



ASIC

Australian Securities & Investments Commission

REPORT 126

Understanding investors in the unlisted, unrated debenture (UUD) market

April 2008

About this report

This report summarises the findings of research conducted for ASIC about Australian investors in unlisted unrated debentures, including who invests and what motivates or influences them when they are considering investing.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Acknowledgements

ASIC would like to thank the investors who gave up their time to participate in this research and tell us about their investment experiences and opinions. The information they provided was very valuable and will help ASIC help investors now and into the future.

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Executive summary

About this research

This research was commissioned by the Australian Securities and Investments Commission (ASIC) as part of its ‘Three Point Plan’ for unlisted, unrated debentures (UUDs).¹ ASIC hoped to gain a better understanding and profile of UUD investors and, in particular, investors in Australian Capital Reserve Ltd (Administrators Appointed) (ACR) and Fincorp Investments Ltd (Administrators Appointed) (Fincorp), both of which went into administration in May 2007.

The research was conducted by brandmanagement Pty Limited (brandmanagement), in consultation with ASIC, between October 2007 and March 2008. The key aim of the research was to examine and understand how and why investors in ACR and Fincorp had made their investment decision. It was envisaged this understanding would maximise the effectiveness of ASIC’s regulatory responses to advertising, disclosure and, in particular, investor education.

To provide context to the experiences, characteristics and profile of ACR/Fincorp investors, the research compared three key groups of investors:

- people who had invested in ACR and/or Fincorp (ACR/Fincorp investors)
- people who had investments in UUDs at the time of the research (Active UUD investors)²
- general investors (General investors).³

The research included a qualitative stage (3 focus groups and 12 in-depth interviews) followed by a quantitative stage (1,142 online and phone questionnaires).

What is an unlisted, unrated debenture?

A debenture is essentially an undertaking given by a company to repay money lent to it by an investor and, usually, also includes a promise to pay interest in relation to that loan. Debentures are different to deposits with an authorised deposit taking institution (e.g. a bank). They are also different from other investments such as shares in a company and units in a managed investment scheme.

Debentures are mostly issued to investors under a prospectus to fund a range of business activities (e.g. provision of finance and loans, property-related activities, investments, general operations).

¹ See ASIC Consultation Paper 89 *Unlisted, unrated debentures—improving disclosure for retail investors* issued August 2007 at www.asic.gov.au/cp.

² The quantitative sample of Active UUD investors covered 355 separate investments by 280 individuals across 27 different debenture issuers.

³ Depending on the stage of research, this involved either those with general fixed interest investments or those with any type of investment (e.g. shares, investment property) and over \$50,000 to invest.

If a debenture is unrated it has not received a credit rating from an institution that provides a credit rating. The rating is an opinion about the likelihood of issuers of debentures in that category experiencing an event of default (i.e. whether the company will be able to repay the money borrowed or interest due under the terms of the debenture).

If a debenture is unlisted it means that there is no liquid secondary market where a person can work out the value of or sell their debentures.

Types of investors

Two key ‘types’ of investors emerged in this research, referred to as Type 1 investors and Type 2 investors. In all, 53.7% of total investors were Type 1 investors and 46.3% were Type 2 investors.

A typical Type 1 investor was aged 64, attracted by the perceived security, rate of interest/return and capital protection, and seeking income for retirement. These investors were attracted to and influenced by product advertising, seeing the frequency of advertising as a proxy for quality. They were less likely to seek advice about their investment decision (from either formal or informal networks) and less likely to enjoy or spend time investing generally.

A typical Type 2 investor was aged 41, attracted by the perceived security, rate of interest/return and capital growth, and seeking long term saving. These investors noticed but were less influenced by product advertising. They were more likely to have and use informal and formal advice networks, and more likely to enjoy and spend time investing generally.

Table 1 summarises the typical characteristics of these investor types.

Table 1: Key characteristics of investor types

	Typical Type 1 investor (53.7% of total investors)	Typical Type 2 investor (46.3% of total investors)
Key investment characteristics	<ul style="list-style-type: none"> • Attracted by perceived security, rate of interest/return and capital <i>protection</i> • Seeking income for retirement • Attracted to/influenced by product advertising, seeing frequency as a proxy for quality • Less likely to seek advice about investment decision (from either formal/informal networks) • Less likely to enjoy or spend time investing generally • More likely to be ACR/Fincorp investor (86.7%) than Active UUD investor (43.7%) or General investor (34.8%) 	<ul style="list-style-type: none"> • Attracted by perceived security, rate of interest/return and capital <i>growth</i> • Seeking long-term saving • Noticed but less influenced by product advertising • More likely to have and use informal and formal advice networks • More likely to enjoy and spend time investing generally • More likely to be General investor (65.2%) or Active UUD investor (56.3%) than ACR/Fincorp investor (13.3%)

	Typical Type 1 investor (53.7% of total investors)	Typical Type 2 investor (46.3% of total investors)
Key demographic characteristics	<ul style="list-style-type: none"> • Mean age of 64 • More likely to be female (39.6%)⁴ • More likely to be divorced (11.6%) or widowed (10.4%) • Over-represented among those educated at high school level or below • More likely to be retired and receiving some form of government support 	<ul style="list-style-type: none"> • Mean age of 41 • Less likely to be female (35.4%) • Less likely to be divorced (3.0%) or widowed (0.4%) • Over-represented among those with post-graduate qualifications • Less likely to be retired and receiving some form of government support

Investment factors

The following tables summarise the findings about key investment factors for each investor type based on:

- attraction to/satisfaction with the investment
- information and advice sources
- investment understanding
- investor engagement.

Table 2a: Attraction to/satisfaction with the investment

Factor	Type 1 investors		Type 2 investors	
	Finding	Measure	Finding	Measure
Role of advertising	Saw frequency and consistency of advertising as a proxy for quality	<ul style="list-style-type: none"> • 41.2% attracted by marketing/advertising • 60.2% could recall where they saw/heard the advertising 	Mainly awareness	<ul style="list-style-type: none"> • 16.6% attracted by marketing/advertising • 36.0% could recall where they saw/heard the advertising
Important investment features	<p>Highly valued security, rate of interest/return and capital protection</p> <p>More likely to be attracted by regular income</p>	<p>Top 3 features:</p> <ul style="list-style-type: none"> • 86.0% security of investment • 85.2% return/interest rate • 83.5% protection of principal/capital <ul style="list-style-type: none"> • 52.7% attracted by regular income 	<p>Highly valued security, rate of interest/return and capital growth</p> <p>Less likely to be attracted by regular income</p>	<p>Top 3 features:</p> <ul style="list-style-type: none"> • 83.6% capital growth • 78.5% return/interest rate • 75.5% security of investment <ul style="list-style-type: none"> • 28.3% attracted by regular income

⁴ ACR investors were particularly likely to be female (61.8% of ACR investors were female).

Factor	Type 1 investors		Type 2 investors	
	Finding	Measure	Finding	Measure
Main reason for investing⁵	To provide income for retirement	<ul style="list-style-type: none"> • 47.6% income for retirement • 16.5% long term saving • 8.2% parking the cash for further investment • 3.6% play money 	To provide long term saving	<ul style="list-style-type: none"> • 21.1% income for retirement • 31.1% long term saving • 11.2% parking the cash for further investment • 3.6% play money
Life stage drivers	<p>Tend to be older</p> <p>More likely to have experienced significant event before investing⁶</p>	<ul style="list-style-type: none"> • 64 average age • 55.1% no significant event • 10.9% sold a property investment • 10.8% retired • 2.8% became employed (or self-employed) 	<p>Tend to be younger</p> <p>Less likely to have experienced significant event before investing⁷</p>	<ul style="list-style-type: none"> • 41 average age • 72.0% no significant event • 4.2% sold a property investment • 0.4% retired • 4.5% became employed (or self-employed)
Diversification⁸	Low levels of diversification	<ul style="list-style-type: none"> • Average proportion of total investments invested 31.5%⁹ • 15.5% investing more than 75% of their total investments • 69.0% had 3 or less investments • 11.6% main reason for investing was 'to diversify my portfolio' 	Low to medium levels of diversification	<ul style="list-style-type: none"> • Average proportion of total investments invested 26.8%¹⁰ • 10.8% investing more than 75% of their total investments • 60.2% had 3 or less investments • 13.9% main reason for investing was 'to diversify my portfolio'
Roll over of investment	<p>More likely to roll over</p> <p>Main roll over drivers were performance and rate</p>	<ul style="list-style-type: none"> • 58.6% rolled over <p>Reasons for roll over:</p> <ul style="list-style-type: none"> • 83.1% happy with performance • 61.2% offering a good rate of return • 22.7% convenience • 3.6% lack of alternatives 	<p>Less likely to roll over</p> <p>Main roll over drivers were performance and rate</p>	<ul style="list-style-type: none"> • 43.4% rolled over <p>Reasons for roll over:</p> <ul style="list-style-type: none"> • 70.9% happy with performance • 44.1% offering a good rate of return • 31.8% convenience • 11.8% lack of alternatives

⁵ The percentages in this item are sourced from different questions and therefore do not add to 100%.

