

Investment & Financial Services Association Ltd

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# **Quarterly Investor Sentiment Research Report**

7<sup>th</sup> July 2010

## **IFSA/CoreData Investor Sentiment Index**

**For further information please call Project Managers: Kristen Paech, Advice Wealth & Super,  
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## Executive Summary

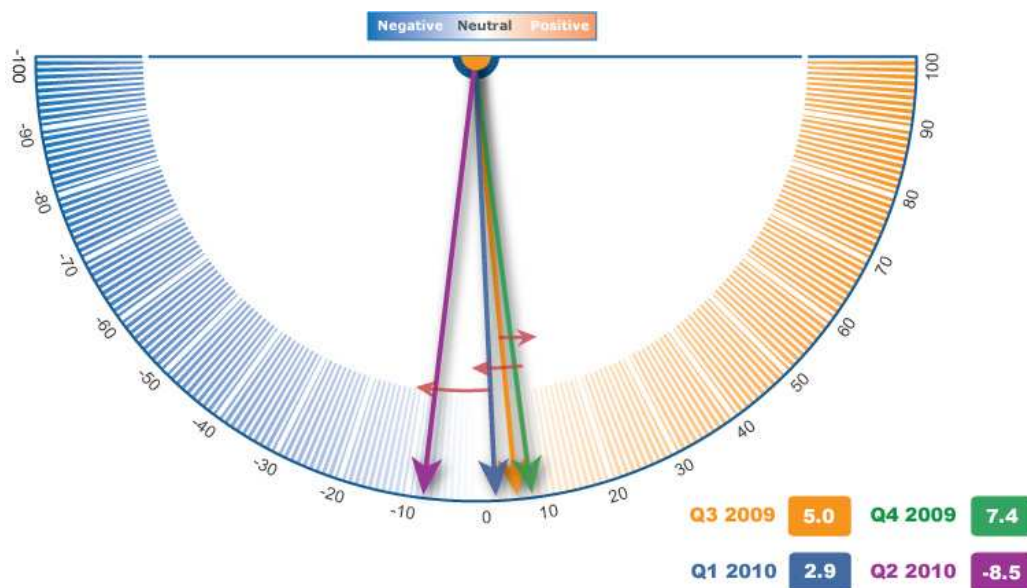
- Investor sentiment has slipped back into negative territory, retracting in Q2 2010 to -8.5, down from +2.9 in Q1 2010.
- The index is now 13.8 points higher than where it was at the beginning of last year, and is over 15.9 points lower than where it was at the end of 2009 when investors were hopeful that the global financial turmoil was behind us.
- Sentiment moved further backwards this quarter returning to Q1 2008 levels, suggesting investors are experiencing heightened uncertainty over the future direction of markets. The index is now 22.9 points lower than in December 2007 and is 36.9 points adrift of its peak over the past three years.
- Satisfaction with existing investments remained consistent with last quarter at 37.9%.
- The number of investors that anticipate faster growth of the Australian economy has been reducing over the last three quarters.
  - Less than a third of investors (29.7%) anticipate the growth of the Australian economy to speed up over the next quarter – considerably less than in past quarters. Just over half (51.5%) now expect it to slow down (compared to 29.5% in Q1).
  - A third (31.7%) of investors expect business conditions in Australia to improve over the next three months, down from 55.1% in Q4, while 34.6% expect conditions to worsen.
  - The average household is slightly worse off this quarter, reflecting months of consecutive interest rate rises, which has led to rising mortgage repayments. While just over a third (35.7%) think their future financial position will improve in the next 12 months, almost a third (30.5%) expect it to worsen.
- The Investor Intention Index moved from -19.7 to -26.8, continuing a steady decline from past quarters.
- The polarisation that was evident in the market in past quarters has since disappeared. Only 22.2% of investors are likely to invest new money in existing investments in the next three months, while 63.5% are unlikely to invest.
- The proportion of investors that are unlikely to purchase a new investment product or invest money directly in new equities increased again in Q2, to 71.8% from 65.0% in Q1 2010 and 61.3% in Q4 2009.
- Two in five respondents expect the ASX to perform better over the next quarter, but sentiment towards Aussie shares has weakened since last quarter while cash expectations also fell this quarter, having risen in consecutive quarters throughout 2009.
- The Government's announcement that it will increase the superannuation guarantee to 12% over the next 10 years was met with agreement by around half (52.8%) of the respondents. Only 11.3% disagree with this announcement and one third (35.9%) remain neutral.

## Key insights

### Investor sentiment slides backwards in the second quarter of 2010:

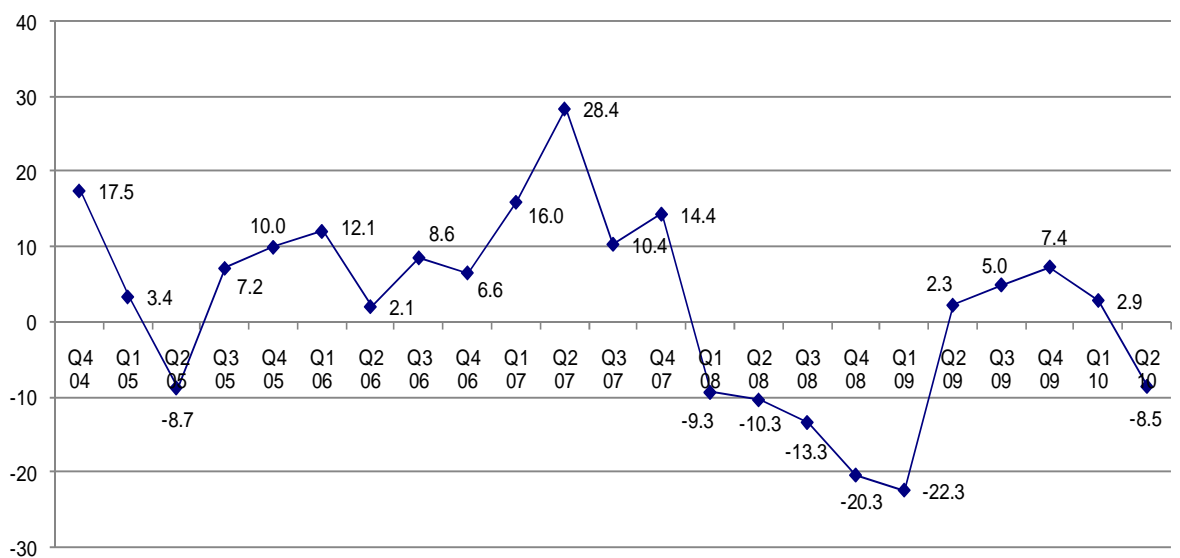
- Investor sentiment has slipped back into negative territory, retracting in Q2 2010 to -8.5, down from +2.9 in Q1 2010.
- The index is now 13.8 points higher than where it was at the beginning of last year, and is over 15.9 points lower than where it was at the end of 2009.
- The reduction in sentiment throws support behind the RBA's decision to keep interest rates on hold this month, having lifted the cash rate from 3.0% to 4.5% since October last year in six 25-basis point steps.

