Republicans bearish, Democrats bullish: U. of Chicago

By Editor Test   *Tue, Feb 19, 2013*

Another 'black swan' ahead? Since the November election, Republicans have grown gloomier about the economy. And, while more than half of Americans believe the stock market will plunge in 2013, few plan to sell.

More than half of Americans (58%) expect the stock market to drop by more than 30% in the next 12 months, as compared to 48% in the September 2012 report issued before the presidential election, according to the Chicago Booth/Kellogg School Financial Trust Index.

Bearish fears are centered primarily among Republicans. “Approximately 67% of survey respondents who identified as Republicans think a big drop is likely, versus 50% in the last wave. This compares to 44% 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% of people surveyed said they will leave their investments unchanged in the next 12 months, and an additional 16% 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%, trust in local banks and credit unions is relatively high at 56% and 62% respectively.

Also, the number of people who believe they are likely to be unemployed within the next year rose to 22% since the last quarter, an increase of 10%.

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.

View of experts contrasts with average Joe’s
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 compare public opinion on several finance and economic policy questions with opinions of the Chicago Booth IGM Economic Experts Panel,.

“On average, the percentage of agreement with a statement differs by 35 percentage points between the two groups,” Zingales said in a release. “We saw the greatest disparity from public opinion when the economists were most in agreement with each other."

To wit:

- Ability to predict the stock market: All the economists, versus only 55% of Americans surveyed, agreed that "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."
- Executive compensation: Only 39% of economists, versus 67% of the public, believed that "the typical corporate chief executive is paid more than the value he or she adds to the firm."
- Carbon tax vs. car standards: Only 23% of Americans, versus 93% of economists, answered yes to 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?"
- Buy American? Only 11% of economists, versus 76% of economists, believe mandates that the Federal government 'Buy American' will boost U.S. manufacturing employment.

The divergence of opinions was believed to reflect a difference in the interpretation of the questions. Sapienza and Zingales wrote, "Economists answer them literally and take for granted that all the embedded assumptions are true; average Americans do not."

The quarterly Financial Trust Index survey is conducted by Social Science Research Solutions (SSRS). A total of 1,026 individuals were surveyed by live interviewers from Dec. 5 to Dec. 12, 2012. The institutions considered in the survey are banks, the stock market, mutual funds and large corporations.