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DESPITE FEARS OF STOCK MARKET DROP AND RISING UNEMPLOYMENT, AMERICANS PLAN TO INVEST MORE IN 2013

Chicago Booth/Kellogg School Financial Trust Index also points to sharply differing views between average Americans and top economists on key policy issues

CHICAGO (February 6, 2013)—The Chicago Booth/Kellogg School Financial Trust Index released today finds that more than half of Americans (58 percent) think it likely that the stock market will drop by more than 30 percent in the next 12 months, as compared to 48 percent in the September 2012 report issued before the presidential election. This fear of a large drop is centered primarily among Republicans.

"Approximately 67 percent of survey respondents who identified as Republicans think a big drop is likely, versus 50 percent in the last wave. This compares to 44 percent of Democrats," said Paola Sapienza, co-author of the Financial Trust Index and the Merrill Lynch Capital Markets Research professor of finance at the Kellogg School of Management at Northwestern University. "However, this pessimism did not translate to an intention to decrease investments in the stock market – all told, 76 percent of people surveyed said they will leave their investments unchanged in the next 12 months, and an additional 16 percent plan to increase their investments."

Twenty-two percent of Americans surveyed for the December 2012 report say they trust the country's financial system – down one percentage point since September 2012 – reflecting a decrease in trust of both the stock market and banks. Sapienza noted that while trust in banks overall is hovering at 28 percent, trust in local banks and credit unions is relatively high at 56 percent and 62 percent respectively.

Also, the number of people who believe they are likely to be unemployed within the next year rose a full 10 percent since last quarter, up to 22 percent.

The Chicago Booth/Kellogg School Financial Trust Index measures public opinion over three-month periods to track changes in attitude. Today's report is the 17th quarterly update and is based on a survey conducted in December 2012.

Opposing Views: Economic Experts vs. Average Americans
Today's issue of the Financial Trust Index coincides with a paper presented in January 2013 at the American Economic Association annual meeting, written by Paola Sapienza and Luigi

Zingales, the Robert R. McCormack Professor of Entrepreneurship and Finance at the University of Chicago Booth School of Business.

In the paper, “Economic Experts vs. Average Americans,” the researchers take a closer look at several finance and economic policy questions by comparing public opinion from the Index with those of the Chicago Booth IGM Economic Experts Panel, a group of distinguished economists with a keen interest in public policy.

“Economists’ opinions differ greatly from those of ordinary Americans,” said Zingales. “In fact, on average the percentage of agreement with a statement differs by 35 percentage points between the two groups. And, when the majority of economists were most in agreement with each other, this is when we saw the greatest disparity from public opinion.”

To illustrate the difference in responses between the groups, Zingales pointed to the following:

- **Ability to Predict the Stock Market**: In response to the statement, “Very few investors, if any, can consistently make accurate predictions about whether the price of an individual stock will rise or fall on a given day,” only 55 percent of Financial Trust Index respondents agreed, while economists agreed unanimously.

- **Executive Compensation:** In response to the statement, “The typical corporate chief executive is paid more than the value he or she adds to the firm,” 67 percent of the public agreed as compared to 39 percent of economists.

- **Carbon Tax vs. Car Standards:** Twenty-three percent of Americans agree with the question, “Do you believe that a tax on gasoline would be a less expensive way for society to reduce carbon dioxide emissions than mandatory fuel economy standards for cars?” whereas 93 percent of economists agreed.

- **Buy American?** Only 11 percent of economists believe “Mandates that Federal government purchases should be “Buy American” have a significant positive impact on U.S. manufacturing employment,” as compared to 76 percent of Americans.

“This difference of opinion does not seem to be justified by a superior knowledge of economists, but by a different way average Americans interpret the questions. Economists answer them literally and take for granted that all the embedded assumptions are true; average Americans do not,” Sapienza and Zingales concluded in the paper.

ABOUT THE SURVEY: On a quarterly basis, the Financial Trust Index captures the amount of trust that Americans have in the institutions in which they can invest their money. The survey is conducted by Social Science Research Solutions (SSRS) as part of their weekly national telephone survey, EXCEL. In the most recent wave, a total of 1,026 individuals were surveyed by live interviewers (not IVR) from Dec. 5 to Dec. 12, 2012. 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 or to receive a copy of **"Economic Experts vs. Average Americans,"** contact Betsy Berger 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. To learn more about the University of Chicago Booth School of Business, visit www.chicagobooth.edu.

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