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December 2019

Investors in the United States
A Report of the National Financial Capability Study

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Acknowledgments:

The FINRA Foundation thanks the following people for their valuable help and insightful comments.

K. Jeremy Ko, Brian Mulford
U.S. Securities and Exchange Commission

Anna Lusardi
George Washington University's Global Financial Literacy Excellence Center

Shari Crawford, Robert Ganem, Ira Gluck, Christine Kieffer, Rebecca Knutson, Patricia Ledesma Liebana, Mimi Masse, Michael Rote, Richard Vagnoni, Lori Walsh, Angelita Williams, and Haime Workie

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Investor Capability

Investor knowledge is low, but most investors feel they have access to the information needed to make investment decisions.

Introduction

This report outlines findings from the Investor Survey of the FINRA Foundation's 2018 National Financial Capability Study (NFCS). As in 2015, a separate survey of investors conducted as part of the 2018 NFCS provides an in-depth exploration of investing-related topics. In addition to core measures such as investment vehicles, usage of investment information sources, attitudes towards investing, and investor knowledge, the 2018 Investor Survey includes new or expanded topics such as investing methods (including use of brokers/advisors, websites, and mobile apps), perceptions of fees charged for investment services, cryptocurrencies, and responses to sudden market drops.

Highlights

- **Investor knowledge in the United States is low.** Only a third of respondents are able to answer more than half of the 10 investing quiz questions correctly, and the average number of questions answered correctly is 4.7. Nearly half of respondents (46%) think that the past performance of an investment is a good indicator of future results. Less than a third (30%) understand that the main advantage of index funds over actively managed funds is generally lower fees and expenses.
- **Many investors are confused about the various fees they pay for investing.** Fourteen percent of all respondents do not think they pay any kind of fee for investing, and 17% say they do not know how much they pay. Among mutual fund owners, nearly a third (32%) believe they do not pay mutual fund fees or expenses.
- **A large majority of investors are aware of cryptocurrencies (85%).** Nearly one in five (18%) are considering investing in cryptocurrencies, and 12% are already invested. While awareness is consistent across age groups and portfolio values, younger investors (ages 18 to 34) and those with portfolios of less than $50,000 are much more likely than average to consider cryptocurrency investments and invest in them.
- **Investors prefer to have disclosures mailed to them as paper documents (36%), although this percentage has dropped considerably from 49% in 2015.** Receiving disclosure documents via email is a close second (33%, up from 27% in 2015).
- **Investors use more than one approach when making investment decisions and executing trades.** For example, among respondents who allow a professional to choose investments for them, nearly three-quarters (72%) also make decisions on their own at least some of the time. Similarly, among those who trade online, over half (51%) also trade through their financial advisor.
- **Most investors (75%) feel they have access to the information needed to make investment decisions.** "Free online services, websites, and blogs" are the most frequently cited channel for obtaining investment information (46%), followed closely by newspapers, magazines, and books (42%). Social media is used for investment information by only 17% of respondents. Usage of investing-related tools like BrokerCheck or Investor.gov is low (7% and 9%, respectively).
- **Investors are more likely to overestimate than underestimate their performance.** Only 4% think their portfolio will underperform the market, compared to 29% who think their portfolio will outperform. Men are more likely than women to believe they will beat the market (32% vs. 25%).

- **Investors appear to take market volatility in stride.** When asked how they responded to the precipitous stock market drop in February of 2018, only 7% of investors reported selling securities. More than one in five (22%) took the event as an opportunity to buy more stocks.

Maintaining the same methodological approach as 2015, the 2018 Investor Survey consists of approximately 2,000 respondents[1] who completed the 2018 NFCS State-by-State Survey and indicated that they have investments held in non-retirement accounts (that is, outside of retirement accounts such as 401(k)s and IRAs).[2]

All of the data collected in this survey are self-reported by the respondents and are not independently checked or corroborated by other sources (such as account statements).[3] Therefore, while the survey can be reasonably assumed to present an accurate reflection of investors' opinions, beliefs, knowledge, and attitudes, it does not necessarily present a precise reflection of behaviors or of the valuations of assets and liabilities.

1. Selected findings are also presented for sub-samples (such as by age, portfolio value, etc.). In all such cases, each sub-sample consists of at least 100 respondents.
2. A large majority of these respondents (89%) also have investments in retirement accounts, though retirement investments are not specifically addressed in the Investor Survey.
3. Percentages shown in this report may not always add up to 100% due to rounding and/or "Don't know" and missing responses.

Hybrid Strategies

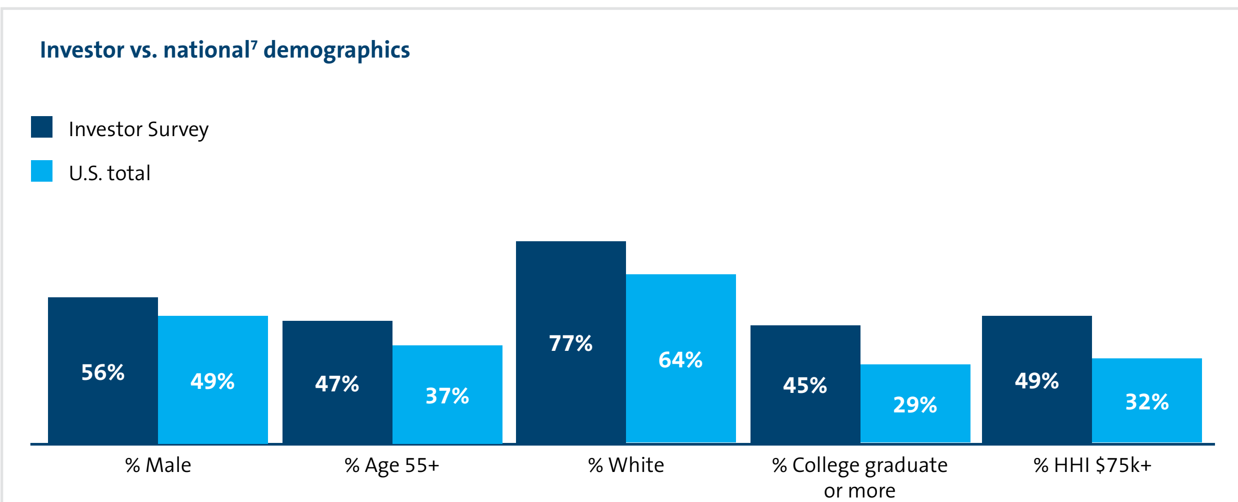
When it comes to making investment decisions and executing transactions, investors do not limit themselves to a single approach.

Research Findings

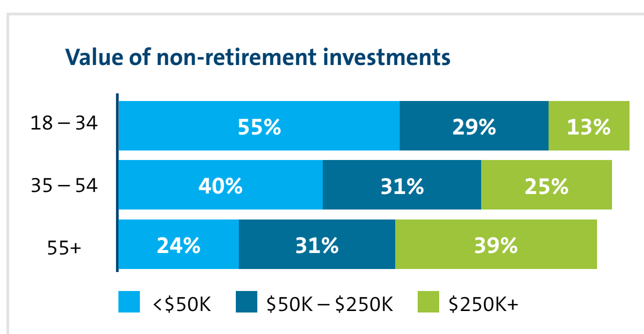
Profile of Investors

Just under a third (32%) of the national population[4] have investments in non-retirement accounts.[5] This percentage has changed little from 30% in 2015. The number of men who have non-retirement investments has ticked up from 35% in 2015 to 39% in 2018, while the number of women who have non-retirement investments has remained steady at 25%. Among those ages 18 to 34, the percentage who are investors has grown slightly from 23% to 27%. Similarly, among African-Americans, the percentage who have investments in non-retirement accounts has increased from 20% in 2015 to 26% in 2018.[6]

Consistent with 2015, respondents in the Investor Survey are more likely to be male, older, white, college educated, and have higher household incomes (HHI) than the population at large.



Slightly more than a third of investors have less than $50,000 in their non-retirement accounts, 30% have between $50,000 and $250,000, and 29% have more than $250,000. As expected, portfolio value is correlated with age, such that over half of respondents 18 to 34 have less than $50,000 in non-retirement investments, compared to less than a quarter among those 55 and older.

