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Eaton Vance's Fifth Annual Investor Survey Shows Low Awareness and Knowledge of The Jobs & Growth Tax Relief Reconciliation Act of 2003

Awareness of Alternative Minimum Tax and Other Tax Issues Also Low

Investors Increasingly Risk Averse, But Little Reallocation Taking Place

Majority of Investors Believe They Are Better Off Financially Today vs. 2000

Investors' Outlook Mixed on Markets, Interest Rates, Election Outcome on Stocks and Bonds

BOSTON, April 7, 2004 – Nearly a year after its enactment, few American investors are familiar with the Jobs & Growth Tax Relief Reconciliation Act of 2003 (the 2003 Tax Act) and fewer still have adjusted their investment programs to take advantage of its generous provisions, according to the fifth annual investor survey released today by Eaton Vance Corp.

The nationwide survey, conducted by Penn, Schoen & Berland Associates, Inc., reveals that only 1 in 5 investors (21%) is familiar with the 2003 Tax Act, and only 1 in 10 investors (9%) has made investment changes as a result of the 2003 Tax Act. Just 15% of investors have discussed the implications of the 2003 Tax Act with their brokers or other financial advisers. Signed into law on May 28, 2003, the 2003 Tax Act reduced federal tax rates for individual taxpayers to a maximum of 35% (from 38.6%) for ordinary income and 15% (from 20%) for long-term capital gains. Most significantly, the 2003 Tax Act reduced federal individual tax rates on "qualified dividend income" to a maximum of 15% from the previous high of 38.6%.

According to the survey, only 1 in 5 investors (20%) can correctly cite the current maximum federal tax rate for ordinary income, and fewer than 2 in 5 investors (less than 40%) can identify the maximum federal tax rate for long-term capital gains and qualified dividends. Of investors who are aware that not all dividends qualify for favorable federal income tax treatment, only half (51%) can name any categories of investments (e.g., U.S. stocks, foreign stocks, preferred stocks, stock mutual funds) that can qualify for favorable dividend tax treatment. Nearly 6 in 10 investors (57%) say they wish they better understood the impact of the 2003 Tax Act on their investments.

Given low awareness of the 2003 Tax Act and a poor understanding of its provisions, it should not be surprising that few investors have changed their investment decisions because of it. But when informed that the maximum federal income tax rate on qualified dividends has been reduced to

15%, a majority of investors (51%) say they would be more interested in owning stocks that pay high dividends or funds that invest in such stocks.

"A great service that financial advisers can provide their taxpaying clients is to discuss the 2003 Tax Act," stated Duncan W. Richardson, Senior Vice President and Chief Equity Investment Officer of Eaton Vance Management. "It is clear that investors both want and need more information about this important tax legislation. Investors need to understand, in particular, that tax rates on qualified dividends are dramatically lower than before and now are on par with long-term capital gain tax rates. Taking advantage of this sea change in dividend tax policy is an awaiting opportunity for many investors."

Only 1 in 3 Investors Aware of Alternative Minimum Tax, Despite The Fact That By 2010 One-Third of All Taxpayers Will Be Subject to AMT

Only a third of investors (33%) are familiar with the federal alternative minimum tax (AMT) and even fewer are aware of the looming growth in the number of taxpayers subject to AMT payments. Of investors who are aware of the AMT, 1 in 4 (25%) understands that the 2003 Tax Act and other recent tax cuts will cause the number of taxpayers subject to the AMT to escalate. Of AMT-aware investors, only 1in 4 (25%) believes he or she will become subject to the AMT in the near future.

Even among AMT-aware investors, most are unfamiliar with the factors that could cause them to be subject to the AMT going forward. Of such investors, for example, only 21% understand that exercise of incentive stock options can make them subject to the AMT and only 13% understand that high state and local tax payments can trigger the tax. Fewer than 1 in 4 investors (22%) is aware that interest on certain types of municipal bonds (known as private activity bonds) may be subject to the AMT.

Three millions individual taxpayers were subject to the federal AMT in 2003. When asked about the current incidence of the AMT, more than one-third of surveyed investors (36%) responded that they did not know, and an additional one-third (32%) estimated that one million or fewer Americans were subject to the AMT in 2003.

