



Mixed Messages, Volatile Markets

An analysis of the media's reporting on issues impacting investor confidence

Prepared by CARMA International, Inc.

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From July to October 2002, CARMA International, Inc. conducted an analysis of U.S. media coverage on financial markets, the investing environment, investor confidence and corporate malfeasance.

KEY FINDINGS



**“If trust is high, communication is effortless, it’s easy, and it’s instantaneous.
If trust is low, communication is distorted.”**

- Author Steven Covey (*Seven Habits of Highly Effective People*) on CNBC Business Center, July 26

MEDIA COVERAGE DEPICTED RAMPANT SKEPTICISM TOWARD CORPORATE AMERICA AND WALL STREET over the past four months, as journalists and individual investors alike expressed their deep concern. Investors frequently stated their doubts about the honesty and trustworthiness of both the firms in which they were investing and the brokerage firms advising them on their investments.

CORPORATE EXECUTIVES OFTEN CONVEYED THAT MOST COMPANIES WERE TRUSTWORTHY, BUT THEIR ARGUMENTS FELL ON DEAF EARS. While scions of business and Wall Street launched high profile efforts to counter the claims that there are systemic problems in the way corporations are run, their arguments had little impact on the overall sentiment conveyed by individual investors. Most stories that conveyed a message of trust in corporate America occurred in pieces that included interviews with CEOs, rather than “man-on-the-street” interviews. Few stories contained comments by both source groups – of the more than 150 stories that quoted company officials and individual investors, only eight contained comments by both types of sources.

FEW STORIES ON TRUSTWORTHINESS OF CORPORATE AMERICA SHOWED BALANCED OPINIONS ON THE ISSUE. Out of more than 100 stories that discussed whether or not companies were trustworthy, only six conveyed both positive and negative opinions on the trustworthiness of Corporate America.

THERE WAS A GROWING RECOGNITION OF THE VALUE OF BROKERS in media coverage between

July and October. CARMA’s analysis of media coverage over the last four months revealed an increased respect for the function that brokers perform, and stories often contained recommendations that individuals seek out the help of professionals when planning for retirement, retooling an existing investment plan, or tax-minimization investing strategies.

WHILE THE VALUE OF USING A BROKER WAS ACKNOWLEDGED, WALL STREET AS A WHOLE WAS LAMBASTED by the press, as CARMA saw an increasing acknowledgement of the need for firewalls between research and investment banking activities. Wall Street continued to generate substantial mistrust among the public. More media floated the idea that that research and investment banking should be completely separated. While the feasibility of such a plan was debated, the proposed structural change to Wall Street received resounding applause in most coverage.

GOVERNMENT-MANDATED REFORM WAS USUALLY CITED AS NECESSARY TO PROVIDE INCENTIVE FOR INVESTING IN THE SHORT-TERM, BUT LESS EFFECTIVE AT RESTORING THE PUBLIC’S TRUST. Reforms such as the Sarbanes-Oxley Act were seen as important to stimulating the market in the short term. However, most media reports concluded that government mandates would be for naught if reform did not come from within corporations as well. This was viewed as a key element in the long-term to restoring the public’s trust for investing in Corporate America.

PROJECT METHODOLOGY

Background

The past year has seen one formerly high-flying company after another implode because of causes as varied as fraud, conflicts of interest, illegal accounting practices, a severe drop-off in customer demand or simply mismanagement. Many companies left standing are cutting costs, laying-off employees by the thousands, cutting back new investments and lowering their forecasts for future growth. Corporate integrity has been decimated by greed, corporate fraud, aggressive accounting, conflicts of interest on Wall Street and the ongoing uncertainty due to the war on terrorism (which may include a war with Iraq) - all of which has shaken investor confidence, sending the markets to multi-year lows. It is within this context that CARMA International has undertaken this study, the latest in CARMA's series of reports examining U.S. media coverage concerning the investing environment, investor confidence, corporate malfeasance and the financial markets.

Methodology

CARMA analyzed nearly 750 articles from July through October 2002 that examined the subject of investor confidence, tracking the context in which the discussion appeared, the messages conveyed about the subject, and the sources commenting on the subject.

