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SECURITIES INDUSTRY ASSOCIATION • http://www.sia.com • info@sia.com
120 Broadway, 35th Floor, New York, NY 10271-0080 • 212-608-1500, fax 212-608-1604
1401 Eye Street, NW, Washington, DC 20005-2225 • 202-296-9410, fax 202-296-9775
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Page 30 **Prices Charged Retail Clients — 2001**, by Erin Burke. This is a short summary of the recently released 2001 Report on Prices Charged Retail Clients. Eighteen firms participated in this year's study, reporting information on commission charges for stocks and options; discounting (i.e., the most common percentage discount, average discount and maximum discount allowed); set-up and maintenance fees for retirement accounts; fees for legal transfers, returned checks, postage and handling, safekeeping, reorganization, and more. The summary highlights statistics from the report and also provides a synopsis of other topics covered in the report, such as interest charged on Margin Accounts, Wrap Accounts, and Asset Management Accounts.

Page 33 **Monthly Statistical Review**, by Grace Toto. For the month of February, the Nasdaq Composite and S&P 500 lost 10.5% and 2.1%, respectively, while the DJIA gained 1.9%. Share and dollar volumes on the NYSE and Nasdaq subsided from January's levels. New issuance of corporate debt and equity in the U.S. market fell sharply in February. Monthly and annual statistical tables on primary and secondary market activity are provided.

SIA Research Department

- **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
- **Frank A. Fernandez**, Senior Vice President, Chief Economist and Director, Research
- **Bella Mardakhaev**, Research Assistant
- **George R. Monahan**, Vice President and Director, Industry Studies
- **Grace Toto**, Assistant Vice President and Director, Statistics

SIX MONTHS ON
Update: The Impact of September 11th on the Securities Industry

As difficult as it has been to assess the economic impact of this unprecedented tragedy, the need to do so arose early[1] and persists today in order to make sound policy decisions for both the immediate response and the longer-term recovery and restoration efforts.[2] Our initial effort, released in late September, noted the impracticality of estimates of this extraordinary event at that time. Now six months after the event, there is a continuing need for updated estimates of the disaster impact, in order to help define both the lessons learned and action plans for ongoing recovery and rebuilding efforts, as well as for the development of risk mitigation strategies that are part of SIA.'s business continuity planning effort. However, these assessments do not adequately reflect and cannot do justice to the losses suffered on that day.

Disaster Impact

The damage done by the terrorist attacks on 9/11 is unprecedented in US history. Physical property damage alone exceeds the total costs of what was the most expensive US disaster: Hurricane Andrew in 1992, where losses were an estimated $25 billion. Some early estimates of direct losses ran as high as $105 billion. These staggering amounts included lost revenue over a two-year period, as well as the direct damage and the cost of rebuilding. The current range of estimates of the direct impact now center around $60 to $70 billion.

The securities industry sustained a severe blow, but recovery began immediately, mitigating more than originally thought possible the secondary effects of the terrorists' attacks. Much of the direct impact was to the securities industry and much of that was disproportionately borne by our member firms located in NY's financial district. This impact was heavily concentrated among a small number of firms located in and immediately adjacent to the 16-acre WTC site, with the impact dissipating rapidly with distance from "ground zero." While the speed and scope of initial recovery efforts, which were heroic and, at times, Herculean, helped limit the impact, there were a number of other factors, which have affected these estimates. September 11 was a day when tardiness became if not a virtue, a saving grace. The N.Y. Giants appearance on Monday night football, local primary elections and transportation delays made many people late for work who would otherwise have been in the Towers. After the event we have had the warmest winter on record and a six-month drought, which has allowed recovery work to proceed on the site and the surrounding area faster and less expensively than could have been hoped for. Nonetheless, the cost has been staggering.

The Human Toll

There are 2,830 individuals dead or missing and presumed dead. Of this total, 1,173, or just over 40%, were employees of financial services firms, most of these SIA member-firms. Just four firms accounted for nearly a third of the total casualties. Even these totals are still preliminary as human remains are still being recovered from the site. However, this process is nearing an end as excavation and recovery efforts are nearly completed. There is no adequate way to assess the loss of so many talented and deeply loved individuals. Nor can we adequately express the enduring grief and sorrow felt for the absence of family, friends and colleagues.

