SIA RESEARCH

REPORTS

Vol. III, No. 11 December 27, 2002

BUSINESS CONTINUITY PLANNING: A 2002 ROUNDUP

Judith Chase

2002 IN REVIEW & THE OUTLOOK FOR THE NEW YEAR

Frank Fernandez

MONTHLY STATISTICAL REVIEW

Grace Toto

SIA RESEARCH DEPARTMENT

Frank A. Fernandez, *Senior Vice President, Chief Economist and Director, Research*
Erin Burke, *Survey Analyst*
Stephen L. Carlson, *Vice President and Director, Surveys*
Judith Chase, *Vice President and Director, Securities Research*
Lenore Dittmar, *Executive Assistant*
Carmen Fernandez, *Research Assistant*
Bella Mardakhaev, *Research Assistant*
George R. Monahan, *Vice President and Director, Industry Studies*
Grace Toto, *Assistant Vice President and Director, Statistics*

SECURITIES INDUSTRY ASSOCIATION ■ info@sia.com, http://www.sia.com
120 Broadway, 35th Floor, New York, NY 10271-0080 ■ 212-608-1500, fax 212-968-0703
1401 Eye Street, NW, Washington, DC 20005-2225 ■ 202-296-9410, fax 202-296-9775
***ISSN** 1532-6667*

Table of Contents

BUSINESS CONTINUITY PLANNING: A 2002 ROUNDUP

Since September 11, most firms, as well as the financial services industry as a whole, have been focusing on disaster recovery and business continuity planning. In 2002, there was an enormous amount of progress made in information-sharing related to business continuity planning (BCP) among financial services organizations. Much of this progress was due to the efforts of the SIA board-level BCP Committee, which is made up of approximately twenty members representing over sixty organizations, including SIA member firms, industry utilities and exchanges. While the Committee was officially sanctioned by SIA in October 2001, approximately thirty organizations had already been meeting since June of 2000 to coordinate their efforts in this area. Coordinating BCP efforts is crucial, **first** because all parties that represent various parts of the trade cycle are to some degree interdependent, and **second** because the nature of BCP is such that different plans must vary widely in order to take account of the specific structure, function, and location of individual organizations.

The three overall objectives of the SIA BCP Committee are: **1)** to provide a forum for securities firms, industry organizations, and service providers to share specific plans and business continuity information; **2)** to identify and develop business continuity plans and projects that have an industry-wide, rather than firm-specific, focus; and **3)** to provide a liaison between the securities industry and government legislators, regulators, and service providers, as well as to related industries like telecommunications and power utilities.[1] The Committee also has **ten subcommittees** (the Command Center, which completed its first successful test in May 2002; Exchanges & Utilities; Business Planning; Technology Planning; Critical Vendor Planning; Best Practices & Standards; Awareness & Education; Downtown Redevelopment; Insurance; and Catastrophic Events), some of which are being reorganized for 2003.

In this article, we overview BCP-related dialogue with regulators in 2002, the industry survey that was conducted, and Best Practices and Lessons Learned released by the industry, industry testing of continuity plans and related technology solutions, as well as some highlights of SIA's BCP Conference and Exhibit held October 29-30, 2002.[2]

BCP Dialogue With Regulators

A white paper, Sound Practices to Strengthen the Resilience of the U.S. Financial System,[3] was jointly issued in August 2002 by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Securities and Exchange Commission, and the New York State Banking Department with their preliminary conclusions on factors affecting the resilience of the financial markets in the event of another large-scale disruption in financial markets' operations. These preliminary conclusions were drawn following discussions with industry participants on the lessons learned from 9/11 and actions taken in response.

In the white paper, the agencies distinguish between "core" industry participants and "significant" industry participants. They estimate that "core" firms should be able to resume operations after a major disruption in two hours, and that "significant" firms should be able to resume operations in four hours. The agencies identify "sound practices" related to disaster recovery, such as the maintenance of separate labor pools and back-up technology located between 200 and 300 miles away. They also address clearance and settlement procedures of a range of U.S. cash and financial instruments, including foreign exchange, Fed Funds, and commercial paper such as government debt, corporate debt and equity, and mortgage-backed securities. They estimate that firms should take six months to develop a plan for compliance with the Agencies' BCP guidelines when they are finalized, and that implementation of those plans should take place by 2007.

During the comment period some of the white paper's ideas were questioned by market participants. The idea that firms should have people and technology located a specific number of miles away from Manhattan was a point that some operations industry participants consider unnecessary and even counterproductive. Going beyond a certain level of backup capability in this regard can add enormous cost without adding very much in the way of effectiveness. Moving certain operations out of the region entirely is, therefore, in many cases not supported by cost-benefit analyses.

The industry meanwhile has proceeded with its own efforts to improve resilience through enhanced fungibility of resources, and greater physical and geographic diversity. Market participants no longer have to rely on "point-to-point" data lines, and now instead are increasingly employing "carrier hotels". This allows easier rerouting using the Internet in the event of a loss of connectivity.[4]

Maintaining a fully separate labor pool is also not a fully viable recommendation. Alternatives include broader use of "active-active" data centers[5] and separating people from data. This latter practice puts servers in protected data centers away from "people centers", and "virtualizes" data storage. This creates "serverless" office buildings and hence reduces risk of loss of both people and data and lessens the impact on cost and productivity of splitting staff and operations.

An SIA Industry BCP survey, conducted in the summer of 2002 and discussed in more detail below, found that smaller companies tended to relocate their people and recover their technology close to their primary facility; as firms got larger, so did the average distances of their recovery facilities from their primary sites. Undue specificity in regulation about location of recovery facilities could place a disproportionate burden on those smaller firms. As the debate continues, the long-standing industry trend of increasing geographic dispersion continues. While some firms recently moved their back–office operations out of Manhattan, media stories that attributed those moves to a response to post-9/11 security concerns were inaccurate. The decision to move these operations elsewhere had, in many cases, been made prior to 9/11, and were largely cost-based rather than security-based decisions.

The Bond Market Association (BMA) and SIA did respond to the white paper with a joint comment letter, making several more crucial points.[6] Most importantly, the associations recommend that the specifics of risk-management decisions should be left to individual firms, due to the fact that BCP and disaster recovery is by its nature not compatible with a "one-size-fits-all" approach. Different firms have different technological requirements. The letter also points out that one main theme in BCP-related rules proposed by SROs such as the NYSE and NASD is the idea that plans should reflect the diverse nature of the member-firm community. Managing risk is, after all, at the heart of the effective provision of financial services.

In addition, the associations request clarification of various assumptions that underlie the recommendations in the white paper. They request that the agencies clarify definitions of and distinctions between "core" and "significant" firms. They also ask that the agencies recognize that some of the operations of financial services firms are, to some extent, dependent on non-financial industry service providers, and, as such, generalized resumption of business should be the end of day. Firms should be allowed greater flexibility with regard to the plan implementation timetable developed by the agencies.

The associations further recommend adoption of a risk-based approach to BCP, rather than the enforcement of prescriptive rules. Managing business continuity risk is not just a priority for financial institutions; it is at the core of the services that they sell to the public. These institutions are especially qualified to identify, manage and mitigate these risks and ought to be allowed to develop practices appropriate for a diverse, interdependent financial community. Elements of risk could for this purpose be broken down into categories, encompassing the concepts of physical risk, infrastructure risk, and people risk.

Moreover, the language used by the agencies in forthcoming releases should continue to be that of "sound practices" as opposed to rules or guidelines, in order to avoid unnecessary expenditure of firm resources to alter effective plans that may already be in place. The associations ask that the industry have the opportunity to comment on a revised draft of the white paper.

There is no question, however, that the very existence of such a white paper represents an impressive level of coordination among the various agencies. A high level of government coordination is particularly important in any financial services BCP effort because many different industry participants are regulated by different government agencies. A number of examples of improving government coordination in these areas have been noted.[7]

The NASD issued a first draft of proposed rules related to BCP in April 2002. These rules require from member-firms a plan that must include certain key elements, including maintenance of a database of emergency contacts. The second draft of these rules was released in September 2002. The NYSE released a first draft of their proposed BCP rules in September 2002, which closely mirrored the NASD rules. The SIA and BMA, commented on the proposals from both SROs, requesting clarification of certain concepts used throughout the rules, and encouraging even closer coordination between the SROs on the language in the final rules.

In November 2002, the Information Security Subcommittee of the SIA Technology Management Committee also submitted a comment letter on the September 2002 Draft Strategy to Secure Cyberspace created by the President's Critical Infrastructure Protection Board (PCIPB). In the letter, SIA reinforced the point that, "while the government can promote awareness, enable overall communication and coordination, and set minimum expectations, individual industries and entities must have sufficient flexibility to design and implement the specific security strategies that are appropriate for them".[8]

SIA Business Continuity Industry Survey

As mentioned above, the SIA BCP Committee conducted an industry survey throughout the summer of 2002 for benchmarking purposes.[9] The Committee distributed the questionnaire to over 145 SIA member-firms with 250 or more employees, and received 62 responses. Among their findings was the fact that, while 9/11 did not necessarily result in the building of large BCP staffs, seventy-five percent of respondents have annual budgets allocated for BC initiatives. Moreover, involvement and visibility of BCP has reached the highest levels of financial services organizations; some BCP staff reports directly to the CEO or Board of Directors.

The survey results also revealed that, across organizations, Business Continuity Programs do exhibit similar components, but that firms differ significantly in the execution of those programs and also differ widely in their choices of recovery strategies. With regard to technology recovery specifically, it was found that larger firms make use of mainframe technology. Of those firms, most are able to recover their mainframes within 24 hours, and more than half of those firms recovered their data all the way back to the point of failure. Many firms use a combination of internal and vendor solutions for technology recovery. This diversity of response enhances industry resilience.

Best Practices and Lessons Learned

In September 2002, the SIA BCP Committee released a set of Best Practices Guidelines for firms' use in their own planning efforts.[10] These guidelines address three main categories of activities: **1)** Business Continuity Program; **2)** Recovery Strategies; and **3)** Recovery Resources. The general purpose of the Business Continuity Program itself is to enable the business to protect its assets and meet its business recovery objectives. An effective program might include, for example: emergency response plans; testing and maintenance of the plans; ongoing employee awareness training and education; documentation of both BCP policies and plans; a company BCP Steering Committee; and clear demarcation of business managers' responsibilities.

Recovery strategies being developed may want to take into account both fiduciary requirements as well as financial, legal, and regulatory exposure. Finally, a firm's recovery resources could include a zoned approach to location of recovery sites, separate telecom infrastructure, and a vital records program. In general, the firm's strategy should enable it to continue its most critical operating, service, and technology functions. In May 2002, the Committee released a "Lessons Learned" document,[11] a collection of individual observations of people responsible for ensuring business continuity at their firms.[12] This document records fourteen categories of observations, including transportation, technology, testing, strategy, people, scenario, plan, life/safety, interdependencies, insurance, communications, awareness, and assembly/command center.

Testing and Technology

The SIA BCP Subcommittees on Exchanges & Industry Utilities and Technology Management Planning formed the SIA BCP Industry Testing Workgroup. The spectrum of industry participants participating in the Workgroup include: exchanges and industry utilities, such as SIAC, DTCC, NYSE, AMEX, NASDAQ, PHLX, OCC, and ISE; SIA and its member-firms, representing the sell-side of the business; BMA, representing fixed income securities dealers; the Financial Information Forum (FIF), representing market data service providers and service bureaus; and the Investment Company Institute, representing buy-side firms.

Industry testing is used to ensure that all financial services industry participants will be able to simultaneously activate work area recovery and data center recovery plans from alternate or backup sites. Tests also serve to maximize the confidence within the industry, within regulatory agencies, and on the part of the public in the fact that the industry can quickly recover from a widespread outage with minimal disruption to the financial markets. This type of testing is, however, neither used to test individual firms' recovery times, nor is it a replacement for firms conducting internal tests of their own business continuity plans and strategies.