CARMA examined reports from 74 of the nation's leading business and consumer media, including:

ABC News

Atlanta Journal & Constitution

Barron's

Boston Globe

Business Week

CBS News

Chicago Tribune

CNBC

CNN

Economist

Fox News

Forbes

Fortune

Los Angeles Times

Money

NBC News

New York Times

San Francisco Chronicle

SmartMoney Magazine

Time

US News & World Report

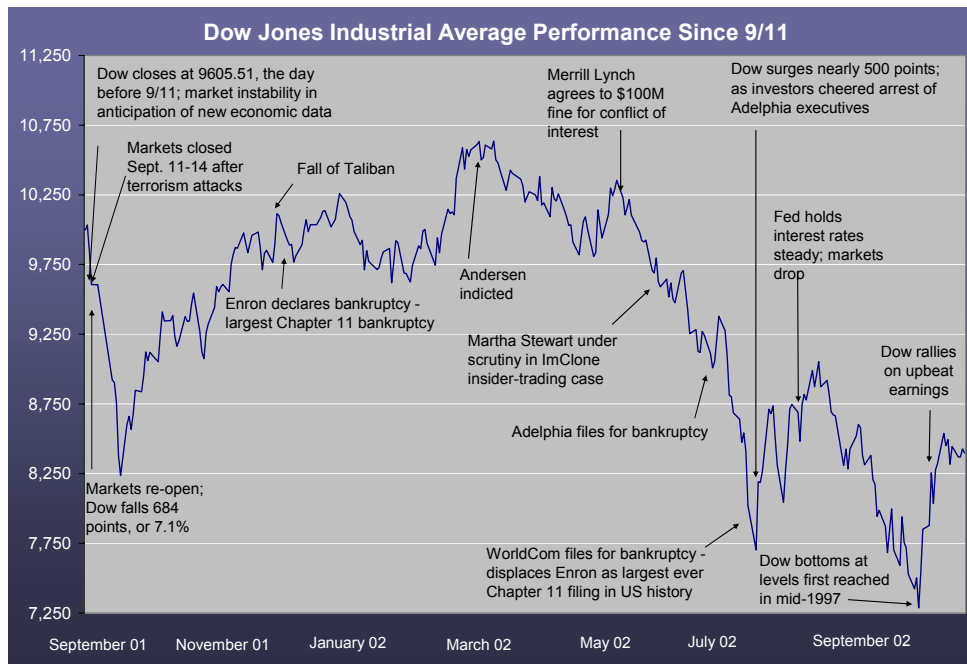
USA Today

Wall Street Journal

Washington Post

About CARMA International, Inc.

Founded in Washington D.C. by Albert Barr nearly two decades ago, CARMA International, Inc. pioneered the commercialization of media content analysis. CARMA's philosophies are that the media affects and reflects public opinion and that media analysis is a useful measure for gauging public opinion. Today, CARMA is the world leader in media research. With offices around the globe, CARMA is able to provide expertise on a local and global level, while offering Fortune 500 clients in nearly every industry a comprehensive, integrated and consistent approach to global media measurement. Using the most sophisticated proprietary software and the most specialized research methodologies in the industry, CARMA analysts enable companies to maximize the effectiveness of their public communications outreach and provide strategic insights for future planning.



TAKING STOCK SINCE SEPTEMBER 11: A BRIEF BACKGROUNDER

Investors crossed their fingers on the market's reopening after September 11, and they were rewarded. After a sharp free-fall, the markets quickly rebounded and gained steam through the beginning of 2002 as the U.S. and its allies quickly routed the Taliban regime in Afghanistan.

This rally proved short-lived, however, as corporate malfeasance rattled markets more fiercely than Osama bin Laden had. One after another, allegedly illegal and unethical activities were revealed at such prestigious companies such as Enron, Andersen, Merrill Lynch, Adelphia, WorldCom, Tyco International and ImClone, devastating these companies' stock prices and rattling investor confidence.

