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FINANCIAL TRUST INDEX: 19 PERCENT OF AMERICANS TRUST FINANCIAL SYSTEM

Trust in Stock Market Makes Slight Gains;
Trust of Banks, Corporations Continues Decline

CHICAGO (April 8, 2009) – With a new plan to deal with the financial crisis and an aura of goodwill surrounding the first days of Barack Obama's presidency, trust in the stock market made slight gains in the first quarter of 2009, according to the most recent findings in the Chicago Booth/Kellogg School Financial Trust Index. In contrast, trust toward banks and large corporations has continued to decline in the last three months, following recent headlines of corporate layoffs, executive bonuses, and banking disasters.

The Chicago Booth/Kellogg School Financial Trust Index is a quarterly look at Americans' trust in the nation's financial system, measuring public opinion over three-month periods to track changes in attitude and to provide a better understanding of public trust. Co-authors Paola Sapienza (Kellogg School of Management at Northwestern University) and Luigi Zingales (University of Chicago Booth School of Business) published today's report as a follow-up to the inaugural Jan. 2009 findings.

The researchers found that from Dec. 2008 to March 2009, the Financial Trust Index has dropped slightly from 20 percent to 19 percent, with its subcomponents showing distinct shifts in trust in both directions. Notably, the researchers report a slight increase in trust toward the stock market, from 11 percent in Dec. 2008 to 13 percent in March 2009.

"We discovered clear signs that trust in the stock market has gone up in all areas that we measure, such as a higher willingness to invest, higher expectations on returns, and lower expectations that the stock market will drop significantly," said Zingales. "In a short amount of time, this shows growth in overall confidence in the market, however slight."

At the same time, Sapienza and Zingales point out a substantial decrease in trust toward banks, from 34 percent in Dec. 2008 versus 29 percent in March 2009, and in large corporations, from 12 percent to 10 percent over the same time period.

"The drop in trust toward banks and large corporations appears to be consistent with the negative publicity they've experienced in the first quarter of 2009," said Sapienza. "This tarnished image, especially of banks, could impact their value moving forward in terms of rebranding and attracting new customers."

FINANCIAL TRUST INDEX: KEY FINDINGS

Seeking to formalize the relationship between trust and finance, Sapienza and Zingales analyzed data from more than 1,000 American households, randomly chosen and surveyed via phone during two weeks in late March 2009. Key findings supporting the increase in trust in the stock market include:

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- Approximately 15 percent of Americans surveyed said they want to increase their stock market investments, rising from 11 percent in Dec. 2008.
- Similarly, more respondents said they expect an increased return on their investments over the next 12 months (a mean increase from two percent to six percent).
- Fewer respondents think it is very likely or somewhat likely that the stock market will drop more than 30 percent in the next twelve months (47 percent in March 2009 vs. 56 percent in Dec. 2008).

This issue of the Financial Trust Index also studied the impact on trust vis-à-vis the government's intervention in the financial system. The March 2009 results demonstrate that government intervention still makes the majority of Americans less confident in investing in financial markets (67 percent). However, this is a considerable change from 80 percent who felt less confident in Dec. 2008.

- This improvement in trust is mostly concentrated among Democrats and Independents. In this wave, 25 percent of respondents who identified themselves as Democrats feel more confident in investing in the stock market after the government intervention, compared to only 12 percent in December. Twelve percent of independents feel the same way, as compared to nine percent three months ago.
- However, the fraction of Republicans who are less confident in investing in the stock market following the recent government interventions has dropped from 82 percent in Dec. to 76 percent in March.
- Regardless, more respondents (41 percent) in March 2009 said they were very angry with the current economic situation compared to 38 percent in Dec. 2008.

It appears as though Americans are fostering goodwill toward the new administration's handling of the financial crisis, despite a persistent feeling of anger toward the situation, the researchers noted.

ABOUT THE SURVEY: On a quarterly basis, the Financial Trust Index captures the amount of trust Americans have in the private institutions in which they can invest their money. The survey is conducted by Social Science Research Solutions (SSRS) using ICR's weekly telephone omnibus service. As part of the most recent wave, exactly 1,013 individuals were surveyed over two weeks starting on March 17, 2009. The institutions considered in the survey are banks, the stock market, mutual funds, and large corporations.

MORE INFORMATION: To learn more about the Chicago Booth/Kellogg School Financial Trust Index, visit www.financialtrustindex.org. To arrange an interview, contact Meg Washburn or Allan Friedman at the contact information listed above.

To learn more about the Kellogg School of Management at Northwestern University, visit www.kellogg.northwestern.edu.

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