There are two phases of industry testing. The first phase is referred to as "Point-to-Point" testing, in which firms and vendors independently test their connections with exchanges and industry utilities from their alternate locations, allowing these utilities to map the firms' backup connectivity facilities. This type of testing, which is now underway and will likely continue through the second quarter of 2003, must be completed prior to the second phase of testing. The second phase, which is known as "Regional Outage Simulation Testing" and schedules tests to simulate the physical disruption of one pre-defined region[13] at a time, is targeted to begin at the end of 2003.

It is not only firms that conduct internal BCP testing; exchanges and utilities also conduct internal tests regularly. The NYSE, for example, begins this process with a comprehensive risk assessment and by identifying its minimum requirements to continue trading. Some of these requirements include trading systems, trading floors, member-firm connectivity, liquidity providers, specialists, consolidated market data streams, and clearance and settlement capability. The NYSE began implementation of contingency trading floors within two months after 9/11, and is preparing reciprocal backup plans with Nasdaq. Currently, NYSE stands ready to trade the top 250 Nasdaq stocks.

The possibility of needing to undergo disaster recovery has implications for different types of technology infrastructures used in the financial markets. Often these infrastructures are extremely large and complex. For example, there are 568 telecommunications contracts under management at Morgan Stanley alone. Experts report that the use of fiber in connectivity is optimal: one single high capacity fiber, for example, carries the load of many non-fiber lines. Even voice capability, said to be the most important service in an emergency, can be sent as data over that fiber. The use of multiple Internet service providers is also recommended, as is IP-enabled telephone systems. IP systems allow the same use of network access as in the office even if employees are operating from a remote location. Therefore, there are no extra phone line charges applied to voice calls. There are also several technology solutions that can be explored to safeguard your data, including virtual storage area networks and the "digitizing" of your documents.

In conclusion, the persistent, perhaps multigenerational, threats confronting the industry have prompted a diverse response that is profoundly transforming it. Business continuity and disaster recovery planning will continue to command the attention of all market participants. Their increasingly coordinated responses have already enhanced the resiliency of industry connectivity and assets and improved on already high standards for the process of both recovery[14] and the resumption of activity.

The financial services industry is well qualified to manage this challenge. Managing risk is not just core to the services that it sells to the public; doing so efficiently, both routinely and in crisis, is essential to each firm's survival in this acutely competitive industry. Coordination of past industry-wide projects[15] has proven effective in part due to recognition of the diverse nature of the industry and the need for flexible as opposed to a uniform response. Firms ought to be given the opportunity to develop risk management practices tailored to suit their size, business and structure.

Judith Chase
Vice President and Director, Securities Research

Endnotes

1 To view the list of 2002 BCP Committee members, see http://www.sia.com/committees/business_continuity.html.

2 Some of the information in this article is from presentations made at the SIA Business Continuity Planning Conference and Exhibit October 29-30, 2002 in Brooklyn, New York. Please see http://www.sia.com/bcp02/ in order to access presentations from that conference. For information on the other SIA BCP efforts mentioned in this article, please see http://www.sia.com/business_continuity/.

3 For the white paper, please see www.sec.gov/rules/concept/34-46432.htm.

4 For NYSE and Amex/regional member firms, this has included the launch of the Secure Financial Transaction Infrastructure (SFTI), a SIAC-managed, "self-healing, multi-ring" industry fiber optic IP network, which provides a new, enhanced way to connect to exchanges and critical industry utility services. One key element of SFTI is SIAC's "pushout" from data centers, allowing users to connect to multiple access centers at multiple, vendor-neutral locations. Nasdaq member firms employ a different data consolidator.

5 For example, the NYSE has, since 1991, maintained "active-active" data centers, with each site handling fifty percent of the processing.

6 For the full comment letter, please see http://www.sia.com/2002_comment_letters/pdf/WhitePaperFinal.pdf.

7 The SIA's participation in the National Counter-Intelligence Executive is one example. The NCIX was established by Presidential Decision Directive/NSC 75 to, among other things, identify critical national assets (CNA) (which includes portions of the financial services industry) and assess and address vulnerabilities of these assets (see www.ncix.gov).

8 For a copy of this comment letter, please see http://www.sia.com/2002_comment_letters/ under "Critical Infrastructure Protection Board".

9 Please see http://www.sia.com/bcp02/ under "Presentations" for a copy of this survey.

10 To view these SIA Best Practices in full, please see www.sia.com/business_continuity/pdf/bestpractices.pdf.

11 http://www.sia.com/business_continuity/pdf/lessonslearned/pdf.

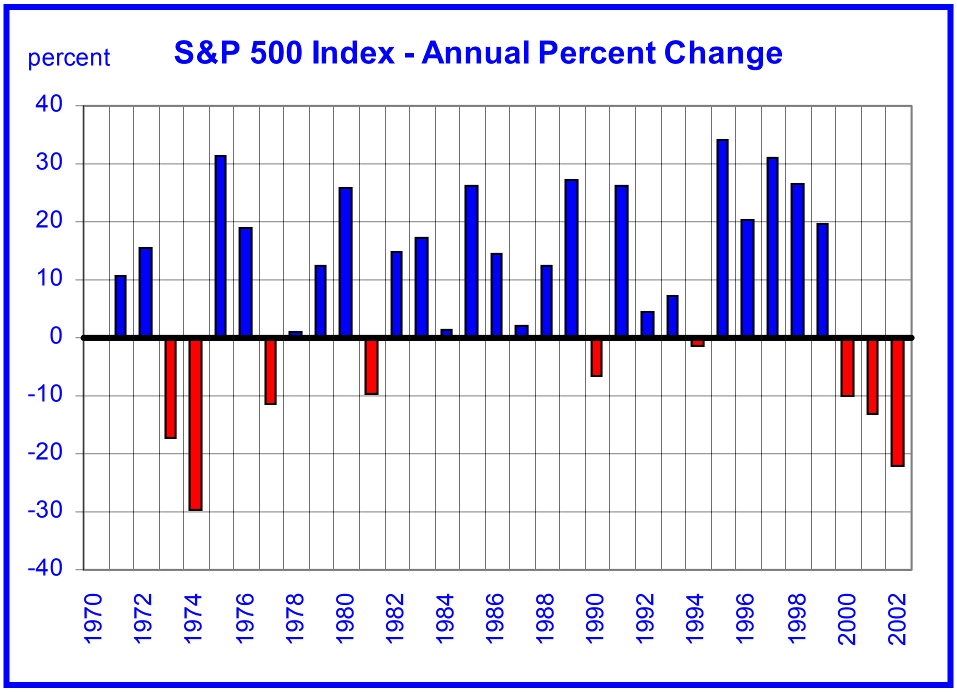
12 This document is also available on SIA's website, www.sia.com, under "Key Issues - Business Continuity".

13 The agencies define a "wide scale regional disruption" as one causing "severe disruption of transportation, telecommunications, power or other critical infrastructure components across a metropolitan or other geographic area and its adjacent communities that are economically integrated with it; or that results in wide-scale evacuation or inaccessibility of the population within normal commuting range of the disruptions origin".

14 Recovery consists of core clearing and settlement of cash positions and in-flight transactions by the end of the business day, however defined. Core clearing and settlement organizations must be able to restart before critical markets can complete the process of recovery.

15 Recent industry-wide technology and operations projects have included: Euro conversion (1998-1999); Y2K (1998-2000); decimalization (2000-2001); STP/T+1 settlement (the effort to achieve straight-through processing (STP) and shorten the settlement cycle from three days (T+3) to one (T+1) was begun in 1999 and is ongoing); and the BCP effort begun in 2001.

U.S. Equity Markets: Losses Posted For Third Straight Year.
Bottom Formation In 4Q 2002, But Rally Could Be Endangered By War.



Major U.S. stock market indexes are set to record their third straight annual decline, an unwelcome event not matched since 1939-1941. Despite an eight week rally off what appears to be a fundamental "bottom" reached on October 9, which lifted the S&P 500 roughly 20% and the NASDAQ nearly 33%, all major indexes will finish the year significantly lower than where they began. At the close of trading on December 20, the S&P 500 Index was down 22% year-to-date, the NASDAQ Composite Index was 30.1% lower and the broad Russell 2000 Index is off 20.8%, and prices drifted lower in the final week of trading in 2002. This growling bear market, which hopefully has come to an end, is both the longest and steepest in almost half a century as measured by the S&P 500 Index.

From the market peak on March 24, 2000 to the recent trough on October 9, 2002, the percentage decline in equity values of 49.1% slightly exceeded the decline of 48.2% that occurred during the 1970's bear cycle. This earlier bear market persisted 20.7 months, significantly less than the 32.5 months duration of the downturn just ended. [For more information on past "bear cycles" see *Research Reports*," Vol. III, No. 10 (November 29, 2002), "Mergers and Acquisitions - The Next Wave," page 10, http://www.sia.com/reference_materials/pdf/RsrchRprtVol3-10.pdf.] Our Monthly Statistical Review that follows provides an update of market and industry activity.

No rapid retracing of past declines is expected in 2003. Valuations remain high by historic standards, prospects for earnings growth appear subdued, at best, and uncertainty will continue to restrain investors for at least the first half of next year. Indeed, like the bear market of the 1970's, it may be many years before major indexes recovery to previous highs. In that earlier downturn that bottomed in October 1974, it was fully 69 months before the market managed to climb back to levels touched in January 1973. As 2002 closed, trading activity, though moderating, remained strong and the flow of new funds to equity markets, though weak, remained positive. In the year ahead we expect equity markets to remain highly volatile and largely confined to a trading range that are just now being establishing.

Uncertainty engendered by the threat of war is visibly weakening an already stuttering economy. Corporate profitability remains lackluster, with annual average growth of real earnings per share expected to remain in the mid-single digits over most of the next two years. The threat of renewed recession, not just in the U.S., but globally, persists and is likely to occur if the war with Iraq (expected to begin in 1Q 2003) fails to prove short-lived and relatively benign in its effects. This could send equity values skidding further, adding to already depressed investor sentiment that has been impaired: by significant losses over the past three years; the decline in public trust and confidence in response to corporate governance failures, and; the high level of uncertainty created by "geopolitical" risks. The probability of strong gains in equity prices in the next year appears low, and confined to the most optimistic scenarios: peaceful disarmament of Iraq or a war speedily resolved and without major repercussions.

The U.S. Securities Industry: Annual Profits Hit Seven-Year Low. Revenues Estimated To Increase In 4Q 2002, But Impact Is Limited.

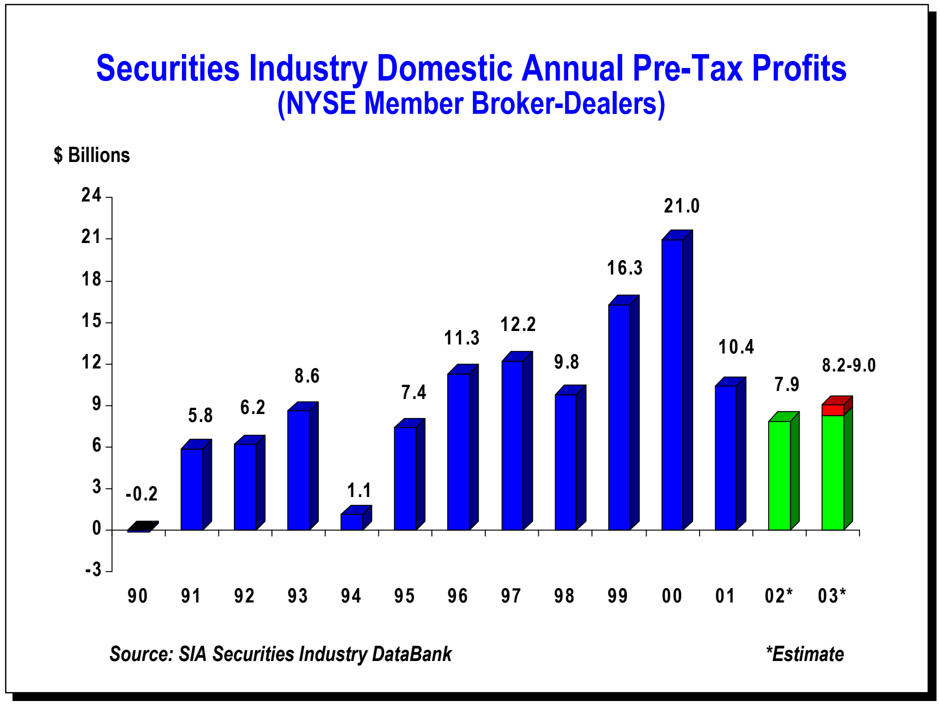
Domestic profits for U.S.-based securities firms are expected to fall to $7.85 billion this year, the lowest yearly profit since 1995. Worldwide profits for U.S. firms likewise may slide to $20.7 billion for the year, which represents only 35.7 percent of the record $58.0 billion earned in 2000 (or down nearly two-thirds or 64.3 percent).

