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1. EXECUTIVE SUMMARY

In June and July 2001, the Securities and Futures Commission (SFC) engaged an independent market research firm to conduct a survey covering 1,004 retail investors¹ to ascertain their profile, investment behaviour, education needs and views on regulatory functions.

Retail participation in trading investment products

- Over the past three years, 26% of Hong Kong adults had traded investment products. The most popular investment products were Hong Kong stocks, with a 22.5% retail participation rate. This was followed by funds (including investment-linked assurance schemes but not MPF schemes) (9.0%), derivatives traded on exchanges in Hong Kong (3.4%), stocks and derivatives traded on Mainland or overseas exchanges (2.5%), leveraged foreign exchange contracts (1.1%), and bonds (0.8%).

Investor profile

- Compared to the general adult population, a larger proportion of retail investors were male, aged between 30 and 49, professionals, and had higher levels of income and education.
- 45% of retail investors made their first trades in investment products during the past three years.

Investment behaviour

- The median number of transactions made by retail investors over the past 12 months was four. Male investors with more trading experience, higher levels of income or education tended to trade more frequently.
- More retail investors traded through banks. 46% of retail investors traded only through banks, 41% only through brokerage firms, and 7% used both. Investors with less trading experience, lower income or education levels, and those who traded less frequently tended to trade through banks. On the other hand,

¹ Retail investors are defined as adults or individuals aged 18 or above who had traded investment products in the past three years (excluding those who worked in the securities and futures industry). Investment products refer to stocks and derivatives traded on Hong Kong, Mainland or overseas exchanges, funds (including investment-linked assurance schemes but not MPF schemes), leveraged foreign exchange contracts (excluding foreign currency deposits at banks), and bonds.

investors with more trading experience, higher income or education levels, and those who traded more frequently tended to use brokerage firms.

- Many retail investors had not yet taken to on-line trading. Only 10% had ever traded on-line. Younger investors, those with higher levels of education or income, and those who traded more frequently tended to use on-line investing services more.

Education needs

- Many retail investors seemed to lack knowledge on investing. About two-thirds (64%) considered their understanding of the markets, investment risks, and investors' rights and responsibilities insufficient.
- Many retail investors wished to increase their knowledge on a broad range of subjects. Over two-thirds wanted more detailed information on investors' rights and responsibilities (78%), market malpractice (76%), investment instruments (70%), and investment risks (69%).

Views on SFC's investor education programmes

- The SFC's programmes to help investors make more sense of investing appeared to have made an impression. 71% of retail investors remembered the "Learn" and "Sheep" promotion campaigns. 65% said they listened to radio segments sponsored by the SFC and 56% had read SFC columns in newspapers.
- The education programmes and materials were well received by retail investors. The vast majority of the users (73% to 92%) said such programmes and materials could help them understand more about the markets, investment risks, and investors' rights and responsibilities.
- Most retail investors (88%) preferred to receive SFC's education information through television programmes, followed by newspaper columns (75%), radio segments (69%), and investor brochures (66%).

Views on regulatory functions

- 36% of retail investors considered SFC's work effective, 35% rated it average, while 22% considered it ineffective.
- However, ratings on the performance of individual regulatory functions discharged by the SFC varied quite a bit. For most of these functions, the

proportion of retail investors who gave a good rating outnumbered those who gave a poor rating.

Socio-economic profile and education needs of potential investors

- A sample of 85 potential investors² was also interviewed in the survey. Compared to retail investors, a larger proportion of potential investors were male, younger (39% aged between 20 and 29 vs 17% for retail investors) and had lower income.
- Most of them (91%) appeared to lack knowledge on investing, and 75% wanted to improve their knowledge.

² Potential investors are defined as adults who had not traded investment products in the past three years but had planned to trade in the coming six months (excluding those who worked in the securities and futures industry).

2. KEY FINDINGS

2.1 Retail participation in trading investment products

Over the past three years, 26% of Hong Kong adults had traded investment products. The most popular investment products were Hong Kong stocks, with a 22.5% retail participation rate. This was followed by funds (including investment-linked assurance schemes but not MPF schemes) (9.0%), derivatives traded on exchanges in Hong Kong (3.4%), stocks and derivatives traded on Mainland or overseas exchanges (2.5%), leveraged foreign exchange contracts (excluding foreign currency deposits at banks) (1.1%), and bonds (0.8%).

21% of adults had traded investment products over the past 12 months, and 19% said they would trade in the coming 6 months.

Table 1 Retail participation in trading investment products

<u>Type of investment products</u>	Had traded in the past <u>3 years</u> %	Had traded in the past <u>12 months</u> %	Would trade in the coming <u>6 months</u> %
Hong Kong stocks	22.5	18.3	15.8
Hong Kong derivatives	3.4	2.5	2.9
Mainland or overseas stocks and derivatives	2.5	1.8	2.5
Funds ⁽¹⁾	9.0	5.8	6.2
Leveraged forex contracts ⁽²⁾	1.1	0.7	1.1
Bonds	0.8	0.5	2.1
<i>Any of above</i>	<i>26.0</i>	<i>20.9</i>	<i>18.8</i>
Base: All respondents			

Notes: (1) Including investment-linked assurance schemes but not MPF schemes.