### IFSA-CoreData Investor Sentiment Index (ISI)



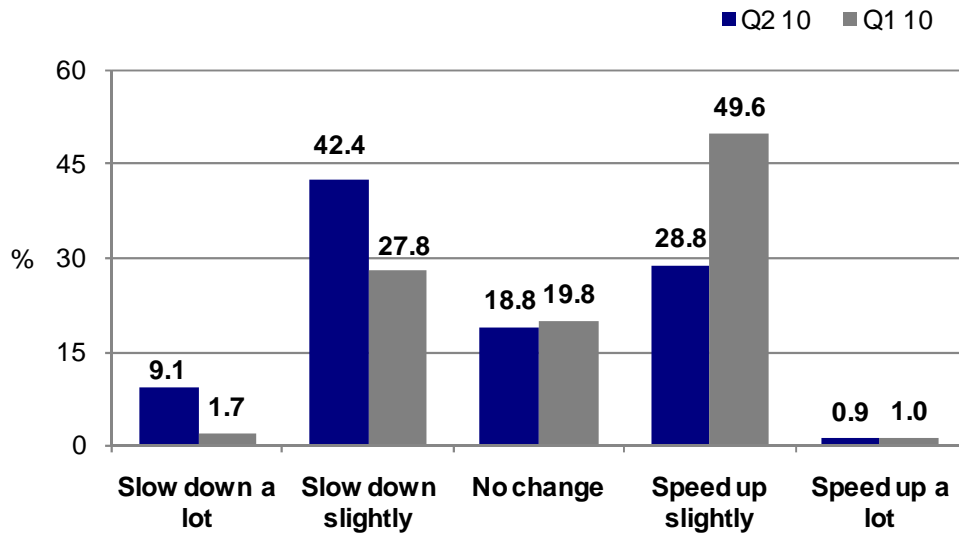
### Tracking Investor Sentiment Q4 2004 – Q2 2010

- Sentiment moved further backwards this quarter returning to Q1 2008 levels. The index is now 22.9 points lower than in December 2007 and is 36.9 points adrift of its peak over the past three years.



Source: CoreData

Comparing the next quarter to this quarter, do you think the Australian economy will grow at a slower or faster rate?

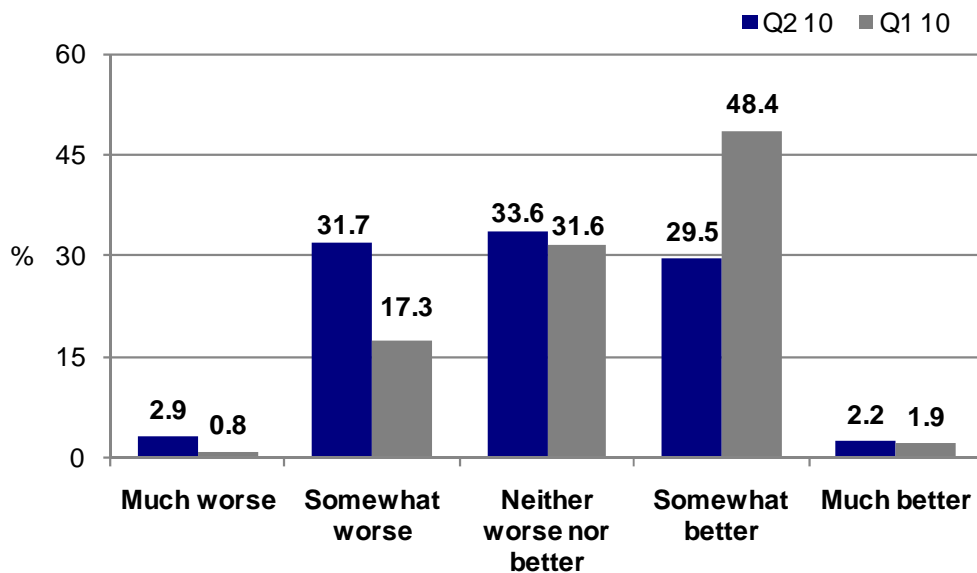


n =866 (Q2 10)

**General economic and business outlook:**

- A third of respondents (33.6%) now expect business conditions to remain unchanged in the next three months – slightly more than in Q4 2009 (26.2%) but consistent with Q1 2010 (31.6%).

Comparing the next quarter to this quarter, do you think business conditions in Australia will be better or worse?



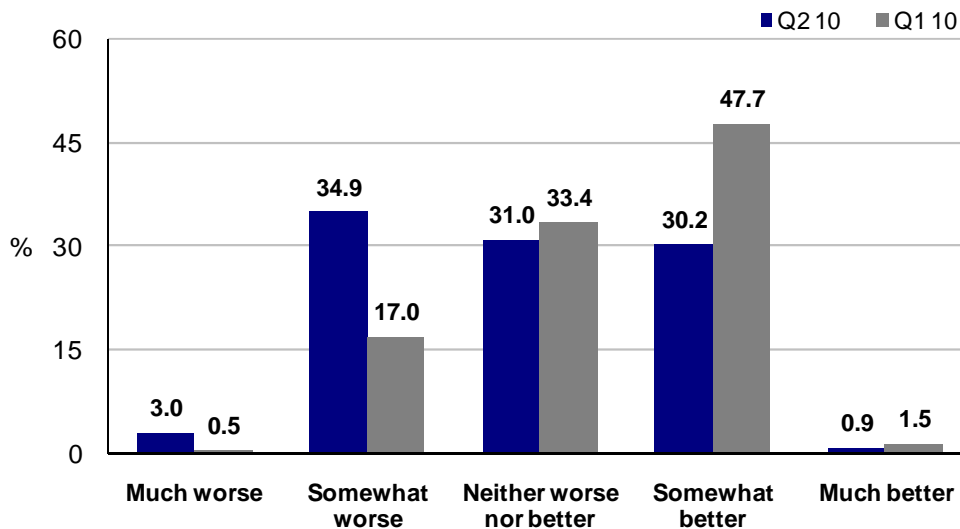
n =881 (Q2 10)

- Some 31.7% of investors expect business conditions in Australia to be better next quarter, while 34.6% expect them to worsen.

## Correction in sentiment:

- There has been a decline in the number of investors that believe the market for investments will be better in the next three months (31.1% compared to 49.2% in Q4).
- While almost a third of respondents (31.1%) believe the markets for investments will be better in the next three months, almost two fifths (37.9%) expect markets to worsen.

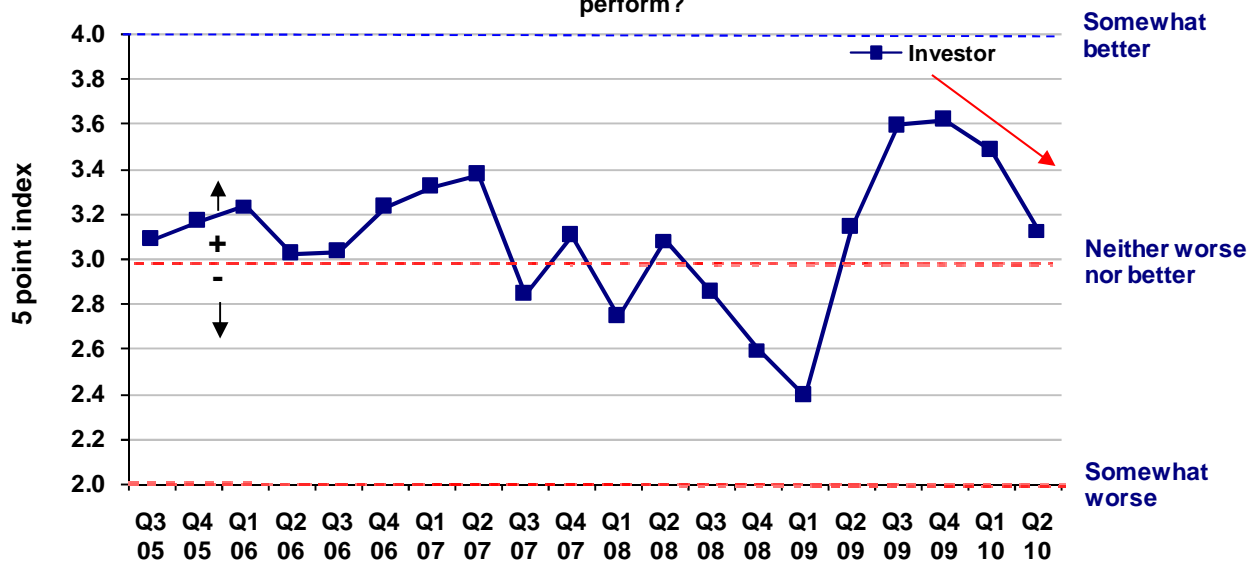
Do you think the market for investments will generally be better or worse in the next 3 months?



n = 782, respondents who have savings/investments

- Comparing this quarter to last quarter, the proportion of investors who believe the market for investments will be neither better nor worse has decreased slightly to one third (31.0%), down from 33.4% in Q1 2010.

