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SECURITIES AND FUTURES COMMISSION
證券及期貨事務監察委員會

SFC
證監會

Key Findings of Retail Investor Survey

December 2008

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Introduction

From July to August 2008, the Securities and Futures Commission (SFC) engaged Taylor Nelson Sofres Hong Kong Limited (TNS), a leading marketing research firm, to conduct a benchmarking study to assess the profile, investment knowledge and behaviour of retail investors with a view to facilitating the design of future investor education programmes.

The survey was conducted in two phases. The first phase was focussed on financial knowledge and behaviour of retail investors. The second phase gathered more in-depth information about investors' product knowledge such as stocks, funds and equity-linked instruments (ELI).

This report summarises the key findings.

Phase One – Summary of Findings

Retail investor participation

The survey found that 20.6% of Hong Kong adults aged 18 years or above had invested in one or more investment products in the past 12 months. Of these, 99.5% had invested in an SFC-regulated product.

Hong Kong stocks are the most popular investment product with 18.6% of all adult respondents contacted having invested in them. This was followed by funds (excluding the Mandatory Provident Fund or MPF) (8.3%), warrants (2.2%), bonds (2.1%), unlisted equity-linked instruments (ELI) (1.7%), gold bullion[1] (0.7%), leveraged foreign exchange contracts (excluding foreign currency deposits) (0.6%) and futures or options traded in Hong Kong (0.5%).

Projecting the results onto the adult population using the 2006-By Census data, over 1,160,000 Hong Kong adults had invested in at least one type of SFC-regulated product in the past 12 months.

Profile of retail investors

Men made up 53.8% of investors surveyed of which, 62.7% were below 50 years of age, while 28% were aged between 40 and 49. In terms of education, slightly over half (52.1%) of the investors had secondary and matriculation qualifications and 38.1% of investors were tertiary educated.

Among all investors surveyed, around two-thirds (64.7%) were employed and more than a quarter (28.8%) were home-makers or retirees. In terms of income level, about one-fifth (21.8%) of the investors did not report any personal income. The average monthly personal income of investors was $17,976 while the average household monthly income was $37,363.

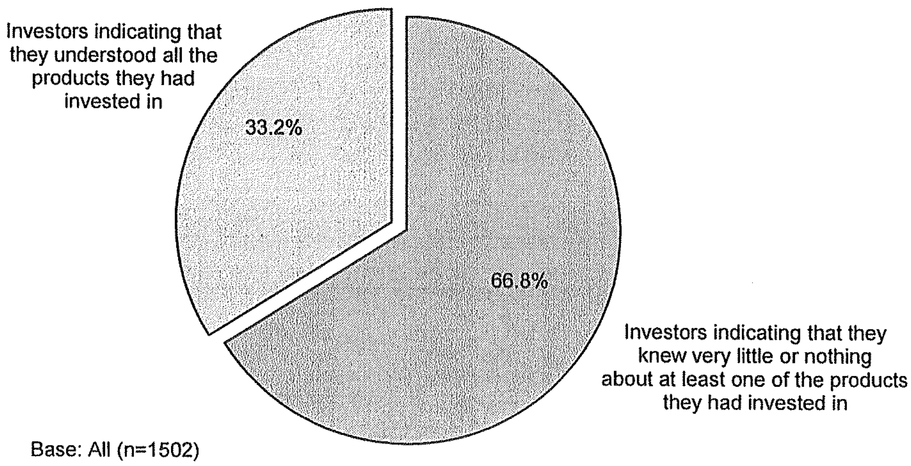
Over one-third (37.2%) of the investors had investment experience of 10 years or more. The average investment experience was seven years, while 69.5% of respondents had an investment experience of three years or more.

[1] Gold bullion trading is not an SFC-regulated activity.

Familiarity and risk association

Familiarity with a product does not appear to be a pre-requisite for investment for many investors. Investors are not necessarily more familiar with the investment products that they invest in, especially the more popular products such as stocks and funds. Two-thirds of the investors (66.8%) indicated they knew very little or nothing about at least one of the products they had invested in.

Figure 1: Overall understanding of investment products

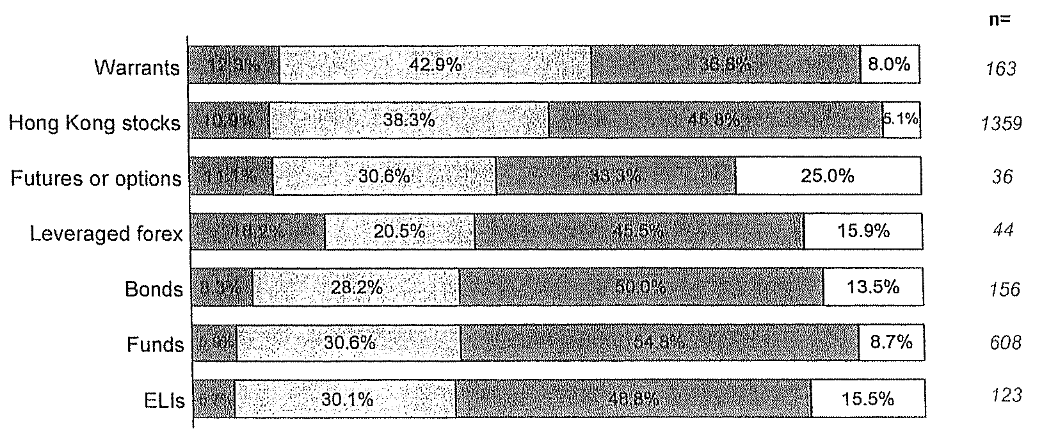


Base: All (n=1502)

Warrant investors considered themselves most familiar with the product, with 55.2% stating that they were either moderately or very familiar with it. This is followed by those investing in stocks (49.2%). On the contrary, investors who had invested in ELI, funds and bonds were least familiar with the products with only 35.8%, 36.5% and 36.5% stating respectively that they were either moderately or very familiar with it.

Interestingly, complaints received by the SFC provide anecdotal evidence that many warrant investors have a poor understanding of this product and suggest that familiarity may not directly correlate with knowledge. This is also suggested by the results of some of the questions put to the investors (see Figure 16).