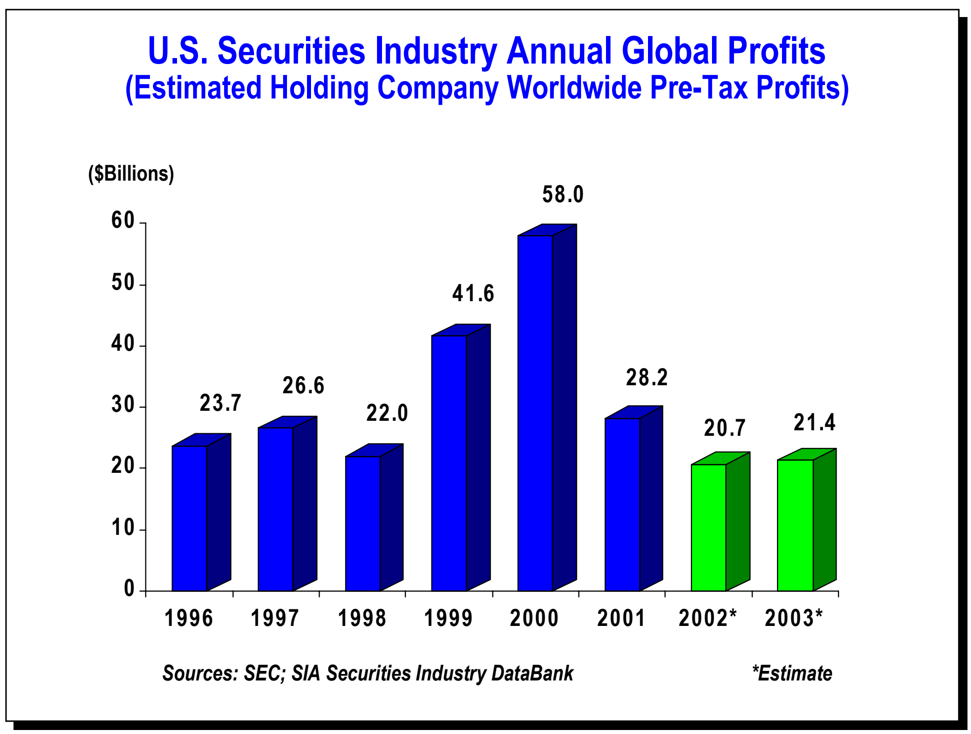
The continued downturn in the market, a sluggish economy, and the weak equity-underwriting pace reduced securities firms' domestic revenues through most of the year. There was no opportunity to offset the U.S. declines with growth in foreign markets because these markets, too, performed poorly. But by using cost controls aggressively, firms, in aggregate, remained profitable. While certain sectors, especially discounters and equity underwriters, felt the impact more than the others did, the bear market has left no segment of the industry untouched.

If SIA's projections* are on target, U.S. broker-dealers' domestic pre-tax profits will be down 24.6 percent from 2001's $10.41 billion and 62.6 percent below 2000's record $20.98 billion. Gross domestic revenues are estimated to be $151.2 billion for 2002, down 22.4 percent from 2001's $194.8 billion and down 38.3 percent from the record $245.2 billion in 2000. Expenses are projected at $143.3 billion, down 22.3 percent from $184.4 billion in 2001 and down 36.1 percent from the record $224.2 billion in 2000.

For 2002, SIA estimates worldwide holding company pre-tax profits of U.S. securities firms will fall to $20.7 billion, down 26.6 percent from last year's result of $28.2 billion and down 64.3 percent from the 2000 record of $58.0 billion. Revenues this year are expected to slide to $284.4 billion, down 25.7 percent from 2001 ($382.7 billion), and 43.0 percent below the record revenues ($499.3 billion) earned in 2000.

Profits earned by U.S.-based firms abroad have been equally hurt by the worldwide slowdown in business cycles and the slump in securities markets in all major countries, which were in synchrony with the United States. Profits forecast for 4Q 2002 and for 2003 do not reflect charges expected to be taken by underwriting firms following the $1.4 billion settlement relating to conflict-of-interest charges nor for additional reserves set aside to fund potential lawsuits relating to matters that were the subject of the settlement with regulators. These charges, expected to be taken by underwriting firms, will likely generate losses for some of those firms and may be of sufficient magnitude to offset the rather slim profits enjoyed out by non-investment banking securities firms, erasing most of the industry profits in the near term.



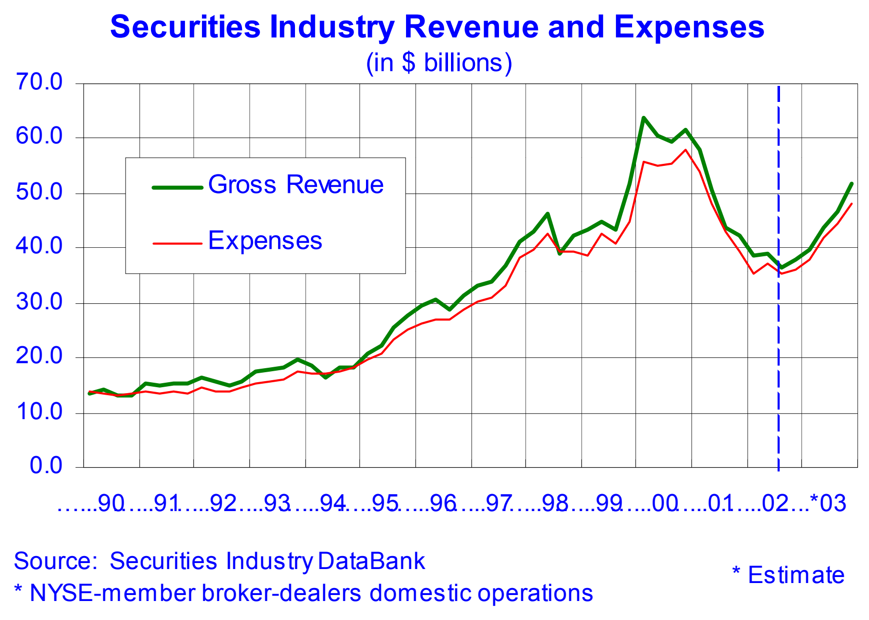


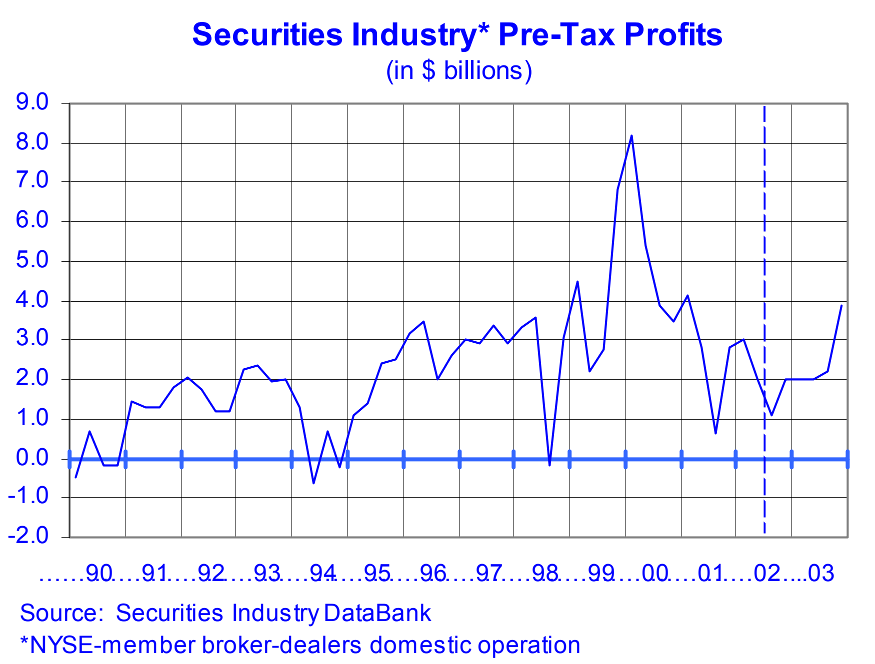
* SIA projections for domestic full-year 2002 are based on results from NYSE member firms and other sources; global figures are estimates and projections based on a number of sources.

Fourth-Quarter Results Suggest Revenue Slide Is Ending

In just 30 months — from the record levels set in first quarter 2000 to what appears to be the trough in third quarter 2002 — quarterly gross domestic revenues fell 44.4 percent to a five-year low of $35.62 billion. Fourth-quarter industry gross revenues from domestic operations will increase to about $38 billion or 6.7 percent when compared to third-quarter 2002 results. While this level is still 10 percent below fourth-quarter 2001 results ($42.3 billion) and revenues will be down for the year as a whole ($151.2 billion), falling $43.5 billion or 22 percent from 2001 levels, the expected reversal in the fourth quarter raises hopes that the long slide in industry revenue may be over. However, renewed revenue growth will likely be narrow and gradual, impacting only a few of the various revenue lines.

Total underwriting revenue is expected to fall 13.3 percent to $13.5 billion in 2002, as higher revenues generated by the record level of bond underwriting of $2.42 trillion is more than offset by weakness in equity underwriting deals. (All underwriting estimates are based on annualizing 11 months of data.) The value of all equity underwriting deals in 2002 is expected to reach $158.9 billion, 6.4 percent below last year's total and 22.3 percent below 2000's record of $204.5 billion. True initial public offerings, which account for a disproportionate share of total underwriting revenues and profits, were off more than 25 percent from last year, raising only $26.7 billion. This was almost two-thirds below the record activity set in 2000 of $75.8 billion.



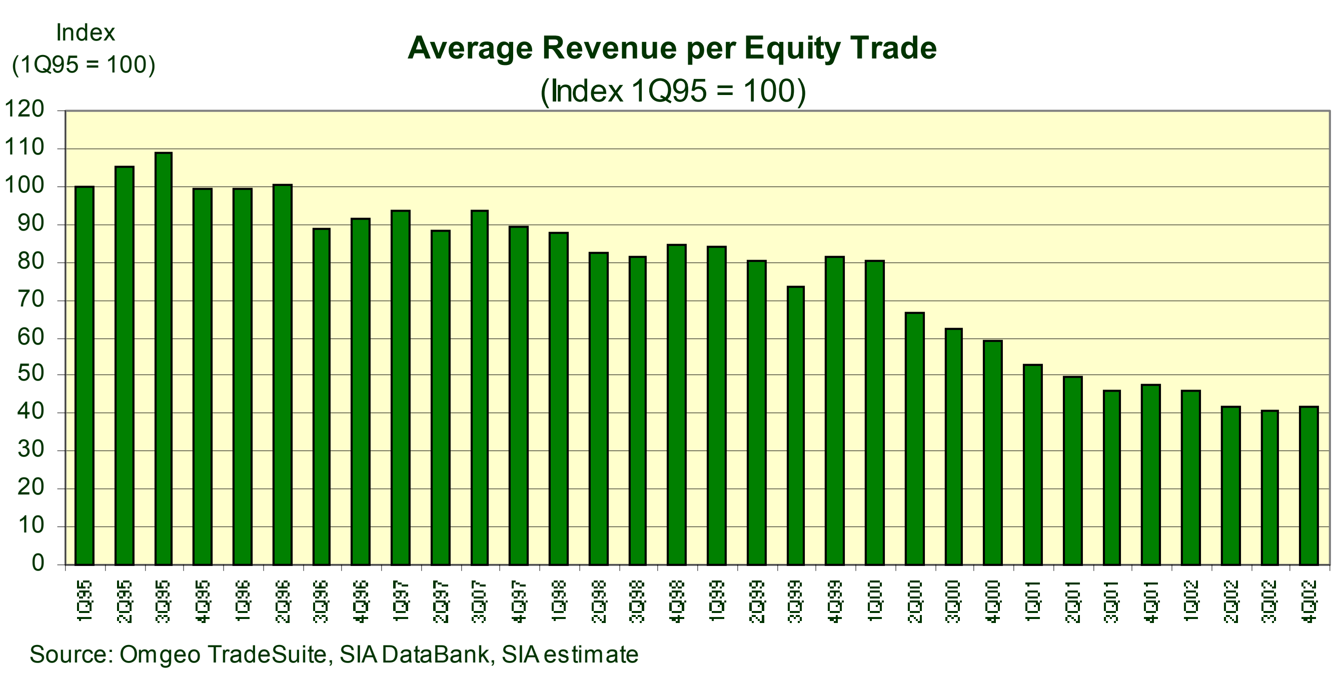


Corporate debt underwriting reached $2.42 trillion, 2.3 percent above the annual record set last year. The total value of all corporate underwritings (debt and equity) this year is projected to be $2.58 trillion, 1.7 percent above last year's result, which would set a new record.

