Survey of Investment Attitudes and Practices: A Preliminary Summary of Results

In early February, a random sample of AAII members were selected and sent an extensive questionnaire designed to obtain data on personal investment management. The survey was constructed by Dr. John Markese, a Finance Professor at DePaul University and Dr. Gerald Perritt, Editor of the AAII Journal. Of the 5000 questionnaires mailed, over 2000 have been completed and returned thus far. As a result, a comprehensive statistical data base of investor demographics, personal investment objectives, investor attitudes, investor behavior and expectations has been obtained. This data will enable the researchers to examine the validity of numerous theories and folklore about individual investor attitudes and behavior.

This effort is the first ever which utilizes inputs from a wide and varied cross-section of individuals rich in market experiences. The study is significant in that many asset-pricing models are based on a rigid set of *assumptions* regarding the investment behavior of the individual. The models form the backbone of investment finance as it is taught in colleges and universities. Further, these models have guided the investment behavior of financial intermediaries such as pension funds, mutual funds and bank trusts which are charged with the responsibility of investment decision making on behalf of their clients — individual investors. If the assumptions which underlie these models are faulty then the models themselves become suspect and the prescriptions they make for investment behavior can be questioned.

Complete analysis of the responses from the entire questionnaire which contained 44 questions with multiple response possibilities will most likely take several months. Since the full study will not be completed for so long, excerpts will be printed from time to time in the *Journal*. This article presents a summary of preliminary results obtained from selected questions concerning investor demographics, attitudes and their expectations for the near-term financial environment.

Investor Demographics

The average age of AAII members who responded to the questionnaire was approximately 51 years. An average, however, is a condensed statistic so it does not represent the variety of age groups active in the Association. Still, this age level correlates quite highly with those obtained by other surveys of investors. For example, a survey conducted by the Investment Company Institute found recently that the average age of investors interested in establishing IRA's was approximately 50 years. A similar figure was obtained from a survey of mutual fund shareholders.

Under 30	4.5%	**50-59**	34.5%
30-39	18.9%	**60-69**	17.1%
40-49	17.9%	**Over 70**	7.1%

Since the Association is dedicated to providing educational programs and information so that members can become more effective managers of their investments, we thought a question on the level of formal education was appropriate. While we initially suspected that the education level of members would be high and would at least surpass the national average, we were surprised by the actual level of formal education attained.

As can be seen from the percentage distribution given below, nearly 80% of Association members have at least a four-year college degree and over 40% possess a graduate degree. A recent survey by the U.S. Bureau of the Census conducted in 1980 found that for persons 25 years and over, only 17% had completed four or more years of college and that the median school years for these individuals was 12.5. The percentage distribution of highest level of formal education attained is as follows:

Less than high school graduate	1%
High school graduate	3%
Some college	17%
Four-year college graduate	38%
Graduate degree	41%

The average total income of respondents was also quite high — in the $60 thousand to $79 thousand range. While this figure represents gross income (i.e., income from all sources before adjustments, deductions and taxes), it is quite a bit higher than the national average family income of approximately $20,000. On the other hand, a nationwide survey of mutual fund shareholders found the income of the "typical" mutual fund shareholder to be approximately $40,000.

The percentage income distribution of respondents is as follows:

$ 0 to $19,999	3%	**$60,000 to $ 79,999**	17%
$20,000 to $39,999	18%	**$80,000 to $ 99,999**	11%
$40,000 to $59,999	29%	**Over $100,000**	22%

In view of these statistics concerning age, education and income, it was not surprising to find that the total assets of the respondents was also quite high. The average respondent reported a total amount of assets held between $200 thousand and $300 thousand. As can be seen from the percentage distribution given below, 86% of all respondents reported personal wealth greater than $100,000 and 31% reported a level of wealth greater than $500,000.