CARMA's investor confidence research kicked off in early July, just after WorldCom announced an overstatement of \$3.8 billion in revenue and filed for bankruptcy protection, the largest Chapter 11 filing in U.S. history. This event was often cited by the media as the catalyst for the increased doubt in corporations that led to further selling throughout 2002.

The media spent most of July lamenting the corporate accounting scandals facing America and trying to plot the best course of action. Most media coverage surrounding actions reflected public sentiment that the "system" was corrupt and in need of a major overhaul.

President Bush took the lead with a July 9 speech on Wall Street on the subject of corporate responsibility, promising to punish the corrupt companies who destroyed investor confidence, but chiefly advocating a higher moral standard among corporate executives. However, Bush did not seem to have the answers that investors were looking for, as supporters of tougher remedies outflanked him. Congress quickly responded with the passage of the Sarbanes-Oxley Act, signed by President Bush on July 30. This bill and its impact on investor confidence were widely covered in the

media, as CARMA saw overall coverage of the issue of investor confidence fall off after July.

Bush's economic summit in Waco, Texas in mid-August also generated media attention, as did the August 14th deadline for CEOs and CFOs to certify their financial results under oath to the SEC. Although there was theoretical support for certification under penalty of jail time, pragmatically most media expressed a belief that the filing was a non-event.

Even so, few opinion leaders expressed a belief that this would root out more corporate criminals. However, these pundits did convey that companies that failed to certify their results would spook investors further.

Throughout September, the media turned attention to Wall Street and the strides being taken to make research more independent and trustworthy. Citigroup's announcement that it would place its research division under a separate subsidiary received praise by the media.

New York Attorney General Eliot Spitzer promised to work toward a swift end to his and other regulators' investigations into conduct at brokerage firms, while the media took stock of the performance of mutual funds and corporate fundamentals across 2002. The *Los Angeles Times* provided a three-part quarterly review and outlook on companies while the *New York Times* reviewed various aspects of mutual funds, from utilities funds to ways to minimize taxes.

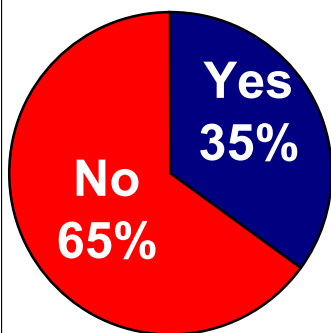
In the fourth quarter 2002, the media has begun to focus its attention on the housing market, consumer confidence and actions by the Fed to again ease interest rates. CARMA sees consumer confidence as a more popular topic in the media as the holiday season looms closer.

THE FINANCIAL SERVICES INDUSTRY/WALL STREET

DRASTIC CHANGES ARE NEEDED ON WALL STREET, according to much of the reporting. One change that would receive resounding applause from the media would be the separation of research and investment banking divisions.

By a 2:1 margin, the news media published reports that Wall Street as a whole cannot be trusted. The high level of distrust expressed by the reporting seemed to be addressed primarily at the financial oversight system at large rather than focused on particular corporations or brokerages.

Can Wall Street be trusted?



By a margin of nearly 2:1, media reports indicated that the financial services industry and Wall Street cannot be trusted.

THE MEDIA VOICED OVERWHELMING SUPPORT FOR SEPARATING WALL STREET'S RESEARCH AND INVESTMENT BANKING, by a 6:1 margin. Wall Street was lambasted on the subject of conflicts of interest between research and investment banking divisions. Numerous reports highlighted instances when Wall Street firms praised a company's stock in hopes of gaining or maintaining that company's business.

ACTIONS SPEAK LOUDER THAN WORDS, said the media. The public needs to be assured of analyst integrity – firewalls must be maintained between investment banking and analyst research in order to restore investor confidence. By the end of the research period, Citigroup announced it would voluntarily separate its research and investment banking units. Just as internal reform was seen as the key to restoring trust in Corporate America, journalists praised Wall Street for taking it upon itself to clean up its conflicts of interest, rather than awaiting new legislation.

