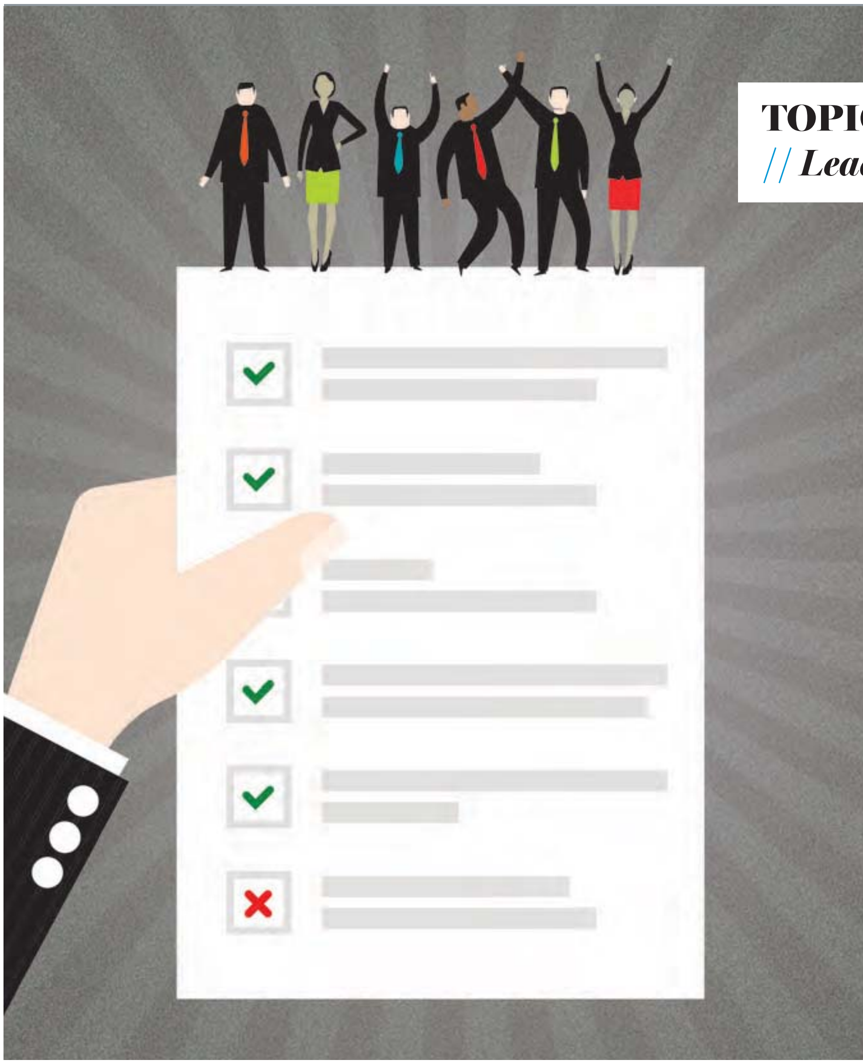

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CONFIDENCE IN BOARDS

A Positive *Main Street Investor Survey*

Written by TK Kerstetter

Most of us have annual events we look forward to. For some it might be homecoming at their *alma mater* or maybe an annual family trip to a location filled with memories. Among the many personal and business events I anticipate each year, the most surprising may be reading the results of the Center for Audit Quality's Main Street Investor Survey.

The anticipation of research results may seem academic to some, but as someone in the business with working with boards of directors of public companies, learning about investor confidence levels in the capital markets is a big deal. I'm equally interested in how investors are feeling about how key players—auditors, board members and corporate management—are looking after their interests.

This year's results are especially important because we've seen several corporate meltdowns receive extensive media coverage. And it's an important election year that is likely to influence markets. I was especially anxious to see if confidence levels across the board continued to climb as we gain distance on the financial debacle of 2008 through 2010.

Before I get ahead of myself, it's helpful to set a foundation for the origin and methodology of the research study. As Cindy Fornelli, Executive Director of the Center for Audit Quality (CAQ), states in the opening of the 2016 report:

> *"Since 2007, the CAQ has commissioned an annual survey of US investors as part of its efforts to enhance understanding of and confidence in capital markets. Each year, the* Main Street Investor Survey *measures retail investor confidence in US capital markets, global capital markets and audited financial information, as well as confidence in investing in publicly traded companies."*

CAQ conducted the 2016 study this past summer. It included adults over 18 who were the primary decision makers for their household's family unit for total savings and investments that exceeded $10,000. As the survey's name suggests, this is certainly not seeking the perspective of large institutional managers or pension funds.

There are two important insights from the survey I'd like to share:

My advice to board members has been to forget the noise and unrelated distractions and focus on doing what's right for the company and shareholders.

Confidence in US capital markets and US public companies continues to rise. According to the survey, 79 percent of main street investors are confident in US capital markets, and 81 percent feel the same about US public companies. "These findings demonstrate the important roles and work of all the participants in the financial reporting supply chain," said Fornelli. Indeed, investor confidence in US capital markets is as high as it's been since 2007, while confidence in US public companies reached a new peak in the history of the survey. Viewed from the boardroom, this is positive perspective and an environment ripe for building shareholder value.

Investor confidence in board members continues to climb, yet leaves room for future improvement. This uptick is even more dramatic when we look at which groups have stepped up to advance investor protection. Investors placing the greatest confidence in independent auditors and audit committees have made significant strides since 2011. I'm really interested how much more faith investors are putting in today's corporate boardrooms.

According to this year's survey results, a majority of investors—61 percent—also believe that corporate boards of directors are effective in looking out for investor interests, up from 47 percent in 2011. *"While this is a favorable trend," wrote Fornelli, "our survey may suggest that corporate boards as a group still have room to expand their outreach and communication to investors about how directors execute on their critical oversight role and represent investor interests."*

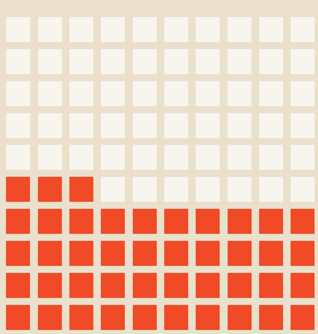
What is puzzling is to see boards of directors ranked lower than corporate management—the very people they are elected to oversee. Following the financial crisis and the corresponding media coverage, the message of poor director performance did significant damage to the reputations of all boards.

My advice to board members is to forget the noise and unrelated distractions and focus on doing what's right for the company and shareholders. As these results show, confidence can change, even with a steep hill to climb. But it won't happen overnight.

On a final note of personal curiosity, I was interested in investor sentiment surrounding the upcoming presidential election. As of August 2016, only 57 percent of investors surveyed indicated that the next US president will affect their financial decisions a lot. By the time you read this issue, we'll know who the next president will be and begin to have a sense of the impact on the markets.

If you'd like to dig deeper into the results of the survey, go to *thecaq.org*.

Facts & Figures



43 percent of surveyed investors say cyber attacks targeting financial information affect their investment decisions "a lot."

***Source:** Main Street Investor Survey 2016, Center for Quality Audit.*

Author Biography

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