(2) Excluding foreign currency deposits at banks.

2.2 Investor profile

Socio-economic profile

Compared to the general adult population, a larger proportion of retail investors were male, aged between 30 and 49, professionals, and had higher levels of income and education as illustrated below:

- 57% of retail investors were male (vs 48% for all respondents);

- 61% aged between 30 and 49 (vs 47% for all respondents);
- 31% had received upper secondary education and 44% had attained an even higher education level (vs 27% and 26% respectively for all respondents);
- 77% were engaged in full-time or part-time employment (vs 57% for all respondents). Many of them were associate professionals (17%), managers and administrators (13%), clerks (12%), and professionals (10%) (vs 10%, 7%, 9% and 5% respectively for all respondents);
- The median monthly personal and household incomes were \$19,405 and \$31,428 respectively (vs \$13,598 and \$17,965 respectively for all respondents).

Table 2 Socio-economic profile of retail investors and potential investors

	<u>All respondents</u> %	<u>Retail investors</u> %	<u>Potential investors</u> %
<u>Sex</u>			
Male	48	57	61
Female	52	43	39
<u>Age</u>			
18-19	3	1	4
20-29	18	17	39
30-39	24	34	22
40-49	23	27	16
50-59	13	14	11
60 or above	19	7	8
<i>Mean</i>	<i>43</i>	<i>40</i>	<i>36</i>
<i>Median</i>	<i>41</i>	<i>38</i>	<i>33</i>
<u>Education level</u>			
No schooling/kindergarten	9	1	1
Primary (P1-P6)	20	8	8
Lower secondary (S1-S3)	18	15	14
Upper secondary (S4-S5)	27	31	39
Matriculation (S6-S7)	7	8	11
Tertiary or above	19	36	25
Refusals	1	1	2
Base: All respondents			

Note: Figures may not add up to 100% due to rounding.

**Table 2 Socio-economic profile of retail investors and potential investors
(cont'd)**

	<u>All respondents</u> %	<u>Retail investors</u> %	<u>Potential investors</u> %
<u>Activity status and occupation</u>			
<i>Engaged in FT/PT employment⁽¹⁾</i>	57	77	74
Managers/administrators	7	13	11
Professionals	5	10	8
Associate professionals	10	17	13
Clerks	9	12	14
Service workers/shop sales workers	8	8	9
Craft and related workers	7	8	14
Plant and machine operators/assemblers	2	2	0
Elementary occupations	8	3	2
Refusals	2	2	2
<i>Not engaged in FT/PT employment</i>	43	23	26
Students	4	1	4
Homemakers	18	12	10
Retirees	14	6	4
Unemployed persons	7	4	8
Base: All respondents			
<u>Monthly personal income</u>			
Less than \$7,000	16	7	13
\$7,000 - \$9,999	14	7	13
\$10,000 - \$14,999	25	21	30
\$15,000 - \$19,999	13	15	13
\$20,000 - \$29,999	14	21	11
\$30,000 - \$49,999	10	17	8
\$50,000 or above	4	8	9
Refusals	5	4	3
<i>Mean (\$)</i>	<i>18,504</i>	<i>25,227</i>	<i>20,343</i>
<i>Median (\$)</i>	<i>13,598</i>	<i>19,405</i>	<i>13,849</i>
Base: All respondents who were engaged in FT/PT employment			

Note: (1) Definitions are based on HKSAR Government's General Household Survey. For instance, associate professionals include, amongst others, nurses, surveying technicians, teachers of primary schools and kindergartens, computer operators, sales representatives, designers, social work assistants, superintendents, inspectors and officers of the police and other discipline services.

Table 2 Socio-economic profile of retail investors and potential investors (cont'd)