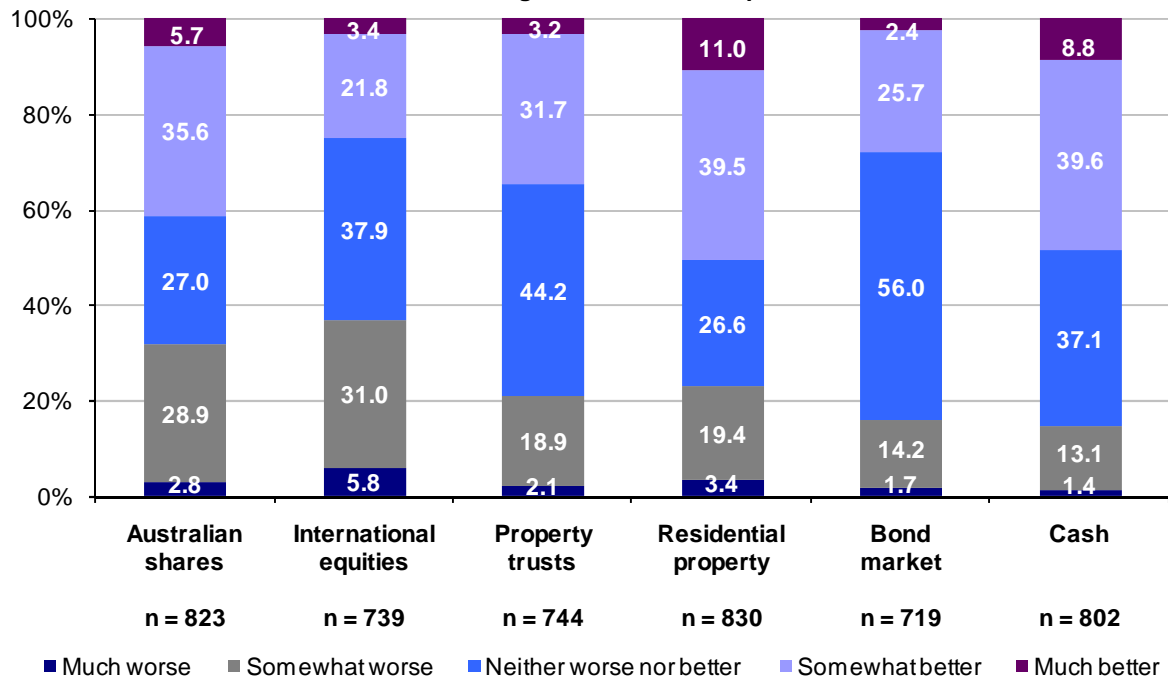
Comparing the next quarter to this quarter, how do you think Australian Shares will perform?



- Two of five respondents (41.3%) expect Australian shares to perform better over the next quarter, but sentiment has weakened since last quarter.

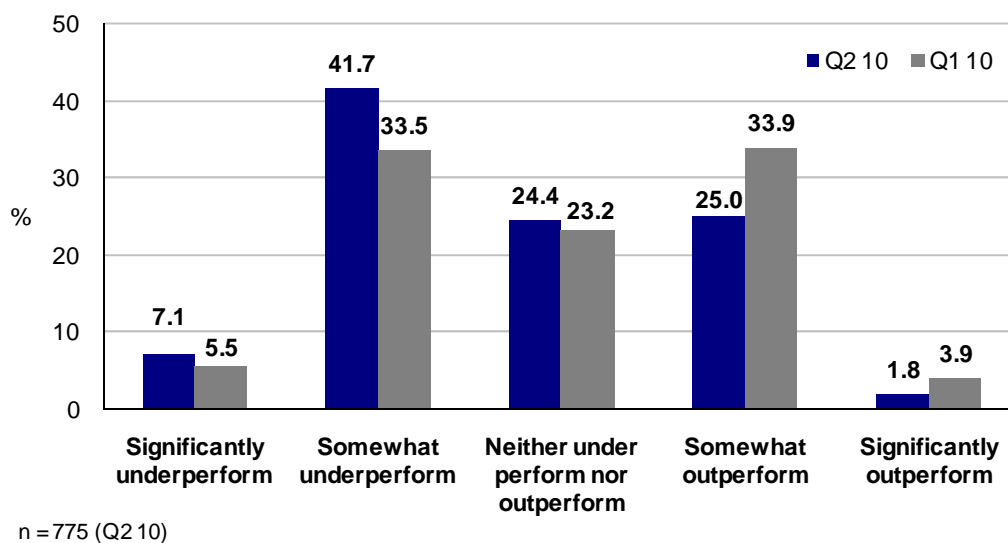
- Cash expectations also fell this quarter, having risen in consecutive quarters throughout 2009. Slightly less than half of the respondents (48.4%) currently say that cash will perform better in the next three months.
- Investors are more pessimistic about international shares, with more than one third (36.8%) saying this asset class will perform worse next quarter. Opinion is less polarised this quarter, with only one quarter (25.2%) saying international equities will perform better.

Comparing the next quarter to this quarter, how do you think the following asset classes will perform?



- Sentiment towards the residential property market strengthened versus shares this quarter. Almost half (48.8%) believe the ASX will underperform while only 26.8% believe it will outperform, compared to 39.0% and 37.8% respectively last quarter.