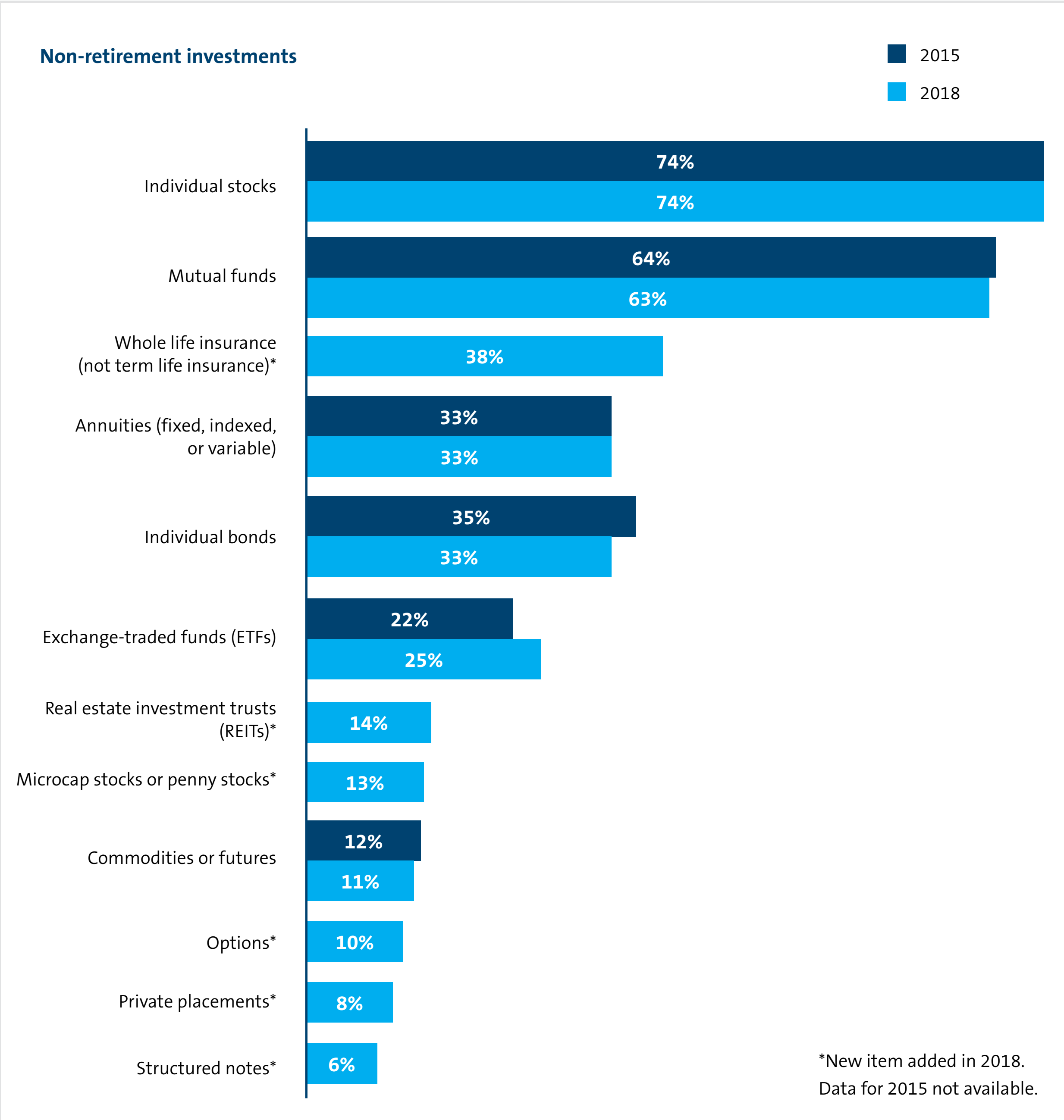


4. Source: 2018 NFCS State-by-State Survey.
5. A large majority of these investors (89%) also have investments in retirement accounts.
6. Source: 2018 NFCS State-by-State Survey.
7. Source: 2018 NFCS State-by-State Survey.

Investment Vehicles

The types of investments owned in non-retirement accounts has remained fairly steady relative to 2015. Individual stocks and mutual funds are by far the most commonly owned investments. A small minority of investors own real estate investment trusts (REITs), microcap stocks, penny stocks, commodities or futures, options, private placements, or structured notes.

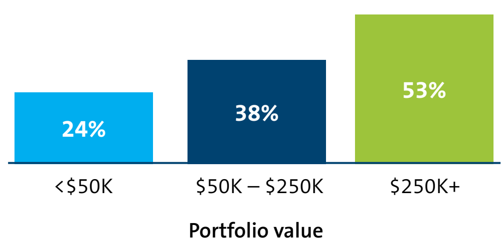
While exchange-traded funds (ETFs) have received increased attention in the media, the percentage of investors who own them has grown only slightly over the past three years. Mutual funds remain much more popular than ETFs.



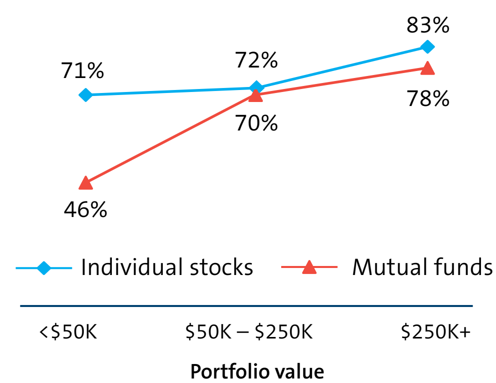
Investors with lower portfolio values tend to hold a less diverse mixture of investment vehicles than those with higher portfolio values. Only about a quarter (24%) of investors with portfolios of less than $50,000 own four or more of the different investment vehicles surveyed, compared to more than half of investors with portfolios over $250,000 (53%).

For those with portfolios of less than $50,000, individual stocks are more commonly owned than mutual funds by a wide margin (71% vs. 46%, respectively). In contrast, mutual funds are nearly as likely to be owned as individual stocks by those with portfolios of $50,000 or more.

Own four or more investment vehicles



Own stocks vs. mutual funds



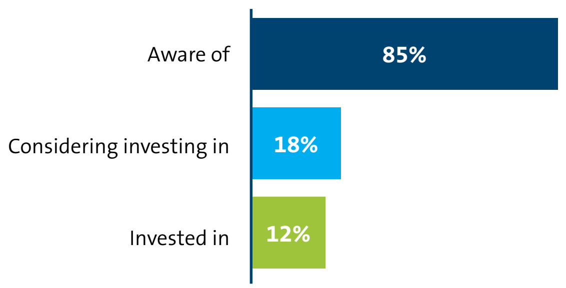
Investors with portfolios under $50,000 are also more likely to own microcap stocks or penny stocks than those with portfolios over $250,000 (17% vs. 9%).

In terms of the amount of exposure to stocks, 51% of respondents say that stocks or stock mutual funds make up more than half of their non-retirement portfolio, while 38% report that less than half or none of their portfolio contains stocks. Both of these figures show little change from 2015.

How much of your non-retirement portfolio is invested in stocks or mutual funds that contain stocks?	2015	2018
More than half	53%	51%
Less than half	33%	33%
None	5%	5%
Don't know/No answer	10%	11%

The 2018 Investor Survey includes several new questions on cryptocurrencies. Findings show that a large majority of investors (85%) are aware of cryptocurrencies, but only a minority (18%) are considering investing in them, and even fewer are currently invested (12%).

Cryptocurrencies



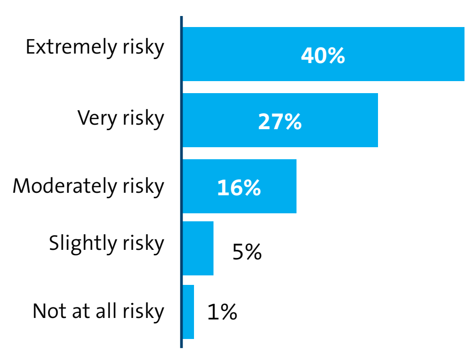
Men are more likely than women to have heard of cryptocurrencies, and to be considering or already invested in them. While there are no differences by age or portfolio value in cryptocurrency awareness, there are substantial differences in cryptocurrency investment. Thirty-eight percent of investors ages 18 to 34 are considering investing in cryptocurrencies, and 31% are already invested in them, compared to only 5% of investors ages 55 and up who would consider investing in them, and only 2% who are already invested. Respondents with portfolios of less than $50,000 are over twice as likely as those with portfolios of $250,000 or more to consider or invest in cryptocurrencies.

Cryptocurrencies		Gender		Age			Portfolio value		
	Total	Male	Female	18 – 34	35 – 54	55+	<$50K	$50K – $250K	$250K+
Aware of	85%	87%	82%	85%	84%	85%	85%	84%	85%
Considering	18%	21%	15%	38%	23%	5%	25%	18%	12%
Invested in	12%	13%	10%	31%	12%	2%	17%	12%	8%

Among respondents aware of cryptocurrency, the majority (67%) consider it to be an extremely or very risky investment.

In your opinion, how risky are cryptocurrencies as an investment?

(among respondents aware of cryptocurrency)



Men are more likely than women to consider cryptocurrencies extremely/very risky. Risk perceptions increase with age and portfolio value.

	Total	Gender		Age			Portfolio value		
		Male	Female	18 – 34	35 – 54	55+	<$50K	$50K – $250K	$250K+
Consider cryptocurrencies extremely or very risky	67%	71%	62%	53%	65%	76%	61%	69%	75%

Among those who currently invest in cryptocurrencies, only 39% consider them extremely/very risky.

Investing Practices

Trading frequency among investors has remained largely consistent with 2015. Thirty percent have not made a single transaction in the past year, 31% have made fewer than four transactions, and 33% have made four or more transactions.

In the past 12 months, how many times have you bought or sold investments in non-retirement accounts?	2018	2015
None	30%	29%
1 – 3 Times	31%	30%
4 – 10 times	19%	21%
11 times or more	14%	14%

Consistent with findings published by other researchers,[8] data from the Investor Survey show that men tend to trade more frequently than women. Investors with larger portfolios are also more likely to have made four or more transactions in the past year.