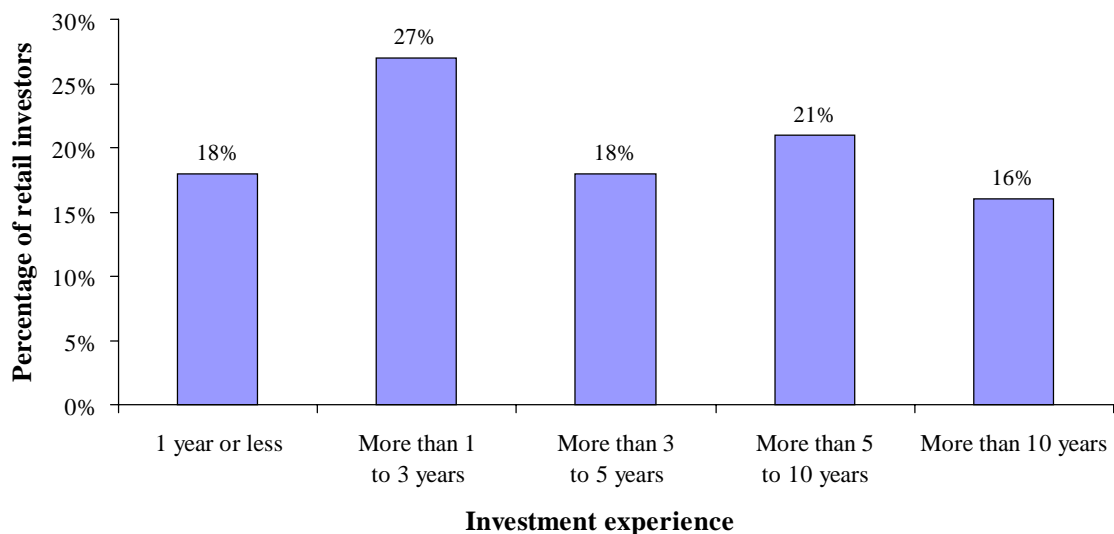
	<u>All respondents</u> %	<u>Retail investors</u> %	<u>Potential investors</u> %
<u>Monthly household income</u>			
Less than \$7,000	17	5	1
\$7,000 - \$9,999	8	3	2
\$10,000 - \$14,999	15	10	15
\$15,000 - \$19,999	11	10	12
\$20,000 - \$29,999	15	18	23
\$30,000 - \$49,999	16	27	20
\$50,000 or above	10	22	21
Refusals	9	6	5
<i>Mean (\$)</i>	<i>24,447</i>	<i>37,064</i>	<i>34,969</i>
<i>Median (\$)</i>	<i>17,965</i>	<i>31,428</i>	<i>27,275</i>

Base: All respondents

Investment experience

45% of retail investors made their first trades in investment products during the past three years, while 16% had more than ten years of experience. The median was four years.

Figure 1 Investment experience of retail investors



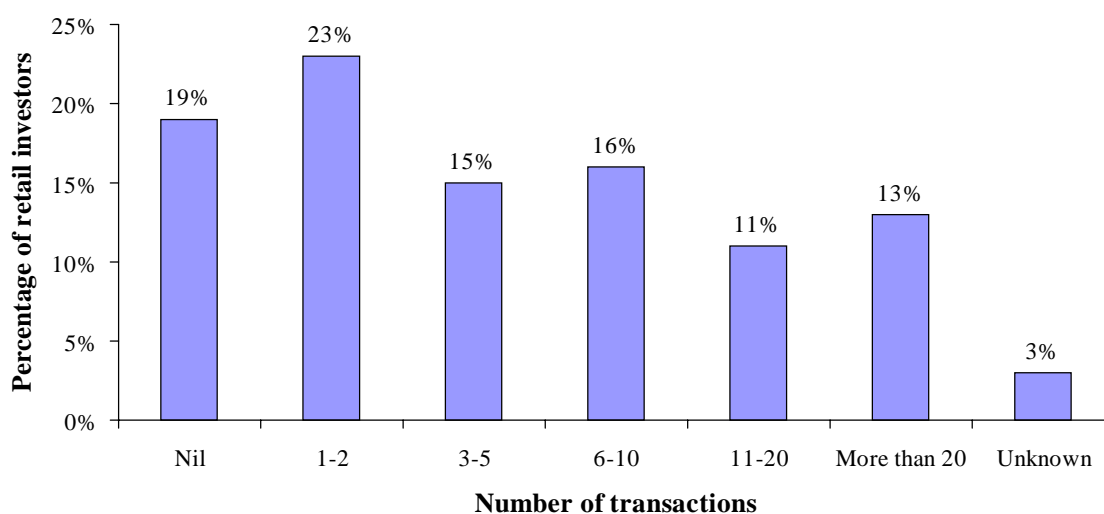
Base: All retail investors surveyed

2.3 Investment behaviour

Trading frequency

The median number of transactions made by retail investors over the past 12 months was four, where buying and selling were counted as two transactions. On the other hand, the average number of transactions made over the same period was 11, indicating a highly skewed distribution of trading frequency among retail investors. 24% of retail investors made more than 10 transactions, while 23% made only one or two transactions and 19% did not make any transaction at all.