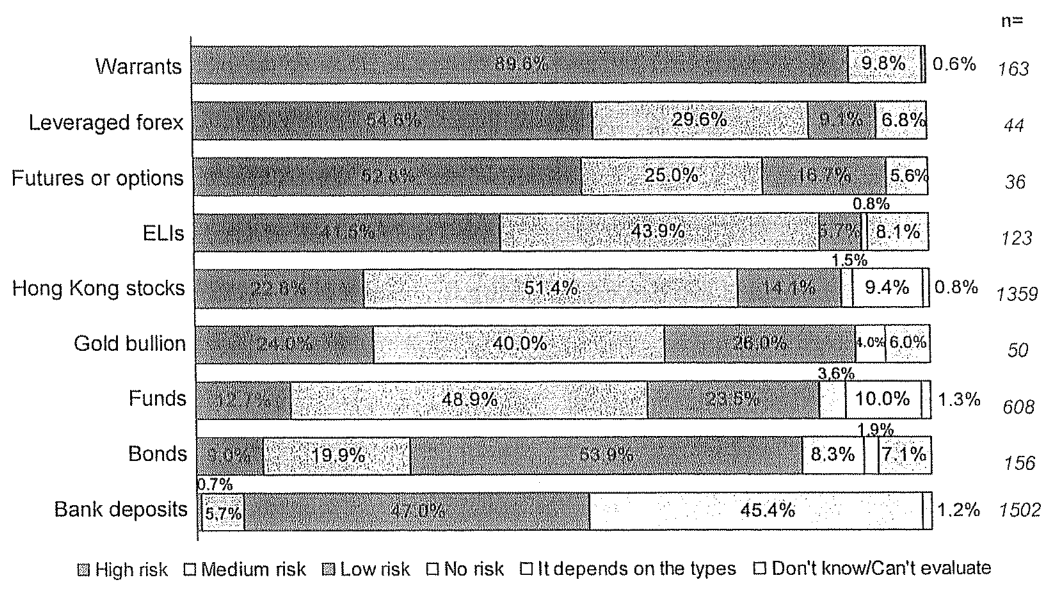
Figure 2: Familiarity with individual investment products



Base: Investors of each of the seven products

Most investors were aware that the financial products they had invested in carried risk. A majority of 89.6% of warrant investors considered warrants as high-risk investments. Among stock investors, 51.4% rated stocks as being of medium risk. About one-third (34.2%) of less experienced investors[2] considered funds low risk.

Figure 3: Respondents' risk level perception by product type



Base: Investors of each of the investment products

Note:

1. Most respondents invested in more than one product
2. Gold bullion trading is not an SFC-regulated activity

2 Less experienced investors refer to those with investment experience of less than three years.

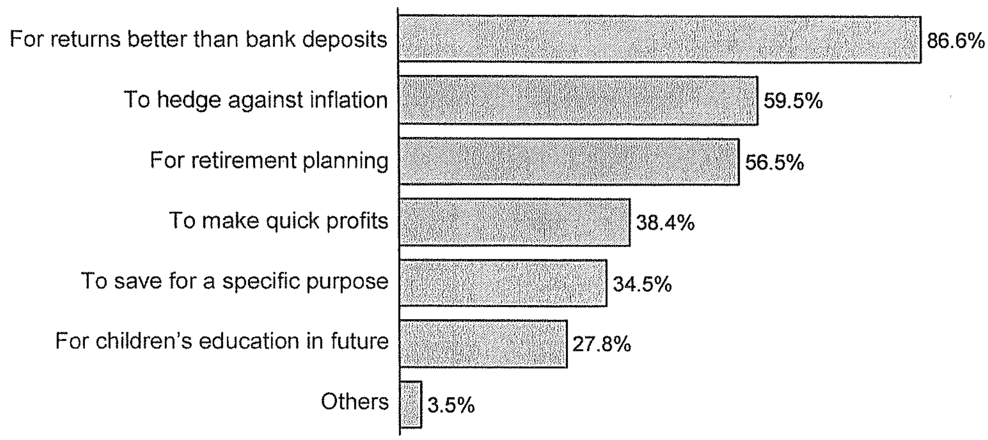
Investor behaviour

In general, investors invest for multiple purposes. On average, they mentioned at least three different reasons for making investments in the past 12 months. The key reason, as mentioned by 86.6% of those surveyed, was to get returns better than the yields on bank deposits.

Among the respondents, 38.4% invested to make quick profits. A larger proportion of younger investors mentioned such an investment objective.

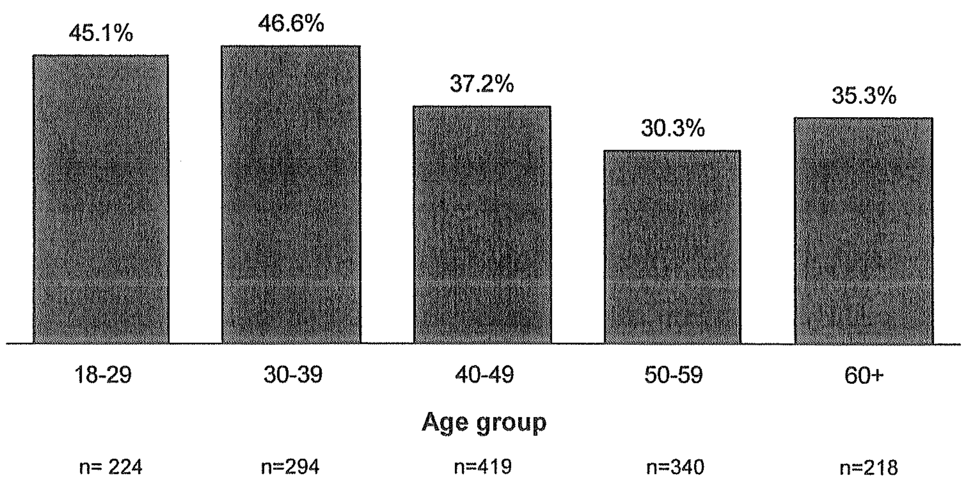
On average, investors were able to mention at least seven factors that they took into account when making an investment. Return on investment (ROI) (91.7%) was top, followed by downside risk (90.9%), while knowledge of investment products ranked fifth (84.7%).

Figure 4: Investment purpose



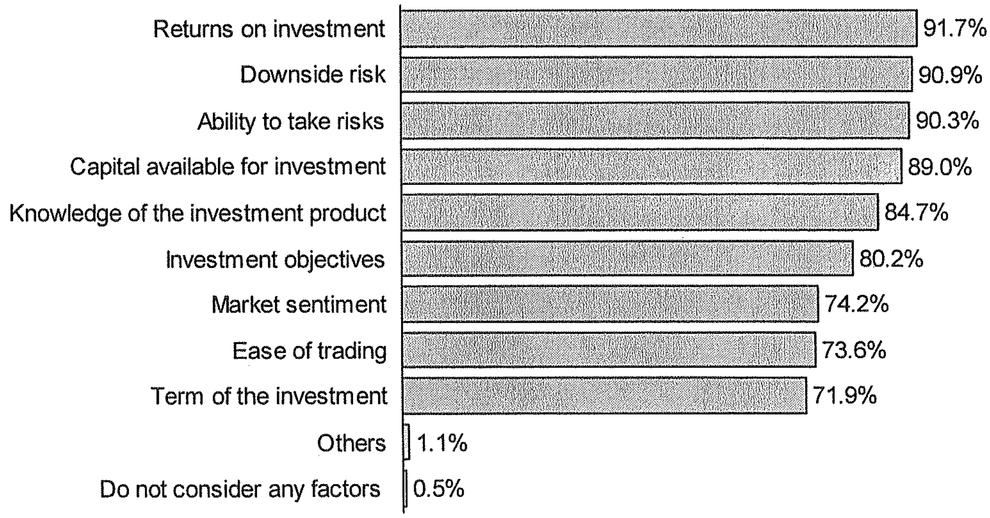
Base: All (n=1502)