HOWEVER, MANY MEDIA VIEWED ANNOUNCED CHANGES BY WALL STREET WITH SKEPTICISM, as journalists continued to keep close tabs on what investment banks were doing both behind the scenes and in the public eye. The *New York Times* reported on August 11 that two Salomon Smith Barney investment bankers had exerted improper influence on one of the company's junior analysts, Kenneth Boss. "Stories like Mr. Boss's illustrate how entrenched the old and lucrative practice of linking research to investment banking transactions has become at the nation's largest brokerage firms and how hard it will be to root out," wrote the *Times*.

OTHER CONFLICTS OF INTEREST IN LARGE BANKS also contributed to negative characterizations of the financial services industry, and this coverage was often more focused on large commercial banks with investing banking arms, such as JPMorgan Chase and Citigroup, rather than companies like Goldman Sachs who do very little corporate lending. Bondholders showed anger at commercial banks who lent risky money to companies like WorldCom in order to gain future investment banking revenues. Also, reports of kickbacks of hot IPO shares to wealthy individuals who brought their companies' investment banking business to banks like Credit Suisse First Boston generated negative reports.

INVESTMENT BANKS WEREN'T THE ONLY FINANCIAL SERVICE COMPANIES UNDER THE MICROSCOPE – large mutual fund companies and retail brokerages were also monitored closely by the media. *Business Week* (August 5) exposed proposed changes to the rules for titling retail personnel as "investment advisors" versus "brokers," accusing investment banks with large retail operations such as Merrill Lynch with trying to disguise the allegiances of their brokers as more beholden to the individual investor than in actuality they are required to be. Fidelity Investments was protested by the AFL-CIO for not disclosing proxy votes on the companies in which their funds are invested, prompting journalists to urge Fidelity and other large fund companies to disclose their votes to their customers. Fidelity chief of administration David Weinstein's explanation that Fidelity engages in "quiet diplomacy" and negotiates "behind the scenes" did not seem to gain much traction in the current media environment that encourages transparency above all.

OFF WALL STREET, THERE WAS A GROWING RECOGNITION OF THE VALUE OF BROKERS.

By a 3:2 margin, media reports indicated that the advice and expertise of financial service companies were recognized as worthwhile and a good value for individual investors. Reports indicated that the advice and expertise of financial advisors are becoming popular again. With the leading indexes for the stock market markedly off their all-time highs and the enormous amount of shareholder wealth that has evaporated, coverage indicated that an increasing number of investors felt more comfortable in turning to professional brokers for financial planning and advice on risk management to help generate higher returns or just to preserve the value of current investments. This trend can be seen as a sign of the times, in contrast with the go-it-alone, day-trading model of the dot-com era.

This finding suggests that investors will continue to utilize the services of investment firms. For investors willing to brave the market again, experts in the media could not stress enough the importance of investor education so that sure individuals understand their needs, investments, time horizon and risk tolerance.

For their part, brokerage firms have been portrayed as only too eager to solidify a financial planning role in advising investors on how best to manage the downturn in the markets. Reports have reflected a variety of strategies that investors should follow to diversify their investment portfolios – in terms of geographic exposure (investing overseas, for example), growth stocks vs. value stocks and, finally, in terms of asset allocation (such as bonds, real estate or precious metals) rather than exclusively in equity positions in the stock market.

CORPORATE AMERICA

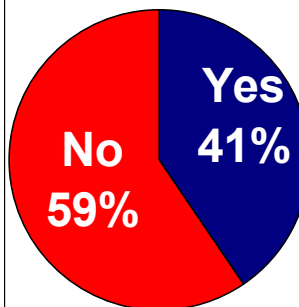
ARE BUSINESSES TRUSTWORTHY?

That depends on whom you ask.

CARMA UNCOVERED A STRIKING DISCONNECT

between individual investors and executives on whether or not most corporations are trustworthy.

Can Corporate America be trusted?



More often than not, the media conveyed that corporations cannot be trusted. Usually the media turned to one opinion or the other - rarely did coverage convey both opinions.