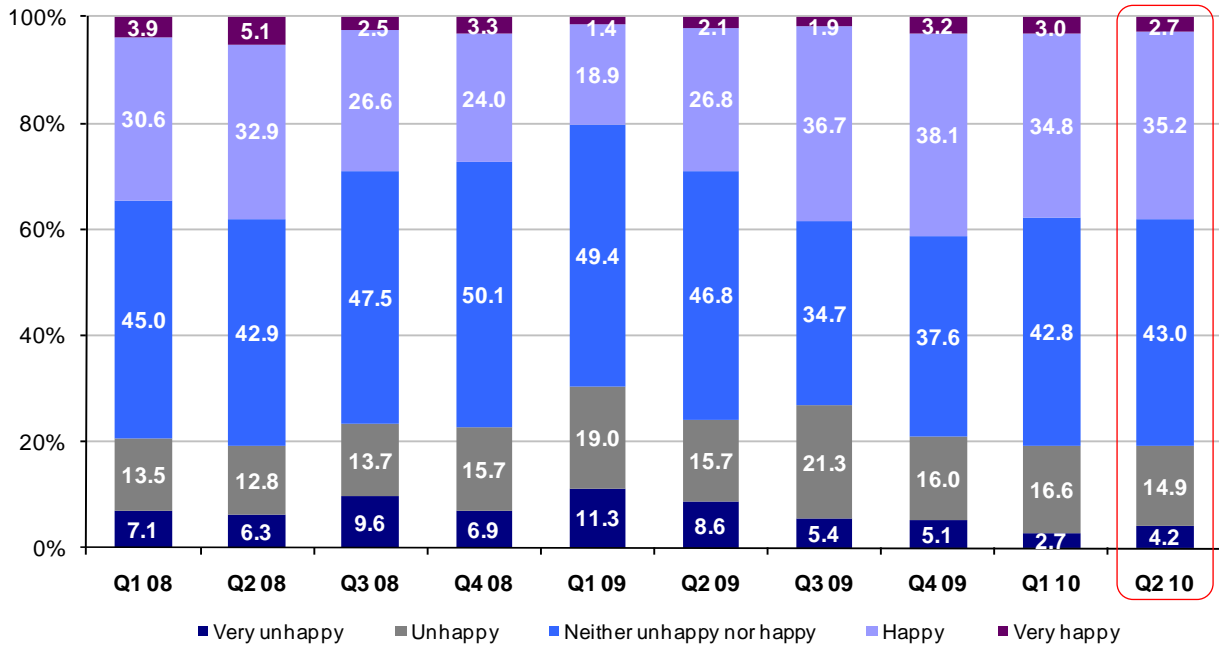
Comparing the next quarter to this quarter, do you think the Australian share market will outperform residential property?



## Neutral attitude to investments:

- Almost two fifths of investors (37.9%) are happy with their investments in Q2 2010, consistent with 37.8% in Q1 2010 but down from 41.3% in Q4 2009. Although the number of people who are neither unhappy nor happy has increased marginally to 43.0% this quarter.

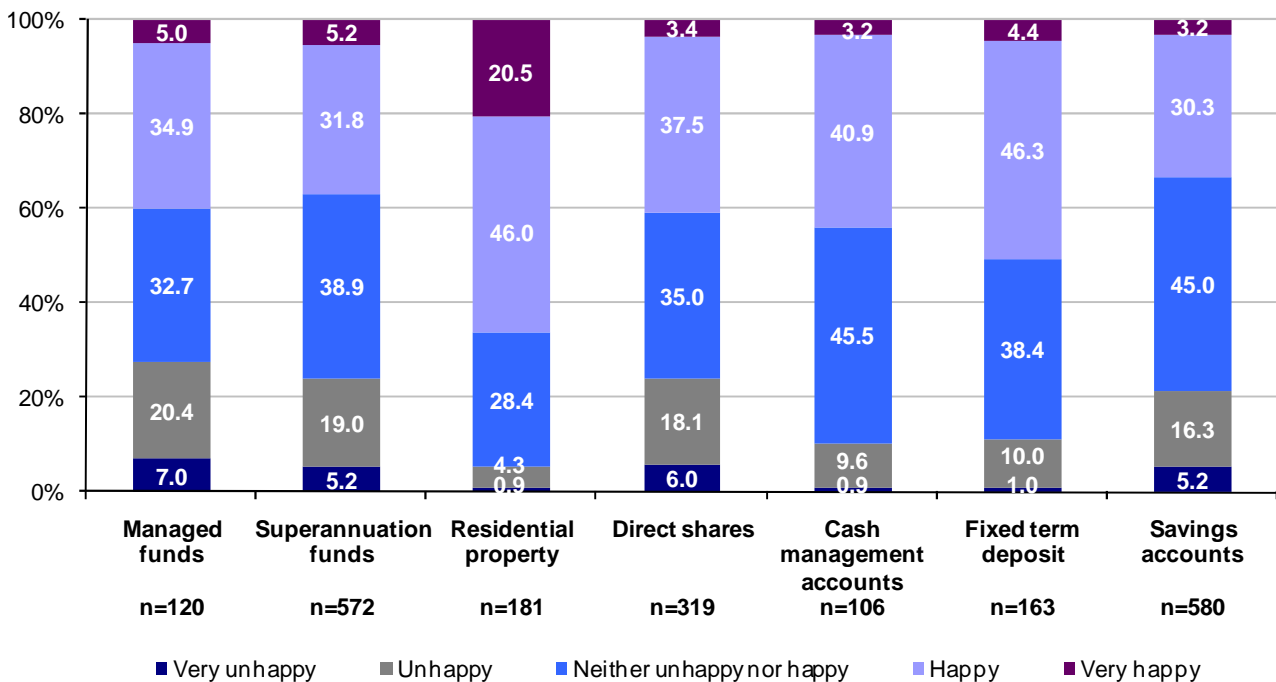
To what extent are you happy with your current investments?



n = 782 (Q2 10)

- The proportion of investors who are unhappy with their investments has also declined slightly to 19.1%, down from 19.3% in Q1 2010 and 21.1% in Q4 2009.

To what extent are you happy with your current investments?

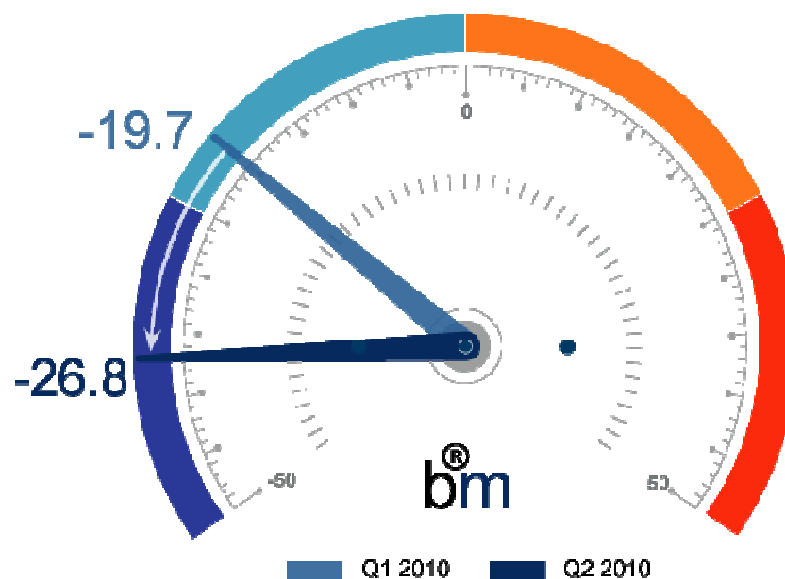


- Investors are happiest with the performance of their residential property (66.5%) and are least happy about the performance of their savings accounts (33.5%), super funds (37.0%) and managed funds (39.9%).

## Understanding trends in investor intentions:

- The Investor Intention Index is a subset of the Investor Sentiment Index and measures investors' future investment decisions.
- The Investor Intention Index continued to decline for the second consecutive quarter, moving into further negative territory.
- The index moved to -26.8 from -19.7, indicating that investors are increasingly unwilling to invest. This reluctance could be due to lack of conviction in the economic recovery or could reflect mortgage strain following recent interest rate rises.