Commission Revenue Remains Weak

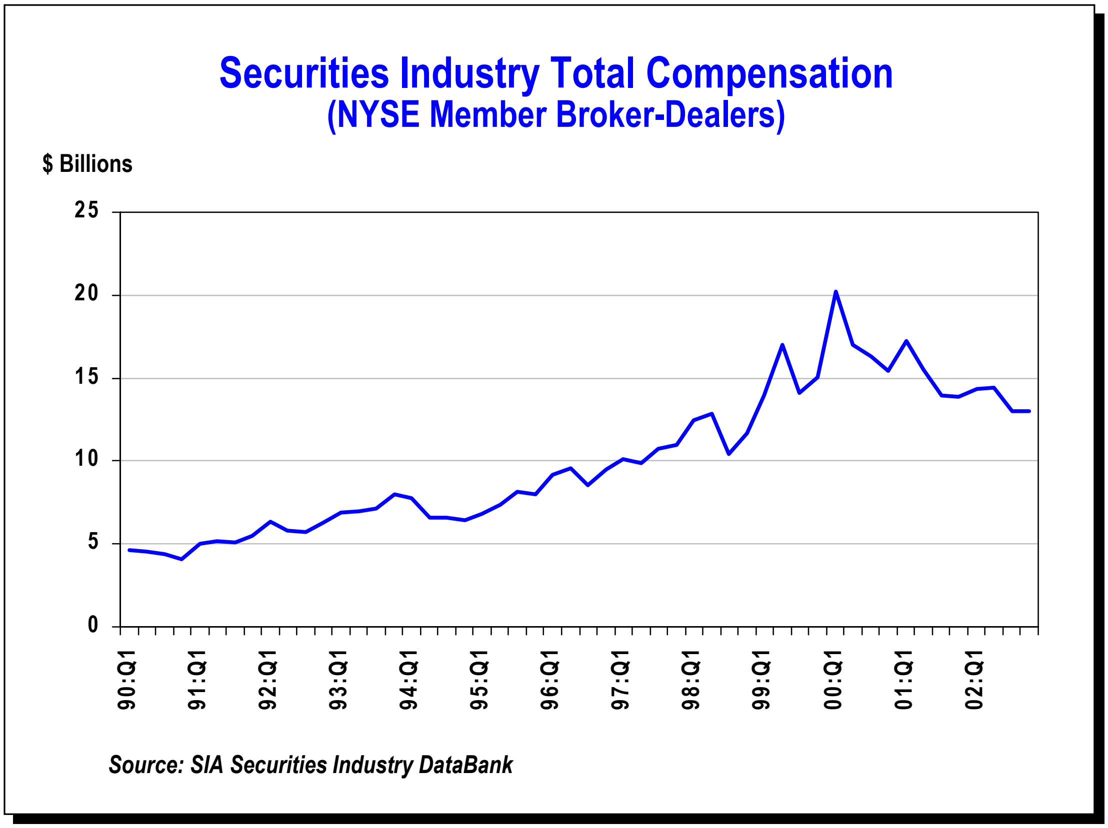
Commission revenue, another major contributor to firms' income, is projected to be $27.8 billion in 2002, up $1.0 billion or 3.7 percent from last year, but still down $5.3 billion, or 16 percent, from 2000's record $33.1 billion. This year's gain is largely the result of record trading volume in U.S. equity markets. Annual share volume climbed 8.6 percent to 910.2 billion shares (annualized based on 11 months of aggregate total shares traded on the NYSE, NASDAQ, AMEX and regional exchanges).

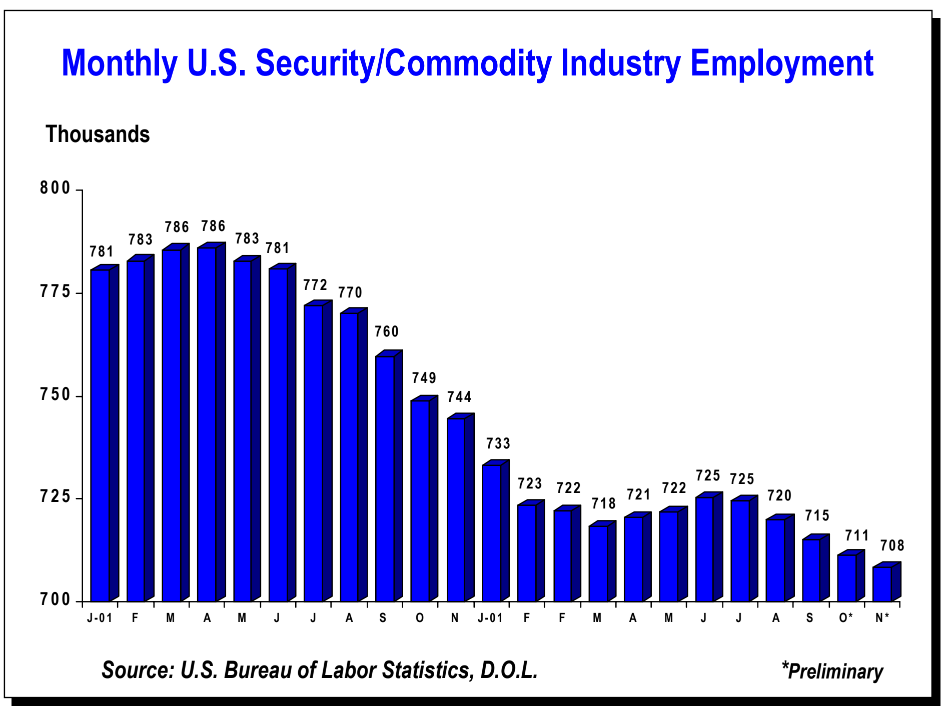
Another bright spot was that the decades long slide in the average commission revenue on each "ticket" appears to have come to an end as the industry absorbed the impact of decimalization and a shift in pricing that this change entailed for NASDAQ market-makers. While the increase estimated in the average commission earned per trade in 4Q 2002 is small, the change in direction is one indicator that the two-and-a-half year slide in industry earnings may have bottomed during third quarter 2002.



Expenses Staunched As Compensation Cuts Continue

Firms continued their aggressive expense-slashing efforts to remain profitable. Compensation remains the largest expense for firms, despite falling from last year's levels. Total compensation is expected to be $54.8 billion, 9.5 percent lower than 2001, and 20.5 percent below 2000 levels. These savings come from both reduced bonus payments (down an estimated 35 percent this year after a 12 percent decline in 2001) and other forms of variable compensation, as well as reductions in headcount.





Total U.S. securities industry employment, as compiled by the Bureau of Labor Statistics, has already declined 3.4 percent — from 733,100 at the year's beginning to 708,300 based on preliminary figures for November — and is off 9.9 percent from peak employment levels reached in April 2001. Firms that had managed headcount through attrition finally had to lay off employees in areas that were hard hit by the business downturn, and, in some cases, firms had to have subsequent rounds of layoffs when the first proved insufficient to control costs.

Drop In Interest Rates Shaves Expenses

At its early November meeting, the Federal Open Market Committee cut benchmark interest rates 50 basis points or 1/2 of one percentage point. Although this was the FOMC's first action since December 2001, it was the twelfth consecutive rate reduction since May 2000, totaling 525 basis points. These reduced rates, the lowest in 40 years, were the principal factor in reducing another major expense for firms – servicing their debt. Interest expense had been the single largest expense item in the years immediately prior to 2002, accounting for as much as 51.5 percent of total expenses as recently as 1998. Total interest expenses declined to an estimated $49.8 billion in 2002, accounting for 34.7 percent of total expenses. This compares with total interest expense of $81.6 billion in 2001 (44.3 percent of total expenses) and $110.5 billion in 2000 (49.2 percent of the total).

Total Capital Raised At Near-Record Level

The U.S. securities industry is projected to raise $3.1 trillion, just down from 2001's record $3.4 trillion; this is the second straight year this has surpassed the $3 trillion mark. This number represents the total amount raised for American businesses through the sale of newly issued stock and bonds through underwritings, private placements, and medium-term notes.

Foreign Acquisitions Of U.S. Securities At Near-Record Levels

Based on nine-month figures, foreign investors are projected to have purchased $477 billion in U.S. securities in 2002, just below 2001's record $521.9 billion. While foreign acquisitions of U.S. stocks are down ($36.9 billion in the first nine months of 2002, as compared with $84.3 billion during the same period in 2001), foreign investors' purchases of U.S. corporate, government bonds, and agencies exceed last year's pace ($315.7 billion in the first nine months of 2002, as compared with $271.8 billion in the first nine months of 2001).

The U.S. Economy:
Growth Sags in Late 2002 and the Threat of Renewed Recession in Early 2003 Persists.

Refreshing the Forecast Scenarios

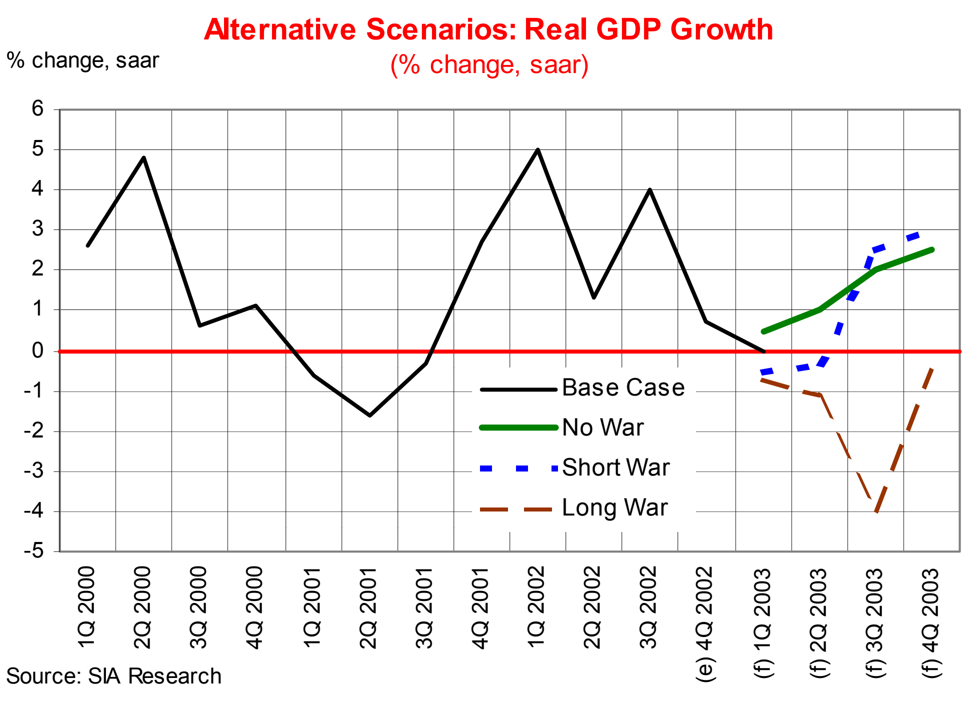
Two months ago (*Research Reports*, Vol. III, No. 9, October 25, 2002, page 12, http://www.sia.com/reference_materials/pdf/RsrchRprtVol3-9.pdf) we provided an alternative to the consensus forecast for the U.S. economy, along with a "naïve" war scenario. Getting this forecast right and avoiding the "optimistic bias" inherent in many macroeconomic forecasts, is important since the usefulness of any outlook for the securities industry will depend heavily on the accuracy of the forecast for the economy which underlies it. At that time the consensus forecast was for growth to be 2.2% in the current quarter and slightly above 3% in 2003. Our outlook at the time was for growth of only roughly half that amount and we saw a significant risk of renewed recession early in the New Year. Surprisingly, relatively few forecasters at that time incorporated the impact of a war with Iraq on economic growth, although virtually all conceded that war was highly probable and the uncertainty generated by this threat was already affecting business and consumer confidence.

