AAII Survey: Individual Investors Split as to Whether Market Is "Rigged" Against Them

"The stock market is rigged." That is a statement I have heard from many investors over my 20-plus years at AAII. This number, not surprisingly, increased following the financial crisis of 2007–2008, when many investors saw their portfolio values fall by half or more.

But is that really the case?

By most estimates, we are in the midst of the longest bull market in history, with the S&P 500 index now having gone 3,478 trading days since its last decline of 20% or more (based on closing prices). Over that span, the S&P 500 has risen more than 330%, with an average annual gain of more than 16%, making it the third-largest percentage change for a bull market since 1900, according to the Leuthold Group, trailing only the 371.6% gain between July 1932 and March 1937 and the 495.2% gain between August 1921 and August 1930. [Note: By the Financial Regulatory Authority's (FINRA) count, the tech rally of the last of the 1980s still holds the record, as they have the beginning of that bull run in 1989 rather than 1990. That would mean the current bull market would need to continue until at least the summer of 2021 to break the record.]

Since its inception in 1927, the S&P 500 has averaged an annual return of roughly 10%, by far the strongest-performing asset class over the period.

However, it is easy to think that the deck is stacked against you as an individual investor. Wall Street research departments are stocked with Ph.D.s and CFA charterholders, with knowledge and resources that surpasses that of the typical investor. They also have access to corporate management that the average investor does not have. Through in well-publicized accounts of front-running by high-frequency traders (HFTs) as told in the book "Flash Boys: A Wall Street Revolt," it's easy for individual investors to feel they are outgunned. Lastly, the lack of transparency regarding mortgage-backed securities during the height of the real estate bubble did nothing to instill confidence in the system among investors.

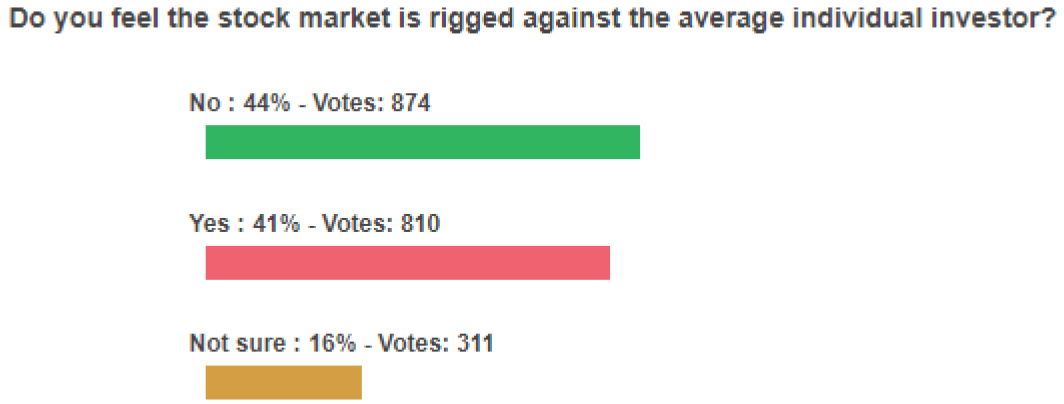
However, AAII strongly believes that there are areas of the market where individual investors, with the proper education, discipline and time horizon, can compete with and even outperform the market and professional investors and traders. This is the premise of the Model Shadow Stock Portfolio, which since its inception in 1993, has outperformed the S&P 500 by six hundred basis points (six percentage points) ***per year.***

AAII Weekly Survey Question

While some of the data regarding investor confidence in the market are anecdotal, we wanted to hear from our readers. So last week's survey question asked:

> Do you feel the stock market is rigged against the average individual investor?

Here are the results of the survey:



In all, 1,995 readers participated.

The results were close, with 44% of readers answering that they don't feel the stock market is rigged against them. However, 41% of respondents believe that it is. The remaining 16% aren't sure.

Weekly Special Question

Digging deeper into this issue, we are curious to know if our readers feel individual investors hold any advantages over institutional investors and professional traders. So last week's special question asked:

> What advantages, if any, do you think individual investors have compared to institutional investors?

In all, we received 320 responses, with 276 offering opinions as to why individual investors hold an advantage over institutional investors.

Among this group, the biggest advantage cited, with roughly one-quarter of responses and by nearly a two-to-one margin over the next highest vote-getter, is that individual investors can act more quickly, moving into and out of positions much faster than institutional investors.

More than 13% of those believing individual investors have an advantage over institutional investors cited the ability of individuals to invest in small stocks. Large, institutional investors cannot invest in small companies without becoming the market in these stocks and having a significant impact on the price.

Coming in at a close third place, 13% of respondents say individual investors have an advantage because they can operate at their own time frame and do not have to worry about quarterly or annual results to maintain investors (or their job).

Rounding out the top four responses, 12% of respondents say that individual investors have an advantage over institutional investors because they do not have to justify their actions to a pool of investors.

Here is a sampling of the responses from our readers as to where they feel individual investors have an advantage over institutional investors:

- "Companies like Vanguard and AAII give individual investors advantages if you're willing to listen and act on them."
- "Individual investors can make decisions faster than institutional investors. Also, they can invest in smaller companies without drastically changing the market prices of a particular company."
- "Ability to implement decisions quickly."
- "Freedom to make any move they want. No one to answer to but themselves."
- "[Individual investors] don't have to worry about short-term returns."
- "Individuals have great flexibility of timing, whereas institutions must keep nearly fully invested."
- "We don't have to march lockstep with a particular investment style."

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.