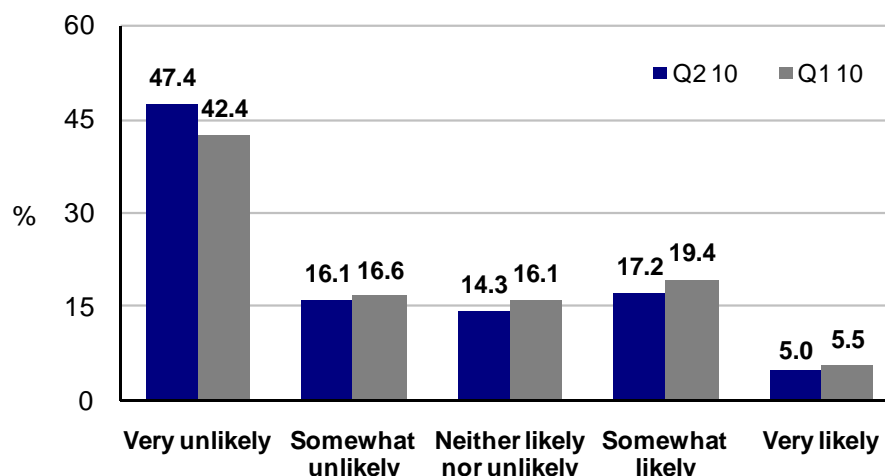
Investor Intention Index Q2 2010



- The polarisation that was evident in the market in past quarters has since disappeared. Only 22.2% of investors are likely to invest new money in existing investments in the next three months, while 63.5% are unlikely to invest.

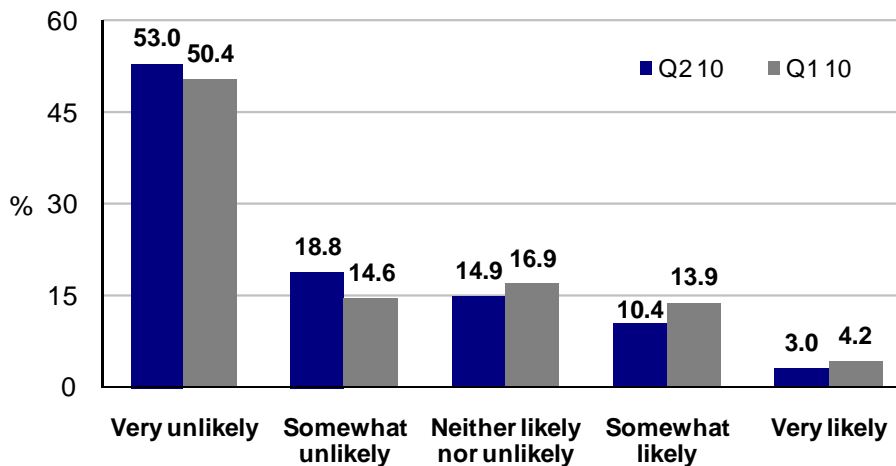
In the next three months, do you intend to do any of the following?

Invest new money in existing investments



n = 782, respondents who have savings/investments

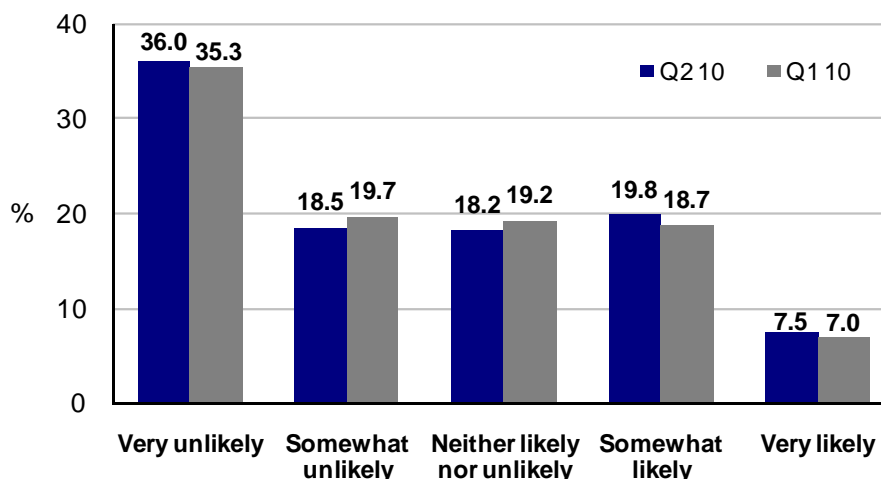
**Purchase a new investment product / Invest money directly in new equities**



n = 782, respondents who have savings/investments

- The proportion of investors that are unlikely to purchase a new investment product or invest money directly in new equities increased again in Q2, to 71.8% from 65.0% in Q1 2010 and 61.3% in Q4 2009.
- The number of investors that are likely to do so also reduced further, to 13.4% from 18.1% in Q1 2010 and 21.2% in Q4 2009.
- The chart below shows the majority of investors are unlikely to withdraw money from existing investments (54.5%), while slightly more than one quarter are likely to.
- Quarter-on-quarter the proportion of people who are likely to withdraw money has risen marginally, to 27.3% from 25.7% in Q1.

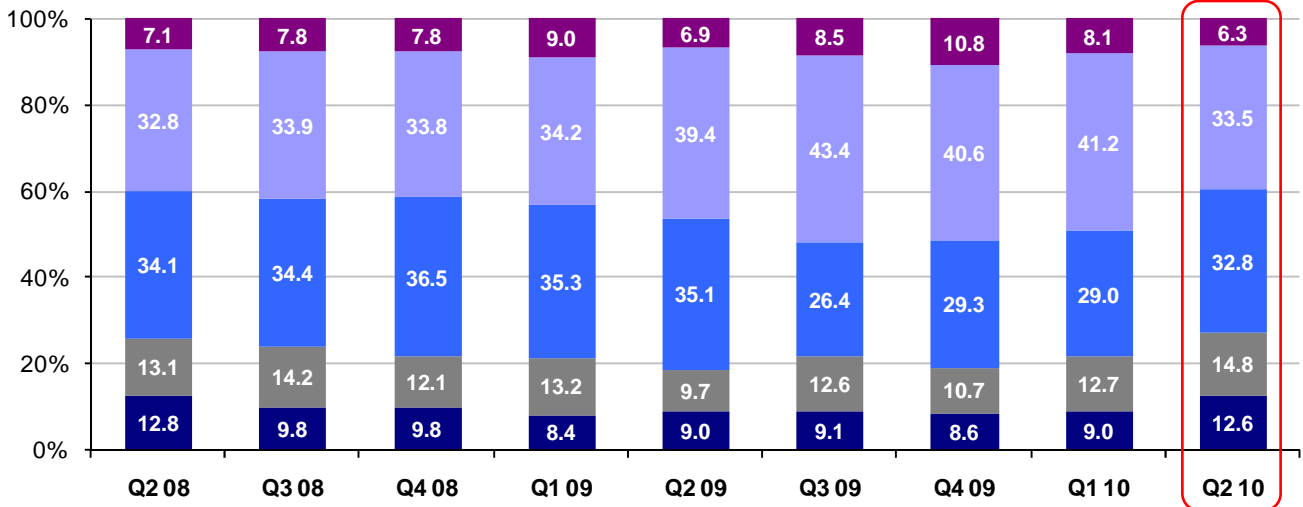
**Withdraw money from existing investments**