Figure 2 Number of transactions made in the past 12 months



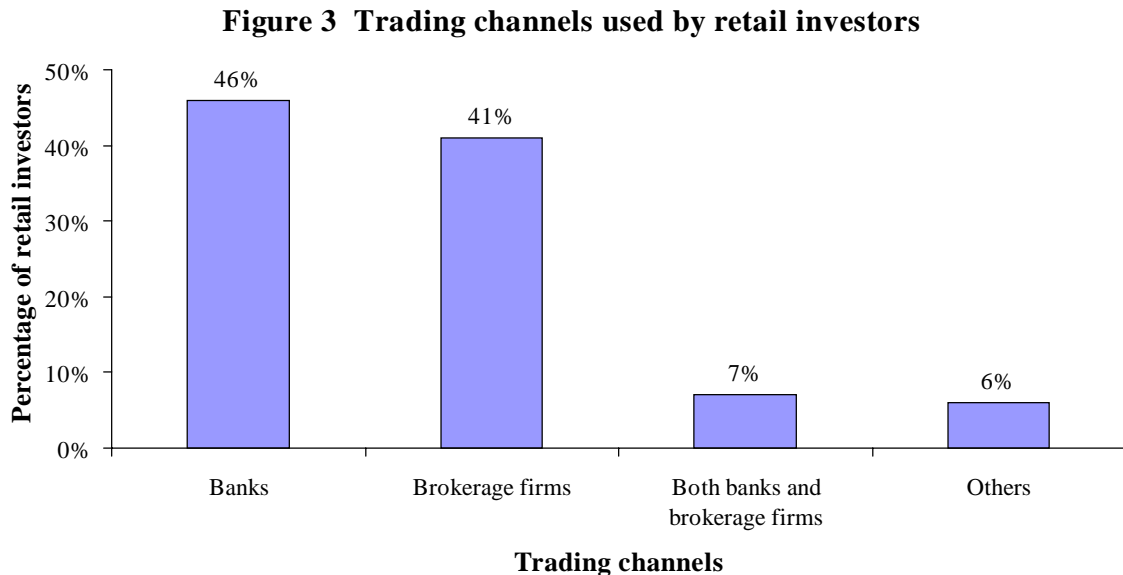
Base: All retail investors surveyed

Analyses by investor profile indicate that the following groups of retail investors tended to make more transactions (in terms of median):

- Male (4 transactions vs 2 transactions for female);
- Better educated persons (5 transactions for those having attained matriculation or above vs 2 transactions for those having received lower secondary education or below);
- Managers, administrators and professionals (5 transactions), and retired/unemployed persons (6 transactions);
- Those with higher levels of income (5 and 4 transactions respectively for those with monthly household income of \$50,000 or above and personal income of \$30,000 or above);
- More experienced investors (9 transactions for those with more than 10 years of trading experience).

Trading channels

More retail investors traded investment products through banks. 46% of retail investors traded only through banks, 41% only through brokerage firms, 7% used both, while 6% used other channels, such as insurance companies, through initial public offerings.



Base: All retail investors surveyed

Analyses show that the following groups of retail investors tended to trade through banks:

- Less educated persons (59% for those having received lower secondary education or below);
- Skilled/elementary workers (60%) and homemakers (56%);
- Those with lower levels of income (58% and 56% respectively for those with monthly personal income of less than \$10,000 and monthly household income of less than \$20,000);
- Less experienced investors (58% and 50% respectively for those with one year or less and one to three years of trading experience);
- Those who traded less frequently (56% for those who made one to five transactions in the past 12 months).

On the other hand, the following groups of retail investors tended to use brokerage firms:

- Better educated persons (46% for those having attained matriculation or above);
- Those with higher household income (47% for those with monthly household income of \$50,000 or above);
- More experienced investors (57% and 48% respectively for those with more than ten years and five to ten years of trading experience);
- Those who traded more frequently (50% and 46% respectively for those who made six to ten and more than ten transactions in the past 12 months).

On-line trading

Many retail investors in Hong Kong have not yet taken to on-line trading. Only 10% of retail investors had ever traded on-line.

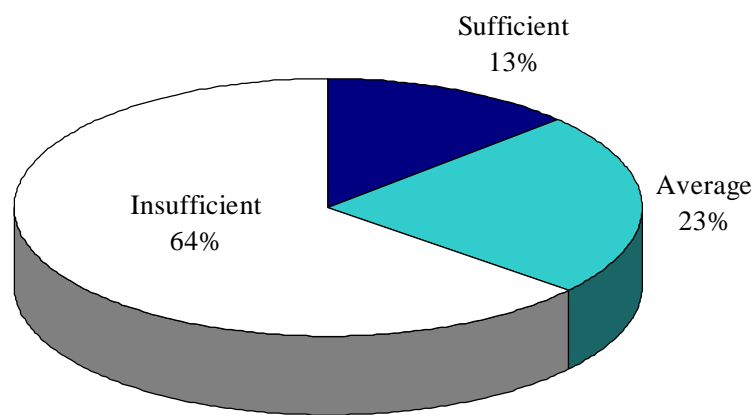
The following groups of retail investors tended to use on-line investing services more:

- Younger persons (21% for those aged 18 to 29);
- Better educated persons (18% for those having attained matriculation or above);
- Managers, administrators and professionals (20%);
- Those with higher levels of income (17% and 15% respectively for those with monthly personal income of \$30,000 or above and household income of \$50,000 or above);
- Those who traded more frequently (18% for those who made more than five transactions in the past 12 months).

2.4 Education needs

Many retail investors seemed to lack knowledge on investing. About two-thirds (64%) of retail investors considered their understanding of the securities and futures markets, investment risks, and investors' rights and responsibilities insufficient. Only 13% said they had sufficient knowledge.

