Systematic Investment Plan
- Purchased or sold stocks
- Purchased or sold bonds
- Purchased or sold variable annuities
- None of the above
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...

- Take money out of your investments: 1%
- Don't know: 11%
- Maintain your investments at the current level: 26%
- Put more money into investments (not including regular monthly contributions): 62%
72% of respondents described themselves as “somewhat knowledgeable” or “very knowledgeable” about investing; two-thirds (66%) reported a recent increase in knowledge level.

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

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?

- Yes: 30%
- No: 70%

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

- Very important: 58%
- Somewhat important: 39%
- Not at all important: 3%
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?

- Very confident: 24%
- Somewhat confident: 66%
- Not at all confident: 10%

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

- Yes: 74%
- No: 26%
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).

<table>
<thead>
<tr>
<th>Basic Market Knowledge questions</th>
<th>% Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative safety of different kinds of bonds</td>
<td>87%</td>
</tr>
<tr>
<td>Definition of a stock</td>
<td>84%</td>
</tr>
<tr>
<td>Relationship between risk and return</td>
<td>72%</td>
</tr>
<tr>
<td>Definition of a bond</td>
<td>69%</td>
</tr>
<tr>
<td>Type of investment yielding best average return</td>
<td>50%</td>
</tr>
<tr>
<td>Reasonable long-term annual return from mutual fund</td>
<td>43%</td>
</tr>
<tr>
<td>Definition of a “junk bond”</td>
<td>42%</td>
</tr>
<tr>
<td>Insurance against stock market losses</td>
<td>37%</td>
</tr>
<tr>
<td>Relationship between bond prices and interest rates</td>
<td>34%</td>
</tr>
<tr>
<td>Definition of a “no load” mutual fund</td>
<td>24%</td>
</tr>
</tbody>
</table>
Passing Rates By Sub-Population

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

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