Now at the end of 2002, war still appears to be the most likely case, with a ground assault beginning as earlier as end-January. The consensus forecast for 4Q 2002 real GDP growth has been more than cut in half, with most pundits now expecting growth of only 0.5% to 1.0%, but their expectations for growth in 2003 remain excessively rosy. To the extent that forecasters incorporate the impact of a very probable war in their outlook, the overwhelming majority anticipates a relatively benign scenario and growth that stays in the range of 2.0% to 3.0% next year. Economic performance in this "benign war" scenario is similar (if not "better") than a scenario where no war occurs. The thinking here is that "a quick and decisive victory eliminates uncertainty without producing any adverse effects". In such a "rosy" world, equity prices rally strongly as hostilities quickly come to an end.

The "W" Or Dreaded Double Dip

More realistic scenarios for the war assume that oil prices "spike" well above current levels early in the New Year and stay there for a more extended period.* Growth, at best, in the U.S. slows markedly in the first half of 2003, while "at worst" renewed recession ensues and unemployment continues to climb into the following year, reaching the range of 7%-7 ½ %. Five of the past six recessions followed this "W-shaped" or "double-dip" pattern, where a brief recovery was followed by a second downturn before a sustained expansion began. Continued consumer retrenchment before a recovery in business fixed investment occurs would make repeating this pattern likely. The lagged impact of past monetary easing will dissipate in 2003's stable interest rate environment and further federal fiscal stimulus when it does arrive will be offset by fiscal "drag" applied by state and local governments. With Japan already reentering recession and growth in Europe stagnating, a global recession appears likely in this scenario. Uncertainty persists and equity market prices decline, retesting lows set in late 2002. Such a negative outcome would short-circuit the recovery in the securities industry as well.

* See for example, Laurence Meyer, *After an Attack on Iraq: The Economic Consequences. Conference Summary*, Center for Strategic and International Studies, Washington, D.C., November 21, 2002.

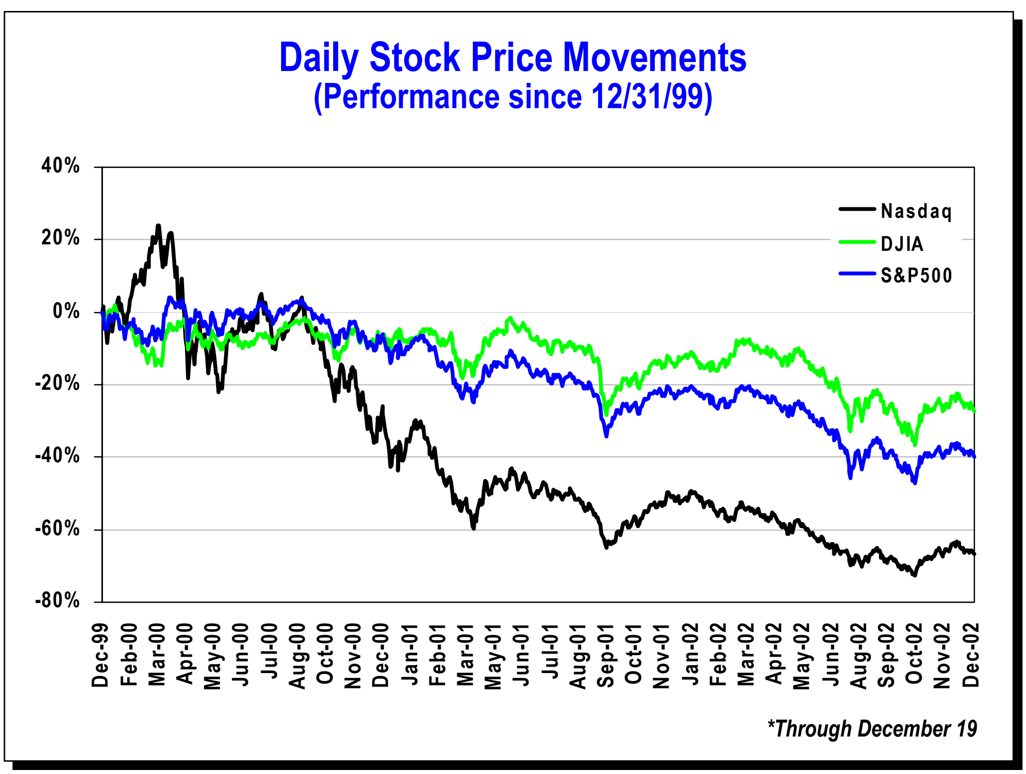


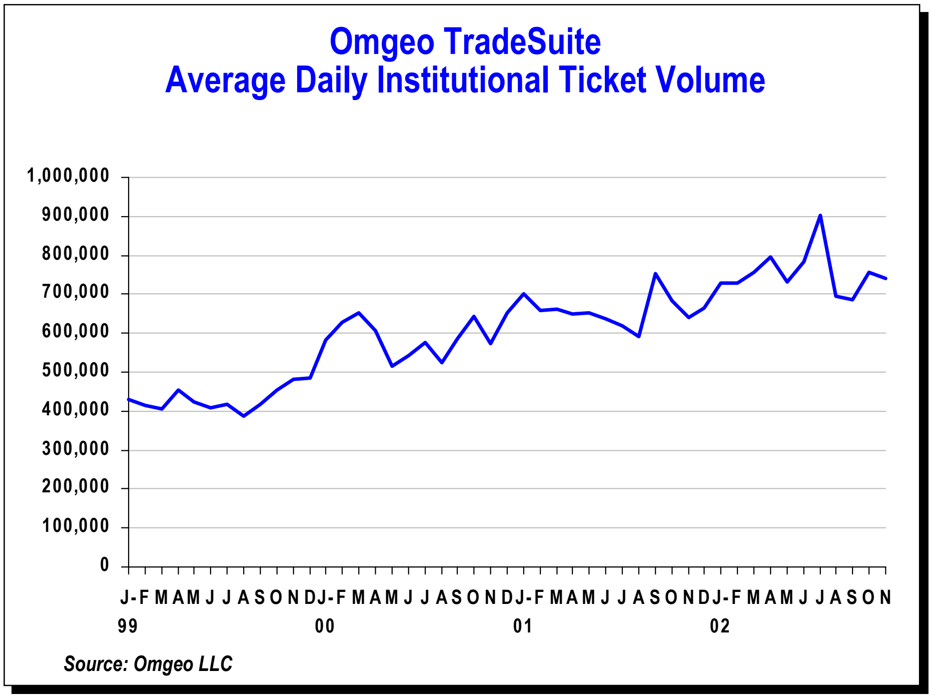
Frank A. Fernandez
Senior Vice President, Chief Economist and Director, Research

U.S. Equity Market Activity

Stock Prices – Stocks retreated during the first three weeks of December, after a powerful tech-stock driven rally pushed the Nasdaq Composite up 33% and the Dow and S&P up roughly 20% from their October 9 lows through November. In the first 14 trading days of December, the Dow dropped 6.0% to close at 8364.8 on December 19. Over the same time frame, the S&P 500 dropped 5.6% to 884.25, while the Nasdaq Composite fell 8.4% to 1354.1. Mounting tensions with Iraq, profit taking, recent downgrades of some major tech stocks, disappointing earnings of a few Dow components (i.e. McDonald's first quarterly loss leading to a seven-year low in its stock price), and a spate of fourth quarter profit warnings helped drag the major indices lower.

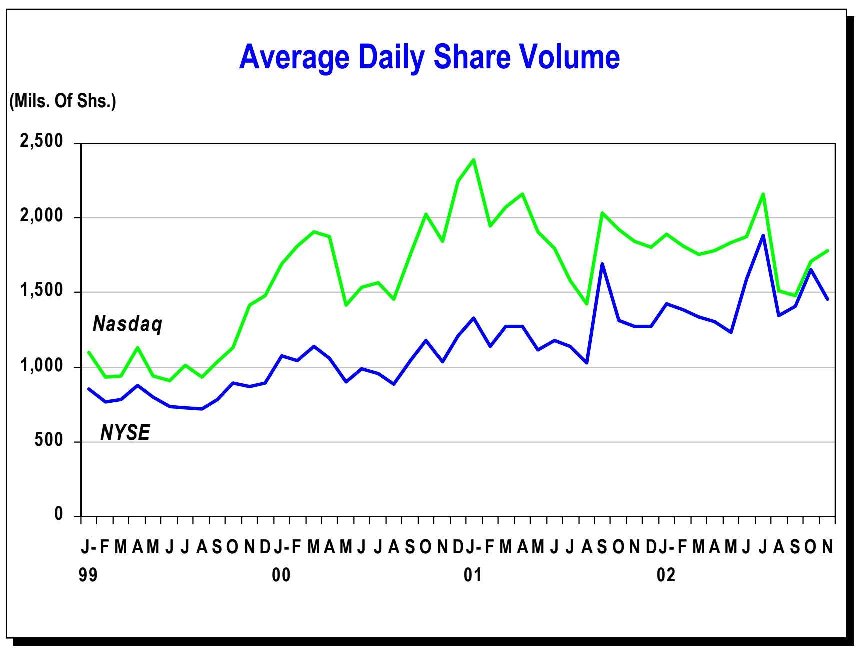
So far this year (through December 19), the Nasdaq Composite Index has tumbled 30.6% and was 73.2% off its March 2000 peak of 5048.62. Meanwhile, the S&P 500 sank 23.0% year-to-date and stood 42.1% below its all-time high set in March 2000. The DJIA lost 16.5% since the start of the year, and was down 28.7% from its January 2000 record level. This all but ensures that the U.S. stock market will suffer a third down year in a row, something that hasn't happened in over 60 years, since 1939-41.





Trade Volume – Institutional ticket volume eased slightly in November from October's level yet remained relatively strong. After increasing in October from a 2002 monthly low in September, ticket volume slipped 2.2% in November. Nevertheless, the number of institutional trades executed through Omgeo TradeSuite year-to-date has averaged a record 756,085 "tickets", topping 2001's previous record pace of 656,888 daily by 15.1%.