According to government projections, by 2010 approximately 30 million Americans –1 in 3 individual taxpayers – will be subject to the AMT. When asked how many U.S. taxpayers will be subject to the AMT in 2010, more than one-third of surveyed investors (35%) said they did not know. An additional half of investors (52%) estimated that 20 million fewer Americans will be subject to the AMT in 2010.

One reason why investor awareness and understanding of the AMT may be so poor is because few of them have discussed the subject with their brokers or other financial advisers. Only 1 in 10 (11%) investors reports having conversations with a financial advisor about the subject of the AMT. Although AMT-protective investments are limited, one area of opportunity may be municipal bond portfolios and funds that do not include private activity bonds subject to the AMT. Only 1 in 5 investors (21%) is aware that such municipal bond funds are available today that are not subject to the AMT.

"Municipal bond funds that avoid private activity bonds are the only true "tax-free" mutual funds for investors subject to the alternative minimum tax," stated Thomas J. Fetter, Vice President, Director of Municipal Investments at Eaton Vance Management, and portfolio manager of Eaton

Vance Municipal Bond Fund. "With the rising incidence of the AMT, more and more investors should be taking a look at this growing subset of municipal bond funds."

Investors Increasingly Risk Averse

Given the roller-coaster stock market of the last few years, it should not be surprising that investors have become increasingly risk-averse. Two-thirds of investors (67%) say they have less appetite for investment risk-taking than in the past due to stock market volatility. Nine of 10 investors (89%) say that minimizing risk is an important consideration for them in making investment decisions.

Most investors continue to be sensitive to the risks of investing a large portion of their assets in a single company's stock. Nearly 9 of ten investors (88%) believe that it is too risky to have a large percentage of their personal assets invested in a single stock. Further, nearly two-thirds of investors (63%) say that the recent stock market volatility and highly visible scandals involving leading corporations have changed their views on the risks of single-stock investing. Among investors who have received stock options or other stock-based compensation, over half (51%) express concern about having significant financial exposure to their current or former employer.

Risk considerations are causing more investors to consider using a financial adviser. A majority of direct investors (52%) say that the greater perceived risks of investing in the stock market make them more likely to consider using a financial professional to manage their portfolios than previously.

Little Reallocation Taking Place Despite Stock Market Rise

Despite the significant stock market rise in the past year and the reported increase in risk-sensitivity, most investors seems to be standing pat with their investment programs. Only 4 in 10 investors (42%) say they have reallocated any of their investments in the past year.

Among investors who did reallocate their portfolios, 40% increased their exposure to stocks and about a third (32%) reduced their stock exposure. Only 6% increased allocations to cash and other short-term investments, compared to 19% who reduced cash and other short-term investment allocations. 25% of investors who did reallocate increased their exposure to bonds and other fixed-income investments, while 22% cut their fixed-income exposure.

"There is an apparent contradiction between investors' growing concern about risk and their lack of action to lower the risk profile of their portfolios," stated Thomas E. Faust Jr., Executive Vice President and Chief Investment Officer of Eaton Vance. "Investors say they want to lower risk but don't seem to be acting in a way that achieves that objective."

Majority of Investors Believe They Are Better Off Financially Today vs. 2000

Most investors say they are now better off financially than they were in 2000. Nearly 6 in 10 investors (57%) say they are better off today, 3 in 10 investors (30%) say they are worse off today, and just over 1 in 10 investors (12%) say that are in about the same financial condition as in 2000.

A majority of investors who say they are better off financially since 2000 credit equities (stocks and stock mutual funds) and real estate. Over one-third of such investors (35%) say that equities is the asset class that helped them most since 2000. Over 1 in 5 of such investors (22%) say that real estate is the asset class that helped them most since 2000

Investors who say they are worse off financially since 2000 blame equity investments much more than any other investment asset class. Over half of such investors (52%) say that equities is the asset class that hurt them most since 2000. Cash investments are a distant second at 11%.