The human cost goes well beyond this somber death toll, however, and will not be known with any precision for some time. Specifically, the longer-term physiological and psychological impact of the disaster is yet to be fully assessed. While this is truly a national tragedy, which will alter our way of life, here too the impact is concentrated, with the most severe effects suffered by family and friends of those killed, those who directly witnessed the event and those who continued to work and live in close proximity to the site. Stress related ailments such as depression, survivor guilt and post-traumatic stress disorder are likely to persist for years to come. The degree of environmental degradation in lower Manhattan in late September remains an open question and a hotly debated issue. The impact to the health of those exposed to the release of cadmium, lead, asbestos, alkaline, aromatic hydrocarbons, and other harmful particulates which were violently disgorged in the initial tragedy and which more slowly rose from the smoldering ruins for a hundred days after the event is especially difficult to estimate. However, the long-term impact on public health of these contaminants will impose significant costs both in human terms and in terms of the financial costs of treatment.

There are also ongoing job losses directly related to the event, in addition to losses of ancillary jobs. It is difficult if not impossible to separate these job losses from those resulting from the impact of the recession, a major market correction and the on-going structural changes in the securities industry that calls the Wall Street area home. A full 25% of US financial services employment was located in NYC, and the overwhelming majority of these jobs were concentrated in lower Manhattan. Each of these jobs supports two other jobs in the local economy in varied industries ranging from printing, advertising, legal and consulting services to restaurants, hotels, and a myriad of small enterprises. Reportedly, only a fraction of 137,919 employees of all industries (the securities industry accounting for nearly 100,000 of the total) in lower Manhattan who were displaced after 9/11 have returned to the area. Almost 30% of employees who worked in firms in lower Manhattan have been moved elsewhere, with roughly half of those finding new quarters elsewhere in the City, principally in Midtown. The migration of jobs outside NY State, principally to New Jersey and to a lesser extent, Connecticut, will have dramatic consequences for NY City and State finances. A significant portion of these jobs were generated directly or indirectly by the securities industry. Many, perhaps as many as half, of these moves may be permanent.

In addition to the relocation of business operations, the impact of 9/11 also led to the loss of jobs. In the securities industry it accelerated and exacerbated declining employment as the industry downsized in response to sequential quarterly declines in revenues and profits from the record levels of 1Q'01. The loss of these jobs places strains on not only the individuals and families affected but on health and human services provided by the state and local governments which simultaneously suffer from much more limited abilities to meet those strains due to a

dramatic erosion of their tax base. The average fixed compensation for the securities industry in this area is nearly five times the state average. The area below 14th Street in Manhattan accounts for 15% and 25% of all private sector wages paid in NY State and NY City, respectively, and a substantially greater percentage of variable compensation. The impact on New York City and State budgets will be considered separately in our next issue of Research Reports. The state and local economies have remained in recession and likely will continue to be mired there through most of 2002, even as U.S. real GDP growth rebounded in 4Q '01, before accelerating in 1Q'02.

Physical Damage

The amount of physical property damage appears to be between $24 billion and $28 billion. Of this total, $17-$21 billion is believed to be covered by insurance. At the end of 2001, $16.3 billion of commercial property damage claims had already been filed, out of a total of $17.5 billion total claims that were filed by that time. However, total insurable claims, from both loss of life and property, are expected to be over $50 billion.

Specifically, six buildings comprising the WTC complex were completely destroyed, totaling 13.42 million sq. ft., resulting in an estimated loss of $5.2-$6.7 billion. Nine buildings (including 1-4 World Financial Center, 140 Broadway, 1 Liberty, 30 Liberty, 101 Barclay, and 22 Cortland) suffered serious damage and required extensive repair before they could be reoccupied. These nine buildings contain a total of 15.1 million sq. ft., and the damage to them is estimated at $1.3 billion. Sixteen buildings representing another 10 million sq. ft. suffered minor damages, and, in most cases, complete reoccupancy has occurred or is possible. Damage to these facilities is estimated at $0.4 billion. Over 400 other buildings were examined that had some significant damage, principally to facades and windows, with the severity of the damage and the attendant repair costs varying with proximity to the site of the attack.

Significant damage was done to the basic infrastructure that serves lower Manhattan in general and the securities industry in particular. Restoration of power, transportation and communications systems was (and to a certain extent remains) a priority for recovery efforts. In these areas initial recovery efforts were nothing short of startling, as New York's financial markets were able to reopen in less than a week. However, full restoration efforts will continue for years to come.

Verizon, the local telecommunications supplier, is restoring 36 miles of cabling, 300,000 phones lines and 4.5 million data circuits serving 140,000 users, that were destroyed that day at a cost of $1.0-$1.2 billion over 12-18 months. In terms of power generation, Con Edison lost two major electrical substations and the local distribution system was heavily damaged; 33 miles of electrical cable were destroyed. The restoration of MTA public transportation to 38,000 travelers and Path train facilities to up to 66,000 daily commuters is estimated to cost approximately $3.5 billion and $2.8 billion, respectively.