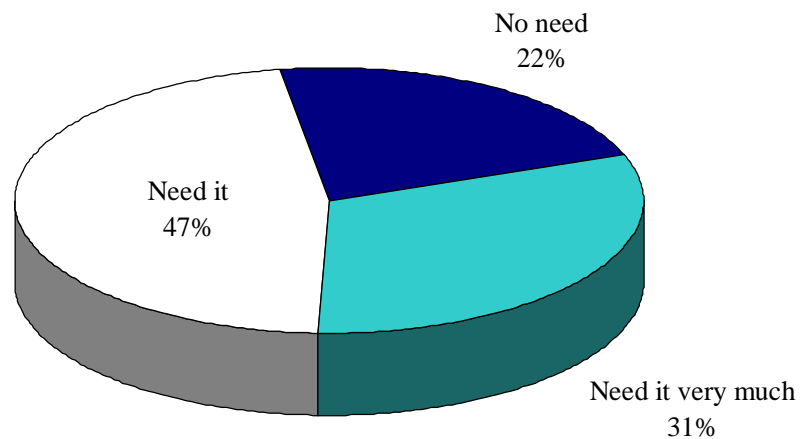
Figure 4 Perceived understanding of the markets, investment risks, and investors' rights and responsibilities



Base: All retail investors surveyed

Many retail investors wanted to know more about investing. 78% expressed a need to know more about the markets, investment risks, and investors' rights and responsibilities.

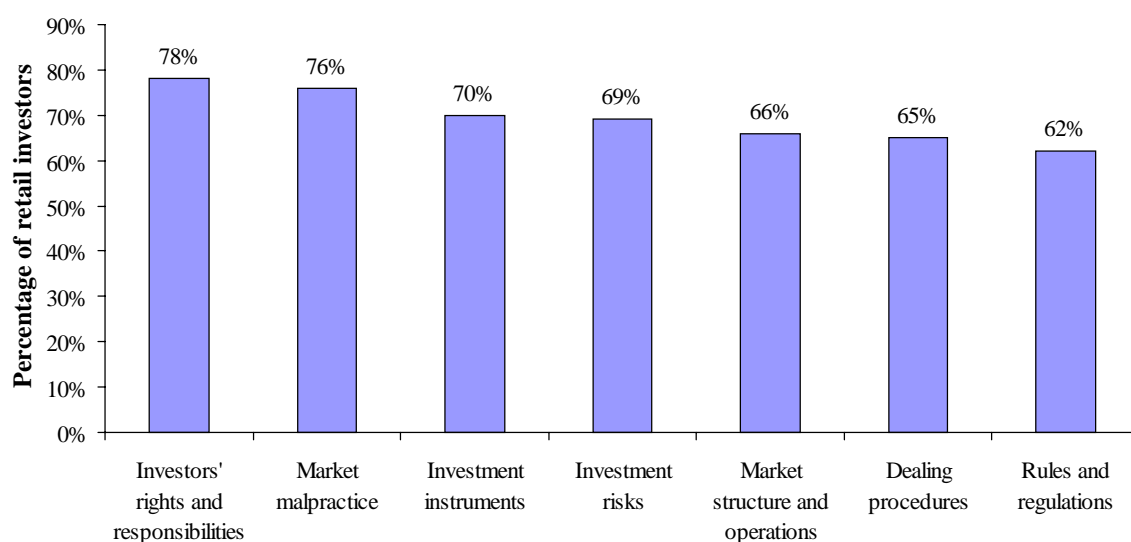
Figure 5 Need for better understanding of the markets, investment risks, and investors' rights and responsibilities



Base: All retail investors surveyed

A very large proportion of retail investors wanted to increase their knowledge on a broad range of subjects. Over two-thirds wanted more detailed information on investors' rights and responsibilities (78%), market malpractice (76%), investment instruments (70%), and investment risks (69%).

Figure 6 Subjects retail investors wanted to know more about



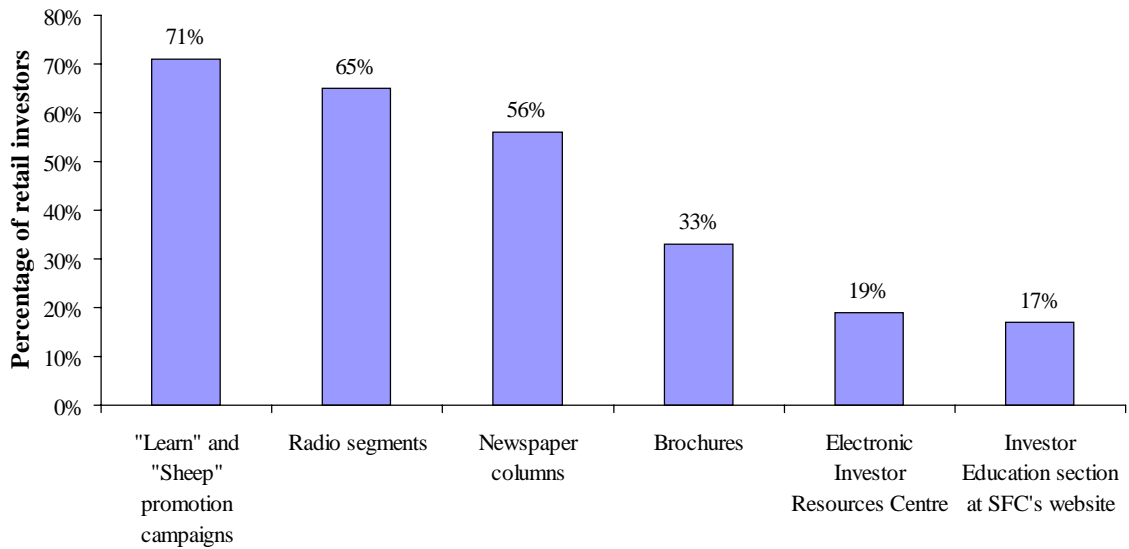
Base: All retail investors surveyed

2.5 Views on SFC's investor education programmes

The overwhelming majority (95%) of retail investors had heard of the SFC.