⁶ These percentages include only some of the events from the life stage/event question therefore do not add to 100%.

⁷ As above.

⁸ The percentages in this item are sourced from different questions and therefore do not add to 100%.

⁹ For ACR/Fincorp and Active UUD investors this investment refers to their UUD investment and for General investors this refers to their largest investment.

¹⁰ As above.

Table 2b: Information and advice sources

Factor	Type 1 investors		Type 2 investors	
	Finding	Measure	Finding	Measure
Self-directed vs advice seeking	<p>Heavy reliance on advertising</p> <p>Less likely to seek advice either formally or socially¹¹</p>	<p>#1 investment influence for specific investment:</p> <ul style="list-style-type: none"> • 56.3% advertising <p>Typical information sources used when investing generally:</p> <ul style="list-style-type: none"> • 25.8% print advertising • 21.7% TV advertising • 9.1% radio advertising <p>#1 investment influence for specific investment:</p> <ul style="list-style-type: none"> • 18.1% adviser • 7.8% associates <p>Typical information sources used when investing generally</p> <ul style="list-style-type: none"> • 34.9% professional financial advisers • 18.9% family/ friends/work colleagues 	<p>Less reliance on advertising</p> <p>More likely to use a paid adviser or social network as part of their decision making¹²</p>	<p>#1 investment influence for specific investment:</p> <ul style="list-style-type: none"> • 25.9% advertising <p>Typical information sources used when investing generally:</p> <ul style="list-style-type: none"> • 25.4% print advertising • 10.0% TV advertising • 5.3% radio advertising <p>#1 investment influence for specific investment:</p> <ul style="list-style-type: none"> • 29.9% adviser • 19.8% associates <p>Typical information sources used when investing generally</p> <ul style="list-style-type: none"> • 43.0% professional financial advisers • 36.9% family/ friends/ work colleagues
Trust for the company	<p>Trusted the company and tended to pass trust to company representatives¹³</p>	<ul style="list-style-type: none"> • 81.1% attracted by reputation of the company involved 	<p>Trust for the company and company representatives less important</p>	<ul style="list-style-type: none"> • 73.8% attracted by reputation of the company involved

¹¹ The percentages in this item are sourced from different questions therefore do not add to 100%. These percentages also exclude a number of other information/advice sources.

¹² As above.

¹³ The qualitative research indicated that people visited by salespeople in their home tended to pass trust to these salespeople.

Table 2c: Investment understanding

Factor	Type 1 investors		Type 2 investors	
	Finding	Measure	Finding	Measure
Low understanding of UUD	Some did not understand they were investing in a UUD	Qualitative findings revealed that understanding of this type of investment was very low	Some did not understand they were investing in a UUD	Qualitative findings revealed that understanding of this type of investment was low
Prospectus	Perceived to be relatively well understood Some did not read prospectus	Average investor self-rated their understanding of the prospectus 6.7 out of 10	Perceived to be relatively well understood Some did not read prospectus	Average investor self-rated their understanding of the prospectus 7.0 out of 10
Perception of security/risk¹⁴	Little awareness of risk	52.4% rated their UUD investment 'no risk at all' or 'very low risk'	Some awareness of risk	36.9% rated their UUD investment 'no risk at all' or 'very low risk'
Comparable to a bank¹⁵	In some cases the UUD investment was compared against bank products	52.0% of those that made a product comparison did so with a bank product	In some cases the UUD investment was compared against bank products	27.0% of those that made a product comparison did so with a bank product

Table 2d: Investor engagement

Factor	Type 1 investors		Type 2 investors	
	Finding	Measure	Finding	Measure
Level of enjoyment in/ time spent on investing	Less likely to enjoy investing ¹⁶ More likely to spend no time on investing	<ul style="list-style-type: none"> • 47.3% enjoy investing No. of hours per week on investing: <ul style="list-style-type: none"> • 32.5% none • 38.3% 1–3 hrs • 11.8% 4–7 hrs • 7.8% 8–11 hrs • 5.7% 20+ hrs 	More likely to enjoy investing ¹⁷ Less likely to spend no time on investing	<ul style="list-style-type: none"> • 61.1% enjoy investing No. of hours per week on investing: <ul style="list-style-type: none"> • 17.3% none • 49.6% 1–3 hrs • 15.8% 4–7 hrs • 9.2% 8–11 hrs • 4.1% 20+ hrs

¹⁴ These percentages are for ACR/Fincorp and Active UUD investors only. General investors were excluded from this analysis because they held a range of investment types.

¹⁵ As above.

¹⁶ This was calculated from a 10 point rating scale. Scores of seven or greater indicate enjoyment.

¹⁷ As above.

A About this research

Key points

The research was conducted by brandmanagement, in consultation with ASIC, between October 2007 and March 2008.

The key aim of the research was to examine and understand how and why investors in ACR and Fincorp had made their investment decision.

Research sample

The qualitative stage comprised 3 focus groups and 12 in-depth interviews. The quantitative stage comprised 1,142 online/phone questionnaires. Across all investor groups the quantitative sample is sufficiently robust to ensure a +/- 5% error in all fields with a 95% confidence.

Table 3: Sample information

Investor group	Qualitative stage	Quantitative stage
ACR/Fincorp	1 focus group and 12 in-depth interviews	368 online/phone questionnaires
Active UUD	1 focus group	280 online/phone questionnaires ¹⁸
General	1 focus group	494 online/phone questionnaires ¹⁹

An additional 3 focus groups were conducted to test ASIC's investor education messages and materials. The feedback collected in these focus groups will be used to inform ASIC's investor education work in this area and more broadly.

Research limitations

Limitations in this particular research include:

- in the qualitative stage of the research, more 'knowledgeable' focus group participants may have influenced the group's consensus views on particular investment concepts
- as with all research that relies on people's recollection of events, some of the material might be impacted by hindsight bias.

¹⁸ The quantitative sample of Active UUD investors covered 355 separate investments by 280 individuals across 27 different debenture issuers. While more than 380 Active UUD investors were initially recruited to participate in this stage, their availability to answer the questionnaire in the required time period appeared to be impacted by their demographic status (i.e. this group tended to have a higher proportion of employed and/or younger family status investors). However, the proportionately smaller sample size does not affect the validity of the data.

¹⁹ General investors with total investments valued at \$50,000 or less (excluding their home) were filtered out of the research and the sample of 494 does not include them. This is because the qualitative findings suggested that investors with less than \$50,000 to invest were less well matched to the ACR/Fincorp and Active UUD investors, who tended to have larger amounts of money to invest.

Figures and tables in this report

In some figures and tables in this report the sample numbers do not add up to the total sample size (i.e. 1,142) and the percentages do not add up to 100%. This is due to a range of reasons, including multiple responses (i.e. where a respondent is allowed to choose more than one option) and/or missing cases (e.g. question is not relevant to all respondents).

B Types of investors

Key points

The qualitative and quantitative stages of the research revealed two key 'types' of investors, referred to as Type 1 (53.7%) and Type 2 (46.3%).

ACR/Fincorp investors were more likely to be Type 1 investors, while General and Active UUD investors were more likely to be Type 2 investors.