n = 782, respondents who have savings/investments

## Household Situation:

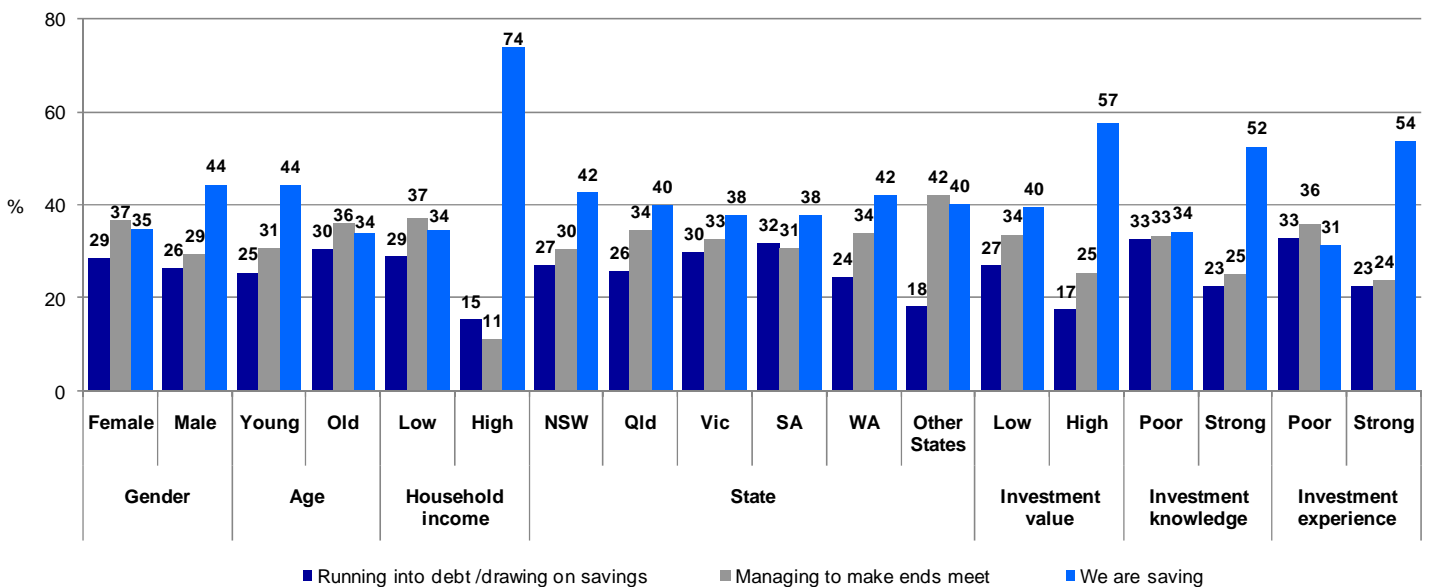
The statement that best describes the present financial situation of their household



- We are running into debt
- We are just managing to make ends meet on our income
- We are saving a little
- We are saving a lot
- We are having to draw on our savings

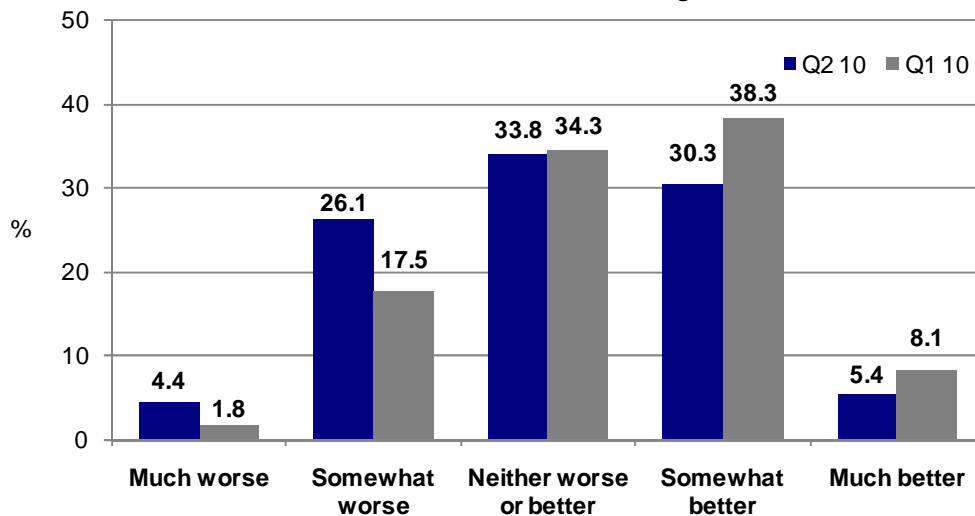
- The financial situation of households deteriorated this quarter with the proportion of people who are saving a lot contracting to 6.3% (versus 8.1% in Q1) and those saving a little down to 33.5% (from 41.2% in Q1).
- There was also an increase to 32.8% of those who are just managing to make ends meet on their income from 29.0% last quarter.
- Additionally some 14.8% have had to draw on savings (up from 12.7% in Q1), while a further 12.6% are running into debt (up from 9.0%). The rising interest rate environment has clearly added pressure to the financial situation of many households.

What best describes the present financial situation of your household?



- Predictably, those with strong investment experience and knowledge are saving more, as are those with a high household income. Some 73.6% of those with a high household income are saving while only 34.4% of those with a low household income are managing to save. Disturbingly, the difference between low and high income earners has increased this quarter.
- Men are more likely than women to be saving (44.4% versus 34.9%), while almost a third of women are running into debt (28.6%) and a further third are only managing to make ends meet (36.6%).
- Younger people are more likely than older people to be saving (44.0% versus 33.7%).

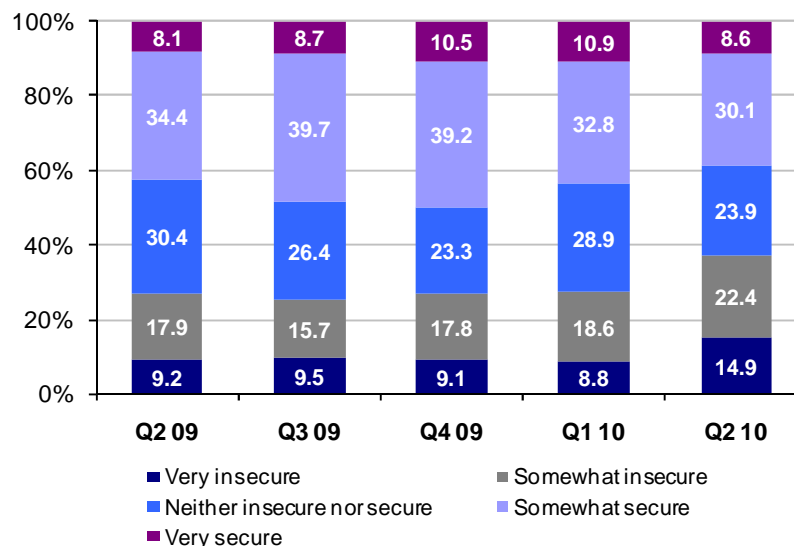
**How do you think the financial position of your household will change over the next 12 months? Will it get?**



n = 886 (Q2 10)

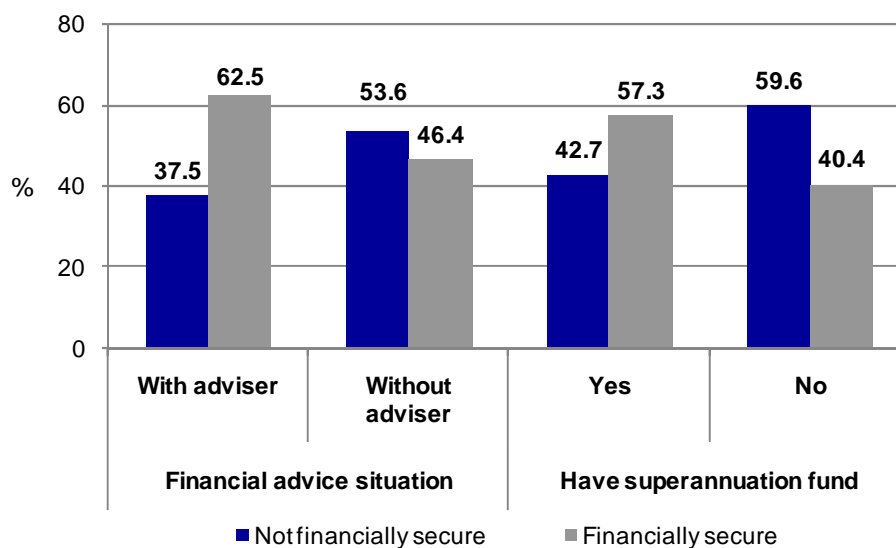
- Just over a third of households (35.7%) are optimistic about their future financial position, down considerably from last quarter (46.4%). A minority (5.4%) expect their financial position to be 'much better' in the next 12 months while 30.3% expect it to be 'somewhat better'.
- Almost a third (30.5%) expects their financial position to worsen.