Figure 5: Investment purpose – to make quick profits



Base: Respondents of each age group

Figure 6: Factors affecting investment decisions

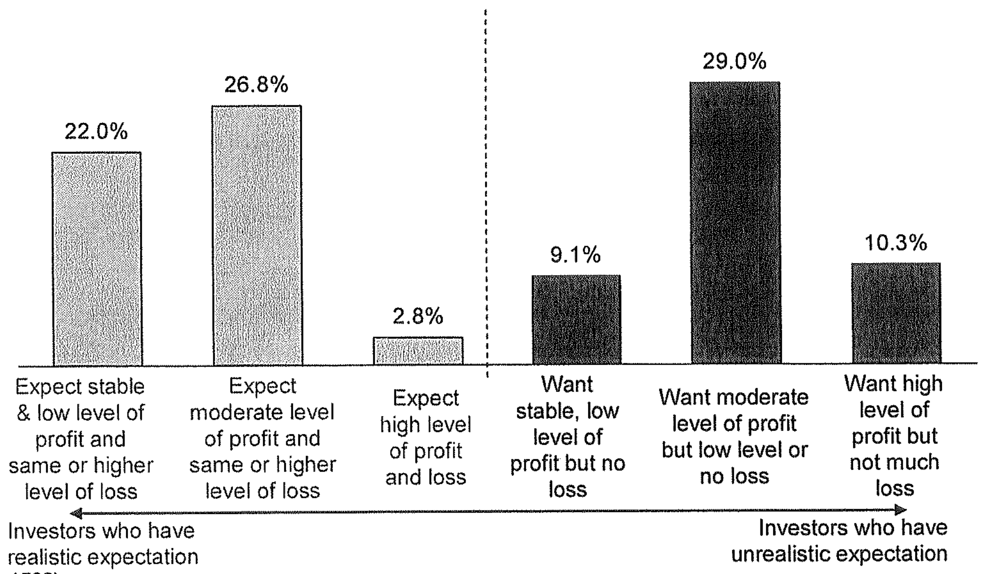


Base: All (n=1502)

Profit and loss relationships

About half of the respondents (the grey bars on the right of Figure 7 below) appeared to have unrealistic expectations about the performance of their investments, by expecting a moderate to high level of profits but being willing to bear a low level of potential loss. Of most concern, one-tenth (10.3%) of the investors wanted a high level of profit but not much loss.

Figure 7: Profit and loss expectation

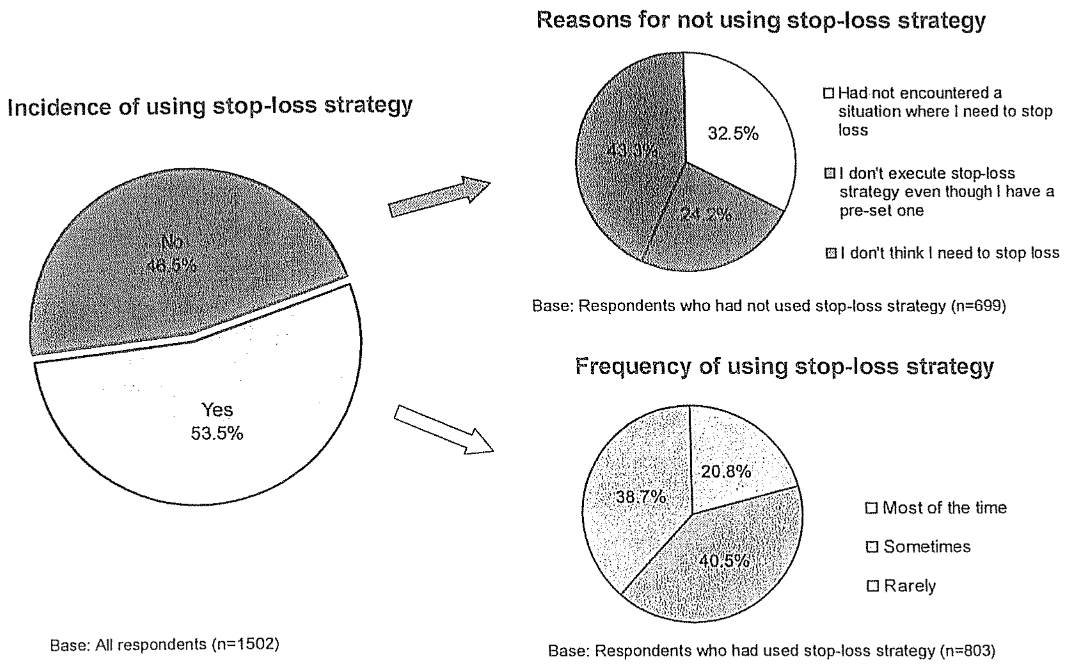


Base: All (n=1502)
Note:
1. Unrealistic expectation means investors expect a certain level of profit but they cannot bear the same or higher level of loss.
2. Realistic expectation means investors expect a certain level of profit and can bear the same or higher level of loss.

Stop-loss strategy

Slightly more than half or 53.5% of the investors had exercised a stop-loss strategy in the past. Of the 46.5% who had not used any stop-loss strategies, 43.3% said they did not think that they needed to stop loss.

Figure 8: Stop-loss strategy



A higher proportion of less experienced investors (58.7%) and those who considered themselves as conservative (54.8%) tended not to use a stop-loss strategy.

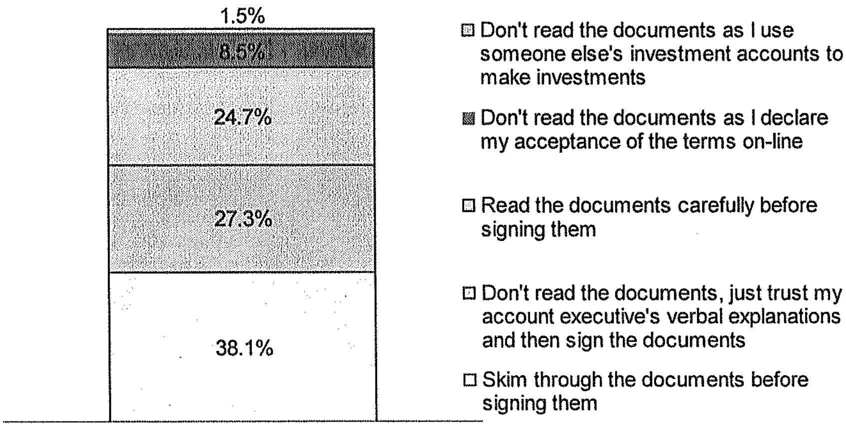
Among those who had exercised a stop-loss strategy in the past, only one-fifth or 20.8% of them exercised it most of the time. Male investors (26.0%), aggressive investors (37.4%) and warrant investors (35.7%) tended to exercise a stop-loss strategy more.

Investor practice - documents and complaints

As against the prudent practice of always reading the investment documents carefully before signing them, only 24.7% of investors surveyed claimed to do so. More than a third (38.1%) just briefly skimmed through the documents and another 27.3% trusted their account executive's verbal explanations and signed documents without reading them.