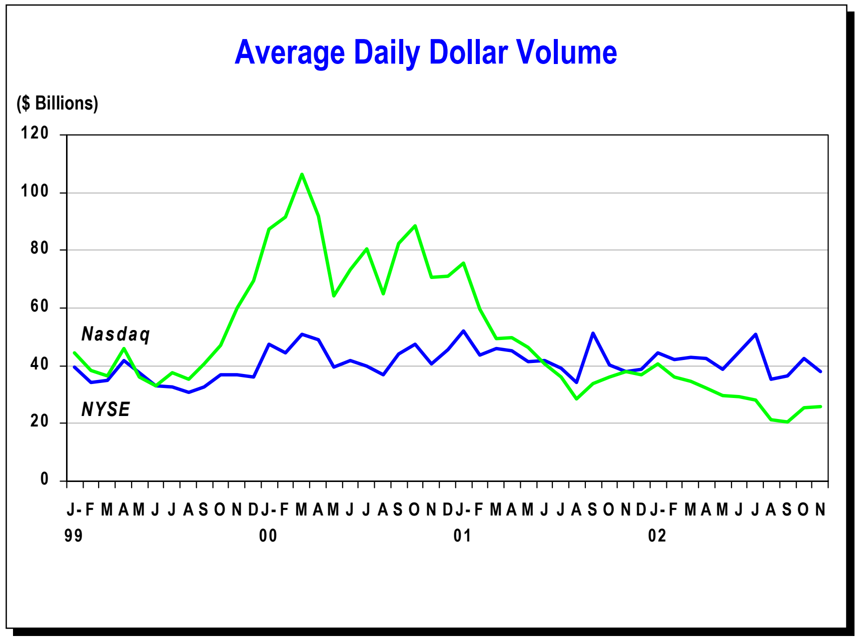
Share Volume – The strong rally in tech and telecom stocks in October and November helped spark a surge in Nasdaq volume. Since sinking to a 13-month low of 1.48 billion shares daily in September, average daily volume on Nasdaq reached 1.78 billion in November, 20.7% higher than September's pace and 4.4% above October's volume. Despite this recent increase in activity, Nasdaq volume through the first 11 months of 2002 was 6.3% short of the record set last year, averaging 1.78 billion shares daily compared with 1.90 billion per day in 2001. Given relatively light volume levels so far in December, this market will register its first yearly decline in share volume since 1990.

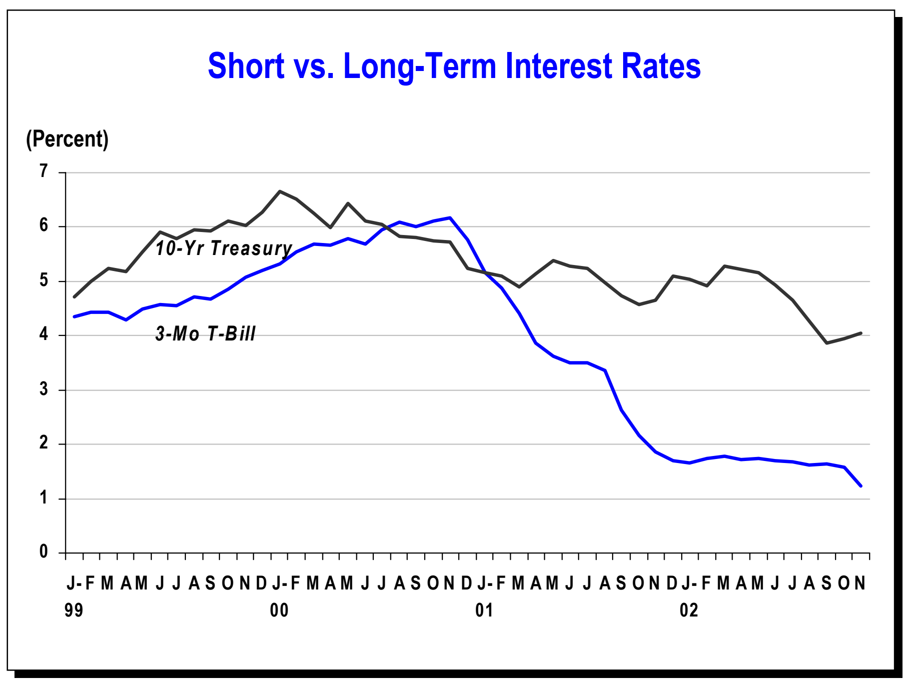


On the NYSE, volume slipped 12.1% to 1.45 billion shares daily in November from October's elevated level of 1.65 billion shares per day, as this market is not as tech-driven as Nasdaq. Nevertheless, NYSE volume year-to-date, at 1.46 billion shares daily, exceeds 2001's previous record pace of 1.24 billion daily by 17.6% and represents the 12th consecutive annual increase in volume.

Dollar Volume – Nasdaq dollar volume was on the upswing in October and November following an eight-month slide to a four-year low of $20.5 billion daily in September. In November, the dollar value of trading in Nasdaq stocks inched up to $25.8 billion daily from $25.4 billion in October. Nonetheless, at $29.3 billion daily year-to-date through November, Nasdaq dollar volume remains one-third below last year's $44.1 billion daily average and trails 2000's record $80.9 billion daily pace by nearly two-thirds.

Reduced trading volume on the NYSE dragged down the value of trading in NYSE stocks to $37.9 billion daily in November, a 10.8% decline from $42.5 billion daily in October. That brought the year-to-date average to $41.7 billion daily, just short of 2001's $42.3 billion daily average and 5.0% below the $42.3 billion daily record pace set in 2000.





Interest Rates – Yields on long-term Treasuries trended upward in October and November, as investors reallocated money out of bonds to stocks amid improved conditions in the equity market. The benchmark 10-year Treasury yield, which sank to a 40-year low of 3.87% in September, has since risen 18 basis points to an average 4.05% in November. Over that same time frame, yields on 3-month T-bills fell 40 basis points to 1.23%, in part due to the Fed's recent 50 basis-point cut in interest rates. As long-term yields rose in relation to short-term yields, the margin between short- and long-term rates widened to 282 basis points in November from 224 bps in September.

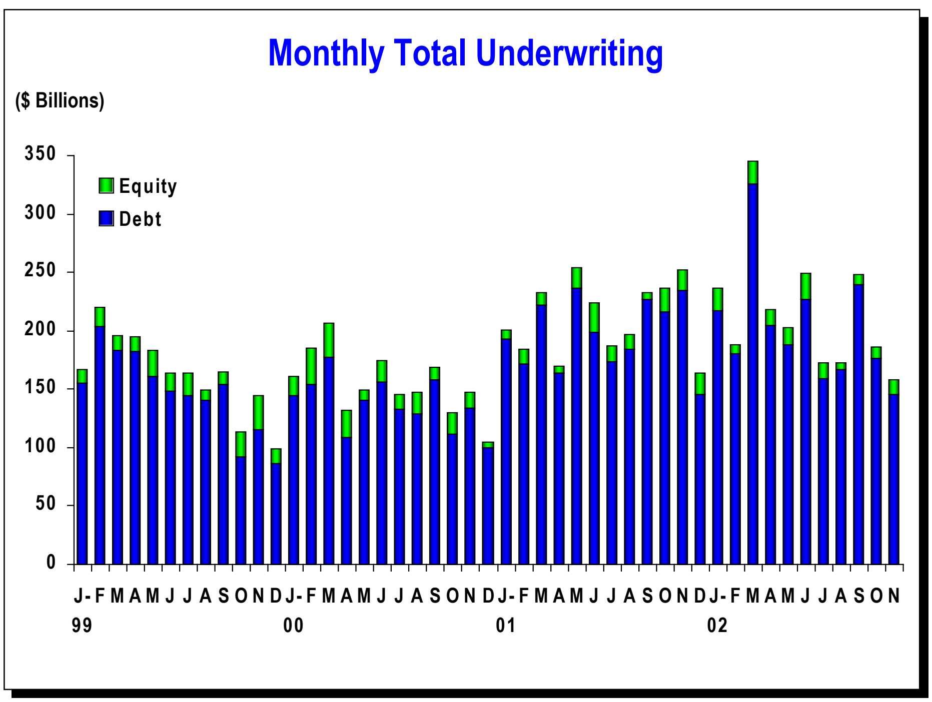
More recently, the faltering stock market and growing concerns of the likelihood of military action against Iraq have led to a flight to the relative safety of government securities, driving yields on the 10-year Treasury note down to 3.94% on December 19 from 4.24% on December 3.

U.S. Underwriting Activity

Total underwriting activity in the U.S. market weakened further in November to its lowest level since December 2000, primarily due to a steep decline in asset-backed debt issuance. Dollar proceeds totaled $158.1 billion in November, down 15.0% compared with $186.0 billion in October. December's action through December 18 was anything but encouraging, as it was down substantially from last year's December totals.

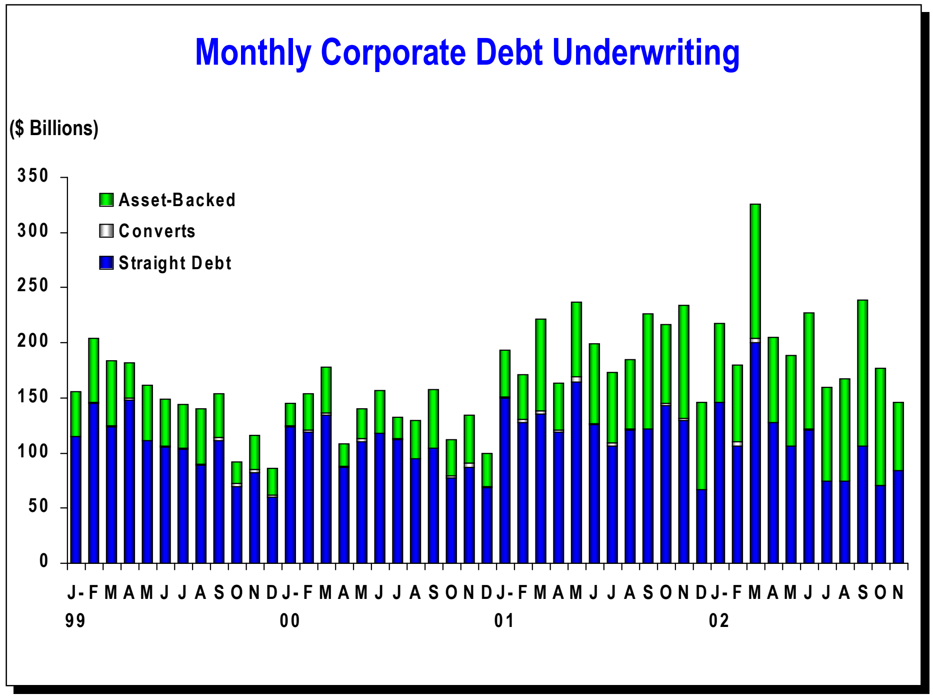
For the year-to-date through December 18, new issuance of corporate stocks and bonds totaled $2.472 trillion, slightly behind the $2.535 trillion raised in all of 2001. To match last year's figure, a total of $63 billion needs to be raised in the final two weeks of the month, a perennial dead period when syndicate desks essentially shut down for the Christmas and New Year's holidays. This is not impossible, however, given the usual year-end scramble by a few major-bracket underwriters to complete some deals in order to improve their league table rankings for the year.

Deal volume so far this year is running at a reduced level not seen since 1996. Only 10,284 deals were completed through December 18, a 32.4% decline from the record 15,215 deals offered during full-year 2001.