**How financially secure do you feel?**



n = 886 (Q210)

**How financially secure do you feel in comparison to whether you are seeing a financial adviser and have a superannuation fund?**



- Investors who use an adviser are more likely to feel financially secure, as are those with a super fund.
- Three in five people with an adviser (62.5%) feel financially secure compared to 46.4% of those without an adviser.
- Close to three in five people with an adviser (57.3%) of those with a super fund feel financially secure, compared to only 40.4% of those without a super fund.

**Current Investments:**

- While 42.4% of males own direct shares, 16.3% have managed funds/unit trusts and 70.0% have super, just under a third of women (28.5%) have direct shares, 10.3% have managed funds/unit trusts and only 57.5% have super.

**Which of the following types of investment do you currently have?**

	Gender		Age		State					
	Female	Male	Young	Old	NSW	Qld	Vic	SA	WA	Other states
Managed funds / Unit trusts	10.3%	16.3%	10.3%	17.7%	12.9%	14.6%	13.5%	13.3%	8.8%	20.4%
Superannuation funds	57.5%	70.0%	66.7%	60.1%	66.5%	62.5%	64.3%	61.9%	56.3%	70.4%
Residential property (excluding family home)	19.7%	20.9%	17.2%	24.3%	17.6%	22.5%	20.3%	18.3%	22.5%	25.9%
Direct shares	28.5%	42.4%	31.1%	42.0%	37.5%	31.1%	36.2%	29.8%	38.8%	44.4%
Cash management accounts	8.0%	15.4%	8.7%	16.1%	12.1%	13.2%	12.5%	7.7%	10.0%	13.0%
Fixed term deposits / Debentures	19.7%	16.7%	11.0%	28.0%	21.8%	18.4%	18.1%	9.6%	18.8%	16.7%
Savings accounts	61.9%	67.5%	65.8%	63.5%	63.8%	65.8%	66.4%	62.5%	60.8%	68.5%

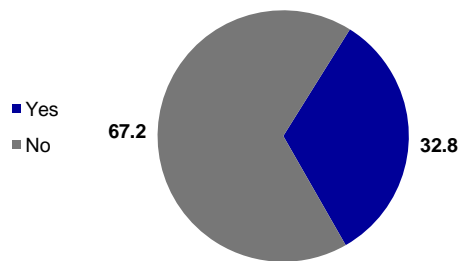
**Which of the following types of investment do you currently have?**

	Household income		Investment value		Investment knowledge		Investment experience		Financial advice	
	Low	High	Low	High	Poor	Strong	Poor	Strong	With adviser	Without adviser
Managed funds / Unit trusts	11.3%	27.7%	11.1%	35.0%	2.8%	25.2%	2.6%	29.8%	29.7%	6.4%
Superannuation funds	61.6%	85.3%	69.1%	91.5%	53.1%	73.8%	55.7%	75.0%	79.5%	57.7%
Residential property (excluding family home)	16.7%	43.8%	13.0%	69.0%	6.9%	31.9%	4.9%	36.1%	25.8%	18.1%
Direct shares	31.8%	62.8%	33.6%	73.2%	14.3%	57.6%	14.5%	68.5%	46.2%	31.3%
Cash management accounts	10.3%	22.5%	9.2%	33.1%	4.1%	27.1%	4.1%	31.5%	17.0%	9.6%
Fixed term deposits / Debentures	17.2%	25.6%	16.9%	38.0%	8.9%	25.7%	11.3%	26.2%	23.9%	15.5%
Savings accounts	64.0%	77.5%	74.2%	73.9%	55.5%	72.9%	58.0%	69.0%	70.1%	62.6%

**Voluntary contributions to Super:**

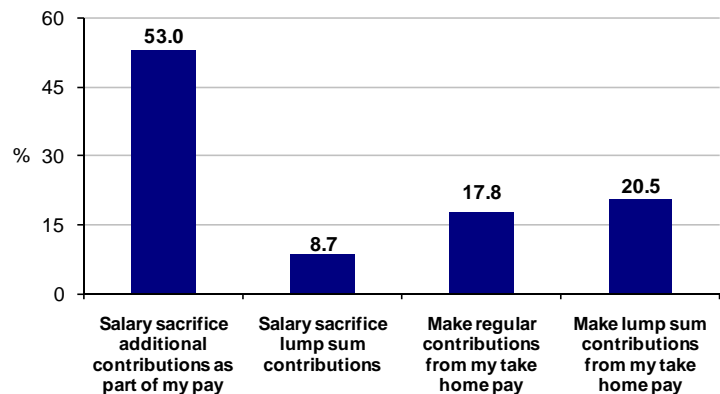
- One third (32.8%) make additional contributions beyond the 9% superannuation guarantee, on par with Q1 2010.
- The majority (53.0%) do so via salary sacrificing a proportion of their income into superannuation, while 17.8% make regular contributions from their take home pay – down from 23.7% in Q1. Some 20.5% make additional contributions by way of lump sum from their take home pay, up from 16.6% in Q1.

**Focusing specifically on superannuation do you make additional contributions beyond the 9% superannuation guarantee?**



n=572, respondents with superannuation funds

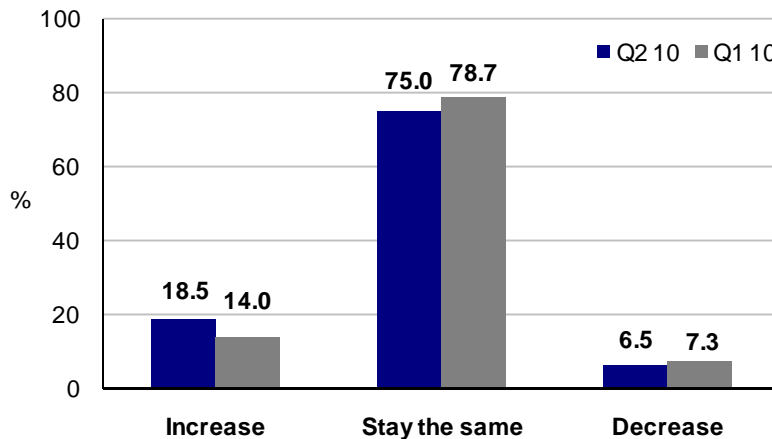
**How do you make those additional contributions?**