Description of investor types

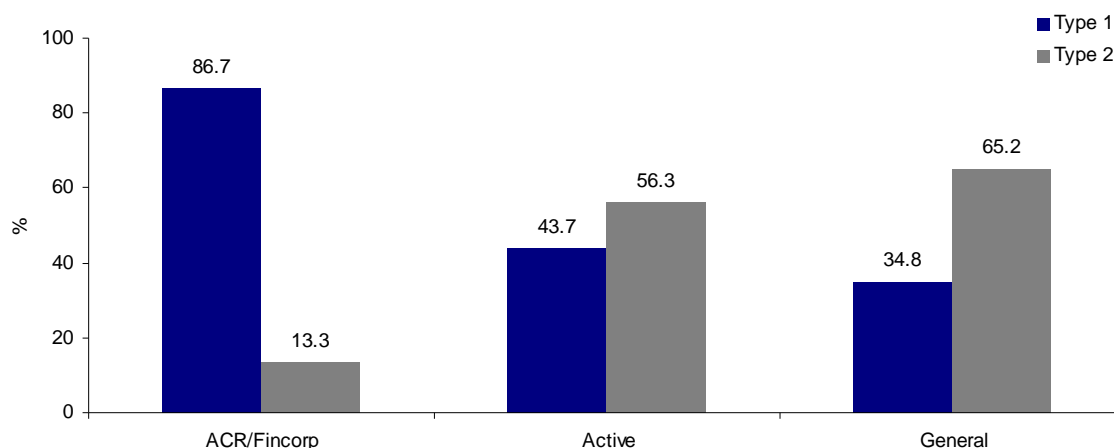
A typical Type 1 investor was aged 64, attracted by the perceived security, rate of interest/return and capital protection, and seeking income for retirement. These investors were attracted to and influenced by product advertising, seeing the frequency of advertising as a proxy for quality. They were less likely to seek advice about their investment decision (from either formal or informal networks) and less likely to enjoy or spend time investing generally.

A typical Type 2 investor was aged 41, attracted by the perceived security, rate of interest/return and capital growth, and seeking long term saving. These investors noticed but were less influenced by product advertising. They were more likely to have and use informal and formal advice networks, and more likely to enjoy and spend time investing generally.

Investor types by investor group

ACR/Fincorp investors (86.7%) were much more likely to be Type 1 investors than the other investor groups (Active UUD: 43.7%, General: 34.8%). General (65.2%) and Active UUD (56.3%) investors were more likely to be Type 2 investors. Only 13.3% of ACR/Fincorp investors were classified as Type 2 investors.

Figure 1: Investor types by investor group



ACR/Fincorp=368,Active=279,General=494, Missing case=1, p<0.05

Demographic differences between investor types

Demographically, the key difference between Type 1 and Type 2 investors was age, which in turn reflected differences in employment status, amount of income and source of income. In addition, Type 1 investors appeared to be more likely to be female and more likely to be divorced or widowed.

While both investor types were most likely to be educated at diploma/degree level, Type 1 investors were over-represented among those educated at high school level or below and Type 2 investors were over-represented among those with post-graduate qualifications.

Table 4: Demographics by investor type

Demographics		Type 1	Type 2
Age	Average (mean) age	64	41
	Min age	46	26
	Max age	82	54
Gender	Female	39.6%	35.4%
	Male	60.4%	64.6%
Marital status	Never married	5.1%	14.0%
	Married	65.1%	67.6%
	De facto	4.9%	12.0%
	Separated	2.3%	1.7%
	Divorced	11.6%	3.0%
	Widowed	10.4%	0.4%
	Other	0.7%	1.3%
Education	Primary school	1.6%	0.0%
	Some secondary school/Technical college	9.0%	1.7%
	Intermediate, Form 4, Year 10	17.0%	2.1%
	Apprenticeship	2.8%	1.1%
	5th form, Leaving, Year 11	7.8%	2.7%
	Finished technical college	8.3%	4.4%
	Finished secondary school	6.4%	6.1%
	Some university	4.7%	8.7%
	Diploma or degree	26.4%	39.8%
	Post graduate qualifications	16.0%	33.4%
Employment status	Full-time employed	26.9%	80.5%
	Part-time employed	14.8%	11.4%
	Semi-retired	4.1%	1.5%
	Retired	49.1%	2.1%
	Home duties	3.6%	2.8%
	Still studying	0.0%	0.8%
	Looking for work	1.5%	0.9%

Demographics		Type 1	Type 2
Annual household income	\$1–\$52,000	49.8%	9.2%
	\$52,001–\$104,000	23.8%	22.4%
	\$104,001–\$250,000	21.1%	57.1%
	\$250,001 or more	5.1%	11.2%
Government support	Age and disability support payment	25.4%	2.8%
	Unemployment, education and sickness benefit	0.7%	0.4%
	Other government pensions and benefits	16.0%	3.6%

Differences between ACR and Fincorp investors

Although the majority of ACR and Fincorp investors in this research were comparable and more likely to be Type 1 investors, there were a few subtle differences between investors in ACR and Fincorp, including:

- ACR investors were more likely to be female.
- Fincorp investors were slightly more likely to have invested in four or more other types of investments than ACR investors (i.e. other than UUDs).
- ACR investors were slightly more likely to spend less, or no, time per week on investments compared to Fincorp investors.
- When asked about the important features of their investment, ACR investors were slightly more responsive to capital growth, investment term, customer service, and investment in property than Fincorp investors.

C Investment factors

Key points

This section summarises the findings about key investment factors for each investor type based on:

- attraction to/satisfaction with the investment
- information and advice sources
- investment understanding
- investor engagement.

Attraction to/satisfaction with the investment

The role of advertising

Essentially, Type 1 investors used the frequency and placement of the advertisements as a proxy for quality. In all, 85.3% of ACR/Fincorp investors (compared to 20.1% of Active UUD investors) could recall where they saw/heard the advertising, with 39.4% stating newspapers, 20.3% TV and 19.4% radio. Some investors (6.4%) specifically noted that they were influenced by spokespeople:

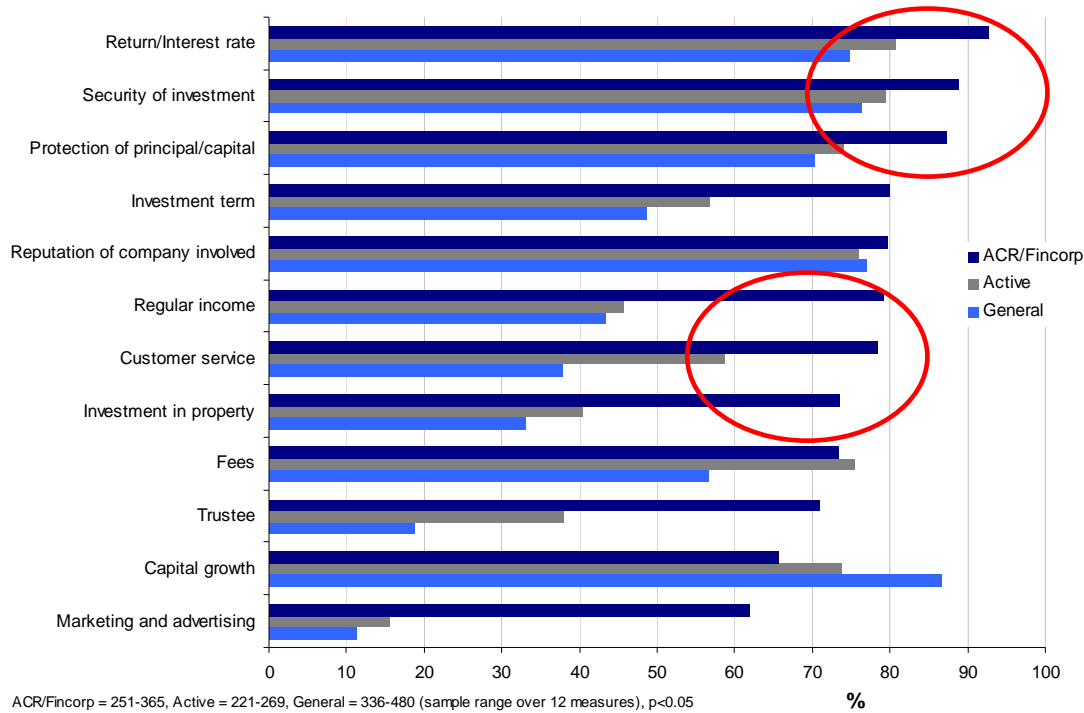
I thought, there was some famous guy who was coming on the ad, I can't remember who it was...I looked at him and I said, 'if this company is not a good company, why would that man be there' ... [I thought] if this company [is] not a good company then this man wouldn't be putting his name to it and standing there, and speaking for the company. (Male, ACR, In-depth interview, NSW)²⁰

Important investment features

Overall, the return/interest rate (82.0%) and perception of low risk (including security (81.2%) and protection of capital (76.4%)) were important factors for all investors but were particularly important for ACR/Fincorp investors. As Figure 2 shows, ACR/Fincorp investors were much more likely than other investors to value investment term (79.9%), regular income (79.1%), customer service (78.4%), investment in property (73.4%), trustee (70.9%) and marketing and advertising (61.8%).