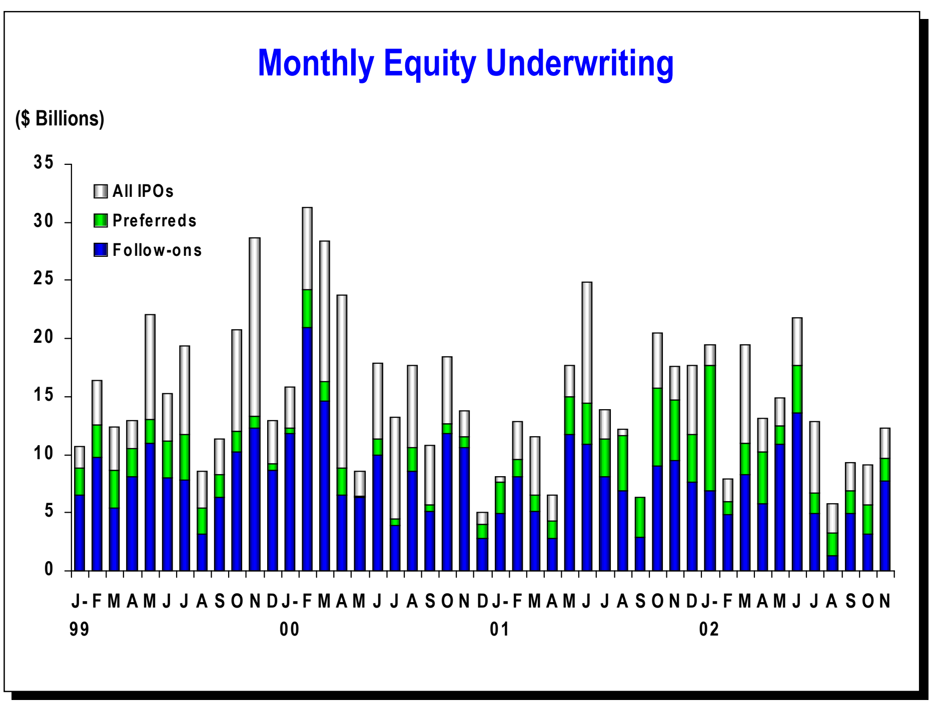


Corporate Bond Underwriting – Domestic underwriting of corporate debt securities dropped 17.5% to $145.8 billion in November, an 11-month low, from $176.8 billion in October. Activity slowed further in December, with $89.1 billion raised through December 18. That brought the year-to-date total to $2.32 trillion, just shy of 2001's full-year record of $2.37 trillion. Again, with the year-end league table scramble and the Fed's recent easing, a new record could be set in 2002 when the final numbers are tallied.

New offerings of asset-backed securities slumped to $61.7 billion in November, a 42.0% decline from $106.4 billion a month earlier and its lowest level since April 2001. Contributing to the decline was a slowdown in refinancing activity. December is shaping up to be another slow month, with only $31.9 billion raised through December 18. Nevertheless, asset-backed issuance year-to-date already eclipses 2001's full-year record, as issuance now stands at $1.04 trillion compared with the previous record $832.5 billion for all of 2001.



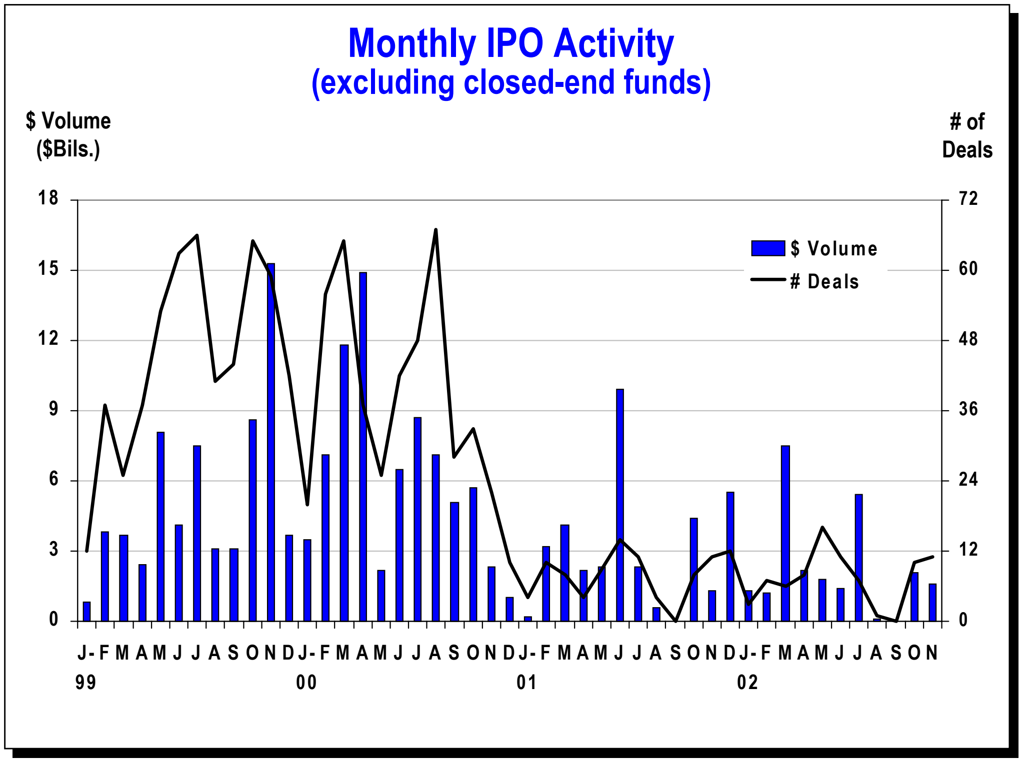
New issuance of straight corporate debt, although up in November, remained lackluster. It increased 18.9% in November to $83.7 billion from the 2002 monthly low of $70.4 billion in October. December saw issuance of $57.1 billion through December 18. That brought the year-to-date total to $1.27 trillion, 15.9% below the $1.51 trillion raised in all of last year.

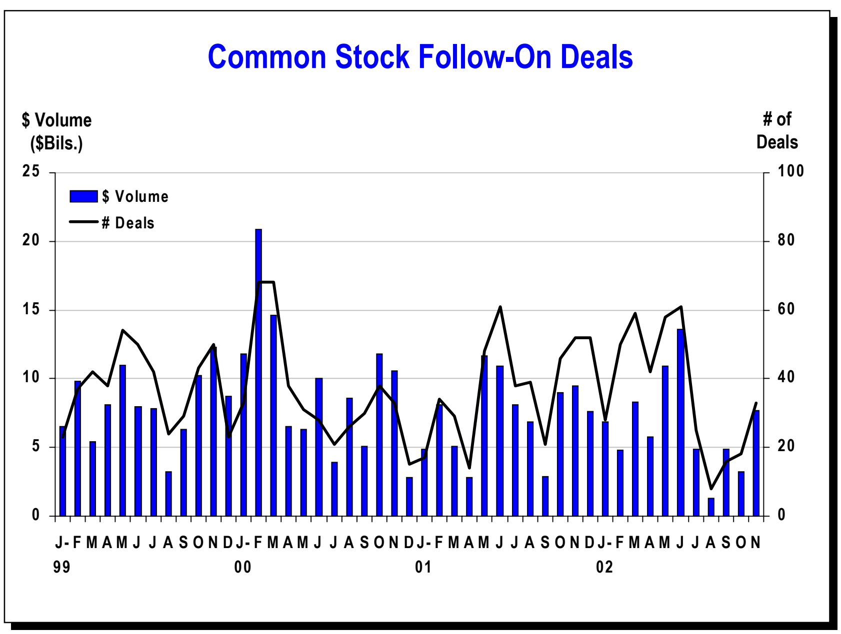


Equity Underwriting – Given the favorable conditions in the stock market during November, common and preferred stock issuance jumped 35.2% to a four-month high of $12.3 billion in November from $9.1 billion in October. However, activity has slowed thus far in December, a reflection of the current market downturn and seasonal factors. A mere $6.5 billion was offered through December 18, bringing overall equity volume to $152.4 billion year-to-date. That represents a 10.2% decrease from $169.7 billion in full-year 2001, a 25.5% decline from 2000's $204.5 billion record, and marks its lowest level since 1998.

Dollar proceeds from true IPO offerings fell in November from October's level as smaller-sized deals were brought to market. Only $1.6 billion was raised via 11 deals in November compared with $2.1 billion from 10 deals in October. In December, the year's biggest technology offering, Seagate Technology Holding's $870 million transaction, accounted for most of the $1.2 billion raised so far this month through December 18.

With no further IPOs expected this year, true IPOs will hit a 10-year low of $25.7 billion in 2002, 28.6% below 2001's level, and two-thirds below the record $75.8 billion set in 2000.





The two-month stock market rally during October-November sparked a flurry of follow-on common stock offerings. Activity in terms of both deal and dollar volume climbed to its highest level in five months, with 33 deals raising $7.7 billion in November compared with 18 deals that raised $3.2 billion in October. Lackluster activity in December (through December 18) brought the year-to-date total to $75.1 billion, down 14.3% from 2001's annual total and one-third below the record $112.9 billion set in 2000.

Grace Toto
Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	**TOTAL DEBT**	Common Stock	Preferred Stock	**TOTAL EQUITY**	All IPOs	"True" IPOs	Follow-Ons	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2001											
Jan	149.6	1.7	41.7	193.0	5.4	2.7	8.1	0.5	0.2	4.9	201.1
Feb	127.5	3.3	40.5	171.3	11.3	1.5	12.8	3.2	3.2	8.1	184.1
Mar	135.5	2.3	83.8	221.6	10.1	1.4	11.5	5.0	4.1	5.1	233.1
Apr	119.3	1.1	42.9	163.4	5.0	1.5	6.5	2.2	2.2	2.8	169.9
May	164.8	4.8	67.0	236.6	14.4	3.3	17.8	2.7	2.3	11.7	254.4
June	126.1	1.0	71.9	199.0	21.4	3.5	24.9	10.5	9.9	10.9	223.8
July	106.8	2.6	63.9	173.3	10.6	3.3	13.9	2.5	2.3	8.1	187.2
Aug	121.2	0.2	63.0	184.4	7.6	4.7	12.3	0.6	0.6	6.9	196.7
Sept	121.8	0.0	104.6	226.5	2.9	3.4	6.3	0.0	0.0	2.9	232.8
Oct	142.8	2.7	70.8	216.4	13.7	6.7	20.4	4.8	4.4	9.0	236.8
Nov	129.3	1.9	102.9	234.2	12.4	5.2	17.6	2.9	1.3	9.5	251.8
Dec	66.4	0.0	79.4	145.8	13.6	4.1	17.7	6.0	5.5	7.6	163.4
2002											
Jan	145.7	0.2	71.2	217.1	8.6	10.8	19.4	1.8	1.3	6.9	236.5
Feb	106.2	3.8	70.2	180.1	6.7	1.2	8.0	1.9	1.2	4.8	188.0
Mar	200.5	3.2	121.7	325.4	16.9	2.7	19.6	8.5	7.5	8.3	344.9
Apr	127.3	0.0	77.5	204.9	8.7	4.4	13.1	2.9	2.2	5.8	218.0
May	106.7	0.1	81.4	188.2	13.3	1.6	14.9	2.4	1.8	10.9	203.1
June	121.3	0.4	105.2	226.9	17.7	4.1	21.8	4.1	1.4	13.6	248.6
July	74.1	0.4	84.9	159.4	11.0	1.8	12.8	6.1	5.4	4.9	172.2
Aug	74.8	0.0	92.0	166.8	3.8	2.0	5.7	2.5	0.1	1.3	172.5
Sept	106.8	0.0	132.3	239.1	7.3	2.0	9.3	2.4	0.0	4.9	248.4
Oct	70.4	0.1	106.4	176.8	6.6	2.5	9.1	3.4	2.1	3.2	186.0
Nov	83.7	0.4	61.7	145.8	10.3	2.0	12.3	2.6	1.6	7.7	158.1
Dec											
YTD '01	1,444.9	21.6	753.1	2,219.6	114.8	37.2	152.0	34.8	30.5	80.0	2,371.7
YTD '02	1,217.5	8.6	1,004.4	2,230.4	110.9	35.1	146.0	38.7	24.5	72.2	2,376.4
% Change	-15.7%	-60.4%	33.4%	0.5%	-3.4%	-5.7%	-4.0%	11.0%	-19.6%	-9.7%	0.2%

Note: IPOs and follow-ons are subsets of common stock. "True" IPOs exclude closed-end funds.
Source: Thomson Financial Securities Data.