The SFC's programmes to help investors make more sense of investing appeared to have made an impression. Among those education programmes run in the past 12 months, most retail investors remembered the "Learn" and "Sheep" promotion campaigns (71%). 65% said they listened to radio segments sponsored by the SFC and 56% had read SFC columns in newspapers. The awareness of other programmes, including investor brochures, the Electronic Investor Resources Centre and the Investor Education section at SFC's corporate website, ranged from 17% to 33%.

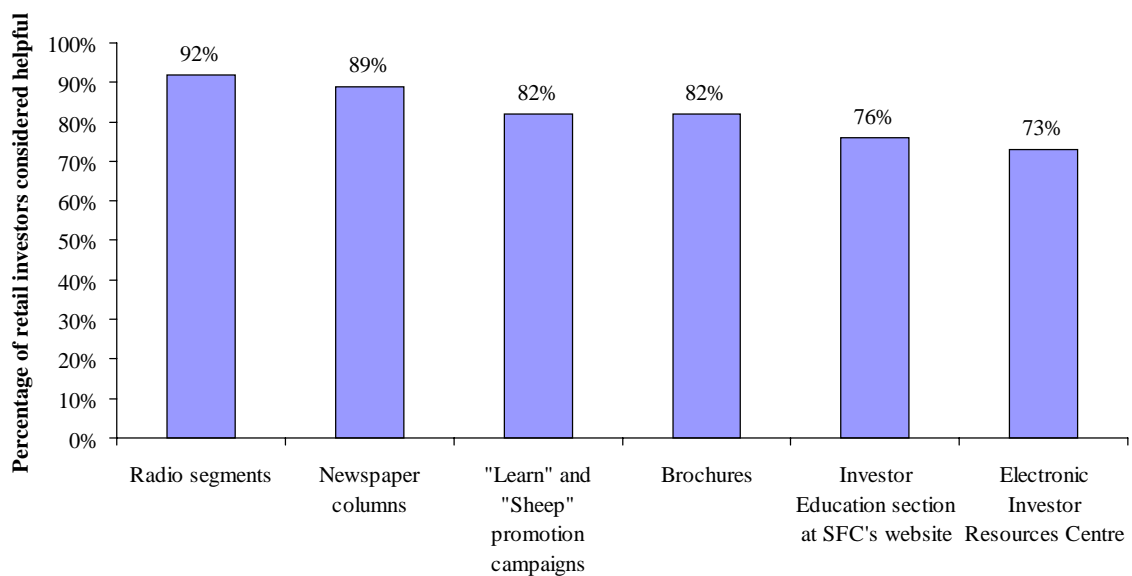
Figure 7 Awareness of SFC's investor education programmes



Base: All retail investors surveyed

The education programmes and materials were well received by retail investors. The vast majority of the users said such programmes and materials could help them know more about the securities and futures markets, investment risks, and investors' rights and responsibilities. Most users (92%) considered radio segments sponsored by the SFC helpful, closely followed by SFC columns in newspapers (89%), "Learn" and "Sheep" promotion campaigns (82%), and investor brochures (82%).

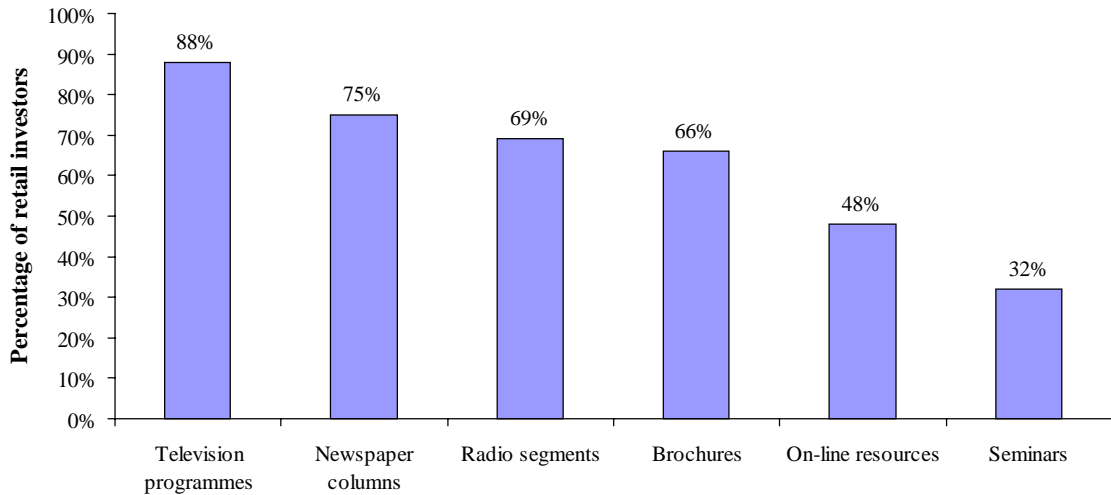
Figure 8 Helpfulness of SFC's investor education programmes



Base: All retail investors who were aware of the respective programme

Most retail investors (88%) preferred to receive SFC's education information through television programmes, followed by newspaper columns (75%), radio segments (69%), investor brochures (66%), and on-line resources (48%). Only 32% preferred seminars.