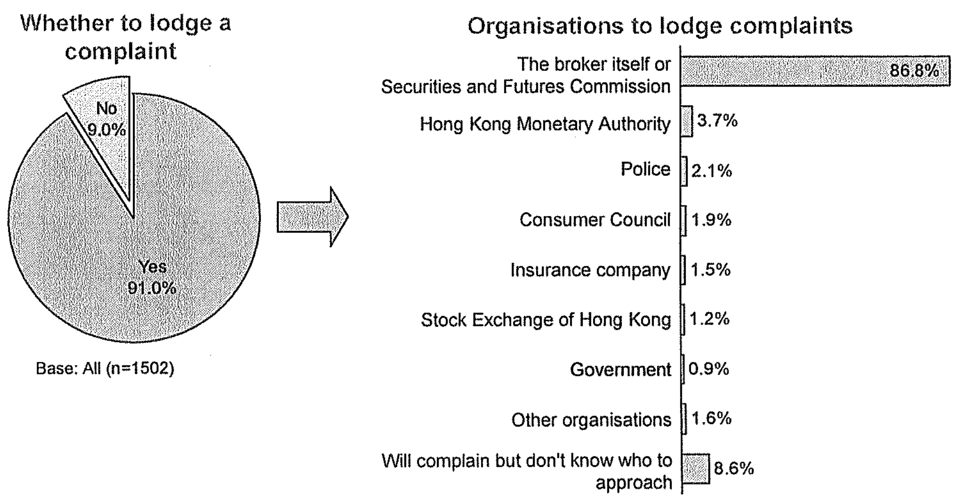
When it came to taking action when faced with discrepancies in their statement of account, investors were much more cautious with 91.0% of them stating that they would lodge a complaint. The majority or 86.8% of the investors who would complain were aware of the correct organisation to complain to - their own broker or the SFC.

Figure 9: Dealing with documents



Base: All (n=1502)

Figure 10: Lodging complaints



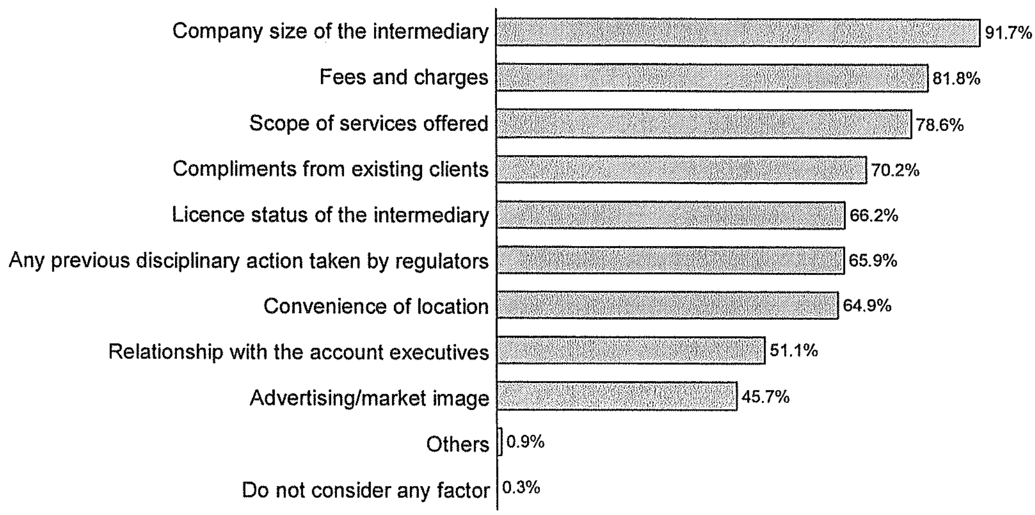
Base: Those who will lodge complaints when discover discrepancies (n=1367)

Dealing with intermediaries

The majority or 95.5% of those surveyed took into account at least one of three critical factors before opening a stock trading account, i.e. the license status of the intermediary, its company size and any past disciplinary action taken against it. More than half or 51.3% considered all three factors.

For investors not considering any of the three critical factors, 43.4% gave their personal relationship with the account executive as a reason.

Figure 11: Factors considered before opening an account

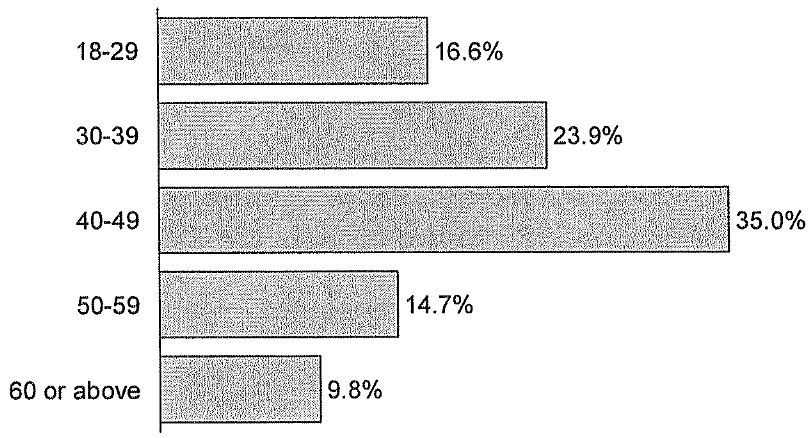


Base: All (n=1502)

Warrant investors

About half (49.1%) of warrant investors had trading experience of three years or more with warrants. A majority of warrant investors (75.5%) were below the age of 50.

Figure 12: Age of warrant investors



Base: All warrant investors (n = 163)

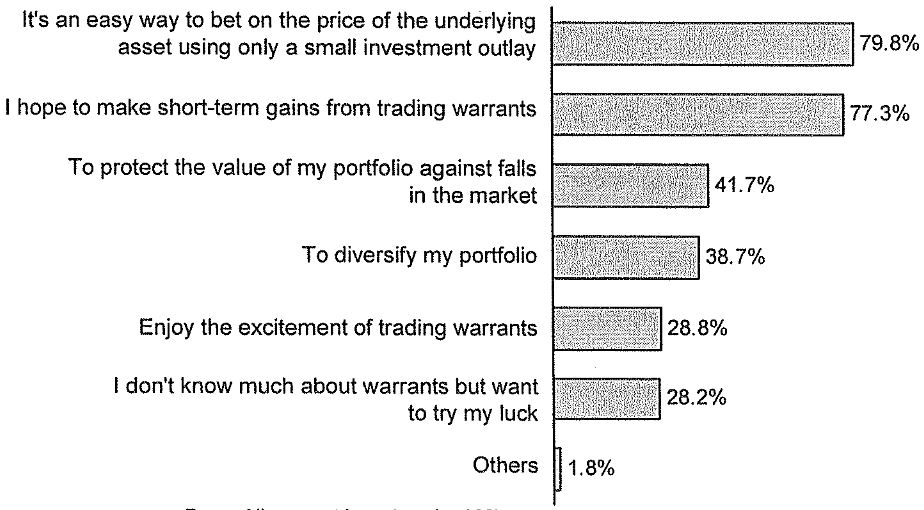
Among warrant investors, 79.8% traded warrants because they thought it was an easy way to bet on the price of the underlying asset using only a small investment outlay. A majority (77.3%) of warrant investors hoped to make short-term gains from trading warrants.

