



Internet Stock Exchange Survey

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Since the Internet IPO of the Spring Street Brewing Company earlier this year many have become intrigued by the possibility of issuing stock using the Internet. The relaxation of SEC regulations and the appearance of several companies supplying Internet IPO services holds promise for businesses hoping to conduct an Internet IPO. Other innovators plan on pushing the boundaries of electronic commerce on the Internet even further. Within the next year we may see the appearance of the world's first fully-functional Internet stock exchange, this will be the true test of what electronic commerce on the Internet can offer.

This survey was designed to explore the concept of Internet-based stock exchanges by measuring investors' opinions on issues ranging from Internet security to their willingness to use an Internet-based stock exchange. In total the data from 42 respondents was collected, 22 respondents were MBA students while the remaining 20 respondents were collected from the Internet. Respondents from the Internet were recruited primarily through newsgroups and mailing lists. Because all respondents for this survey are self-selected the survey data cannot be assumed to be a representative sample of either Internet users or the investment community. All data was collected during the month of October, 1996.

The results of the survey bode well for the future of Internet stock exchanges. While security of transactions remains a major concern, respondents also voiced a strong belief that Internet stock exchanges offer a number of advantages over their conventional counterparts.

Advantages of Internet Stock Exchanges

When asked whether an Internet stock exchange would have any advantage over a conventional exchange 88.1% of respondents replied that it would. Not a single respondent said that Internet stock exchanges wouldn't have any advantages over a conventional exchange, the remaining 11.9% were undecided. Several possible advantages of an Internet exchange ange. Benefits listed were primarily lower costs and access to a broader market. Ease of marketing and information provision were also mentioned as benefits.

Security

Security of Internet transactions is still a major concern for respondents. When asked to list any disadvantages that an Internet stock exchange would have the most common responses were security problems, fraud, and hackers. The effectiveness of on-line security was viewed as critical to the success of an Internet stock exchange, a statement 95.2% of those surveyed agreed with.

Respondents seem uncertain whether today's technology can provide the levels of security needed. Only 29.3% of respondents felt that today's security / encryption was good enough to build an Internet stock exchange. It appears that beliefs about the ineffectiveness of Internet security present one of the biggest challenges to widespread electronic commerce.

The results of this survey suggest a very important step which can be taken to reduce the barriers posed by Internet

security concerns. It was found that the concern about security was strongly related to users familiarity with security/encryption technologies. In this survey respondents' familiarity with these technologies was measured by asking whether they were familiar with PGP encryption. Whether or not people were familiar with PGP encryption had a striking influence on whether they viewed the encryption/security technologies of today as suitable for an Internet stock exchange. Of PGP-familiar respondents 75% felt that security/encryption technologies were good enough to build an Internet stock exchange. This contrasts with PGP-unfamiliar users of which only 10.3% felt the security was good enough. This striking difference is statistically significant at the $P < .0002$ level.

The difference that a familiarity with PGP makes to the perception of security suggests that disseminating information about security and encryption systems is one way of greatly reducing fears of Internet security. Educating users and providing them with descriptions of the security measures in place and how these measures function is likely to go a long way in reducing concerns about Internet security. Much of the fear related to security issues may simply be due to a lack of familiarity with the technologies used to make Internet transaction more secure.

Internet Stock Exchange Operation and Features

This survey explored opinions on features which could be included in an Internet stock exchange. There are several definite conclusions which can be drawn about the features that users of an Internet stock exchange would like to see.

Results indicate that respondents prefer to have a diverse range of stocks and payment options available to them. When respondents were questioned about the types of stocks they would like to see listed on an Internet stock exchange, most responded that they would like to see all types of stocks available. When specific categories of stocks were suggested by respondents, small-caps, hi-tech, or high-risk stocks were frequently mentioned. Similarly, the majority of respondents felt that all currencies should be accepted as a form of payment on an Internet stock exchange. When specific currencies were mentioned they usually included one or more of US\$, DM, Yen, Br. Pound, ECU, Fr Franc, Swiss Franc, Can\$, Austr\$, and NZ\$. However, those surveyed did not support the creation of a new publicly-traded digital currency for the purposes of exchange transactions. Only 19% felt this was a good idea while 50% opposed it, often citing that this introduces an additional layer of complexity to transactions.

Another point which respondents felt very strongly about was that it would be a valuable feature for an Internet stock exchange to allow the trading of stocks from other exchanges such as the NYSE and NASDAQ. 41 out of 42 respondents thought that this would be a valuable feature.

Those surveyed also felt that it was important to have multiple methods of trading. 64.3% of respondents felt that another means of trading (other than the Internet) should exist to allow users to trade on the exchange. Other means of trading which were suggested included telephone, fax, ATM, on-line computer, and mail/courier. Despite the fact that many considered this an important addition, 60.5% of respondents said that they were not likely to use these alternative means of trading as their method of choice.

The majority of those surveyed seemed to prefer a stock exchange which was somewhat regulated. A near-majority (46.3%) of respondents believed that an Internet stock exchange should be subject to the regulation of a single government while 29.3% disagreed. Additionally, only 28.6% of respondents believed that tax benefits would be a major incentive to participate in an Internet stock exchange. It appears that freedom from regulation or taxation is not considered a likely option amongst people who would be using Internet stock exchanges. On the contrary, several alternative advantages appear to form the basis of attraction for the majority of respondents.

Demographics

The respondents surveyed are a diversified group. Investment experience ranged from none to over 20 years. Sizes of typical investments were skewed to the lower end with no investors having typical trades with a value greater than \$99,999. Ages ranged from 21 to 65+. Incomes were also evenly distributed with several respondents earning as high as \$100,000 - \$199,000. As is common with surveys over the Internet, the respondents were predominantly male (86.1% vs. 13.9%).

Conclusion

Overall, results seem to suggest a very bright future for Internet stock exchanges. A number of advantages possessed by Internet stock exchanges prompted many to suggest that Internet exchanges would someday compete directly with the world's largest conventional exchanges. However, one issue, security, complicates this picture somewhat. Major concerns about security, fraud, and hackers mean that the Internet commerce is perceived as off-limits for many respondents. While time-tested systems with a track record will satisfy some, the security issue is likely to delay widespread use of Internet stock exchanges for some time. Education and an explanation of security technologies may speed the process of acceptance. Lastly, there are a number of features people would like to see in an Internet stock exchange. Convenience is the norm, and respondents prefer access to a wide range of stocks (from other exchanges), currencies, and other means of executing trades. If the results of this survey are any indication, Internet stock exchanges will soon fill a valuable niche in the area of electronic commerce on the Internet.