²⁰ Verbatim quotations from investors are indicated in this report by italics. In some cases the comments have been altered slightly for sense. In one case geographical information (i.e. state) was altered to reflect the state in which the investor resided at the time of the investment. Square brackets are used to indicate paraphrasing.

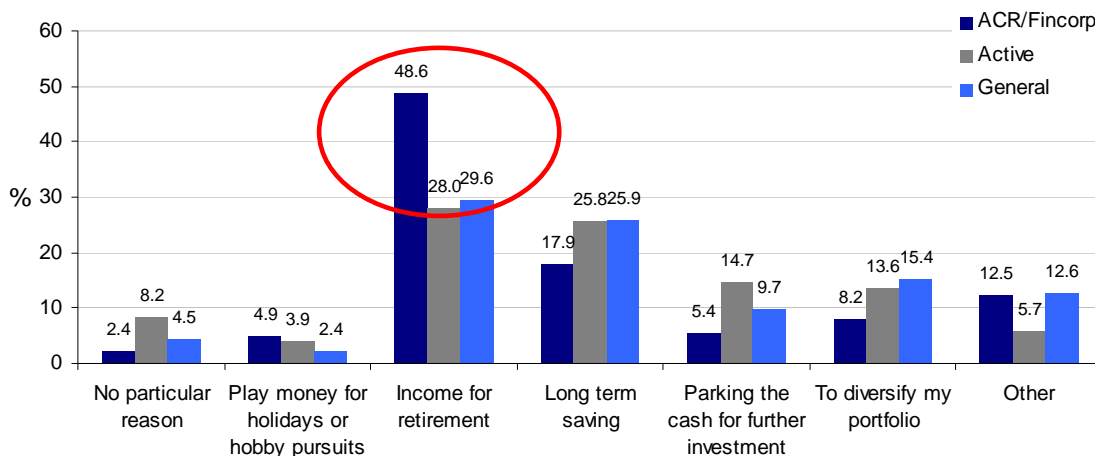
Figure 2: Important investment features



Main reason for investing

When asked for their main reason for investing, 35.3% of total investors nominated income for retirement. Again, as Figure 3 shows, this was particularly important for ACR/Fincorp investors (48.6%).

Figure 3: Main reason for investing



ACR/Fincorp=368, Active=279, General=494

Life stage drivers

In keeping with their age profile, Type 1 investors were more likely to be retired (49.1%) than Type 2 investors (2.1%) and more likely to be receiving Government pensions. ACR/Fincorp investors were 10 times as likely to be

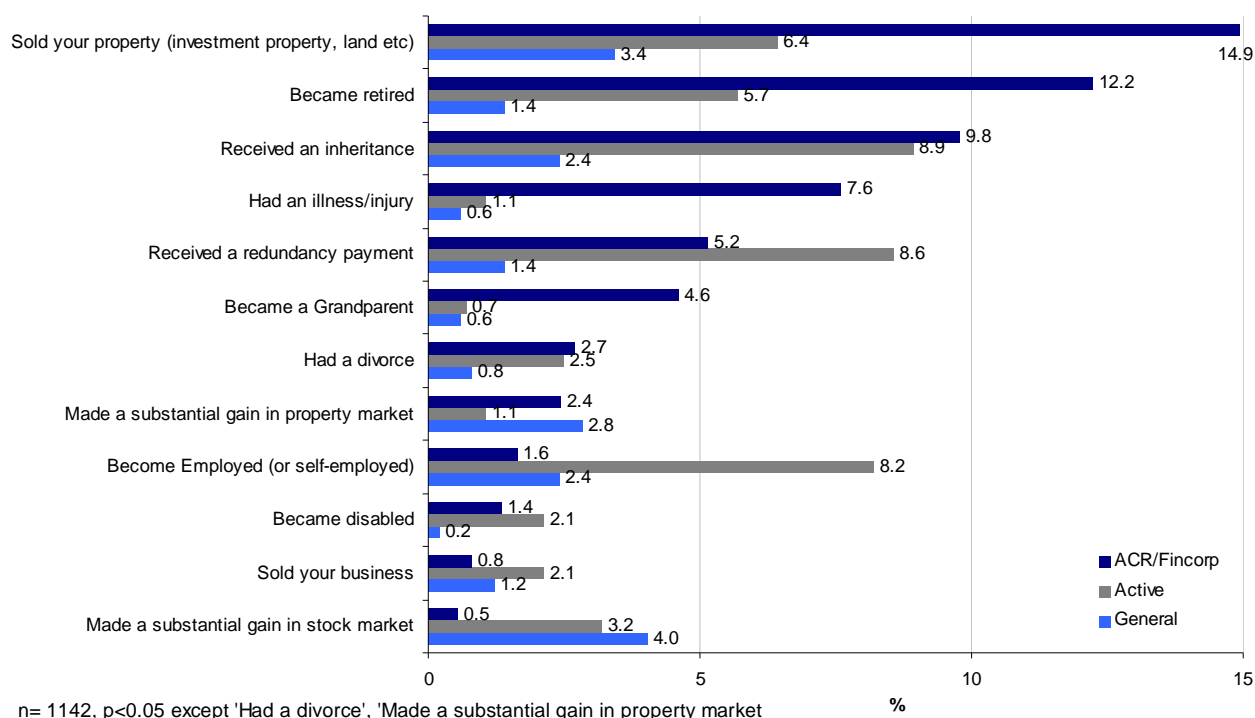
receiving an age pension or other Government benefits as either Active UUD or General investors:

Channel [station number] advertised it about 6 or 7 times a day. It took my interest and I rang them up and they made me a good interest offer. It worked out that you didn't have to pay tax on it with my pension and all that. Up to that stage when they did have the fall I found them to be marvellous. (Female, ACR, Focus Group, Victoria)

I invested into ACR for the simple reason that I'm a pensioner and the quarterly income they were paying me helped pay my bills and things like that. (Female, ACR, Focus Group, Victoria)

More than one third of investors had experienced a significant life event before making their investment (37.1% of all investors). Unsurprisingly given the different age profile, these events varied by investor type and group. ACR/Fincorp investors were much more likely to have sold their property (14.9%), retired (12.2%) or had an illness/injury (7.6%). Active UUD investors were more likely to have received a redundancy payment (8.6%), become employed/self-employed (8.2%) or sold a business (2.1%).

Figure 4: Life events by investor group²¹



Investors were also asked whether a life event impacted their investment decision. While only 33.6% of ACR/Fincorp investors and 31.1% of Active UUD investors said a life event impacted their investment decision, this was twice as much as General investors (15.2%):

²¹ Question allowed multiple responses. There were 424 respondents who indicated they had a life event before making the investment. There were 718 no significant event responses.

I was retrenched... four and a half years ago, and retrenchment and superannuation monies went off into various funds [including ACR and Fincorp]. (Couple, ACR and Fincorp, In-depth interview, Victoria)

I had a work injury in 2002 that prevented me from working...I got a settlement in 2005 and unfortunately not being able to work it is not going to last forever you know, so I had to invest it and get an income off it. So I looked around. I asked for a prospectus to be sent out from ACR to look at what they were offering and then the salesman rang me up quite a few times actually. (Male, ACR, In-depth interview, WA)

Diversification

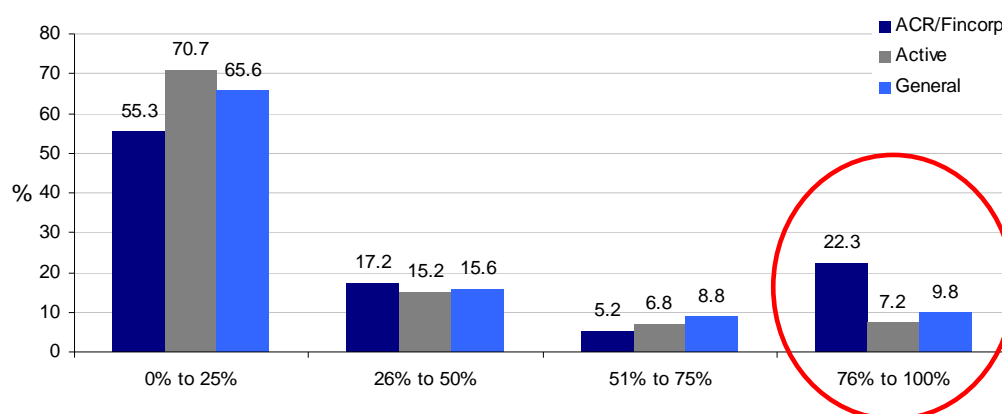
Diversification was a key investment driver for only 12.6% of investors and both Type 1 and Type 2 investors appeared to practise relatively low levels of diversification.²² Several measures were used to understand investors' level of diversification:

- investors' main reason for investing (i.e. 'To diversify my portfolio': see Figure 3)
- proportion of each investor's total investments held in the UUD (or, in the case of General investors, the largest investment held)
- the number of different types of investments held by each investor.