$ 0 to $ 20,000	2%
$ 20,001 to $ 50,000	4%
$ 50,001 to $100,000	8%
$100,001 to $200,000	21%
$200,001 to $300,000	16%
$300,001 to $400,000	9%
$400,001 to $500,000	9%
Over $500,000	31%

With regard to attainable investment performance, 52% of those responding felt that they had earned excess rates of return on their investments while only 15% felt that their investment performance was sub-par. The average score on this item was 3.48. Nearly one-half (48%) of the respondents believe that stock prices *cannot* be predicted over the short-run, while 23% expressed some degree of assurance that short-

Table 1

	Strongly Agree (5)	Agree (4)	Neither Agree Nor Disagree (3)	Disagree (2)	Strongly Disagree (1)	Average Response
Attainable Performance						
Over the past 10 years, given the risk level of my portfolio, I have outperformed the overall market.	13%*	39%	33%	13%	2%	3.48
Over the short-run, individual common stock prices can be predicted.	2%	21%	29%	36%	12%	2.66
The individual investor cannot outperform the professional investment manager (e.g., mutual funds, pension funds, etc.)	3%	9%	17%	50%	21%	2.23
I prefer to invest in common stocks of companies which pay cash dividends.	8%	33%	37%	18%	4%	3.23
Taxation and Economic Policies						
The long-term capital gains holding period (currently 1 year) should be shortened.	40%	35%	13%	9%	3%	4.02
Cash dividends paid to shareholders of public corporations should be exempt from all Federal income taxes.	39%	32%	12%	13%	4%	3.89
The continued application of supply side economics (tax cuts in government spending) will be good for the economy over the long-run.	33%	42%	12%	8%	5%	3.90

* Totals may not equal 100% due to rounding.

run price movements can be predicted. The average score of 2.66 indicates that, on balance, investors mildly disagree with the contention regarding short-run stock price prediction.

Investor Attitudes

From the fifteen survey questions on investor attitudes, seven questions were selected for this preliminary summary. These questions have been classified into two groups. The first group concerns individual investor opinion of attainable investment performance. The second group details investor opinions of taxation and economic policies that impact financial markets and market participants. Table 1 presents the percentage distribution of responses and average response for each of the seven opinion questions. The possible responses ranged from strongly agree (a score of 5.0) to strongly disagree (a score of 1.0).

A vast majority of the investors surveyed (71%) believe that the individual investor can outperform the professional investment manager. This, of course, does not imply that they can outperform the pros but they at least *think* that they can.

In terms of the type of common stocks investors prefer, 41% seek investment in the shares of companies that pay some cash dividends. Only 22% of those responding tend to avoid such firms. This is mildly surprising when compared to the overall income level of the respondents. *A priori* one might suspect that high tax bracket investors would tend to avoid common shares with cash dividends since such dividends are generally taxed at the ordinary income tax rate while 60% of long-term capital gains are excluded from taxable income.

Not surprising, however, was the finding that individual investors prefer that the long-term capital gains holding period be shortened (75%) and that cash dividends not be subject to Federal income taxation (71%). Strong support for supply side economics was also expressed; 75% of those responding believed that continued application of supply side economics would be good for the economy while only 13% cast their votes against supply-side economics.

Investor Expectations and Market Outlook

It is very difficult to find a financial periodical or financial news television program which does not devote some attention to the market and economic outlook. However, the media generally solicits the opinions of professional economists and investment managers and completely ignores the opinions of the individual investors. Knowledge of the consensus investment outlook is an important input to investment decision making, since investor opinions are translated into investment actions. Since nearly 50% of the