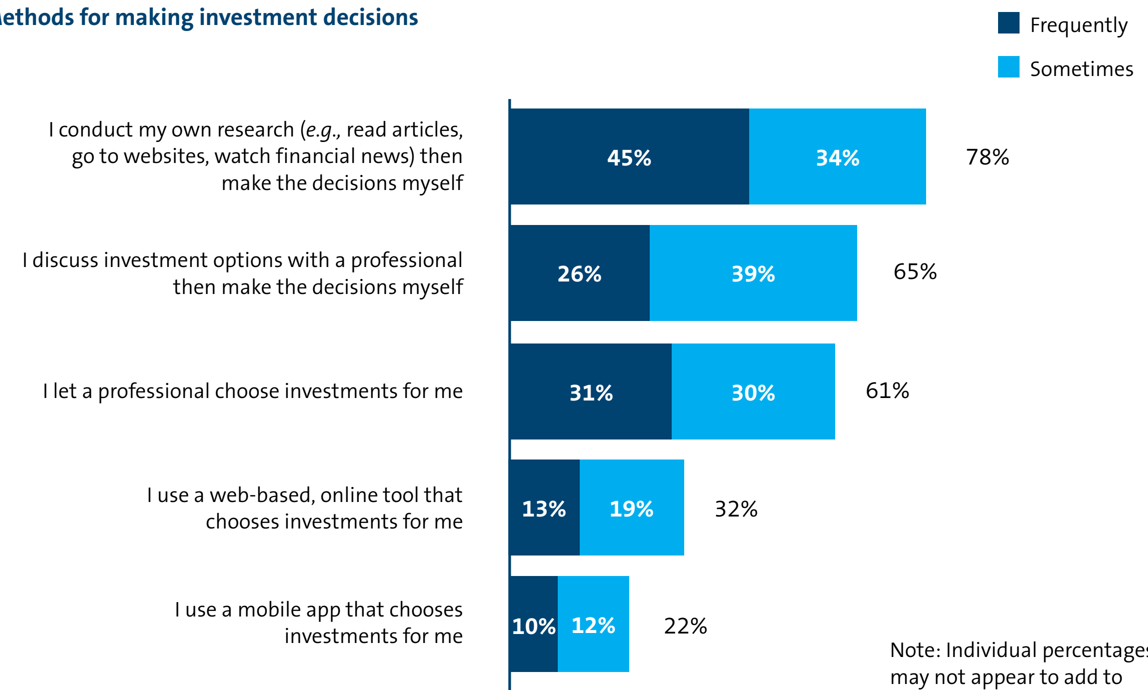
	Total	Gender		Portfolio value		
		Male	Female	<$50K	$50K – $250K	$250K+
Have made four or more transactions	33%	40%	25%	28%	33%	42%

8. Brad Barber and Terrance Odean, "Boys Will Be Boys: Gender, Overconfidence, And Common Stock Investment," *Quarterly Journal of Economics*. 2001, 116, pp. 261 – 292.

The 2018 NFCS Investor Survey includes several new questions to explore how investors interact with their investments (such as use of brokers, websites, and mobile apps, as well as how decisions are made and expectations for fees).

When it comes to making investment decisions, investors do not appear to limit themselves to one single approach. While survey respondents most often indicated that they make investment decisions based on their own research (78% frequently or sometimes), 61% also let a professional choose their investments, and 65% discuss investment options with a professional before deciding themselves. Usage of mobile apps is still relatively infrequent.

Methods for making investment decisions



Note: Individual percentages may not appear to add to totals due to rounding.

The various methods for making investment decisions are not mutually exclusive. For example, among respondents who at least sometimes let a professional choose their investments, nearly three-quarters (72%) also decide based on their own research at least sometimes.

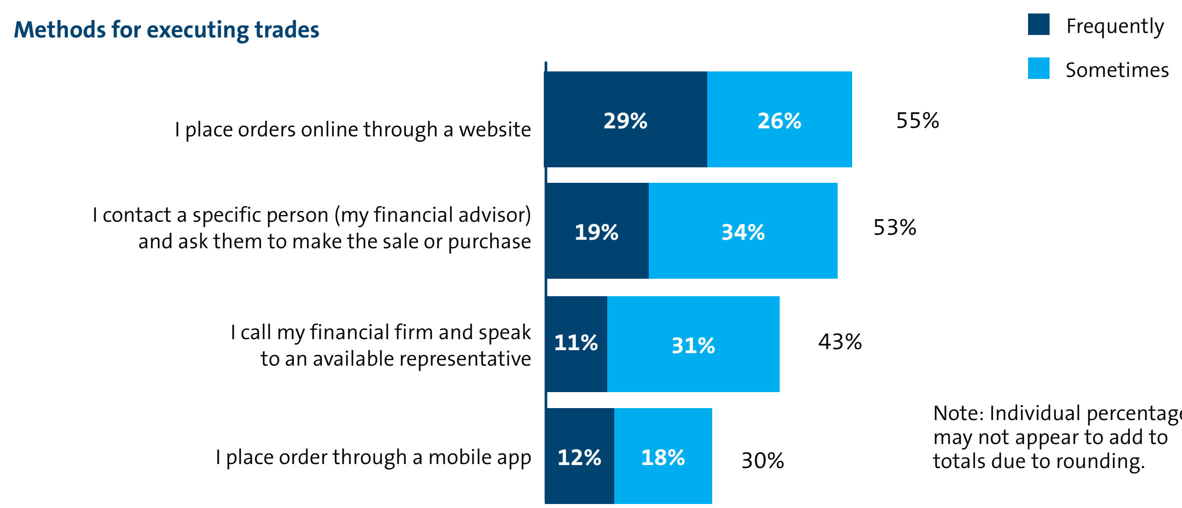
Women are more likely than men to let a professional choose investments, as are investors with higher portfolio values. Usage of online or mobile tools to choose investments decreases as age and portfolio value increase.

		Gender		Age			Portfolio value		
	Total	Male	Female	18 – 34	35 – 54	55+	<$50K	$50K – $250K	$250K+
I let a professional choose investments for me	61%	58%	64%	66%	57%	60%	50%	65%	71%
I use a web-based, online tool that chooses investments for me	32%	34%	31%	57%	38%	16%	40%	35%	23%
I use a mobile app that chooses investments for me	22%	23%	21%	47%	28%	5%	30%	24%	14%

Among those who use a professional to choose their investments, the majority (63%) indicate that their approval is required for each transaction.

As with investment decisions, investors use multiple ways to execute trades. Though online trading is the most commonly cited method (55%), nearly as many (53%) say they frequently or sometimes contact their financial advisor to make a trade. There is considerable overlap among these groups. For example, among those who trade online, 51% also trade through their financial advisor.

Methods for executing trades



Note: Individual percentages may not appear to add to totals due to rounding.

Older respondents (55 and up) and those with portfolios of over $250,000 are less likely than younger respondents or those with smaller portfolios to trade using online or mobile platforms.

	Total	Gender		Age			Portfolio value		
		Male	Female	18 – 34	35 – 54	55+	<$50K	$50K – $250K	$250K+
I place orders online though a website	55%	60%	50%	68%	67%	41%	62%	58%	47%
I place orders through a mobile app	30%	32%	27%	59%	38%	10%	40%	30%	21%

Among investors with 11 or more trades within the past year, online trading via websites is by far the most frequently used method (83%), followed by contacting a financial advisor (56%), using a mobile app (53%), and calling a financial firm (47%). These methods are not mutually exclusive.

The percentage of investors who report having accounts that permit purchasing on margin has ticked down slightly from 33% in 2015 to 30% in 2018. Among these respondents, just under half (48%) have made securities purchases on margin. Among those who have made margin purchases, half report having been subject to a margin call at some point.

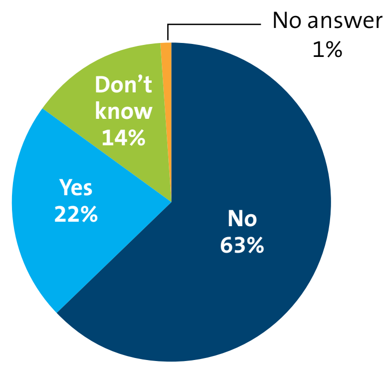
Men are more likely than women to have a margin account. Ownership of margin accounts decreases with age.

	Total	Gender		Age		
		Male	Female	18 – 34	35 – 54	55+
Have investment account that allows margin purchases	30%	34%	24%	44%	33%	20%

To measure the prevalence of securities-backed lines of credit (SBLOCs), a new question was added to the 2018 Investor Survey in which respondents were given a brief description of the product and then asked whether they had this type of loan. Overall, the majority of investors (63%) indicate that they do not have an SBLOC, while 22% say they do, and a considerable minority (14%) are unsure.

Some investment firms offer you the option to use your investment accounts as collateral for a loan or line of credit. You cannot use the borrowed money to purchase securities, but you can use it for other purposes, such as buying a car or renovating a home.

Do you have this type of loan or line of credit?



Investment Fees

Among those who frequently discuss investment options with a professional, the majority (60%) say they do not pay fees for investment advice.

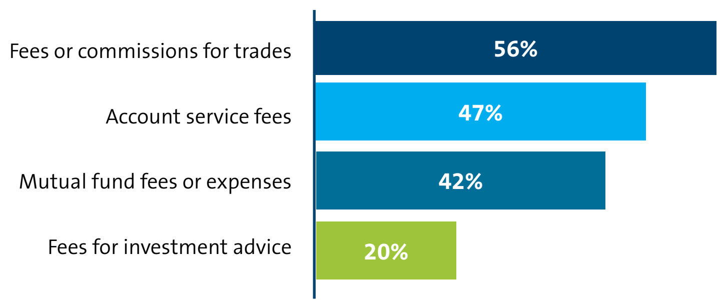
Incidence of SBLOCs trends downward with age, but does not vary by gender or portfolio value.

	Total	Gender		Age			Portfolio value		
		Male	Female	18 – 34	35 – 54	55+	<$50K	$50K – $250K	$250K+
Have a securities-backed line of credit	22%	22%	22%	37%	24%	12%	23%	24%	21%

Investment Fees

Just over half of investors believe that they pay fees or commissions for trades (56%), and nearly half believe that they pay account service fees (47%). Few believe that they pay fees for advice.

Do you pay any of the following types of fees for investing in your non-retirement accounts?

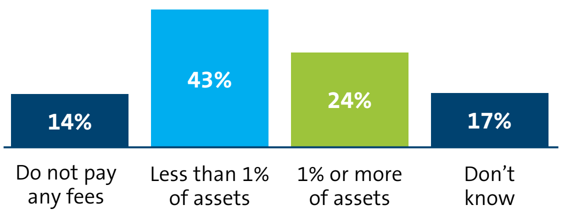


However, additional analyses suggest that it is unclear to investors what types of fees they pay for their non-retirement accounts. While more than half of mutual fund owners report paying mutual fund fees or expenses (57%), almost a third (32%) appear to be unaware that they are paying these fees, and 10% do not know. Among those who frequently discuss investment options with a professional, the majority (60%) say they do not pay fees for investment advice.