Proportion of investment held in one place

Most investors across the sample invested less than 25% of their total investments in their UUD (or largest) investment. ACR/Fincorp investors were more likely to have invested more than 75% of their total investments in their UUD investment compared to other investor groups.

Figure 5: Proportion of total investments invested in one place²³



ACR/Fincorp=367, Active=263, General=480

²² This is consistent with other brandmanagement research, the High Net Worth Report, published in 2007, which shows that diversification becomes apparent after investment portfolios reach more than \$1 million in value.

²³ For ACR/Fincorp and Active UUD investors this investment refers to their UUD investment and for General investors this refers to their largest investment.

ACR investors less likely to diversify

ACR investors demonstrated less diversification than Fincorp and all other investor groups, with an average of 44.2% of their investments held in ACR. Fincorp investors held on average 25.1% of their investments in Fincorp, which was similar to the average investment proportion figures for Active UUD investors (23.9%) and General investors (25.9%).

ACR female investors less likely to diversify

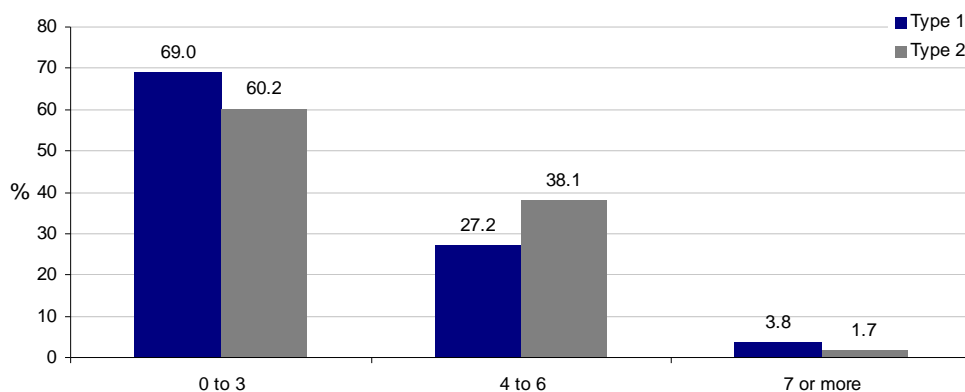
In this research 61.8% of ACR investors were female, while 45.0% of Fincorp investors were female and 37.7% of total investors were female. Female ACR investors were less likely to diversify than their male ACR counterparts, with an average of 47.5% of their total investments held in ACR compared to an average of 39.2% for males.

There were no significant gender differences for Fincorp and Active UUD investors. However, some gender differences appeared for General investors (females held an average of 31.0% of their total investments in their largest investment compared to only 24.1% for male General investors).

Number of investment types held

While most investors across the sample held up to three investment types, Type 2 investors were more likely to have more (39.8% compared to 31.0%).

Figure 6: Number of investment types held



Type 1=613, Type 2=528

Understanding of 'diversification'

In both the qualitative and quantitative stages of the research, investors were asked to comment on the terms 'diversification' and 'asset allocation'.²⁴

Most investors felt they understood the importance and meaning of 'diversification', but some were unable to describe it clearly or accurately. Others understood it, but actively chose not to practice it. In the quantitative stage of the research, about a quarter of ACR/Fincorp investors said they did

²⁴ In this case the qualitative findings were sourced from a separate part of the research involving additional focus groups in which investors tested ASIC's draft investor guide.

not understand the meaning of the term ‘diversification’. This compared to 10% of Active UUD investors, and only 5% of General investors, the vast majority of whom understood the term, albeit to differing degrees.

Understanding of the term ‘asset allocation’ was lower than understanding of ‘diversification’ and there was confusion between the two. The quantitative stage revealed that understanding of ‘asset allocation’ was lowest among ACR/Fincorp investors, with many admitting they were not sure what it meant.

Roll over of investment

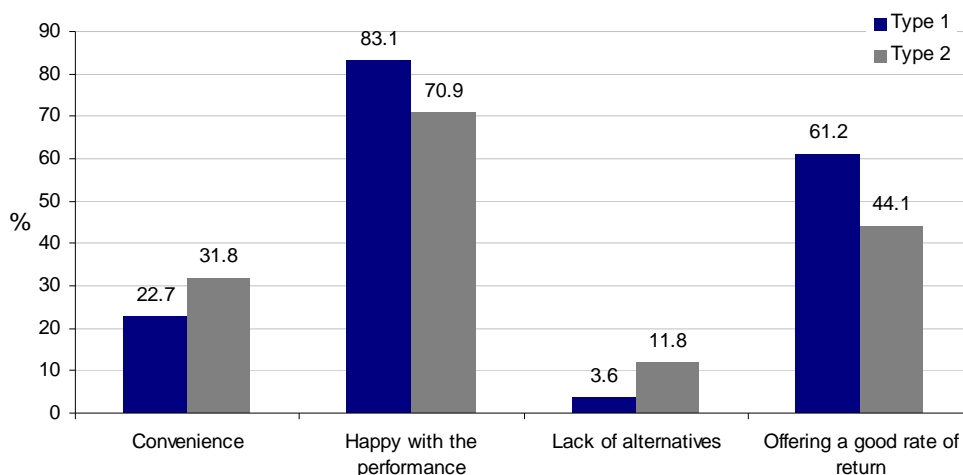
A person investing in debentures may do so for a set period of time. The term ‘roll over’ is used to describe where an investment is renewed past the initial maturity date of the investment.

Thirty-six percent of total investors said they did not have a roll over facility. Of those who had the facility, 53.2% rolled over.²⁵ Type 1 investors were more likely to have rolled over their investment than Type 2 investors (58.6% compared to 43.4%).

The primary decision drivers to roll over for both Type 1 and Type 2 investors were happiness with the performance of their investment, followed by the rate of return being offered:

We decided to [roll over] off our own bat. We [looked at the rate of return we were getting from the bank]. It wasn't earning that much and so we rang [ACR] and asked them what [our existing investment] would earn and they said, because you've got other money invested with us, we can pay an extra 1%...We said we'd go six months at a time and see how things pan out. Because if we withdrew before the five years was up...there were quite a few penalties and we wanted to try and avoid that. (Couple, ACR, In-depth interview, Victoria)

Figure 7: Reasons for rolling over the investment by investor type



Type 1=278, Type 2=110

²⁵ Sample size for those who had rolled over was 731 investors. For some General investors, a roll over was not applicable.

Of those who chose not to roll over the investment (46.8% of investors with a roll over facility), most attributed this to the investment not yet coming to term (59.4% of total investors). For some General investors a roll over was not applicable to the type of investment they had. Less than 5% of investors attributed their decision to not roll over to concerns about investment risk (4.7%):

No I didn't want to go in and out. I was there for a year and then I think it was probably two weeks after I put it in and I thought I'll just get this year done and that's it. I've talked to a friend of mine and he said with these sort of things the rates go up and down like yo-yos so don't commit yourself. Worst case scenario is you lose a bit off the top if you don't go for the full five year, or two year or whatever is available...A year at a time I was going to figure everything out and just reassess everything. (Male, Fincorp, Focus Group, Victoria)

Information and advice sources

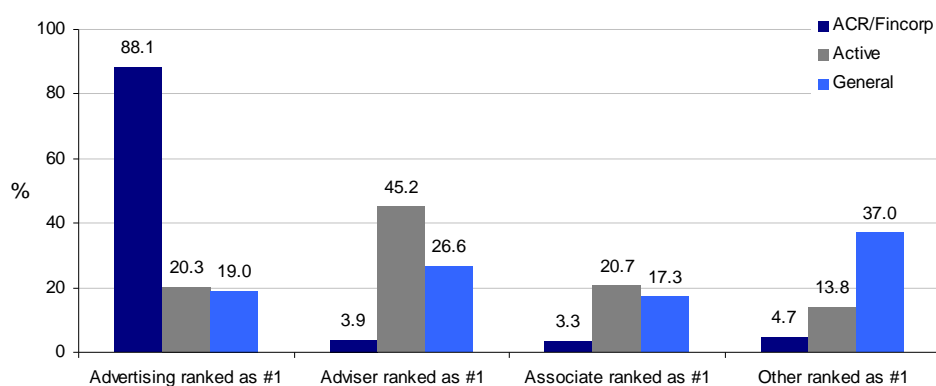
Self-directed vs advice seeking

A strong finding to emerge from the qualitative research was that Type 1 investors tended not to seek the advice of others when making their investment decision. In part this was because, unlike Type 2 investors, these investors tended not to have networks of friends, family or others who regularly invest or discuss investing. Other reasons included:

- belief that the decision was simple and relatively risk free and therefore didn't require third party assistance
- perception that the sales representative adequately satisfied all their questions/concerns
- deep-seated mistrust of paid advice.