Table 2

Current Financial Environment (2/1/83)	What you expect by December 31, 1983					
90 day T-Bill yield 8%	Less than 6%	6 to 8%	8 to 10%		Greater than 10%	Average
	1%	42%	41%		16%	8.52%
Corporate Aaa bond yield 11¼%	Less than 10%	10 to 11%	11 to 12%	12 to 13%	Greater than 13%	
	12%	33%	15%	24%	15%	11.16%
Dow Jones Industrial Average 1064	Less than 1000	1000 to 1099	1100 to 1199	1200 to 1299	Greater than 1300	
	8%	6%	40%	34%	12%	1179
Inflation, annual rate of change in consumer prices: for 1983 3.9%	Less than 4%	4 to 5.99%	6 to 7.99%		Greater than 8%	
	17%	67%	14%		2%	4.74%
Rate of real (after inflation) economic growth in GNP for 1983 −1.8%	Less than 0%	0 to 1.99%	2 to 3.99%		Greater than 4%	
	8%	33%	49%		10%	1.85%

volume of security trading is conducted by individuals, knowledge of their market outlook is essential in forecasting investment behavior. Thus, we sought the opinions of individual respondents regarding the financial environment. Table 2 contains the outlook of investors for year-end 1983. Remember that these responses were generated in early February 1983. We have included the appropriate figures for each market or economic aggregate as existed February 1, 1983 for comparison purposes.

With regard to short- and long-term interest rates, the respondents believed that by year-end rates would be slightly higher than existed in early February. Nearly 57% believed that the 90-day Treasury bill rate would rise beyond the existing 8% rate. The average of these responses was 8.52%, or a rate 52 basis points higher. Over 39% believed that the interest rate on high grade corporate bonds (Aaa's) would rise. On average, the increase was expected to be only 16 basis points, however.

Stock prices were also believed to be headed higher. The Dow, 1064 at survey time, was expected to rise to 1179 by year-end. Interestingly, the Dow Jones Industrial Average reached 1138 by early March. Thus the view is for a somewhat flat market for the remainer of 1983. However, 46% of the respondents see a Dow above 1200 by year-end and 8% predict a value less than 1000.

Investor expectations are that the rate of inflation will rise slightly during 1983. An average expectations of a 4.74% rise in consumer prices is about 20% higher that the 3.9% increase in consumer prices during 1982. Only 17% of those responding believe that the rate of inflation will be less than for 1982. Of those who see higher price increases, only 2% believe that a return to hyperinflation is imminent.

The individual investor also believes that the economy will experience some degree of recovery during 1983. On average, they believe that real Gross National Product (after-inflation GNP) will increase by approximately 2%. However, very few believe that the economic recovery will be robust. Only 10% forecast a real growth rate greater that 4%, which is the hurdle rate for a healthy U.S. economy. On the other hand, 8% of the respondents believe that 1983 will be another recession year. On balance, then, the "typical" respondent believes that as far as the economy is concerned, 1983 will be pretty much like the last quarter of 1982.

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Tax Talk

William E. Taylor, CPA

Automobile Expenses: Maximizing Your Deduction

In this month's article, we will discuss ways to maximize a deduction for the use of your car for business or investment management purposes. Although circumstances will be different for each of you, deductions should be computed using each of the methods discussed below for comparison.

Business Use of Your Car

If you are required to use your car for business reasons, you may deduct the cost of its operation for tax purposes. Deductible items include the cost of gas, oil, repairs, insurance, depreciation, interest on a loan procured to buy the car, taxes, licenses, garage rent, parking fees and tolls. If you use your car for both business and personal purposes, you must separate your expenses between the two. Commuting to and from work is considered to be personal use of your car.

In determining deductions for the business use of your car, the IRS allows you to elect the standard mileage rate or deduct your actual costs of operating the car. Generally, you may change the method you elect from year to year, except as discussed below with respect to the Accelerated Cost Recovery System. Under either method, amounts reimbursed by your employer reduce your deductions.

Mr. Taylor is Partner-in-Charge of the Tax Department, Chicago office of Deloitte, Haskins and Sells and an expert in executive compensation matters and other aspects of individual taxation. He is also an expert in ERISA and employee benefit plans.

Readers are urged to submit general questions and comments to Mr. Taylor, c/o AAII, Chicago, IL. These questions and comments will form the basis for future tax columns.