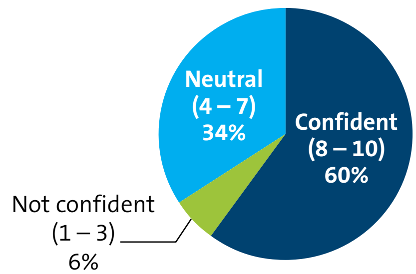
Furthermore, 14% of all respondents do not think that they pay any fees, and 17% do not know how much they pay in fees. A plurality of all respondents (43%) feel they pay less than 1% annually in fees for their non-retirement accounts.

Among respondents who provided an estimate of their annual fees (including those who said "no fees" but excluding those who answered "don't know"), the majority (60%) are confident that their estimate is correct.

Perceived amount of fees for investing in non-retirement accounts



Confidence in fee estimate (among respondents who provided an estimate; scale of 1 to 10)

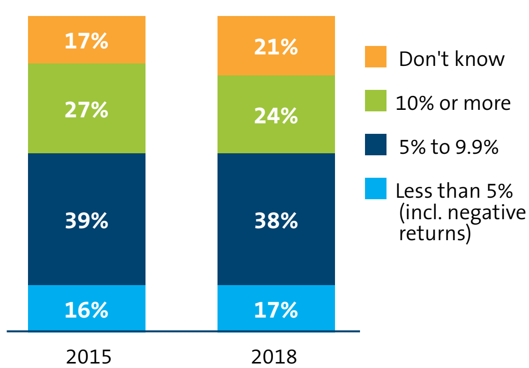


Attitudes Toward Investing

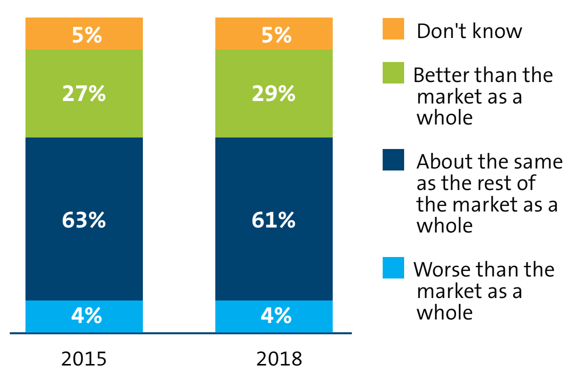
Four in 10 investors (38%) expect the average annual return of the S&P 500 to be between 5% and 9.9% over the next 10 years. While this figure changed from 2015, it is interesting to note that the percentage of respondents who expect 10% or more average returns has ticked down slightly, while the percentage of those who answered "don't know" has ticked up slightly relative to 2015.

Most investors (61%) expect their portfolio to do as well as the market as a whole, 29% think they will outperform the market, and only 4% think they will underperform. These percentages are largely consistent with 2015.

What do you expect the approximate average annual return of the S&P 500 stock index to be over the next 10 years (without adjusting for inflation)?



Over the next 12 month, how well do you expect your portfolio of investments to perform?



Attitudes Toward Investing

Less than a third of respondents (30%) report feeling confident that U.S. financial markets are fair to all investors, little changed from 2015.

Men are more likely than women to feel they will outperform the market, as are those who make margin purchases and those who invest in cryptocurrency. There are no substantial differences by age and portfolio value.

	Total	Gender		Have made margin purchase		Have invested in cryptocurrencies	
		Male	Female	Yes	No	Yes	No
Expect portfolio to perform better than the market as a whole	29%	32%	25%	46%	27%	43%	27%

When asked what level of financial risk they are comfortable taking, nearly half of investors (49%) describe themselves as willing to take average risks in exchange for average returns. Less than a third (29%) say are willing to take above-average risks, and 10% report being willing to take substantial risks in pursuit of substantial returns. These percentages are consistent with 2015.

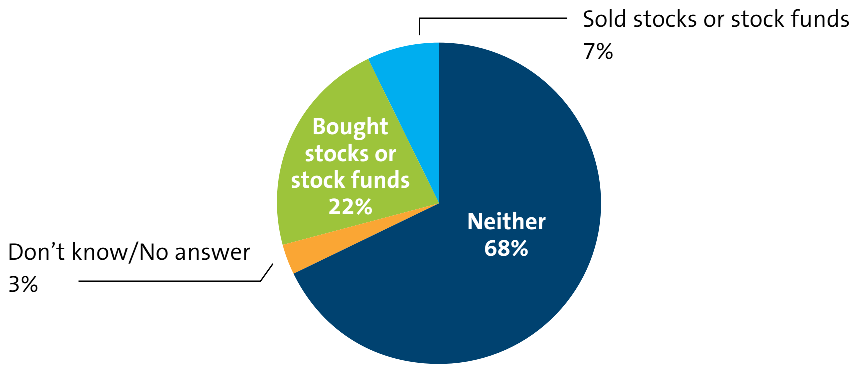
Which of the following statements comes closest to describing the amount of financial risk that you are willing to take when you save or make investments?	2015	2018
Take substantial financial risks expecting to earn substantial returns	12%	10%
Take above-average financial risks expecting to earn above-average returns	30%	29%
Take average financial risks expecting to earn average returns	47%	49%
Not willing to take any financial risks	10%	10%

Men are more likely than women to say they are willing to take substantial risks. Willingness to take substantial financial risks decreases as age increases. Investors who have made margin purchases are much more likely to be willing to take risks than those who have not made margin purchases.

	Total	Gender		Age			Have made margin purchase	
		Male	Female	18 – 34	35 – 54	55+	Yes	No
Willing to take substantial financial risks expecting to earn substantial returns	10%	12%	7%	20%	12%	3%	35%	7%

The 2018 NFCS Investor Survey included a question to assess investors' response to the precipitous drop in the stock market early in 2018. Only 7% of respondents say they sold their stock investments in response to the drop. The majority (68%) report no action taken in response, and 22% say they bought stocks in response.

When the stock market dropped by 10% in early February of this year, what did you do in response?

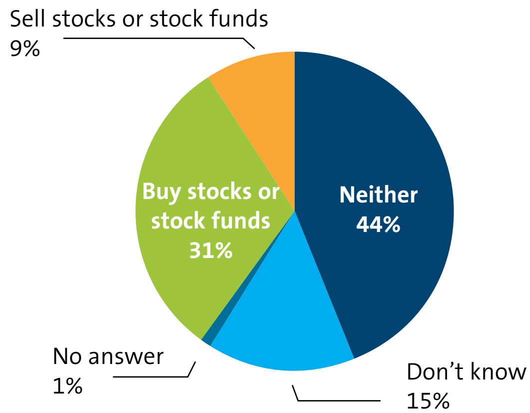


Men are more likely than women to report that they bought stocks in response to the market drop, though both genders are equally likely to have sold. Respondents 55 and older are less likely than younger respondents to have made changes to their portfolio in response to the drop.

Response to February 2018 stock market drop	Total	Gender		Age		
		Male	Female	18 – 34	35 – 54	55+
Bought stocks or stock funds	22%	26%	18%	33%	28%	13%
Sold stocks or stock funds	7%	7%	6%	16%	7%	1%

Prospectively, only 9% of respondents anticipate that they would sell stocks if the market were to drop by 20% suddenly. The plurality (44%) would make no change, and nearly a third (31%) would buy stocks. Fifteen percent do not know what they would do.

If the stock market were to drop by 20% over a short period of time, what would you do in response?



Investors who are comfortable taking above-average or more risk are more likely than those less comfortable with risk to say they would buy (46% vs. 23%) and sell (15% vs. 5%) in the event of a stock market crash.

Just over half of investors (51%) feel that U.S. securities markets are a good long-term investment (as of summer 2018 when the survey was conducted), up from 44% in 2015. However, less than a third of respondents (30%) report feeling confident that U.S. financial markets are fair to all investors, little changed from 2015.

Confident that U.S. financial markets offer good long-term opportunities for investors

Confident that U.S. financial markets are fair to all investors

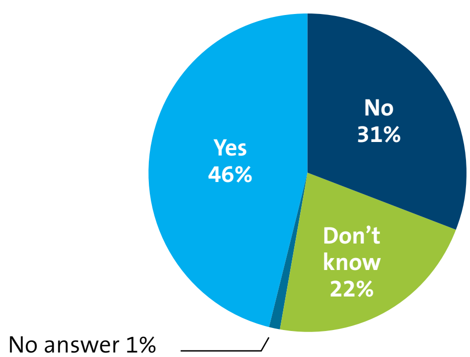
Investment Disclosure Preferences

Preference for paper disclosures sent by regular mail is losing ground to electronic delivery.