Figure 9 Preferred channels for obtaining education information

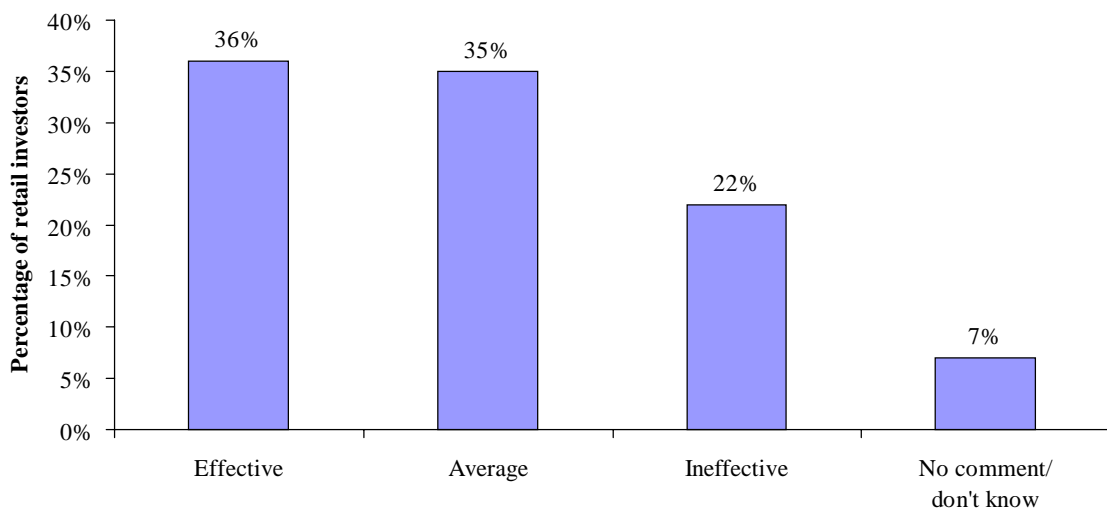


Base: All retail investors surveyed

2.6 Views on regulatory functions

36% of retail investors considered SFC's work effective in regulating the securities and futures markets and safeguarding the rights of investors, 35% rated it average, while 22% considered it ineffective.