Short-dated out-of-the-money warrants were not popular and only about a quarter (25.8%) of warrant investors traded in them. Those who traded in this kind of warrant tended to be more experienced. A majority (81%) of them had more than three years' experience.

Investors were quite careful when selecting a warrant, taking into consideration an average of six to seven factors. The most commonly considered factor was the time to maturity of the warrant (96.9%). This was closely followed by the underlying assets of the warrants with 90.8% of warrant investors mentioning this.

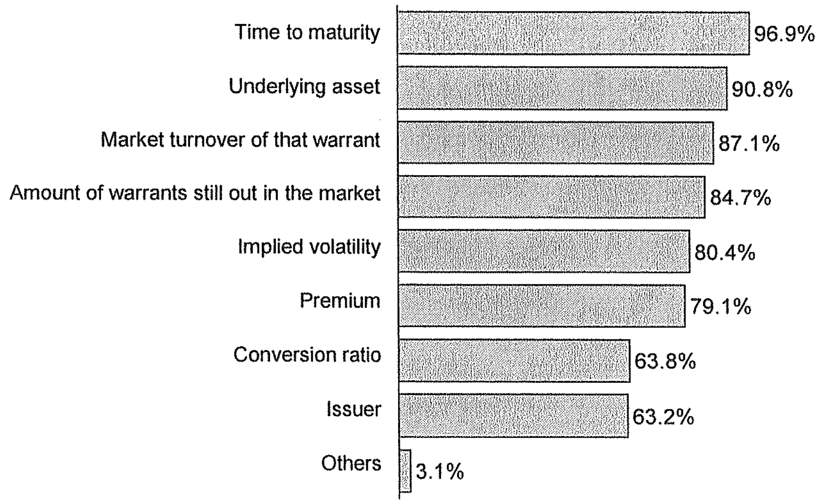
Warrant investors appeared to be self-advised with almost half, or 46.6%, using their own judgment to make warrant trading decisions without seeking advice from anyone.

Figure 13: Reasons for trading warrants



Base: All warrant investors (n=163)

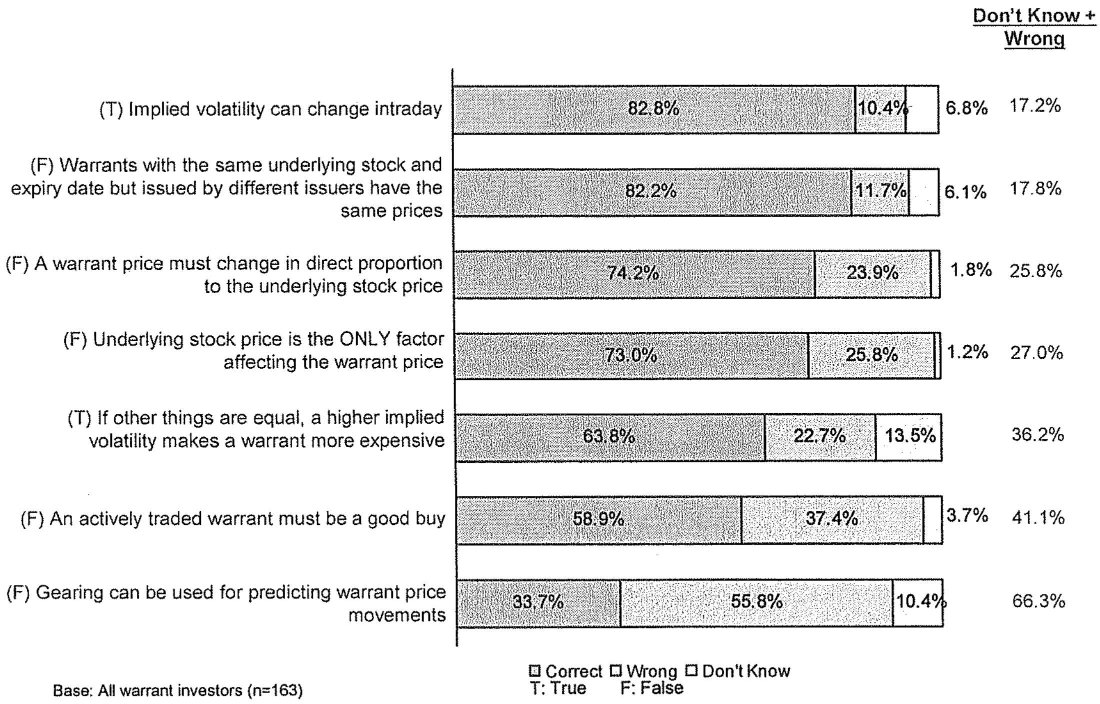
Figure 14: Factors considered when selecting a warrant



Base: All warrant investors (n=163)

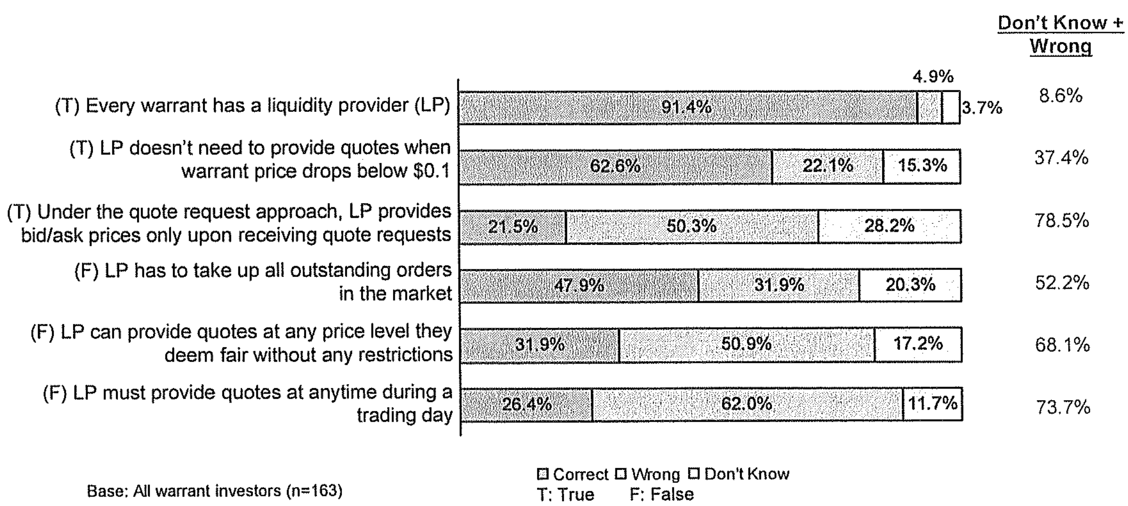
In terms of their knowledge of the nature of warrants, investors were able to answer an average of 4.7 questions correctly out of a set of seven true/false statements. However, investor knowledge of the role of liquidity providers (LPs) was low; only an average of 2.8 out of six questions were answered correctly for LPs.

Figure 15: Test on nature of warrants



Base: All warrant investors (n=163)

Figure 16: Test on role of liquidity provider



Base: All warrant investors (n=163)

Media usage

Investors had many different options available to get information on financial markets. On average they referred to four to five different media sources, primarily newspapers and television with mentions of 84.8% and 75.5% respectively.