Moreover, a great deal of equipment and inventory was lost, particularly communications and information technology, facilities, furniture and fixtures. An estimated $1.7 billion in hardware and systems was lost, in addition to $1.5 billion in software and services, and $1.8 billion in facilities, furniture and fixtures, for a grand total of $5.0 billion. Demolition and debris removal, cleaning, and environmental remediation efforts will cost between $3.5-$4.5 billion. Other costs include business interruption, lost income, relocation and costs of backup facilities, rescue, recovery, enhanced security, and victim assistance and support services. Together, these costs are estimated at $5.0 billion.

The Bush administration is providing New York City with a $21.5 billion package in order to offset some of these costs. $10.7 billion of this has already been allocated to the city. Another $5.0 billion of this total has been earmarked for tax credits for businesses in lower Manhattan. Also included in this package is $2.7 billion for WTC site cleanup to be disbursed through FEMA (the Federal Emergency Management Agency), $1.8 billion to rebuild subway and PATH trains close to the site, $750 million for Verizon and Con Edison reconstruction efforts, and $167 million to be used to repair the roads and highways close to the site.

The Impact on Industry Revenues and Profitability

As was mentioned earlier, the impact of the terrorist attacks in general on the securities industry was mitigated by a number of factors, including the resiliency of the industry and the people who work in it. This is reflected as well of the impact on the industry's operating income and profits. In excess of 90% of all losses are estimated to have been insured, and rapid responses and effective disaster recovery plans reduced the costs of these efforts and limited business interruption losses.

Prior to the terrorist attack, we had expected domestic pre-tax profits to decline from a record $21 billion in 2000 to $15 billion in 2001, as industry expenditures were cut nearly in line with a dramatic decline in revenues. In the aftermath of the attacks we lowered our projections for 2001 profits to $10.2 billion. In fact, full year data released last week show profits did plunge to $623 million in 3Q'01, before partially rebounding to $2.8 billion, largely as expected, in the final quarter to limit the decline in profits to $10.4 billion for all of last year. Details of 2001 securities industry performance can be found in other research reports on our website.

Lessons Learned

Officials and business people at all levels have learned lessons from the tragedy. Clearly, there is a heightened awareness of the importance of risk management and the value of contingency and disaster recovery planning has been reaffirmed. Those firms that had such plans already in place before 9/11 had a clear advantage over those that did not, as they were able to avoid losses in business interruption.[3] Some elements of contingency planning include systematic data archiving, updated information lists for all employees, an emergency call-in number or website, and employees clearly knowing their roles during an emergency. While these elements may sound obvious, they did, in addition to prompt responses and heroic efforts by emergency personnel, substantially mitigate the secondary and tertiary impact of the event.

Perhaps the first most important overall lesson to keep in mind in terms of improving disaster recovery planning is to evaluate the contingency needs of each business unit, not in isolation, but integrated with all systems and operations. Regularly inventorying hardware and software to determine what systems are crucial allows the firm later to prioritize the repair or replacement of those systems correctly. Eliminating single points of failure in IT systems is crucial. Some suggest that industry-wide projects such as Y2K and decimalization were beneficial to firms' contingency plans. In part, in recognition of this, a similar industry-wide project has evolved in response to the attacks of 9/11 and is led by the Business Continuity Planning Committee.

Eliminating single points of failure in systems other than IT is also at the heart of business contingency planning. The second most important overall lesson is the geographic and temporal dispersion of personnel, facilities, and connectivity. Unfortunately, the contingency plans of many firms hinged on

several key people within each firm. Also, avoiding dependency on a single infrastructure system, as in power, telecom, and transportation is seen as critical. With regard to telecom, each business must have mobile and wireless solutions to complement land-based lines. Geographic dispersion of primary and back-up facilities will help resolve dependency on single points of failure of power and transportation facilities.

A third overall lesson that has been learned is the need for greater private sector involvement in public policy formulation and implementation. Currently we are seeing unprecedented levels of public and private sector cooperation. In the financial sector, this began with rapid, joint efforts to reopen financial markets and mitigate market, liquidity and settlement risk arising from the disruption of connectivity and normal operations. These joint efforts have continued into the present as private firms are using tools such as Suspicious Activity Reports in order to help the federal government identify laundered money that could be used to fund terrorists. Clearly, the threat of sustained terrorism must lead to a more realistic evaluation of vulnerabilities and their probabilities. One of these vulnerabilities, brought into high relief in the aftermath of 9/11, is operational risk posed by the interruption of the settlement cycle. Over 100 broker-dealers, exchanges, utilities, government agencies and other interest parties have joined the Business Continuity Planning Committee to coordinate mitigate and manage this and other risks.

