

Prepared for:

Canadian Securities Administrators

CSA Investor Index

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1. Executive Summary

Investor education is a key priority for securities regulators across Canada. In particular, Canadian provincial securities regulators have a mandate to:

- help investors make appropriate investments decisions; and
- help investors recognize, avoid and report investment scams.

In June of 2006, the Canadian Securities Administrators (CSA) commissioned Innovative Research Group Inc. (INNOVATIVE) to conduct the CSA Investor Index. The study has three key areas of focus:

- Understanding to what degree Canadians invest their money and whether they have the necessary knowledge and skills to invest appropriately.
- Benchmarking Canadians' understanding of, and experience with, financial fraud.
- Benchmarking Canadians' awareness of their Securities regulators and expectations for them.

The CSA Investor Index is a mixed method study combining a random digit dialling telephone study with an in-depth online study. A 2,000 person telephone study was used to provide an incident rate for weighting purposes of Canadians investing profile. A 5,568 person online study was used to develop a profile of Canadian investor segments, as well as provide a large, cost-effective sample of Canadians who have actually experienced fraud.

1.1 Overview

On Investing

- Almost three quarters of all Canadians have some form of savings, but just one-in-five are active investors.
- Generally, Canadians have the right attitudes when it comes to investing, however, many Canadian investors lack key investing tools.
- Canadians produce mixed performance when it comes to taking appropriate precautions when making their investment decisions.

On Fraud

- Canadians generally recognize the common indicators of fraud.
- More than one-in-three Canadians has been approached with a fraudulent investment.
- An estimated 900,000 Canadians have been victims of financial fraud.
- While two thirds of the cases involve \$5,000 or less, 12% involve \$25,000 or more.
- 70% of the time, no money is recovered from scams.
- Despite this level of fraud attempts and experience, only 51% believe they are just as likely to be a victim as anyone else and only 47% believe fraud is common.

- Only 14% of fraud attempts are reported to authorities.

On Regulators

- Regulatory issues are not top-of-mind issues for Canadian investors, although they are interested in investor education and greater transparency.
- Less than half of Canadians are sure they have a provincial securities regulator.
- Banning rule-breakers and educating investors are what Canadian investors think should be the highest priorities for regulators.

1.2 Key Findings on Investing

Almost three quarters of all Canadians have some form of savings but just one-in-five are active investors

- The CSA Investor Index investor segmentation shows 23% of Canadians are active investors, 27% are passive investors, 20% are non-investing savers and 30% report having no savings at all.
 - 60% of those with no savings today say they plan to save in the future

Majority of Canadians have the right attitudes when it comes to investing

- 96% of Canadians agree “Whether you contribute to a pension plan or save some other way, it is important to build up your own personal savings and investments”.
- 92% of Canadians believe “You should never make an investment without doing independent research on any new investment opportunity”.
- 88% believe “Having a financial plan is important for people like me”.

Most Canadians reject most dangerous investing myths

- Just 19% of Canadians say “One of the best ways to make money in the stock market is to look for inside tips”.
- Only 18% believe “The only way to make good returns in the stock market is to make risky investments”.
- Just over one in four (26%) of Canadians say “If you don’t act immediately on a new investment opportunity you have recently heard about, you may miss a good opportunity”.

Many Canadian investors lack key investing tools

- Although Canadians say having a plan is important, 58% report they do not have a financial plan with clear investment goals and 55% do not have regular financial advisers.
- However, among those Canadians who hold stocks, bonds and mutual funds, 86% say they understand how risky each of their investments are today and 62% have reviewed the level of risk they are prepared to take with their investments within the last year.

Canadians show moderate levels of investment knowledge

- Given three questions to test their investment knowledge, almost all Canadians got more correct answers than incorrect answers and 21% got all three questions right.

Canadians show moderate levels of investment confidence

- On average, 51% of Canadians are confident when it comes to making investments.
 - Among Canadians who report owning stocks, bonds and mutual funds, 70% are confident when making investments.
- 65% of Canadians are confident they know where to look for information to check out investment opportunities.
 - Among Canadians who report owning stocks, bonds and mutual funds, 77% are confident they know where to access information.

Canadians produce mixed performance when it comes to taking appropriate precautions in their investment decisions

Looking at the most recent financial investment made by Canadians who own stocks, bonds or mutual funds:

- Only 48% report personally researching the last investment they purchased even though 92% said you should never make an investment without independent research.
 - Almost half of those who did not personally research their investment bought the investment on the advice of their financial adviser suggesting they feel that the research can be done by someone else.
- Although 65% took the time to consider the investment before buying. However, 22% still reported purchasing the investment as soon as they heard about it.
- Only 10% report being in a situation where they were told if they didn't act immediately, they might miss a good opportunity.