Reflecting these findings, ACR/Fincorp investors were much less likely to cite advisers or associates as influential on their investment decision and far more likely to cite advertising.

Figure 8: Most influential factor (#1) in investment decision²⁶



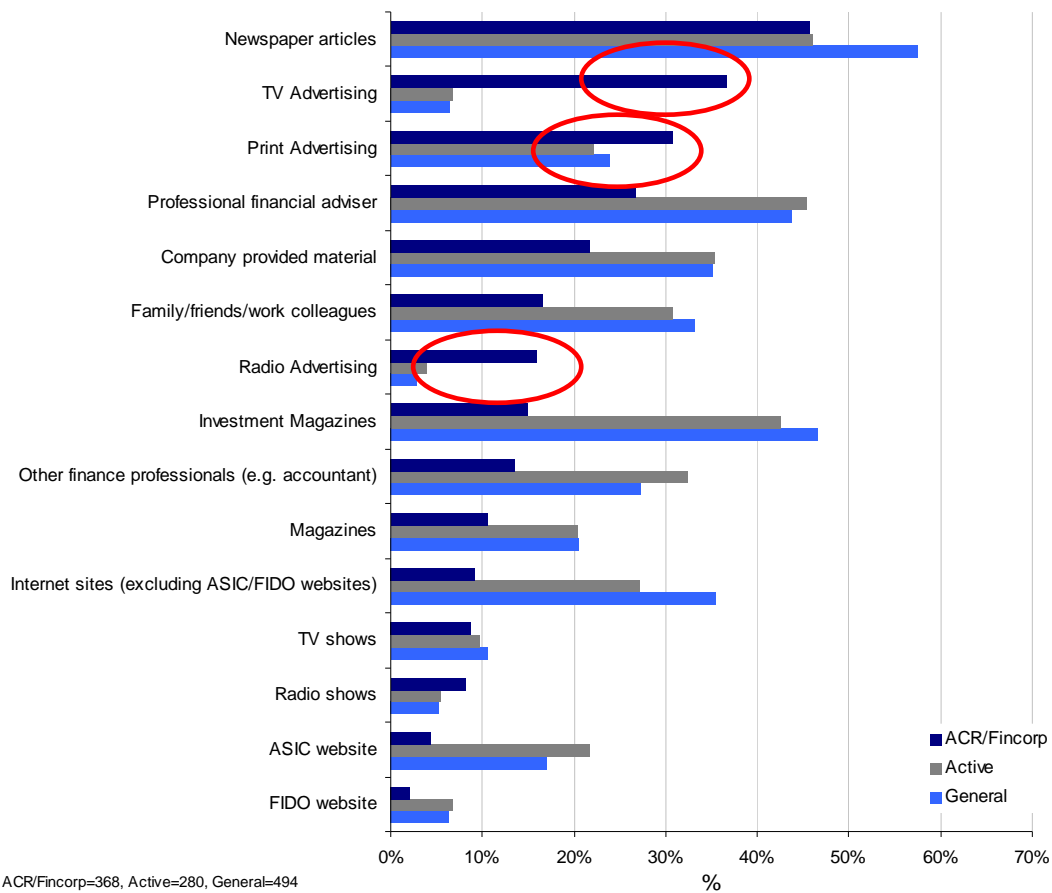
ACR/Fincorp=362, Active=261, General=473

²⁶ 'Other' included a wide range of influences on investment decisions (e.g. bank manager, own research, internet and direct mail).

Similarly, at a more general level, respondents were asked what information sources they typically use when considering and researching an investment.

As Figure 9 shows, ACR/Fincorp investors are less likely to use the internet, including the ASIC and Fido websites, than other investors. These investors are much more likely to use advertising (TV, print and radio), and much less likely to rely on family/friends/colleagues and professionals than other investors. Newspapers are clearly the key information source across all investor groups.

Figure 9: Information sources used when considering/researching investments



Trust for the company

Paradoxically, while Type 1 investors tended to reject paid investment advice, sometimes on the basis that it was sales-orientated and expensive, they were consistently able to pass trust to the salespeople that they met:

And of course we had a good hard yak in Polish, because I love the Polish language...and I felt that [this sales person] was very, very honest. (Female, ACR, Focus Group, NSW)²⁷

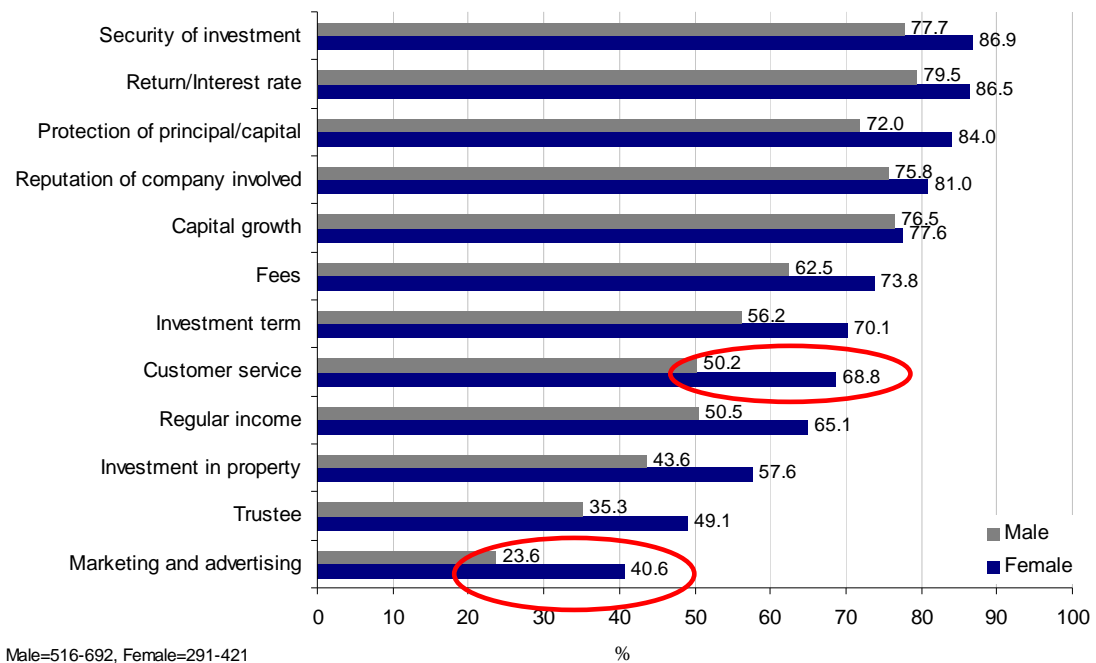
²⁷ This comment was sourced from a separate part of the research involving additional focus groups in which investors tested ASIC’s draft investor guide.