Disclosures and Regulation

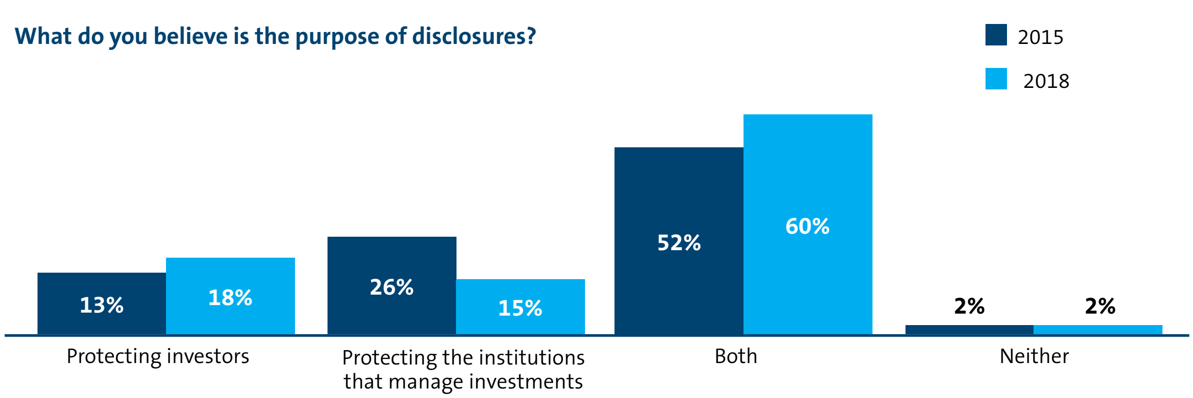
Investors' opinions are mixed regarding whether investment industry disclosures are sufficient. The plurality (46%) feel they are, but considerable minorities disagree (31%) or do not know (22%).

Do you feel that investment industry disclosures regarding topics such as fees, risks of investing, and potential conflicts of interest are adequate?



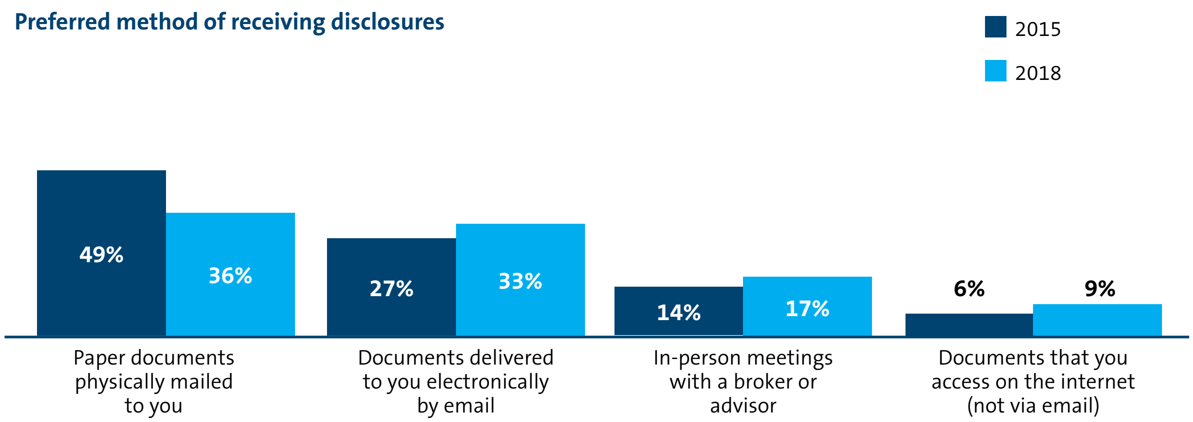
A majority of respondents (60%) believe that the purpose of disclosures is to protect both investors and institutions managing investments, up from 52% in 2015. The percentage of those who think disclosures protect investors alone has also increased, while the percentage who think disclosures only protect institutions has decreased.

What do you believe is the purpose of disclosures?



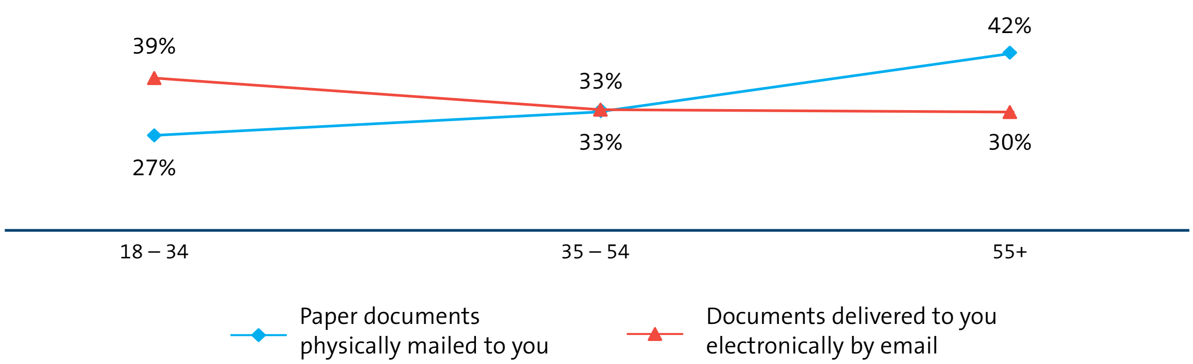
When asked how they would prefer to receive disclosures, paper documents in the mail was the most frequently chosen method (36%), closely followed by email (33%). The percentage of investors who prefer paper documents has decreased considerably relative to 2015, while preference for all other methods has increased.

Preferred method of receiving disclosures



Preference for paper documents increases by age, while preference for email delivery decreases by age.

Preferred method of receiving disclosures



Authorized Trusted Contacts

The majority of respondents (58%) report that they do not have a trusted contact for their investment accounts, and 36% say they do.

Investors appear to be less concerned about fraud than they were in 2015. The percentage of respondents who feel confident that the markets are effectively regulated to protect investors has increased from 25% in 2015 to 32% in 2018, and the percentage of those worried about being defrauded has decreased from 40% to 34% over the same period.

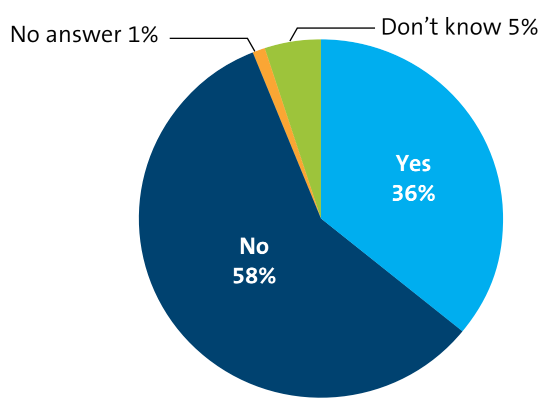
Confident that U.S. financial markets are effectively regulated to protect investors from fraud and abusive sales practices

"I am worried about being victimized by investment fraud."

In the 2018 Investor Survey, respondents were given a brief description of a trusted contact, then asked if they have authorized one for their investment accounts. The majority of respondents (58%) report that they do not have a trusted contact, and 36% say they do.

A trusted contact is a person you authorize your investment firm to contact if the firm has trouble reaching you or suspects financial exploitation.

Have you authorized a trusted contact for any of your investment accounts?



Respondents ages 18 to 34 are more likely than older respondents to report that they have designated a trusted contact. The likelihood of having a trusted contact increases slightly with portfolio value.

	Total	Gender		Age			Portfolio value		
		Male	Female	18 – 34	35 – 54	55+	<$50K	$50K – $250K	$250K+
Have authorized a trusted contact	36%	37%	36%	47%	34%	32%	32%	39%	39%

Respondents who frequently make trades through a person (by contacting their advisor or someone at their firm) are more likely than those who frequently trade on a digital platform (via website or mobile app) to report having a trusted contact (58% vs. 31%, respectively; note that these groups are not mutually exclusive).

Just under a quarter of investors (23%) say they have checked with a regulator regarding a financial professional, little changed from 24% in 2015. Respondents who frequently make trades through their advisor or someone at a firm are more likely than those who frequently trade via website or mobile app to have checked the background of a financial professional (40% vs. 25%, respectively; note that these groups are not mutually exclusive).

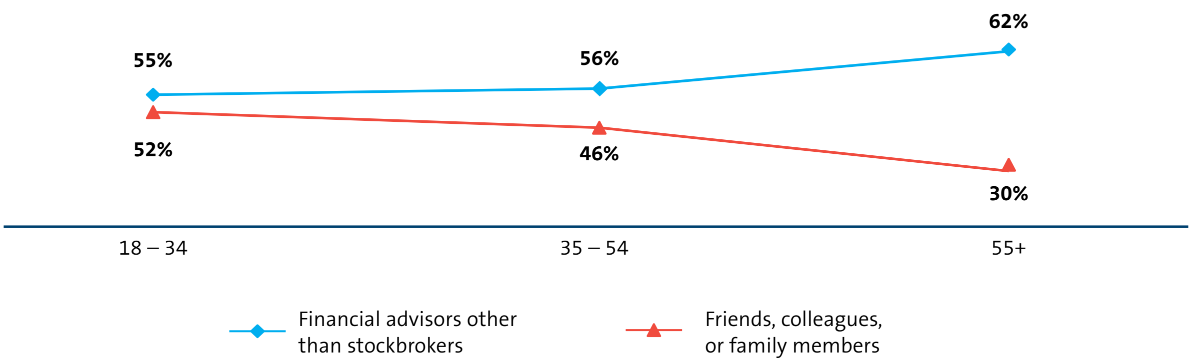
Information Sources

When making investment decisions, more than half of respondents say they use information from the issuer of the security (64%), financial services companies (60%), and financial advisors other than stockbrokers (59%). Many use information from friends, colleagues, or family members. The ranking of information sources most commonly used is largely the same as 2015.

Information sources for investment decisions	2015	2018
Information from the company you are investing in (*e.g.,* annual reports, company websites)	68%	64%
Information from brokerage firms, mutual fund companies, or other financial services companies (*e.g.,* research reports, brochures, newsletters, seminars, websites)	62%	60%
Financial advisors other than stockbrokers	56%	59%
Friends, colleagues, or family members	47%	40%
The media (*i.e.,* TV, radio, newspapers, magazines, online news sources, and financial information websites)	44%	40%
Stockbrokers	30%	26%
Industry regulators (*e.g.,* FINRA, SEC, state regulators)	23%	21%
Investment clubs or investor membership organizations	17%	15%
Your employer	18%	14%

Usage of financial advisors increases with age, while reliance on friends, colleagues, or family members decreases.