n=188, respondents who make additional contributions

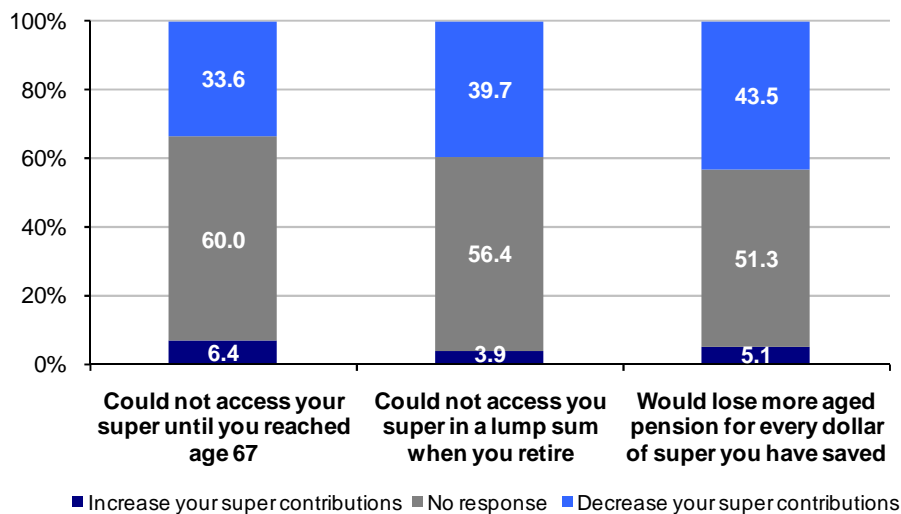
- Of those that make additional contributions to their superannuation, three quarters (75.0%) expect to keep the level of their contributions the same over the next year while 18.5% expect to increase their additional contributions, up slightly from 14.0% in Q1.
- A minority (6.5%) expect their additional contributions to decrease.

Over the next 12 months I expect my level of additional contributions to super to:



n = 572 (Q2 10)

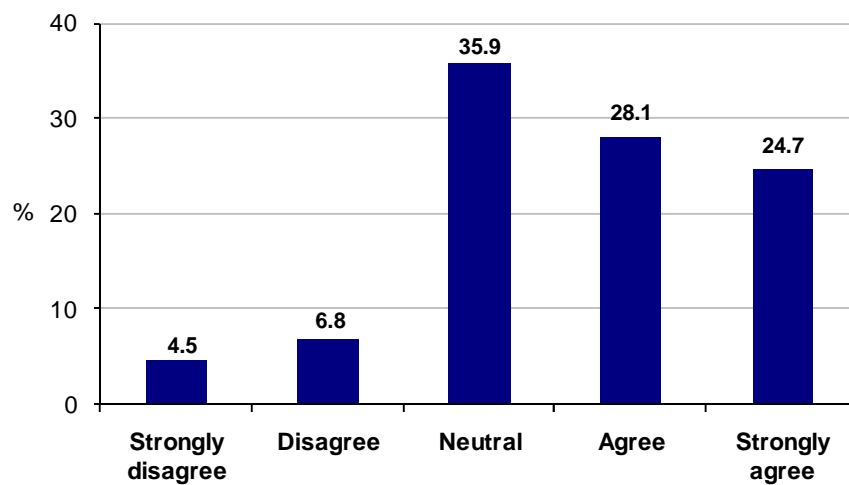
What would your response be if the government said that you...



n=895

- The majority of people are ambivalent about changes to super, reflecting the high level of disengagement from the sector.
- Close to two fifths (39.7%) would decrease their super contributions if they could not access their super in a lump sum at retirement. Two fifths (43.5%) would decrease their super contributions if they would lose more Age Pension for every dollar of super they had saved.
- Under Government reforms, the qualifying age for the Age Pension is due to gradually increase from 65 to 67 by 2023. One third of respondents (33.6%) say they would decrease their super contributions if they were told they could not access their super until they reached age 67.

The government has announced it will increase the superannuation guarantee to 12% over the next 10 years. Please indicate your level of agreement.



n = 895

The Government's announcement that it will increase the superannuation guarantee to 12% over the next 10 years was met with agreement by around half (52.8%) of the respondents. Only 11.3% disagree with this announcement and one third (35.9%) remain neutral.

## **Background to the survey:**

IFSA and CoreData have produced their second quarterly Investor Sentiment Index research report for 2010. CoreData has been conducting this research on a quarterly basis since December 2004.

The index is a key measure of investor sentiment for the financial services industry, with the ability to provide a comparative sentiment gauge over concurrent quarterly time periods.

The Investor Confidence Index is derived from collating several layers of sentiment from respondents.

The purpose of this research is to produce an up to date, accurate assessment of investor sentiment on a range of issues.

## **The IFSA-CoreData Investor Sentiment Index (IFSA-CoreData ISI):**

The IFSA/CoreData ISI is a key measure of investor sentiment for the industry, with the ability to be compared to the previous quarters' results as well as future results. CoreData has had continuity in its methodology since Q4 2004, and the ISI has been able to track sentiment for the past five years.

The IFSA/Coredata ISI is calculated by weighting responses to the following questions (please note the weightings are in brackets).

1. Do you think the market for investments will be better or worse for investors in the next 3 months? (30)
2. How financially secure do you feel? (10)
3. To what extent are you happy with your current investments? (30)
4. How likely are you to take out a new investment product in the next 3 months? (15)
5. How likely are you to invest more in an existing investment product within the next 3 months? (15)

## **Methodology:**

CoreData conducts a quarterly online survey among of a range of investors. There were 895 participants in the Q2 2010 survey which was conducted between 4<sup>th</sup> May and 26<sup>th</sup> May 2010.

The sample was taken from CoreData-brandmangement's proprietary database of investors, and the results calibrated to the ABS population data.

The demographic split of investors is as follows:

**Gender**

	Percent
Female	48.6
Male	51.4
Total	100.0

**Age Group**

	Percent
29 years old and below	18.0
30 - 39 years old	19.7
40 - 49 years old	20.0
50 - 59 years old	17.5
60 years old and above	24.7
Total	100.0

**Area of residence**

	Percent
The capital city of my state / territory	69.2
A regional centre	21.1
A rural area	9.7
Total	100.0

**Household Income**

	Percent
Less than \$50,000	28.6
\$50,001 up to \$75,000	18.8
\$75,001 up to \$100,000	18.0
\$100,001 up to \$125,000	11.3
\$125,001 to \$150,000	9.4
\$150,001 to \$200,000	7.7
\$200,001 to \$250,000	4.0
\$250,001 to \$350,000	1.8
More than \$350,000	0.4
Total	100.0

**State of Residence**

	Percent
ACT	3.4
NSW	27.0
NT	0.2
Qld	17.0
SA	11.8
Tas	1.7
Vic	29.9
WA	9.0
Total	100.0

**Work Status**

	Percent
I am in full time work	46.4
I have retired from full time work	16.7
I am in part time work	15.7
I am in full time home duties	6.8
I am a full time student	2.9
I am not in work at present	5.8
Other	5.7
Total	100.0

**Investment Portfolio Size**

	Percent
I have no investments	12.6
Less than \$50,000	30.8
\$50,001 to \$150,000	18.7
\$150,001 to \$250,000	10.8
\$250,001 to \$350,000	11.3
\$350,001 to \$450,000	4.7
\$450,001 to \$550,000	5.1
\$550,001 to \$650,000	2.6
\$650,001 to \$750,000	1.3
\$750,001 to \$850,000	0.9
\$850,001 to \$1,000,000	0.7
More than \$1,000,000	0.7
Total	100.0

**For further information please call Project Managers: Kristen Paech, Advice Wealth & Super, CoreData on 02 9376 9609, or Simon Disney, Media Manager IFSA on 02 8235 2520.**