Yes. I saw the ad on the TV and I just called up the company and then she said, 'oh I will get somebody to call you back.' So I said, 'Ok' and gave her my number and then this guy called me back and I said to him, 'look I have X amount of money and I would like to put it somewhere, and I have seen your ad on the TV' I said, 'but I don't know the first thing about whether your company is good or you know, safe or...' and he said, 'oh our company is really safe' and all that. I said, 'are you sure?' (Female, ACR, In-depth interview, WA)

I think it depends on the salesmanship, because he convinced me the money was safe...and he gave me a prospectus and he convinced me, that's it. (Female, ACR, In-depth interview, NSW)

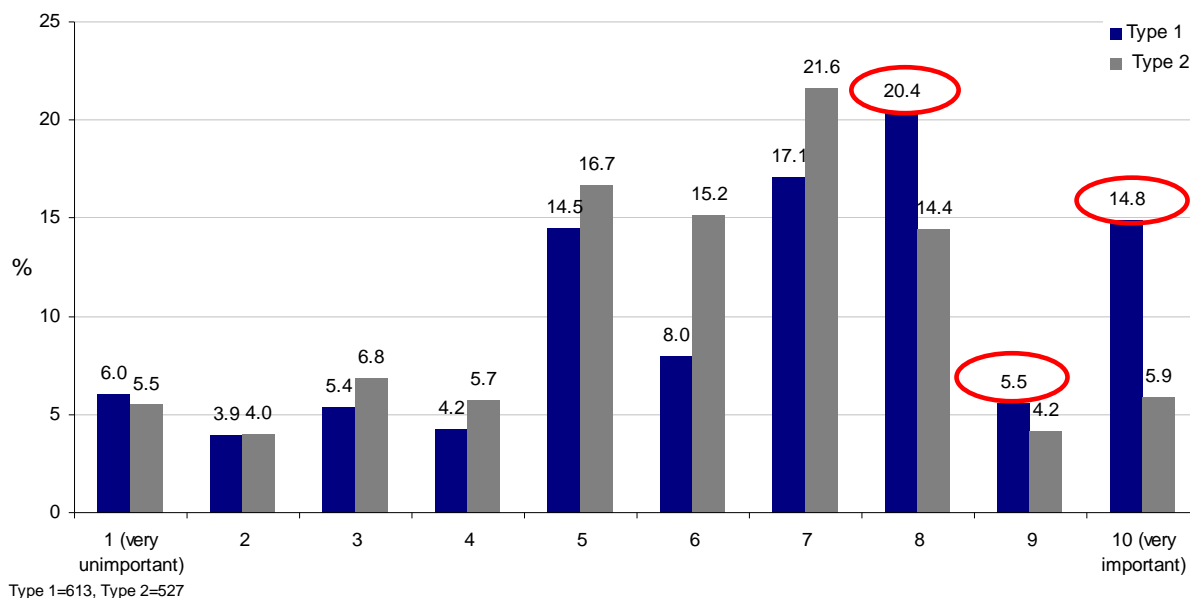
Females were more responsive than males to all investment features presented and particularly responsive to marketing and advertising (40.6% females, 23.6% males) and customer service (68.8% females, 50.2% males): see Figure 10. The trustee was also important, and may have conferred faith in the company/investment.

Figure 10: Important investment features by gender



Type 1 investors were also more likely to consider brand important when making investment decisions more generally: see Figure 11.

Figure 11: How important is brand name when making an investment decision?



Credit ratings

It is worth noting that when testing investors' responses to key investment terms in the consumer testing phase of this research, some investors were suspicious about ratings provided by rating agencies.²⁸ These investors questioned the independence of the information and, in some cases, the system used to rate investments:

Who rates them who? They only get rated if they pay for it?
(Male, ACR, Focus Group, NSW)

Well, how often are they done...once a year or a quarter[?]
(Male, ACR, Focus Group, NSW)

Investment understanding

Low understanding of UUD

Many UUD investors in this research, regardless of investor type (Type 1, Type 2) or group (ACR/Fincorp, Active UUD) did not have a complete understanding of the product they had invested in. Some, including those with Active UUDs, did not realise they were investing in a debenture:

[At the time I invested I would have described it as] a managed fund with fixed interest for a certain period of time (3-5 years), where the

²⁸ This information was sourced from a separate part of the research involving additional focus groups in which investors tested ASIC's draft investor guide.

company guarantees to return all of my money even in the event of their collapse, as there are certain third parties, which make sure it's done correctly. (Male, ACR, Questionnaire Response, Victoria)

According to the prospectus I was investing in property to be developed. (Male, ACR, Focus Group, Victoria)

In the quantitative stage of the research, ACR/Fincorp and Active UUD investors were asked to describe their investment in their own words. While all of the ACR/Fincorp investors attempted the question, the majority of the responses were about the failure of ACR/Fincorp rather than an attempt to define the investment. Most of the Active UUD investors attempted this question (229 of 280 investors) but responses were varied, with the majority describing them as a fixed interest investment. Only four of these investors used the word 'debenture'.

Finally, only 3.6% of Active UUD investors surveyed selected 'debenture' from a list when asked to identify which investments they currently had.

Prospectuses

Investors who said they had received the prospectus (71.6%) rated their understanding of the prospectus as medium to high (the average Type 1 investor rated their level of understanding 6.7 out of 10 and the average Type 2 investor rated their level of understanding 7.0 out of 10).

For investors who considered prospectuses, most found nothing that worried or dissuaded them from investing. The prospectus and its contents were not a barrier to deciding to invest:

So I saw about it on television and I probably rang up and they sent me a prospectus...I studied that for a while and, as I say, it looked quite good and they had sufficient sort of assets and the liabilities were all sort of within check. Then I rang them up and [I asked] some questions that I had and it was always about the security...then he told me about the investments that they make and the returns and I could have invested for, I think it was, one year, two years, three years...five years and, of course, as the time went on, the interest rate would [get] bigger or better. (Male, ACR, In-depth interview, WA)

Throughout this research, and across comparisons groups, there were investors who chose not to read the prospectus or ignored the information in it. Reasons for this varied. Some felt they didn't/wouldn't understand it, some had already made their decision, some relied on other factors (e.g. assurances from the salesperson) and others were wary about the validity of the document:

At that time it seemed quite secure to me, because of [there being] so many advertisements on TV and the fact that in the prospectus he pointed out how many millions they'd already got...I've got to say I don't read the prospectus. I make a decision before I read the

prospectus; it's probably naive of me...But even the prospectus can be full of lies anyway, like in this case, it's only a piece of paper with all this information. Even if you read it they can tell lies as well.

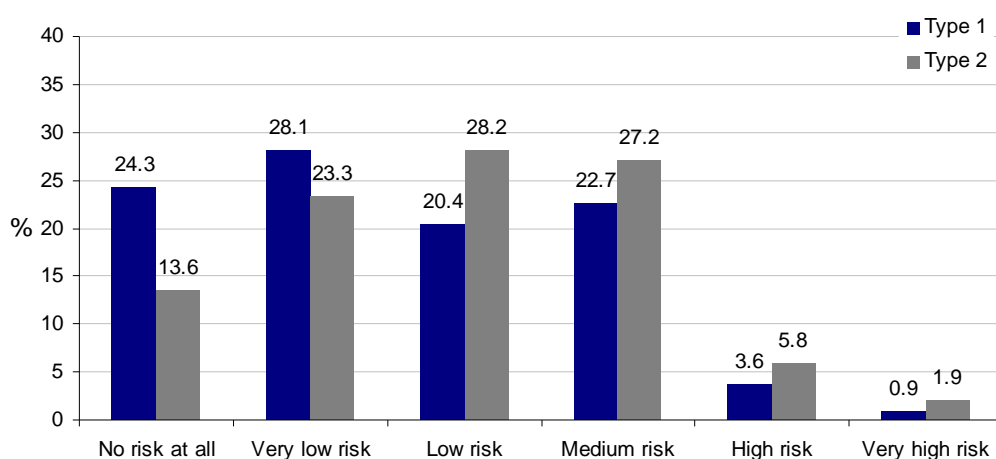
(Female, ACR, In-depth interview, NSW)

Perception of security/risk

As noted earlier (see Figure 2), many investors valued investment security (81.2% total investors) and protection of capital (76.4% total investors).

Type 1 investors associated lower levels of risk with their investment than Type 2 investors: see Figure 12.

Figure 12: At the time you made this investment how much risk did you associate with it?²⁹



Type 1=441, Type 2=206

In addition, only 17.4% of ACR/Fincorp investors associated some capital loss with this type of investment at the time they invested and even fewer associated total capital loss (8.4%).