Information sources for investment decisions



Respondents most often receive investment information from free online services, websites, or blogs (46%) and newspapers, magazines, or books (42%). Social media, seminars, and paid subscription services are used much less frequently.

Channels for information about investing	2015	2018
Free online services, websites, or blogs[9]	47%	46%
Newspapers, magazines, or books	47%	42%
Brochures or newsletters	39%	30%
Television/radio programs	35%	29%
Social media	--	17%
Seminars or group meetings	--	16%
Paid subscription services	--	16%

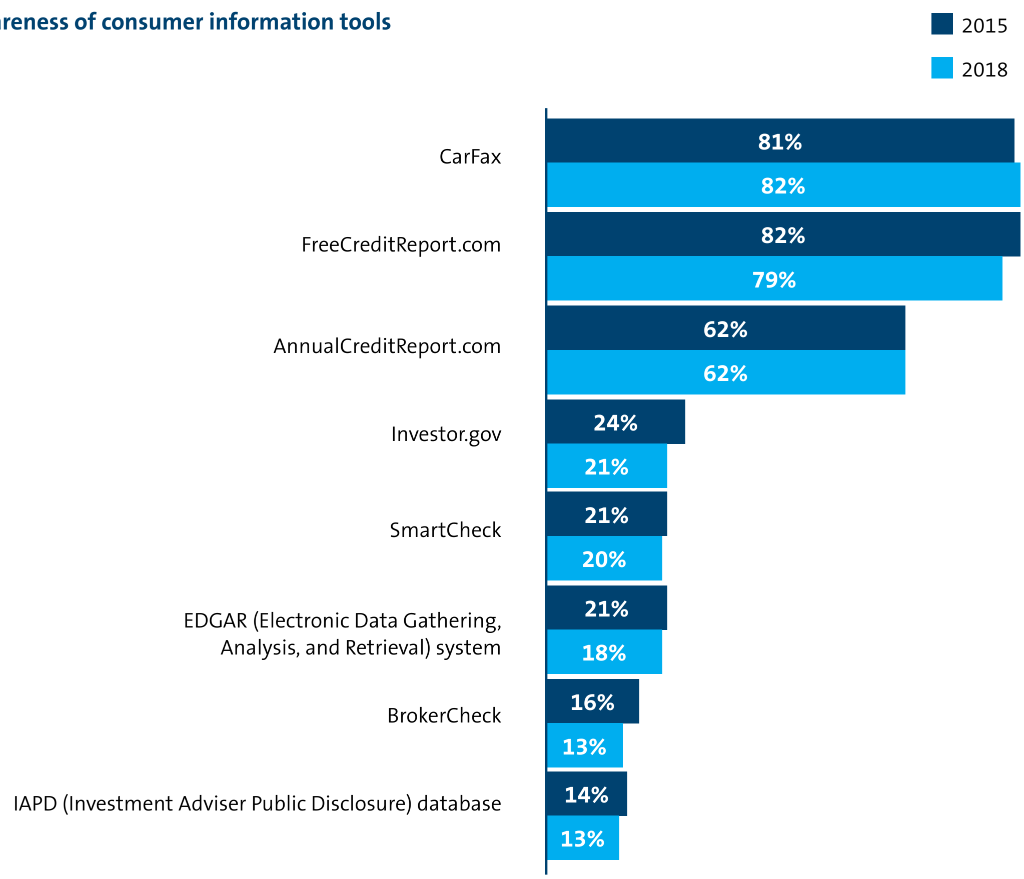
9. Minor wording changes were made to this question in 2018 (added "websites or blogs").

Diversifying Information Services

Investors tend to rely on information from a variety of sources when making investment decisions. However, knowledge of online information tools is limited.

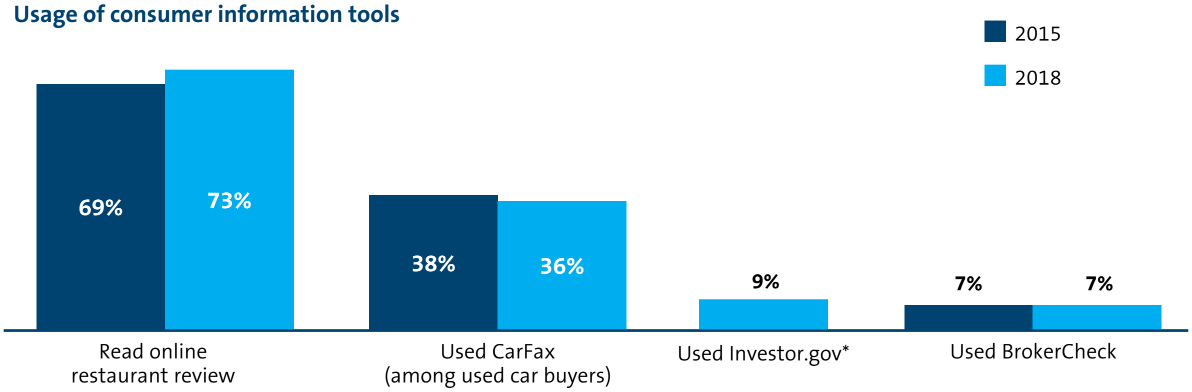
Consistent with 2015, results show that awareness of investor tools like BrokerCheck is relatively low. Over three-quarters of respondents are aware of CarFax and FreeCreditReport.com, but fewer than a quarter have heard of any of the investing-related tools tested in the survey.

Awareness of consumer information tools



Only small percentages of respondents report having ever used BrokerCheck (7%; unchanged from 2015) or Investor.gov (9%). In contrast, 36% of respondents who have purchased a used car have used CarFax, and nearly three-quarters (73%) have consulted online restaurant reviews such as Yelp or TripAdvisor.

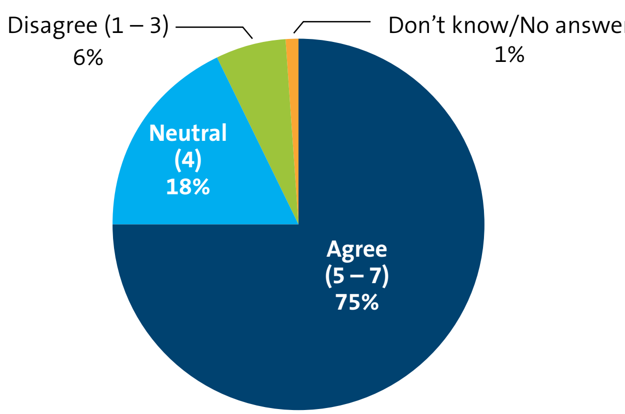
Usage of consumer information tools



*New item added in 2018. Data for 2015 not available.

A large majority of investors (75%) feel they can obtain the information they need to make investment decisions.

"I have access to the information I need to make investment decisions."



Investor Knowledge

To assess their level of investment knowledge, respondents were presented with 10 multiple-choice "quiz" questions covering various investment-related topics and concepts.

In general, investments that are riskier tend to provide higher returns over time than investments with less risk.	
True	**74%**
False	14%
Don't Know	11%

The past performance of an investment is a good indicator of future results. (New for 2018)	
True	46%
False	**44%**
Don't Know	10%

If you buy a company's stock...	
You own a part of the company	**72%**
You have lent money to the company	13%
You are liable for the company's debts	3%
The company will return your original investment to you with interest	6%
Don't know	5%

Which of the following best explains why many municipal bonds pay lower yields than other government bonds?	
Municipal bonds are lower risk	30%
There is a greater demand for municipal bonds	9%
Municipal bonds can be tax-free	**34%**
Don't know	27%

If you buy a company's bond...	
You own a part of the company	8%
You have lent money to the company	**63%**
You are liable for the company's debts	4%
You can vote on shareholder resolutions	5%
Don't know	19%

What is the main advantage that index funds have when compared to actively managed funds? (New for 2018)	
Index funds are generally less risky in the short term	18%
Index funds generally have lower fees and expenses	**30%**
Index funds are generally less likely to decline in value	11%
Don't know	39%

Over the last 20 years in the U.S., the best average returns have been generated by:	
Stocks	**56%**
Bonds	6%
CDs	2%
Money market accounts	7%
Precious metals	6%
Don't know	23%

You invest $500 to buy $1,000 worth of stock on margin. The value of the stock drops by 50%. You sell it. Approximately how much of your original $500 investment are you left with in the end?	
$500	22%
$250	31%
$0	**23%**
Don't know	23%

If a company files for bankruptcy, which of the following securities is most at risk of becoming virtually worthless?	
The company's preferred stock	11%
The company's common stock	**51%**
The company's bonds	15%
Don't know	22%

Which is the best definition of "selling short"?	
Selling shares of a stock shortly after buying it	10%
Selling shares of a stock before it has reached its peak	19%
Selling shares of a stock at a loss	26%
Selling borrowed shares of a stock	**22%**
Don't know	21%