Phase Two – Summary of Findings

Stock investors

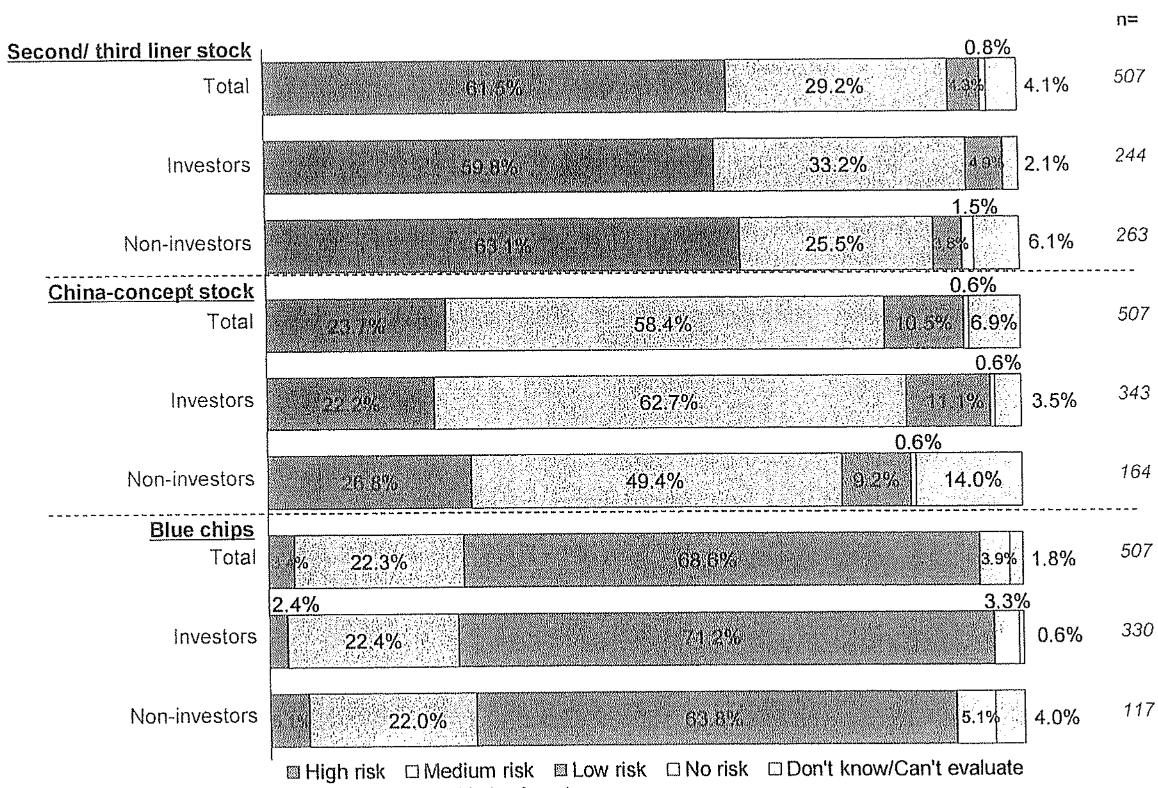
Stocks are the most common investment product. On average, respondents claimed to have been trading stocks for 5.8 years, with 61% having investment experience of three years or more. China-concept stocks and blue chips were the most popular with 67.7% and 65.1%, respectively, of the investors having invested in them in the past 12 months.

Stocks were mainly traded because they were considered long-term investment (58.6%). Investors thought of them as simple and easy to trade. Almost 40% of the stock investors traded because they believed they could make quick profits from stocks and about a quarter felt that stocks provide good liquidity.

Perceived risk levels of different types of stocks

Second/third liner stocks were considered the most risky, followed by China-concept stocks and blue chips. Almost three-quarters of the investors (72.0%) named high volatility in share prices as one of the key risks of investing in second/third liner stocks. One of the biggest risks associated with China-concept stocks was the Mainland government's policy risk (76.5%).

Figure 17: Perceived risk levels of different types of stock



Base: Investors/non-investors of different kinds of stock

Factors considered when buying stocks

Both fundamentals of the company and external factors were considered by investors before they bought stocks. For stocks other than China-concept stocks, the price trend of the stocks (70.3%) was the primary factor considered. For China-concept stocks, the information that was most widely assessed was the business nature of the company (75.8%).

Sources of information

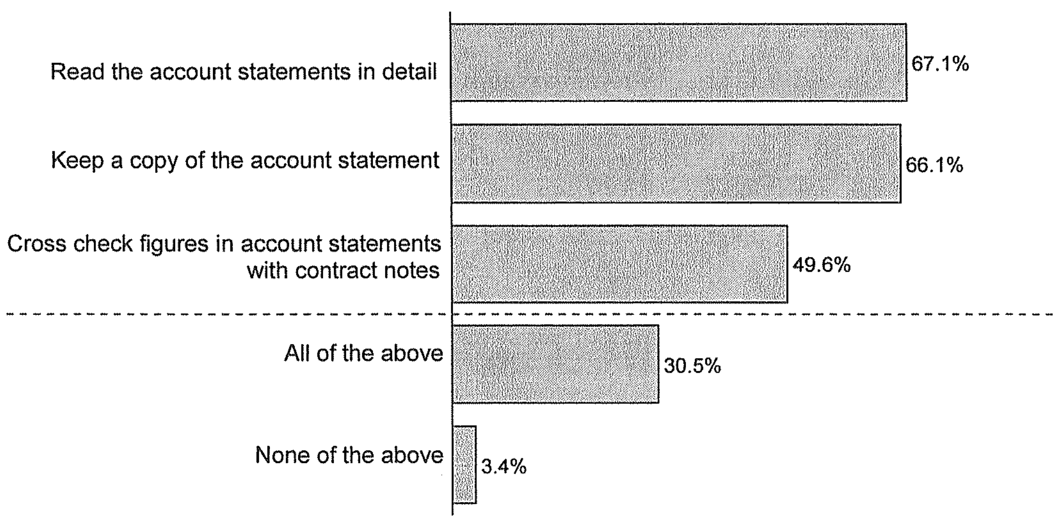
Print media and financial websites were the most commonly used sources of information by all stock investors - whether they invested in China-concept stocks (81.4% and 57.7%) or other stocks (76.8% and 52.5%). On average four to five different sources of information were referred to when collecting information about stocks.

Less than one-third of investors in either China concept or other stocks (24.6% and 28.1% respectively) read the company's corporate documents such as announcements and shareholder circulars when collecting information about the stocks. Key reasons given for the low incidence of reading corporate documents were: the lack of time (60.6%); and the documents were too technical (59.4%).

Dealing with documents

A majority of stock investors received their account statements through the mail. However, despite receiving a statement, only one-third read it, cross-checked figures and kept a copy. Incidence of cross-checking figures with contract notes was the lowest with only about half of the investors claiming to do so.