What drives good investing behaviour?

The study results help us understand more about which factors drive good investing behaviour.

- Having an advisor encourages investors to take shortcuts.
- Believing in the importance of independent research leads to good financial practices.
- Both overall confidence and confidence in being able to find information to base sound investment decisions are strong predictors of good financial behaviour.
- Understanding your risk tolerance and the risk of your holdings is another key driver of good practice.
- Finally, men and Anglophones are more likely to follow good financial behaviour than women and Francophones.

1.3 Key Findings on Fraud

Canadians tend to recognize the 'red flags' of fraud

- Although there was some confusion of the CDIC/QDIB deposit insurance, most potential red flags of a fraudulent investment were readily recognized by Canadians.

Fraud attempts: a common experience

- More than one in three (36%) claim to have been approached or offered a potentially fraudulent investment opportunity.
 - Most people who report being approached with an investment fraud have been approached several times.
 - Spam email is the most common approach.
 - A telephone call from a stranger and being introduced to a scam artist through a friend, relative or neighbour are also common means of being introduced to a fraud.
 - Very few scam artists who approach Canadian investors have a relationship of trust with the target, but those attempts that do develop trust are much more likely to be successful.
- One in twenty-five Canadians (4%) report having made an investment in a fraudulent investment opportunity.
 - In almost two thirds (65%) of the cases, less than \$5,000 was invested.
 - 12% of the actual frauds involved more than \$25,000.
 - Seven out of ten times none of the money was recovered.
 - 27% of the time the victim did not tell friends or family about the fraud.
 - 58% of the victims report feeling that some of their friends and family felt the fraud was at least partially the victim's fault.
 - 37% of fraud victims have been defrauded more than once.
 - Results reveal fraud attempts are twice as likely to be successful if the victim was experiencing a stressful life event.

Despite these findings, Canadians do not see fraud as a common or personal threat

- Only half of Canadians agree (51%) that they are just as likely to be a victim of investment fraud as anyone else.
- 47% believe investment fraud is common in their province.

Reporting behaviour fails to match beliefs

- While 86% agree it is important to report even the suspicion that someone has approached them with a fraud ...
- ... only 14% reported their own experience with attempted frauds.

What drives likelihood of being a fraud victim?

It is very hard to predict who will be a victim of fraud. Almost anyone can be a victim, regardless of the amount or nature of their assets, how much they know about investing or how careful they are in their everyday investments.

The CSA Investor Index study reveals that the key indicator of likelihood to be a victim of fraud is who approaches you. If you have a friend or financial advisor who wants to defraud you, or if anyone who you are particularly likely to trust wants to defraud you, you could be a victim.

Our findings show there are a few characteristics of people slightly more likely to victims – men, people confident in their investing skills, and those open to the argument that they need to act immediately or they could lose their opportunity. However, the reality

is women, people who are less confident, and those resistant to the act now pitch are also victims, just with a little less frequency.

1.4 Key Findings on Regulatory Agencies

Regulator issues low on investor issue agenda

- The three top concerns for investors – market volatility, return on investment and having enough savings for retirement - have few implications for securities administrators. (see client comments)
- Only 8% of investors mention investor education as their most important issue.
- 6% mention market transparency.

Less than half have unaided awareness of securities regulators

- Only 45% say yes there is a provincial agency responsible for regulating financial investments in their province.
 - Particularly low awareness in the Atlantic Provinces (23%).

Aided awareness also low

- Just over one-in-three are very familiar (7%) or somewhat familiar (28%) with their provincial regulator. Ontario has the strongest level of awareness at 45% (9% of Ontarians claiming to be very familiar and 36% somewhat familiar).
- 23% report they have not heard of the agency.

Positive impression of regulator among those with a firm opinion

- 63% either don't know what their impression of their provincial regulator is or claim it is neither favourable nor unfavourable.
- Among those with an impression, favourables (27%) outweigh unfavourables (7%) by a three to one margin.

Half believe regulators can ban scam artists from selling investments

- 52% say it is true provincial regulators can ban fraud artists from selling investments, while only 13% believe that is false.
 - However, there exists no strong relationship between this belief and an individual's likelihood of reporting investment fraud attempts.

Banning rule breakers tops priorities for regulators

- 71% say it is extremely important to ban anyone from selling investments if they break the rules.
- 59% say it is extremely important to educate investors to better protect themselves against fraud.
- 48% say it is extremely important to jail anyone who breaks the rules.
- 44% say it is extremely important to set the rules of the province's investment community.