Figure 10 Perceived effectiveness of the overall regulatory work

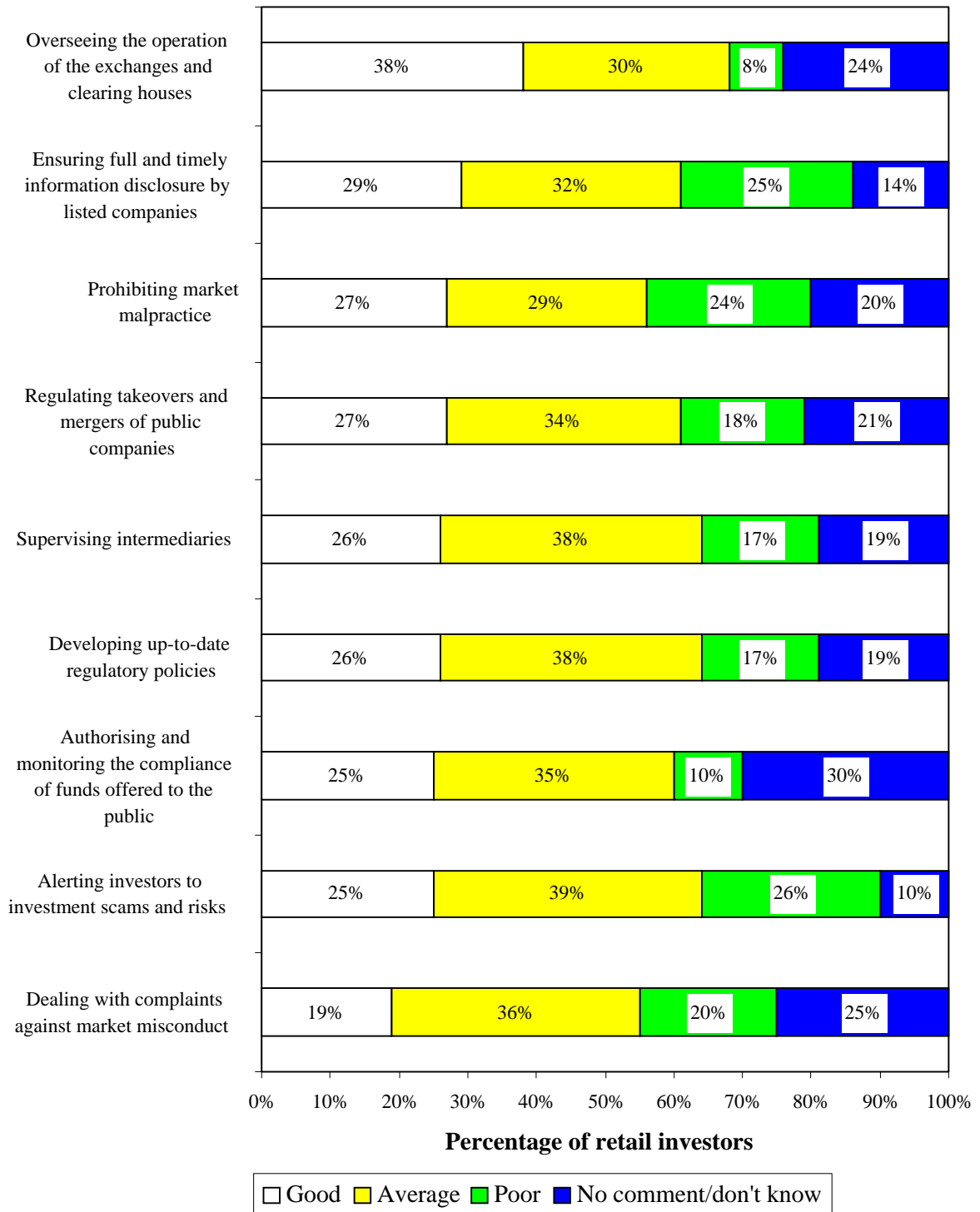


Base: All retail investors surveyed

However, ratings on the performance of individual regulatory functions discharged by the SFC (including certain functions discharged by Hong Kong Exchanges and Clearing Limited as the frontline regulator) varied quite a bit. For most of these functions, the proportion of retail investors who gave a good rating outnumbered those who gave a poor rating. This is particularly apparent for the SFC's functions in overseeing the operation of the exchanges and clearing houses (38% vs 8%), authorising and monitoring the compliance of funds offered to the public (25% vs 10%), supervising intermediaries (26% vs 17%), and developing up-to-date regulatory policies (26% vs 17%). In all cases, a considerable proportion of retail investors (29% to 39%) gave an average rating, while many retail investors (10% to 30%) had no comment or idea.

To increase investor confidence in the markets, 62% of retail investors said certain regulatory functions should be strengthened. Many of them suggested improving information disclosure by listed companies (45%), strengthening prohibition against insider dealings (14%), and improving supervision of brokerage firms (12%).

Figure 11 Views on individual regulatory functions



Base: All retail investors surveyed

2.7 Socio-economic profile and education needs of potential investors

Apart from retail investors, a sample of 85 potential investors was interviewed in the survey to gauge their socio-economic profile and market education needs.

Compared to retail investors, a larger proportion of potential investors were male, younger (39% aged between 20 and 29 vs 17% for retail investors), and had lower levels of income (see Table 2).

Most of them appeared to lack knowledge on investing. 91% considered their understanding of the securities and futures markets, investment risks, and investors' rights and responsibilities insufficient. Only 5% said they had sufficient knowledge.

A very large proportion (75%) of potential investors wanted to know more about investing. Over two-thirds wanted to get more detailed information on investors' rights and responsibilities (79%), market malpractice (76%), dealing procedures (71%), investment instruments (68%), and investment risks (68%).

The overwhelming majority (97%) of potential investors had heard of the SFC.

Similar to retail investors, most potential investors (87%) preferred to obtain SFC's education information through television programmes, followed by newspaper columns (70%), radio segments (65%), investor brochures (64%), and on-line resources (56%). Only 35% preferred seminars.

SURVEY DESIGN

Target respondents

Definitions of the target respondents in this survey are as follow:

Respondents: Hong Kong adults or individuals aged 18 or above.

Retail investors: respondents who had traded investment products in the past three years (excluding those who worked in the securities and futures industry). *Investment products* refer to stocks and derivatives traded on Hong Kong, Mainland or overseas exchanges, funds (including investment-linked assurance schemes but not MPF schemes), leveraged foreign exchange contracts (excluding foreign currency deposits at banks), and bonds.

Potential investors: respondents who had not traded investment products in the past three years but had planned to trade in the coming six months (excluding those who worked in the securities and futures industry).

Data collection method

Survey data were collected through telephone interviews from 11 June to 8 July 2001. A structured questionnaire was used to collect information from the target respondents.

Sampling method

A random sample of 3,002 adults was first interviewed. The sample was selected by a two-stage random process. In the first stage, a random sample of households was proportionally selected from the 18 District Board districts. In the second stage, telephone calls were made to the selected households and an adult was randomly selected from each of these households for interview.

Of those 3,002 adults successfully interviewed, 777 were retail investors and 85 were potential investors. In order to achieve a larger sample for more reliable analyses, an additional random sample of 227 retail investors was subsequently interviewed, bringing the total to 1,004 retail investors.