Figure 18: Dealing with account statements



Base: Those who received account statement (n=498)

Investor protection

Only 42% of stock investors had heard of the Investor Participant account (IP account) in the Central Clearing and Settlement System (CCASS) and less than a quarter of those who know of IP accounts had opened one. The main reason given for not opening IP accounts was that investors trusted their brokers/banks (48.2%) so they saw no need to keep their stocks and cash in CCASS. Not knowing how to use IP accounts (40.1%) was another significant reason.

Awareness of the Investor Compensation Fund (ICF) was even less than that for IP accounts - only around one-third (33.9%) of stock investors had heard of the ICF. Among them, less than one-tenth (8.7%) were able to correctly identify the maximum compensation amount per investor per broker default as $150,000 and 59.9% were not aware of the compensation amount.

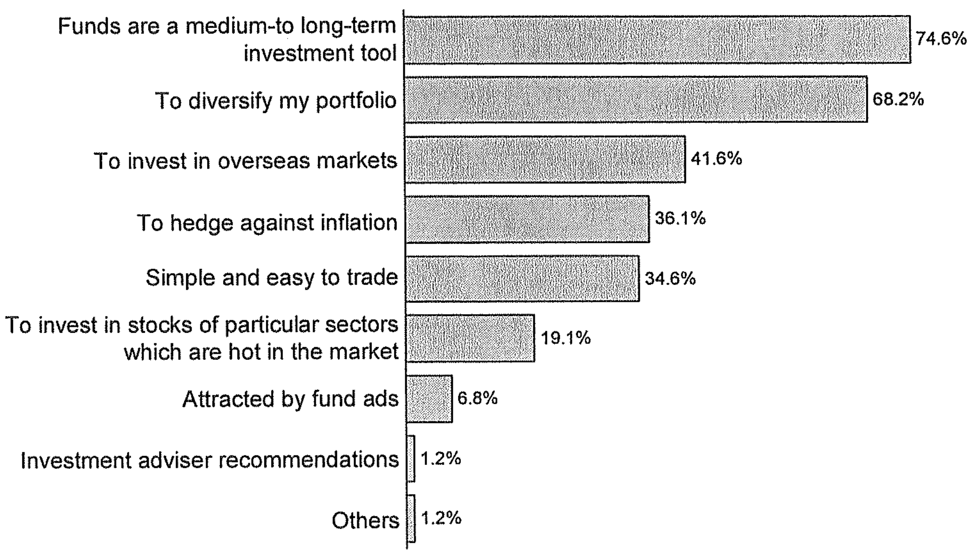
Fund investors

The experience of fund investors was similar to that of stock investors, with 60.4% having funds investment experience of three years or more.

Purpose of investing in funds

Key reasons for investing in funds were that investors treated funds as medium- to long-term investment tools (74.6%) and they wanted to diversify their portfolio (68.2%). The view of funds being a medium- to long-term investment tool does not differ by the investor's years of experience although more experienced investors tended to invest in funds to diversify their portfolio (72.8%), to get exposure in overseas markets (48.2%) and to hedge against inflation (42.4%).

Figure 19: Purpose of fund investments



Base: All fund investors (n=512)

Factors considered when buying funds

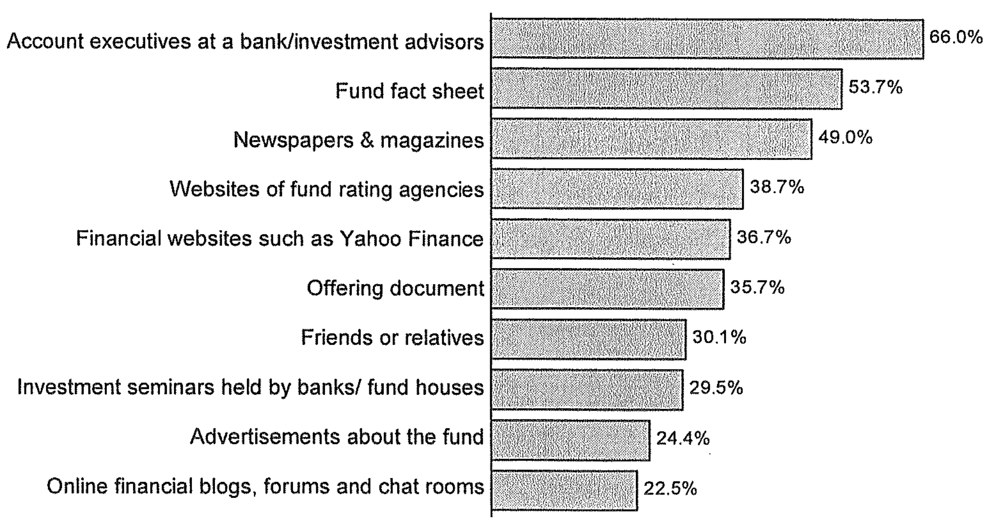
Fees and charges (63.1%), the asset mix of the fund (61.3%) and the fund's rating (59.2%) were factors that were mentioned most when investors considered buying funds. On average, investors held on to their fund investments for four-and-a-half years.

Sources of information

Different sources of information were referred to when collecting information about a fund. On average, three to four sources were used of which the most commonly used sources were an account executive at a bank/investment advisor (66.0%), fund fact sheet (53.7%) and newspapers and magazines (49.0%). Internet was also a popular medium for information for fund investors.

Only about one-third of fund investors made reference to the fund's offering document (35.7%). The most common reason cited for not reading the fund's offering document was the document's technicality (60.2%).

Figure 20: Sources of information

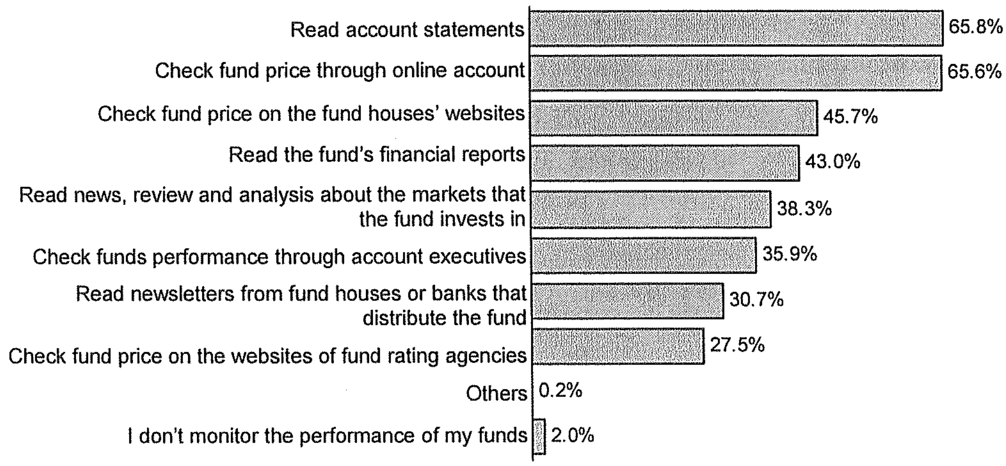


Base: All fund investors (n=512)

Monitoring fund performance

On average, investors used three to four different ways to monitor their funds performance, the most popular being by reading account statements (65.8%) and checking fund prices through an online account (65.6%). Online access, in general, was a very popular mechanism used by investors for monitoring fund performance.