Investors Views Mixed on Stock Market, Interest Rates, Election Outcome on Stocks and Bonds

When asked which major asset class will offer the best rate of return over the next three years, two-thirds of investors cited either equities or real estate. Nearly 4 in 10 investors (38%) said equities will offer the best rate of return over the next three years. Nearly 3 in 10 investors (29%) said real estate will offer the best rate of return over the next three years. 15% of investors believe fixed-income investments will offer the highest three-year return, and 4% of investors believe cash investments will have the highest return.

Twice as many investors (56%) say they are bullish about the stock market for the current year as say they are bearish (28%). In last year's survey, 62% of investors said they were bullish about the stock market and 30% said they were bearish. Investors point to low interest rates (29%) and improved corporate earnings (24%) as major causes for the stock market rise starting in March of last year.

Most investors believe interest rates will increase in 2004. 61% of investors expect a slight increase in interest rates, 22% expect a moderate increase and 2% expect a significant interest rate increase. Only 13% of investors do not expect interest rates to rise.

When asked which stocks will perform best in 2004, pharmaceuticals were most frequently cited by investors. Nearly 1 in 4 investors (23%) identified pharmaceuticals as the best performing area. Biotechnology, health care and "blue chips" were other favorites.

When asked which stocks will perform worst in 2004, the leading choice among investors was manufacturing. More than 1 in 5 investors (21%) identified manufacturing as the worst performing area. Technology, energy and utilities were also cited as potential laggards.

Investor thinking is divided on the effects of a change in presidential administration on the stock and bond markets. Nearly 4 in 10 investors (38% and 39%, respectively) say that a change would be bad for the stock market and the bond market. Slightly more than three in ten investors (32% and 31%, respectively) believe a change in administration would be good for the stock market and the bond market.

Awareness of Tax Implications of Investing Remain Low

Although investors are broadly aware of the importance of taxes on investments, understanding of investment tax issues remains poor.

More than three-quarters of investors (77%) say they carefully examine their financial statements with regard to investment tax implications and 8 in ten investors (80%) say they believe taxes have an important effect on stock mutual fund returns. More than 8 in ten investors (82%) say they know what an IRS Form 1099 is. And nearly 9 in ten investors (87%) consider disclosure by mutual funds of the tax implications of fund investments to be important.

In terms of specific knowledge about investment tax issues, many investors earn a failing grade. When asked what types of investments may offer high tax efficiency, nearly 1 in 3 investors (32%) could not name a single category of tax-advantaged investments. Less than half of investors (48%) say they have ever invested with specific consideration of tax efficiency or after-tax returns. When asked whether different types of tax-advantaged investments are more suitable for use inside a qualified retirement plan or outside a qualified plan, most surveyed investors did not know that such investments are best used *outside* a qualified plan. Only 1 in 3 investors (32% and 34%, respectively) understands that tax-managed stock funds and variable annuities are generally most appropriate for non-qualified plan investments. Less than half of investors (46%) understands that municipal bonds and municipal bond funds are best suited for investment outside qualified plans.

One reason investors are confused about investment tax issues is because they seldom discuss the subject with financial advisers. Among investors who use an adviser, 4 in ten (40%) discuss investment tax issues with their adviser not very much or not at all. Only 15% of investors who use an adviser discuss investment tax issues with their adviser a great deal.

"Given the significance of investment tax effects and the poor understanding most investors have of this subject, it is critically important for financial advisers to talk to their clients about tax issues," stated Mr. Faust. "I can think of few ways in which the services of a financial adviser can be of more value."

This summary highlights the major findings of a comprehensive nationally representative telephone study among 500 U.S. residents who have invested in both qualified retirement plans *and* investments outside of qualified retirement plans (stock mutual funds, bond mutual funds, individual stocks, individual bonds, variable annuities and money market funds). This study, which represents a detailed portrait of American investors' attitudes and practices about investing, specifically with reference to the *tax implications* of investing, was conducted by Penn, Schoen & Berland Associates, Inc. for Eaton Vance Management, Inc.

The study was conducted during the first two weeks of March 2004. Income quotas were set so that 50% of respondents had incomes less than $100,000 and 50% had incomes greater than $100,000. The margin of error for this study is +/- 4.4% at the 95% confidence level. At least half of the respondents reported investments in excess of $100,000.

Penn, Schoen & Berland Associates, Inc. is a Washington, D.C.-based full-service strategic polling and market research firm.

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