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

INTEREST RATES
(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
<u>2001</u>										
Jan	1.2	4.9	6.1	4.4	1.9	6.3	12.4	5.15	5.16	0.01
Feb	0.9	10.3	11.2	4.7	5.1	9.8	21.0	4.88	5.10	0.22
Mar	1.2	16.2	17.4	2.7	5.1	7.8	25.1	4.42	4.89	0.47
Apr	1.0	10.5	11.5	3.6	3.5	7.1	18.6	3.87	5.14	1.27
May	1.2	18.5	19.7	4.4	4.5	8.9	28.6	3.62	5.39	1.77
June	1.8	18.1	19.9	5.1	4.8	9.9	29.9	3.49	5.28	1.79
July	1.5	13.1	14.7	3.8	2.3	6.1	20.8	3.51	5.24	1.73
Aug	1.6	12.6	14.2	3.9	5.8	9.7	23.9	3.36	4.97	1.61
Sept	0.9	9.1	10.0	2.2	2.0	4.2	14.1	2.64	4.73	2.09
Oct	3.1	15.1	18.2	4.8	9.0	13.8	32.0	2.16	4.57	2.41
Nov	2.0	18.2	20.2	3.4	5.8	9.2	29.4	1.87	4.65	2.78
Dec	1.1	17.6	18.8	2.5	6.5	9.0	27.8	1.69	5.09	3.40
<u>2002</u>										
Jan	1.1	12.3	13.4	4.3	3.8	8.1	21.5	1.65	5.04	3.39
Jan	1.1	12.3	13.4	4.3	3.8	8.1	21.5	1.65	5.04	3.39
Feb	1.5	10.6	12.1	4.9	3.9	8.9	20.9	1.73	4.91	3.18
Mar	1.7	13.0	14.7	4.9	5.6	10.5	25.2	1.79	5.28	3.49
Apr	2.3	14.7	16.9	4.4	4.0	8.5	25.4	1.72	5.21	3.49
May	2.4	20.7	23.1	4.0	6.9	10.9	34.0	1.73	5.16	3.43
June	1.5	20.1	21.6	5.2	11.6	16.8	38.4	1.70	4.93	3.23
July	1.1	15.7	16.8	4.8	6.1	10.9	27.7	1.68	4.65	2.97
Aug	0.6	20.2	20.9	3.8	6.6	10.4	31.3	1.62	4.26	2.64
Sept	1.1	16.7	17.8	4.1	5.7	9.8	27.6	1.63	3.87	2.24
Oct	2.9	23.5	26.3	5.8	8.8	14.6	40.9	1.58	3.94	2.36
Nov	1.4	25.2	26.6	3.0	5.3	8.3	34.8	1.23	4.05	2.82
Dec										
YTD '01	16.4	146.5	163.0	43.0	49.8	92.8	255.7	3.54	5.01	1.47
YTD '02	17.4	192.7	210.2	49.3	68.2	117.5	327.7	1.64	4.66	3.02
% Change	6.0%	31.5%	28.9%	14.7%	37.0%	26.7%	28.1%	-53.7%	-6.9%	105.8% %

Sources: Thomson Financial Securities Data; Federal Reserve

	STOCK MARKET PERFORMANCE INDICES (End of Period)				STOCK MARKET VOLUME (Daily Avg., Mils. of Shs.)			VALUE TRADED (Daily Avg., $ Bils.)	
	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	121.58	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	138.58	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	138.23	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	156.26	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	195.04	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	180.49	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	229.44	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	240.21	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	259.08	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	250.94	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	329.51	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	392.30	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	511.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	595.81	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	650.30	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	656.87	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	589.80	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
<u>2001</u>									
Jan	10,887.36	1,366.01	663.64	2,772.73	1,325.9	72.5	2,387.3	52.0	75.6
Feb	10,495.28	1,239.94	626.94	2,151.83	1,138.5	70.9	1,947.6	43.8	59.7
Mar	9,878.78	1,160.33	595.66	1,840.26	1,271.4	82.5	2,071.4	45.9	49.2
Apr	10,734.97	1,249.46	634.83	2,116.24	1,276.5	78.4	2,162.8	45.1	49.6
May	10,911.94	1,255.82	641.67	2,110.49	1,116.7	66.7	1,909.1	41.4	46.4
June	10,502.40	1,224.42	621.76	2,160.54	1,175.0	63.8	1,793.9	41.6	40.6
July	10,522.81	1,211.23	616.94	2,027.13	1,137.1	56.0	1,580.7	39.0	36.0
Aug	9,949.75	1,133.58	587.84	1,805.43	1,025.7	49.1	1,426.4	34.0	28.4
Sept	8,847.56	1,040.94	543.84	1,498.80	1,694.4	72.8	2,033.0	51.2	33.9
Oct	9,075.14	1,059.78	546.34	1,690.20	1,314.3	67.8	1,926.0	40.1	36.1
Nov	9,851.56	1,139.45	579.27	1,930.58	1,270.1	57.8	1,840.3	38.1	37.8
Dec	10,021.50	1,148.08	589.80	1,950.40	1,275.3	54.1	1,807.0	38.8	36.2
<u>2002</u>									
Jan	9,920.00	1,130.20	578.50	1,934.03	1,425.9	56.1	1,888.7	44.5	40.8
Feb	10,106.13	1,106.73	578.60	1,731.49	1,381.8	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	600.43	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	574.18	1,688.23	1,307.3	55.4	1,779.0	42.4	32.1
May	9,925.25	1,067.14	570.78	1,615.73	1,234.2	61.5	1,834.2	38.9	29.8
June	9,243.26	989.82	533.07	1,463.21	1,587.0	66.9	1,877.1	44.8	29.4
July	8,736.59	911.62	491.37	1,328.26	1,886.3	79.0	2,158.2	50.9	28.1
Aug	8,663.50	916.07	495.55	1,314.85	1,341.4	58.4	1,509.0	35.5	21.2
Sept	7,591.93	815.28	445.44	1,172.06	1,409.0	90.3	1,477.3	36.3	20.5
Oct	8,397.03	885.77	472.90	1,329.75	1,654.8	68.3	1,709.3	42.5	25.4
Nov	8,896.09	936.31	495.27	1,478.78	1,454.4	57.7	1,783.7	37.9	25.8
Dec									
YTD '01	9,851.56	1,139.45	579.27	1,930.58	1,236.9	66.8	1,908.2	42.6	44.8
YTD '02	8,896.09	936.31	495.27	1,478.78	1,458.6	64.3	1,781.3	41.7	29.3
% Change	-9.7%	-17.8%	-14.5%	-23.4%	17.9%	-3.8%	-6.6%	-2.1%	-34.6%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	Assets: Equity	Assets: Hybrid	Assets: Bond	Assets: Money Market	**TOTAL ASSETS**	Cash Flow: Equity	Cash Flow: Hybrid	Cash Flow: Bond	Cash Flow: Money Market	**TOTAL**	Total Long-Term Funds
1985	116.9	12.0	122.6	243.8	495.4	8.5	1.9	63.2	-5.4	68.2	73.6
1986	161.4	18.8	243.3	292.2	715.7	21.7	5.6	102.6	33.9	163.8	129.9
1987	180.5	24.2	248.4	316.1	769.2	19.0	4.0	6.8	10.2	40.0	29.8
1988	194.7	21.1	255.7	338.0	809.4	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	248.8	31.8	271.9	428.1	980.7	5.8	4.2	-1.2	64.1	72.8	8.8
1990	239.5	36.1	291.3	498.3	1,065.2	12.8	2.2	6.2	23.2	44.4	21.2
1991	404.7	52.2	393.8	542.5	1,393.2	39.4	8.0	58.9	5.5	111.8	106.3
1992	514.1	78.0	504.2	546.2	1,642.5	78.9	21.8	71.0	-16.3	155.4	171.7
1993	740.7	144.5	619.5	565.3	2,070.0	129.4	39.4	73.3	-14.1	228.0	242.1
1994	852.8	164.5	527.1	611.0	2,155.4	118.9	20.9	-64.6	8.8	84.1	75.2
1995	1,249.1	210.5	598.9	753.0	2,811.5	127.6	5.3	-10.5	89.4	211.8	122.4
1996	1,726.1	252.9	645.4	901.8	3,526.3	216.9	12.3	2.8	89.4	321.3	232.0
1997	2,368.0	317.1	724.2	1,058.9	4,468.2	227.1	16.5	28.4	102.1	374.1	272.0
1998	2,978.2	364.7	830.6	1,351.7	5,525.2	157.0	10.2	74.6	235.3	477.1	241.8
1999	4,041.9	383.2	808.1	1,613.1	6,846.3	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	3,962.0	346.3	811.1	1,845.2	6,964.7	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	3,418.2	346.3	925.1	2,285.3	6,975.0	32.2	9.5	87.8	375.3	504.8	129.6
2001											
Jan	4,093.5	354.9	833.3	1,954.8	7,236.5	24.9	2.5	9.0	103.5	139.9	36.4
Feb	3,688.9	344.9	844.5	2,018.7	6,897.0	-3.3	1.3	8.9	58.2	65.1	6.8
Mar	3,402.9	333.7	852.1	2,035.5	6,624.2	-20.7	-0.4	7.7	13.7	0.4	-13.3
Apr	3,715.7	348.0	846.0	2,031.5	6,941.2	19.1	1.2	1.4	-10.5	11.2	21.7
May	3,744.6	352.6	858.4	2,070.9	7,026.5	18.4	0.9	6.3	34.3	59.8	25.6
June	3,677.2	349.9	860.8	2,052.5	6,940.4	10.9	1.2	2.3	-24.2	-9.8	14.3
July	3,589.3	351.7	882.3	2,069.8	6,893.1	-1.3	1.3	9.3	12.2	21.5	9.3
Aug	3,382.7	342.6	908.3	2,104.3	6,737.9	-5.0	-0.7	16.7	26.1	37.2	11.0
Sept	3,018.9	324.1	909.6	2,161.7	6,414.3	-30.0	-1.3	7.7	52.9	29.3	-23.6
Oct	3,111.2	330.3	935.2	2,239.7	6,616.4	0.9	1.6	13.6	74.2	90.2	16.0
Nov	3,348.6	343.0	934.1	2,306.5	6,932.2	15.3	1.0	6.9	60.3	83.5	23.2
Dec	3,418.2	346.3	925.1	2,285.3	6,975.0	2.9	1.0	-1.9	-25.4	-23.3	2.1
2002											
Jan	3,373.5	347.2	947.0	2,303.5	6,971.2	20.0	2.2	10.5	14.0	46.7	32.7
Feb	3,312.0	348.4	962.7	2,301.2	6,924.3	5.4	2.3	10.7	-5.5	12.9	18.4
Mar	3,497.4	359.2	958.4	2,247.2	7,062.2	29.6	3.3	6.7	-53.1	-13.4	39.7
Apr	3,369.5	354.5	980.8	2,230.8	6,935.7	12.9	3.3	7.8	-19.5	4.5	24.0
May	3,343.3	356.4	994.3	2,229.8	6,923.8	4.9	1.5	10.6	-4.3	12.6	16.9
June	3,089.6	341.4	1,003.6	2,196.5	6,631.1	-18.3	0.4	12.2	-43.6	-49.2	-5.6
July	2,770.3	320.7	1,033.2	2,254.6	6,378.8	-52.6	-4.7	28.1	54.6	25.4	-29.2
Aug	2,781.8	324.9	1,063.9	2,217.5	6,388.1	-3.1	0.6	17.4	-38.7	-23.8	14.9
Sept	2,505.5	305.4	1,089.0	2,155.7	6,055.6	-16.1	-0.7	15.4	-61.9	-63.2	-1.4
Oct	2,660.0	316.7	1,083.2	2,169.8	6,229.7	-7.7	-1.0	6.3	11.2	8.7	-2.4
Nov											
Dec											
YTD '01	3,111.2	330.3	935.2	2,239.7	6,616.4	14.0	7.5	82.8	340.4	444.7	104.3
YTD '02	2,660.0	316.7	1,083.2	2,169.8	6,229.7	-24.9	7.3	125.7	-146.8	-38.9	108.0
% Change	-14.5%	-4.1%	15.8%	-3.1%	-5.8%	-278.5%	-3.5%	51.7%	-143.1%	-108.7%	3.5%

* New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges
Source: Investment Company Institute

Securities Industry Association
120 Broadway, New York, NY 10271-0080
(212) 608-1500, Fax (212) 608-1604
info@sia.com, www.sia.com