Many Type 1 investors were confused as to what they were investing in—mistaking their investment for something as secure as a term deposit in some cases:

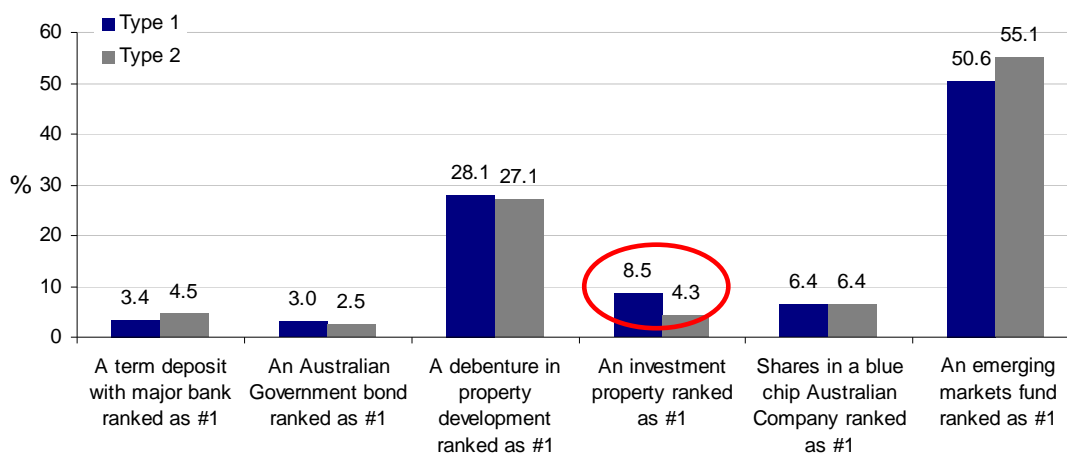
Sounds amazing now. Doesn't that sound like a term deposit to you, you just put it away and you don't think about it and it pays interest, you were thinking about it like a term deposit? (Female, ACR, In-depth interview, NSW)

In the quantitative stage investors were asked to rank a series of investments from most risky to least risky.

²⁹ These percentages are for ACR/Fincorp and Active UUD investors only. General investors were excluded from this analysis because they held a range of investment types.

As Figure 13 shows, Type 1 and Type 2 investors both believed an emerging markets fund was the riskiest investment overall, followed by a debenture in property development. However, Type 1 investors were more likely than Type 2 investors to consider an investment property risky.

Figure 13: Ranking investments by perceived level of risk: comparing rank #1 (most risky)



Type 1=597, Type 2=512

In the quantitative stage investors were asked to describe ‘risk/reward’ in their own words. Approximately half of the ACR/Fincorp investors either reported that they didn’t know what this meant or didn’t attempt an answer. This compared to only 10% for the Active UUD investors and 6% for General investors.

Comparable to a bank

In the qualitative stage investors tended to indicate that ACR/Fincorp investments in particular (but not exclusively) were being compared to bank products and rates. This trend was confirmed in the quantitative stage in which 55.4% of ACR/Fincorp investors who had made a product comparison judged the investment against a bank, compared to 39.5% of Active UUD investors.³⁰

*I call risk, 10, 12, 14, 16%. I don’t call 8% a big risk. That’s why I invested with them, because I thought it was a steady company and they weren’t offering any big money, just a little bit [more than] a bank.
(Male, ACR, Focus Group, NSW)*

*There isn’t that warning space anymore. Some of the youngest debentures are offering 8%. You can get 7.2-7.5% from banks. It doesn’t seem to be an extra high risk. It seems to be a very small bit of extra money. The perception is that it’s safer than it actually is.
(Male, Active UUD, Focus Group, Victoria)*

³⁰ The sample size for those who made a product comparison was 289 investors.

Investor engagement

Type 1 and Type 2 investors viewed and experienced investing differently. As noted earlier, Type 1 investors tended not to have networks of friends, family or others who regularly invest or discuss investing. As Figures 14 and 15 show, Type 1 investors were also less likely to enjoy investing and they spent less time on their investments than Type 2 investors.

Some investors even described investing as if it were a burden:

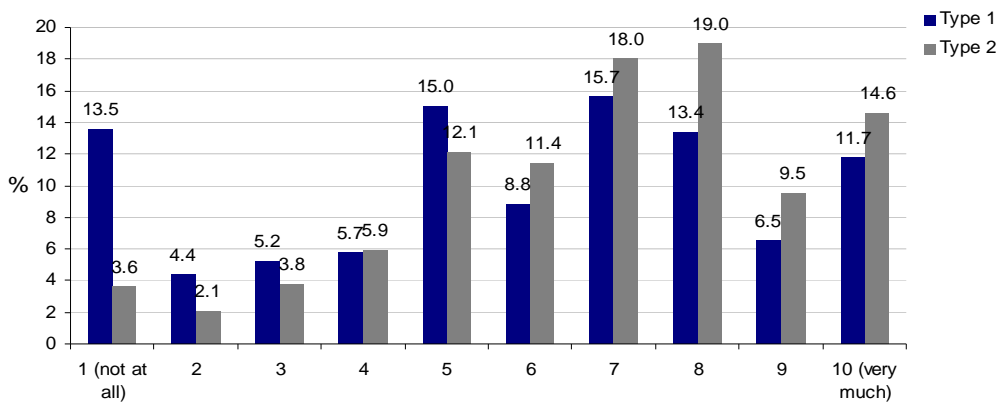
When I got near retirement I thought I'm not going to have the physical strength and willingness to look after all these [investments] and the problems associated with them. (Male, Fincorp, Focus Group, Victoria)

It's like a chore, keeping the books, I don't enjoy it but it's something you just have to stick at. (Male, ACR, Focus Group, Victoria)

I never check it. I get statements every six months. I haven't for years. I've got the same shares that I had years ago. (Female, Fincorp, Focus Group, Victoria)

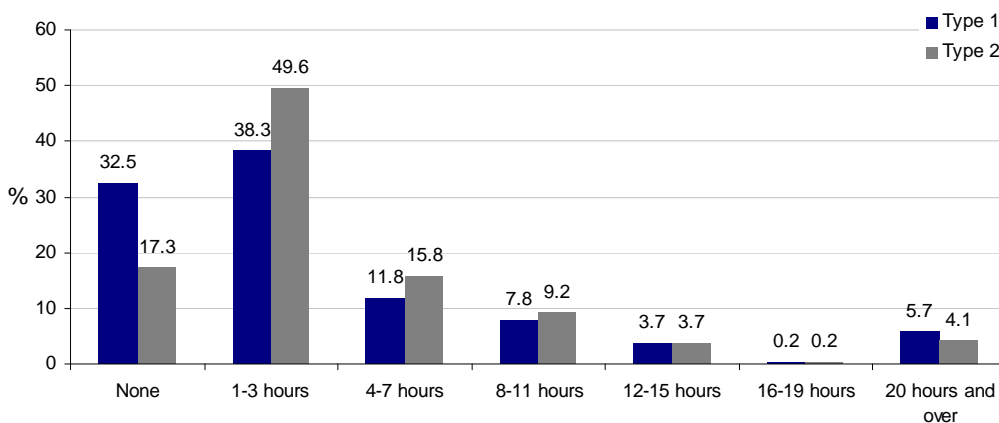
Whenever I had reports in the past, immediately I'd think 'bugger it I can't be bothered reading all of that'. (Male, ACR, Focus Group, Victoria)

Figure 14: How much do you enjoy investing



Type 1=613, Type 2=527, Average score (out of 10): Type 1=5.8, Type 2=6.8

Figure 15: How many hours a week do you normally spend on your investments?



Type 1=593, Type 2=513, p<0.05

Key terms

Term	Meaning in this document
ACR	Australian Capital Reserve Ltd (Administrators Appointed), which went into administration in May 2007
ACR/Fincorp investor	People who had invested in ACR and/or Fincorp
Active UUD investor	People who had investments in UUDs at the time of the research—the quantitative sample of Active UUD investors covered 355 separate investments by 280 individuals across 27 different debenture issuers
ASIC	The Australian Securities and Investments Commission
brandmanagement	brandmanagement Pty Limited, which conducted this research in consultation with ASIC
Fincorp	Fincorp Investments Ltd (Administrators Appointed), which went into administration in May 2007
General investor	Depending on the stage of research, this involved either those with general fixed interest investments or those with any type of investment (e.g. shares, investment property) and over \$50,000 to invest
investor groups	The three key groups of investors compared in the research: <ul style="list-style-type: none"> • ACR/Fincorp investors • Active UUD investors • General investors
investor types	The two key investor 'types' that emerged in the research: <ul style="list-style-type: none"> • Type 1 investors • Type 2 investors
Type 1 investor	An investor with the characteristics in column 1 of Table 1
Type 2 investor	An investor with the characteristics in column 2 of Table 1
UUD	An unlisted unrated debenture as defined on page 4