BUSINESS EXECS SAID YES. The media coverage analyzed by CARMA depicted a pronounced effort by Corporate America to defend its trustworthiness. In fact, 53 percent of stories quoting corporate executives or spokespeople pertained to the issue of trust in Corporate America. Numerous stories featured business leaders arguing that the current crisis was prompted not by widespread abuse, but only by the misdeeds of several companies. Corporate leaders consistently emphasized that the negative actions of a small minority brought about the current crisis of investor confidence and that American business as a whole should not be judged by the irresponsible actions of a few.

INDIVIDUAL INVESTORS WEREN'T BUYING IT.

While the media disagreed on exactly what steps should be taken through both internal and government-mandated reform to restore trust in corporations, most stories contained a similar opinion that corrupt executives ought to go to jail, and that individuals can't take a chance on which companies can and cannot be trusted.

EVEN THOSE INVESTORS WHO AGREED THAT MOST PUBLIC COMPANIES WERE TRUSTWORTHY STILL EXPRESSED HESITANCY ON MAKING NEW INVESTMENTS.

Investors showed apprehension due to the complexity of financial statements and the lack of specific accounting standards for all companies.

PEOPLE QUOTED IN THE COVERAGE

WHO WAS SAYING WHAT TO THE MEDIA?

CORPORATE SPOKESPEOPLE WERE SUCCESSFUL AT CONVEYING that most public companies are trustworthy. However, even comments by company officials betrayed the fact that changes needed to and would happen to the ways in which companies are run due to a change in perception. General Electric CEO Jeffrey Immelt told the *Boston Globe* (September 26) about Jack Welch's retirement package: "I think this was done for the right reasons. It was done the right way. But [when] you sit here in 2002, it's a different day." On the topic of the responsibility of the CFO, Dr. Jeffrey Sonnenfeld of the Yale School of Management discussed the increased role of corporate image in the executive suite. "The CFO has to be more cognizant of the reputation of the firm and not just do whatever you can legally get away with" (*Dallas Morning News*, August 26).

Company officials were successful at conveying their message that most corporations were trustworthy. However, the comments were rarely carried in defense of Corporate America in stories that were more pessimistic about corporate integrity.

INDIVIDUAL INVESTORS WERE FEATURED SLIGHTLY LESS OFTEN THAN COMPANY OFFICIALS – 41 percent of stories that quoted individual investors pertained to the issue of trust in Corporate America, compared to 53 percent of stories that quoted company officials. Most stories quoted numerous individual investors, as newspapers and television shows conducted "man-on-the-street" interviews, compiling comments from particular cities to provide insight into the "mindset" of a region on the stock market.

VERY FEW STORIES CONTAINED BALANCED ARGUMENTS BOTH FOR AND AGAINST CORPORATE INTEGRITY. Rather than conveying different opinions on the topic of integrity, the media painted black-and-white pictures of corporate America. Interviews with company officials that were positive on corporate honesty rarely contained counter-opinions, while stories quoting numerous individual investors did little provide a forum for companies to defend themselves.

Two conclusions can be drawn from this. First, when taking all coverage as a whole, the disparate stories emphasized the disconnect between Corporate America and the individual investor, and perhaps contributed to the alienation of the common stock from the portfolio of the average investor.

Secondly, individual investors relying on the media to educate themselves on companies were beholden to review a broad array of sources to gain a full picture of the situation, rather than being able to gain a balanced opinion from one network, newspaper or broadcast

RESTORING INVESTOR CONFIDENCE

REFORM FROM WITHIN CORPORATIONS was seen as the key to restoring investor confidence in the long-term. Government-mandated reform was usually cited as necessary to create incentives for investing in the short-term, through such actions as increasing the amount of money individuals can invest in tax-free accounts such as 401(k)s and allowing investors to write off a larger amount of losses at the end of the year.

However, government mandates were viewed to be less effective at restoring the public's trust in corporations over the long-term. According to most media reports, restoration of public trust will largely depend on organic reform, with companies increasing internal controls on corporate governance, such as disclosure, stricter accounting policies, cutting back on excessive executive compensation and expensing stock options.