National Survey: Investors Are Split Over Technology Stocks

(NAPSA)—According to a new nationwide survey of investors, recent volatility in equity markets prompted only 15 percent of shareholders to change the amount they have invested in mutual funds. Of those, 36 percent have increased their investments and 59 percent have decreased their investments.

While more than half (54 percent) of surveyed investors said they have less appetite for risk given recent stock market developments, 22 percent now have a greater appetite for risk, 18 percent the same amount.

"The loss aversion seen in the study is consistent with the behavioral finance analysis done by Professors Terrance Odean of the Graduate School of Management at the University of California, Davis and Richard Thaler at the University of Chicago Graduate School of Business," observes Duncan W. Richardson, senior vice president of Eaton Vance, the Boston-based mutual fund provider who commissioned the survey, and portfolio manager of The Eaton Vance Tax-Managed Growth Fund.

"Their work suggests that investment behavior is influenced by natural human tendencies which cause investors to overtrade and to not admit mistakes," he says. "Unfortunately, these traits often frustrate achieving higher after-tax returns."

In their outlook for the market over the next year, investors are more bullish (57 percent) than bearish (30 percent). Nearly two-thirds of surveyed investors think the return of the S&P 500 index will be positive in 2001. Among these investors, 61 percent think the return will exceed six percent in 2001, and 22 percent think the return will exceed 10 percent. More than half of surveyed investors (52 percent) think the return of the Nasdaq Composite Index will be positive in 2001. Among these investors, 46 percent think the return will exceed 10 percent.

When asked what they think might be the biggest surprise for investors in 2001, a strong market rebound was mentioned by the highest number of those surveyed (17 percent). Tying for second were: a good economy without recession, rebounding of technology stocks, further downturn in the market and President Bush's tax plan being passed.

Investors are of two minds when it comes to the expected performance of technology stocks for the current year, but most believe they will rebound within the next three years and represent a good longer-term investment.

One in five surveyed investors predicts technology will be the *best performing* investment area or industry sector in 2001, but nearly twice as many (38 percent) think technology will be the *worst performing* sector for the year. Energy and pharmaceuticals were tied for second best bets, automotive and utilities were tied for second worst groups to invest in.

"When asked about different market sectors, the investment area that elicited by far the strongest sentiment—for better or worse—was technology," notes Richardson. "Love or hate the sector in the short term, it is clearly one that the public feels will continue to be a major market force to be reckoned with."

One in three surveyed investors said that technology stocks will be a good investment and 43 percent said they will be a fair investment in 2001. One in five investors said technology stocks will be a poor investment this year. More than six in 10 investors (61 percent) said that technology stocks will be a good investment over the next three years and 30 percent said they will be a fair investment over this time period. Only six percent of investors said technology stocks will be a poor investment over the next three years.

One of the most popular investment products of the 1990s—passively managed index funds that mimic the movements of major market indices—may have reached a peak in their popularity. When asked whether they will be more likely or less likely to invest in index funds in the next couple of years, a majority of survey respondents (51 percent) said they are *less likely* to do so. The most commonly cited reason (31 percent) was higher market volatility.

"Data from the survey supports Eaton Vance's view that we are past the peak of popularity for passive investing," says Richardson. "The year 2000 partially exposed the fatal flaw of indexing—the fact that indices are constructed without applying any valuation discipline or investment judgment. In the results of 2000, investors experienced the risks of this approach and are now beginning to vote with their feet."

The survey revealed that investors have a poor understanding of how major stock market indices are constructed. When asked what criteria are more important to Standard & Poor's in selecting stocks for its indices, nearly half of all surveyed investors (44 percent) said, incorrectly, that stocks are selected on the basis of their investment merits or the attractiveness of their valuations. Only 24 percent of surveyed investors correctly identified the primary basis for inclusion in an S&P index, which is that adding the company to the index would make the index more representative of the U.S. economy.