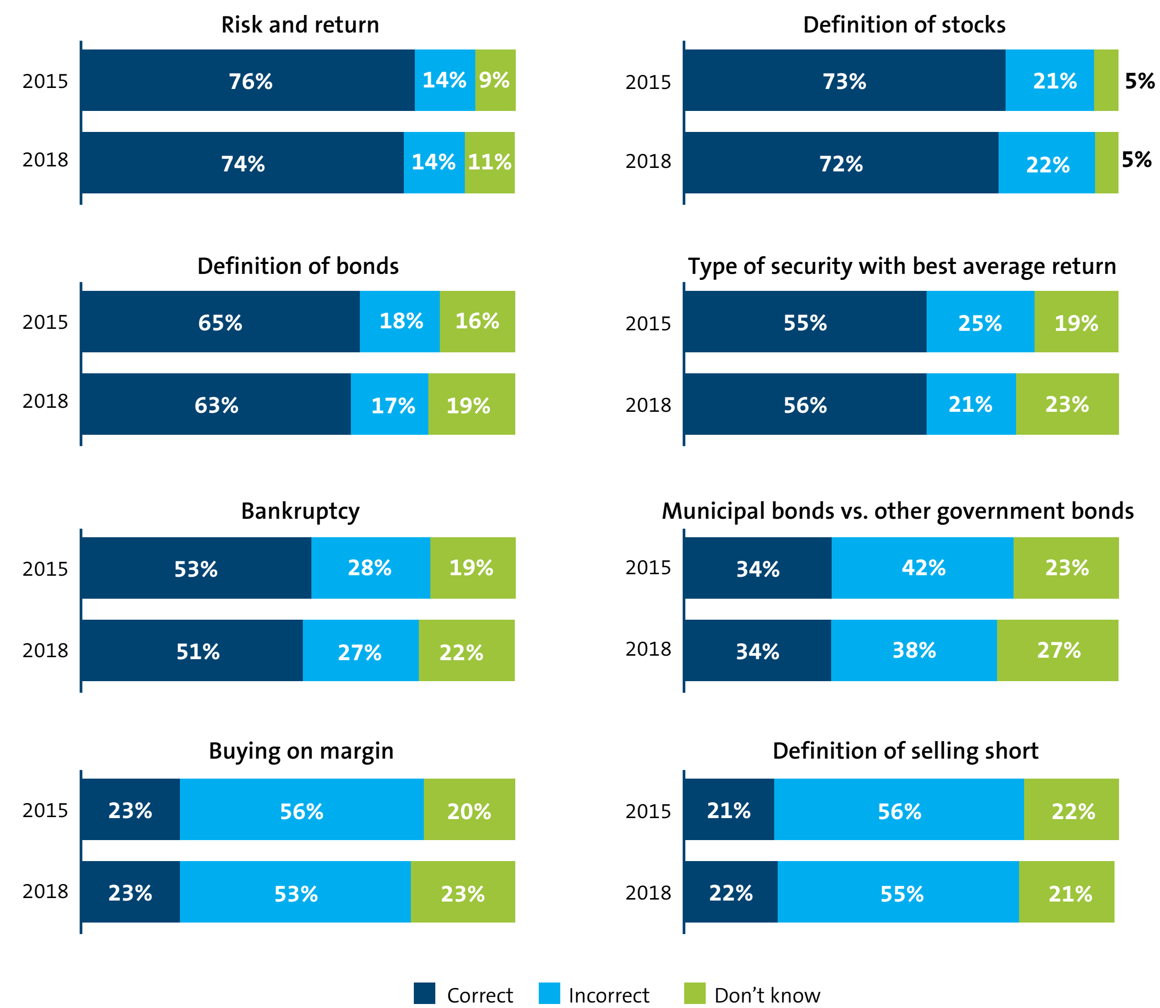
Correct answers shown in bold.

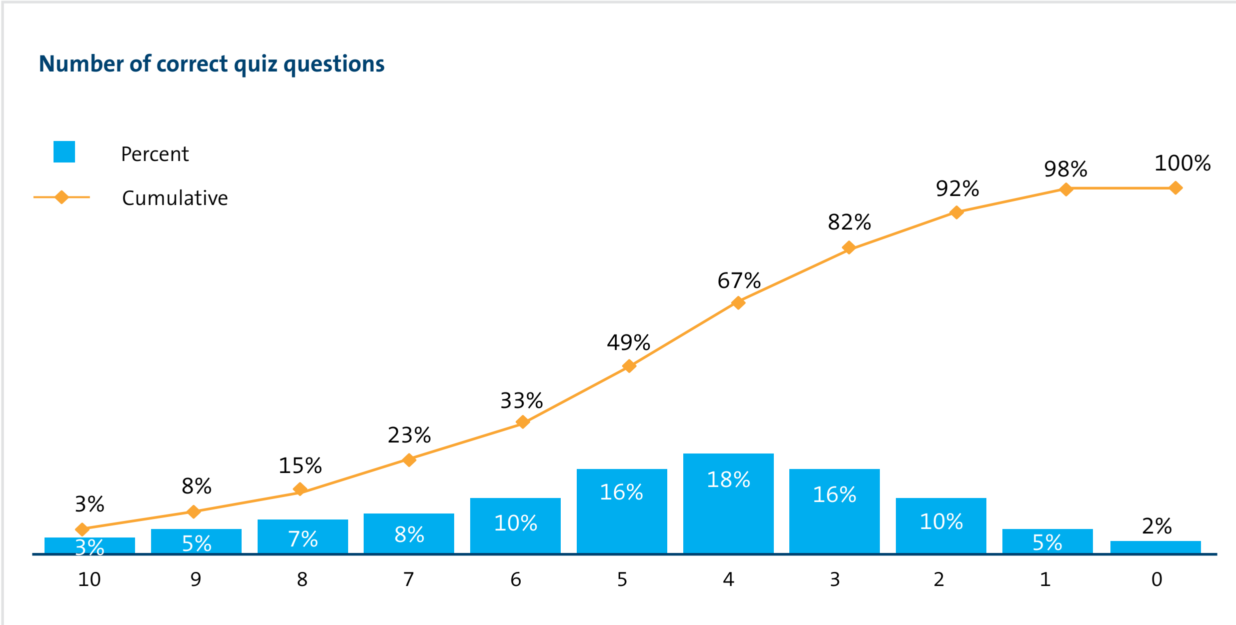
Correct answers to individual quiz questions range from 74% for the risk and return question to 22% for the question on selling short. The questions on selling short and buying on margin have the most incorrect answers, with more than half of respondents answering each incorrectly (55% and 53%, respectively). Among those who say they have purchased on margin, more than three-quarters (79%) answer the margin question incorrectly.

Findings from two new quiz questions in the 2018 Investor Survey are somewhat alarming. Nearly half of respondents (46%) think that past performance is a good indicator of future results. Less than a third (30%) understand that the main advantage of index funds over actively managed funds is generally lower fees and expenses.

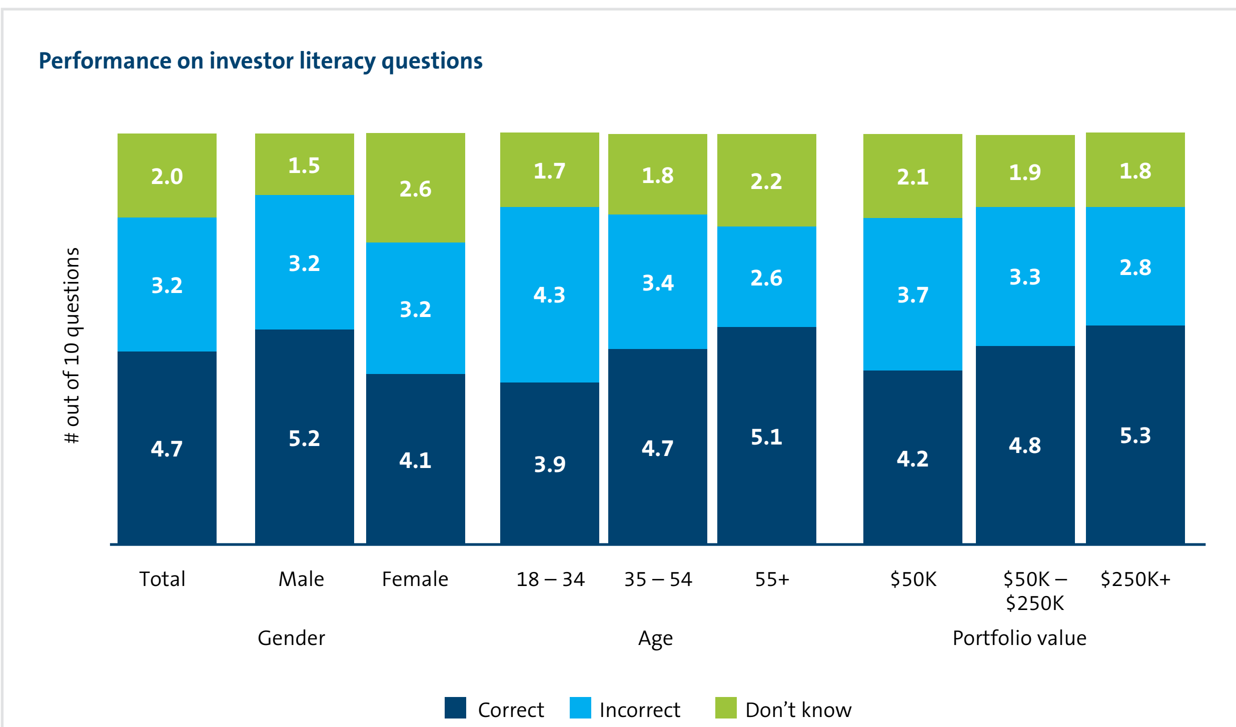
Among the eight quiz questions that were asked in both 2015 and 2018, the percentage of correct and incorrect answers is for the most part consistent with 2015. However, it appears that the percentage of respondents answering "don't know" has ticked up slightly for several of the quiz questions.