Figure 21: Monitoring fund performance



Base: All fund investors (n=512)

Equity-linked instruments (ELI) investors[3]

ELIs are a relatively new investment type compared to stocks and funds. This is reflected in the level of experience of the ELI investors where three-quarters (75%) had less than three years' experience with these investments.

Purpose of investing in ELI

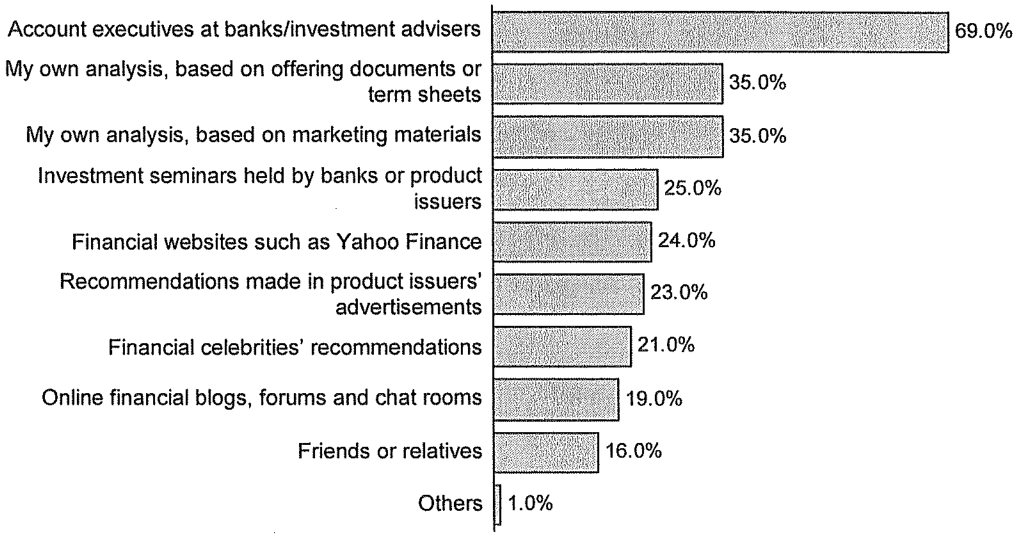
The key reason for investing in ELI was to earn higher returns than bank deposits of similar term (66%). It was encouraging to see that relatively few investors wrongly perceived ELI as a long-term investment (15%) or a tool to help them preserve their capital (22%).

Sources of information

Account executives at banks or their investment advisors (69.0%) were the key source of information for ELI investors. About one-third of them (35%) preferred to do their own analysis based on offering documents and marketing materials.

[3] Caution must be taken in interpreting findings due to the relatively small sample size and the higher sampling error of the ELI segment (see Appendix B).

Figure 22: Sources of information

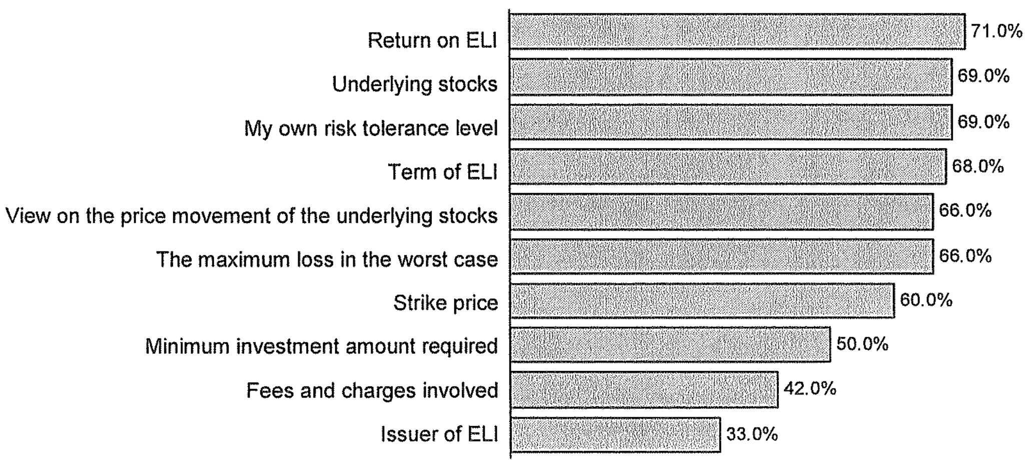


Base: All ELI investors (n=100)

Factors considered when evaluating ELI

As with other investments, ELI investors took into account a series of factors when evaluating the suitability of an ELI. On average, they considered five to six factors with return on ELI being the most popular but with five other factors all being considered by over 60% of the investors.

Figure 23: Factors considered when evaluating ELI



Base: All ELI investors (n=100)

Appendix A

Phase One Survey Design

Target respondents

For this survey, the target respondents were all Hong Kong residents 18 or above who had invested in any of the seven SFC-regulated investment products in the past 12 months.

Methodology

Computer-Assisted Telephone Interviewing (CATI) was used. The interview duration was between 12-18 minutes. It was made known to the respondents at the beginning that the survey was being conducted on behalf of the SFC.

Respondents from the following industries were excluded from this study - advertising agency, banking, finance and insurance, market research agency and news media.

A total of 7,328 Hong Kong residents were contacted to get 1,502 successful interviews. In theory, with a probability sample of this size, the overall results have a sampling error of +/- 2.5 percentage points with 95 percent confidence level. Sampling errors for sub-categories' results are higher.

The survey period was from 1 July to 5 August 2008.

Sampling method

To find adult retail investors in Hong Kong and establish their incidence, a random sampling method was used. Hong Kong residents were randomly called using a mix of the published telephone directories and Random Digit Dialling (RDD). Interviews were spread through the afternoon to late evening including Saturday – to ensure a good spread of working and non-working respondents and to reach out to respondents at a time convenient to them.

Appendix B

Phase Two Survey Design

Target respondents

The target respondents for each of the stocks, funds and ELI segments were those who had invested in these products in the last 12 months and were above 18 years of age and living in Hong Kong.

Methodology

Respondents were recruited for the survey through different means. Those investors in stocks, funds and ELI who participated in phase one of the survey were invited to participate in phase two and were given the option to complete the survey either online or through a self-completed offline mail questionnaire.

To achieve the target sample size, based on the recruitment and response rate of those selected from phase one, remaining samples were recruited through booster CATI (Computer-assisted Telephone Interviews) interviews and through TNS 6th dimension™ Access Panel (TNS Online Access Panel is a panel of individuals who have agreed (opted in) to participate in market research surveys). Those recruited through CATI were again allowed to choose between online completion or offline mail survey methods.

Sample sizes achieved are 507, 512 and 100 of the stocks, funds and ELI segments respectively. In theory, with a probability sample of these sizes, the results of the three segments have sampling errors of +/- 4.4, +/- 4.4, and +/- 9.8 percentage points respectively with 95 percent confidence level. Sampling errors of sub-categories' results are higher.

Data collection method

Survey data were collected using a mix of online Computer-assisted Web Interviews (CAWI) and offline self completion mail surveys. Respondents were given the option to choose their preferred survey method. Fieldwork was conducted from 16 July to 29 August 2008.