Quiz questions by year

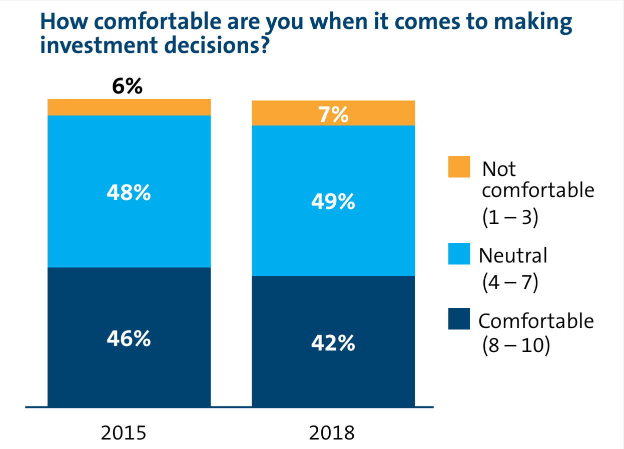


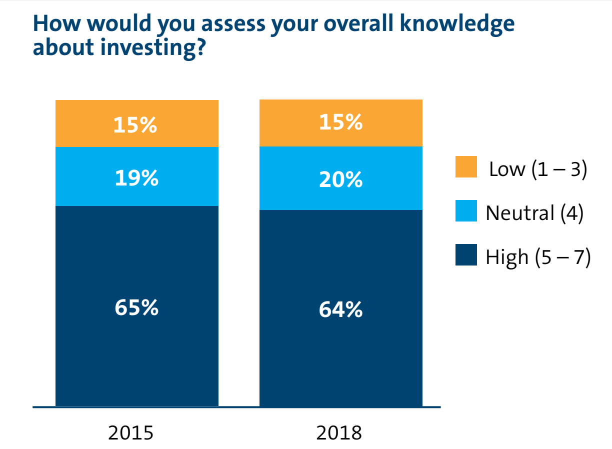


On average, respondents are able to answer 4.7 questions correctly. Performance on the quiz questions is correlated with a number of demographic characteristics. Men, older respondents, and those with higher portfolio values tend to do better on the quiz questions.

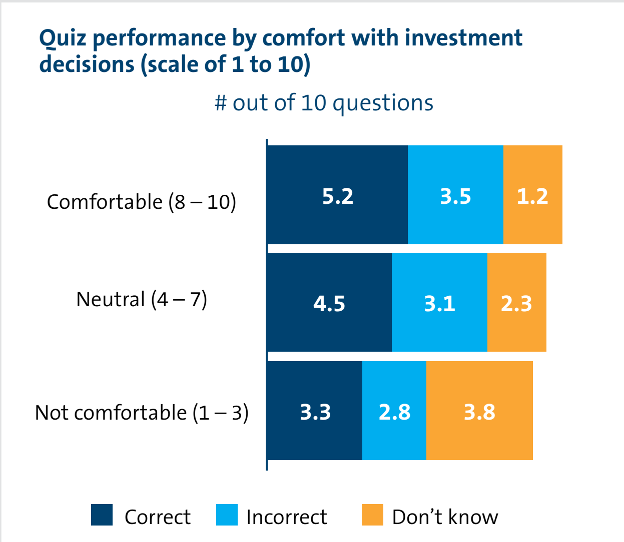


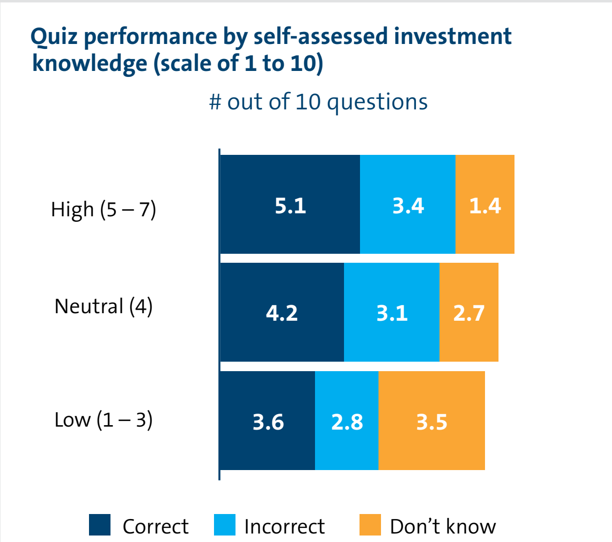
While 42% of respondents indicate they are comfortable making investment decisions (8 to 10 on a 10-point scale), nearly half (49%) give themselves neutral ratings. These percentages have not shifted dramatically relative to 2015, though the direction of change appears to indicate decreasing levels of comfort. Self-perceptions of investment knowledge are largely consistent with 2015. Almost two-thirds of respondents (64%) rate themselves highly (5 to 7 on a 7-point scale).





Respondents' self-assessments of their comfort with and knowledge of investing are correlated with their performance on the quiz questions. Those who are comfortable making investment decisions are able to answer 5.2 of the 10 questions correctly, compared to 4.5 among those who are neutral and 3.3 among those who are not comfortable. Similarly, respondents who rate themselves highly on investment knowledge are able to answer 5.1 questions correctly, compared to 4.2 for those who give themselves neutral ratings and 3.6 among those who feel they have low knowledge. However, it is worth noting that even investors with high levels of comfort and self-assessed knowledge are only able to answer about half of the quiz questions correctly.





Consistent with the 2015 wave, 2018 data show that respondents who report high comfort and knowledge levels are also more likely to answer the quiz questions *incorrectly* than those with low comfort and knowledge, suggesting that for some respondents, overconfidence may make them less likely to admit that they don't know the answers to various quiz questions.

Conclusion

Investors in the United States: A Report of the National Financial Capability Study is based on data from approximately 2,000 survey respondents who indicated that they have investments held in non-retirement accounts (most also have investments in retirement accounts, as well). This study, funded by the FINRA Foundation, provides updated information on investing-related topics of interest to researchers, educators, policymakers, the media, and financial industry stakeholders.

Findings show that individual stocks continue to be the most commonly held investment vehicle, especially among those with smaller portfolios (less than $50,000). Mutual funds are much more likely to be owned by those with portfolios of $50,000 and above than by those with portfolios of less than $50,000. While the vast majority of investors are aware of cryptocurrencies, only a small minority invest in them.

Various approaches to investment transactions, such as contacting a financial professional or using online or mobile platforms, are not mutually exclusive. Among those who trade online, half also trade through their financial advisor.

Results suggest that many investors do not have a clear understanding of the fees they pay for their non-retirement accounts. One in seven respondents do not think they pay any fees, and one in six do not know how much they pay. Among those who own mutual funds, almost a third believe that they do not pay mutual fund fees or expenses.

Despite the stock market drop in February of 2018, a few months before the NFCS was fielded, investors' confidence in the long-term prospects of U.S. financial markets has increased somewhat relative to 2015. The majority of respondents reported taking no action in response to the market drop, and only a single-digit percentage minority sold stocks.

Confidence in the ability of regulators to prevent fraud has increased, and concern about investment fraud has decreased relative to 2015. Awareness and usage of investor-oriented information tools, such as Investor.gov and BrokerCheck, are low.

Finally, results from the investor knowledge quiz questions are potentially worrisome. Nearly half of respondents believe that the past performance of an investment is a good indicator of future results, and less than a third know that the main advantage of index funds is that they generally have lower fees and expenses than actively managed funds. Overall, across the eight quiz questions with available tracking data, the percentage of respondents answering correctly has not changed substantially, though the percentage who answered "don't know" appears to have ticked up slightly.

Background and Methodology

In 2009, the FINRA Investor Education Foundation commissioned the first national study of the financial capability of American adults. The overarching research objectives of the NFCS were to benchmark key indicators of financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal, and financial literacy characteristics.

The 2009 NFCS consisted of three linked surveys:

- **National Survey:** A nationally projectable telephone survey of 1,488 American adults
- **State-by-State Survey:** A state-by-state online survey of 28,146 American adults (roughly 500 per state, plus the District of Columbia)
- **Military Survey:** An online survey of 800 military service members and spouses

In 2012, the FINRA Foundation commissioned a second wave of the NFCS in order to assess changes in key measures since the 2009 study. The 2012 NFCS replicated two of the three components of the original baseline study:

- **State-by-State Survey:** A state-by-state online survey of 25,509 American adults (roughly 500 per state, plus the District of Columbia)
- **Military Survey:** An online survey of 1,000 military service members

In 2015, a third wave of the NFCS was conducted, which replicated the State-by-State Survey and added a supplemental survey of investors:

- **State-by-State Survey:** A state-by-state online survey of 27,564 American adults (roughly 500 per state, plus the District of Columbia)[10]
- **Investor Survey:** An online survey of 2,000 Americans who have investments outside of retirement accounts

In 2018, a fourth wave of the NFCS was conducted to continue tracking core measures from both the State-by-State and Investor Surveys, and to incorporate additional topics that are highly relevant today. The 2018 NFCS replicates two components of the 2015 study:

- **State-by-State Survey:** A state-by-state online survey of 27,091 American adults (roughly 500 per state, plus the District of Columbia)[11]
- Investor Survey: An online survey of 2,003 Americans who have investments outside of retirement accounts

The survey instruments were designed by a multi-disciplinary team of researchers, policymakers, and practitioners in the financial capability field. All surveys were funded by the FINRA Investor Education Foundation and conducted by ARC Research (formerly known as Applied Research & Consulting).

This report outlines the findings of the 2018 Investor Survey administered to respondents in July 2018, with comparisons to the 2015 Investor Survey fielded in July 2015. Data from each survey are weighted to be representative of investors with non-retirement investments in terms of age and education, based on the 2018 and 2015 NFCS State-by-State Surveys. However, breakdowns of sub-populations may not necessarily be representative.

More information about the NFCS, including survey instruments, data sets, and detailed methodological information, can be found at *www.USFinancialCapability.org*.

10. The 2015 State-by-State Survey included oversamples for CA, IL, NY, and TX.
11. The 2018 State-by-State Survey includes oversamples for OR and WA.

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A copy of this report can be found on *www.USFinancialCapability.org* or by calling (202) 728-6964.

www.finrafoundation.org

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