Finding Balance

With regard to the future of lower Manhattan, we have seen that there is both value and danger in concentration. In the early 1980's New York City accounted for 39% of total national securities industry employment. Prior to 9/11 this had declined to 25% before appearing to stabilize at that level, as the cost savings obtained in lower rents, taxes and compensation outside of New York City were being offset by the higher efficiency and productivity bestowed by the concentrated "market culture" of Wall Street. The last three decades of natural geographic dispersion, along with the impact of 9/11, has taught the need for balance. Balances must be also be sought between the need for additional security and the cost of obtaining it, as well as between the need for disclosure and the right to privacy. Similarly, balancing the need for a public memorial at the WTC site with commercial space will be challenging.

While many decisions must be made soon, those related to the work to fully restore power and transportation infrastructure, need to be made first priorities. These are pressing needs, albeit emotionally laden ones. However, delays in making these decisions, and carrying them out, due to emotional issues will raise costs, making it less likely that firms will stay in lower Manhattan or those jobs that have left will return. These high-paying jobs in the financial sector have powered the NY City and State economy in the past ten years. Therefore, rebuilding a vibrant financial sector in lower Manhattan and the community that coalesces around it is crucial to the future of the local and state economy. Maintaining New York as the preeminent financial center of the world carries similar weight for the health of the national economy. Rebuilding, while honoring what was lost, is important to us all, not just economically, but socially and culturally as well. We as a people, we as a nation, will be judged by how we respond to this tragedy.

FOOTNOTES

[1] See Frank A. Fernandez, "The Economic Impact of September Eleventh on the Securities Industry," SIA Research Reports, Vol. II, No. 8, 9/30/01. Free access at: http://www.sia.com/reference_materials/html/research_reports.html

[2] See Judith L. Chase, "Restoring Industry Functionality After 9/11," SIA Research Reports, Vol. II, No. 9, 11/2/01. Free access at: http://www.sia.com/reference_materials/html/research_reports.html

[3] See "Restoring Industry Functionality After 9/11."

Personal Postscripts: Words In Honor of the Day

The initial, September report of the impact of 9/11 carried with it a quotation from Tennyson, which at the time seemed fitting both as an expression of grief and to convey that a long, painful odyssey lay before us. Some found comfort in this. Accordingly, that passage is reproduced here along with two other bits of poetry that also seem appropriate.

Though much is taken, much abides, and though

We are not now that strength which in old days

Moved earth and heaven, that which we are, we are –

One equal temper of heroic hearts,

Made weak by time and fate, but strong in will

To strive, to seek, to find, and not to yield.

Tennyson - Ulysses

****

If you came this way,

Taking any route, starting from anywhere,

At any time or at any season,

It would always be the same: you would have to put off

Sense and notion. You are not here to verify,

Instruct yourself, or inform curiosity

Or carry report. You are here to kneel

Where prayer has been valid.

T. S. Eliot - Four Quartets, Little Gidding

****

He who learns must suffer. And even in our sleep, pain that cannot forget falls drop by drop upon the heart, and in our own despair, against our will, comes wisdom to us by the awful grace of God.

Aeschylus 525-456 B.C. - Untitled

****

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

LARGE INVESTMENT BANK MARGIN AND ROE TRENDS: THE 20-YEAR DOWNTREND TO CONTINUE

Overview

Margins at the Large Investment Banks[1] (LIBs) have declined for 20 years — caused by aggressive new competitors, weak industry expense control, higher capital requirements and increasing pricing power of clients.

The commoditization of core products is forcing the industry to rely on a fewer number of high-margin businesses (e.g., M&A, IPOs and high-yield debt) to generate earnings and to cross-subsidize the product portfolio of the entire franchise.

With a declining number of high-margin businesses, the industry parti cipants are pursuing a common set of corporate strategies — exacerbating the margin decline in the future.

In the long-term, expect a war of attrition for market share driving lower peak cycle ROEs going forward; versus the 1998-00 Technology, Media and Telecommunication (TMT) peak of approximately 22%, we expect industry ROEs to fall to 17-18% (20% for Super Bulge Bracket, 15% for remaining firms).

Margin Trends Heading South

This year's meager bonus checks have not been cashed, and the ink is yet to dry on the holiday pink slips, but hope springs eternal in the securities industry. An improving Nasdaq valuation, a modest "boomlet" in IPOs, an end-of-year improvement in the junk bond market and some high-profile M&A activity, combined, have made all industry participants look forward to the next cycle. So, how good will the next cycle be? Not as good as the last one, or the one before that, or the one before that.

Why the Pessimism? History. Since 1980, the Securities Industry Association's (SIA) DataBank shows that the ROE performance of the industry's LIB sector has steadily declined, despite cyclical rebounds. When we look at the long-term trends in the securities industry, there is a favorable historical revenue growth rate, but unfortunately this does not translate into favorable trends for ROE (see Exhibit 1).

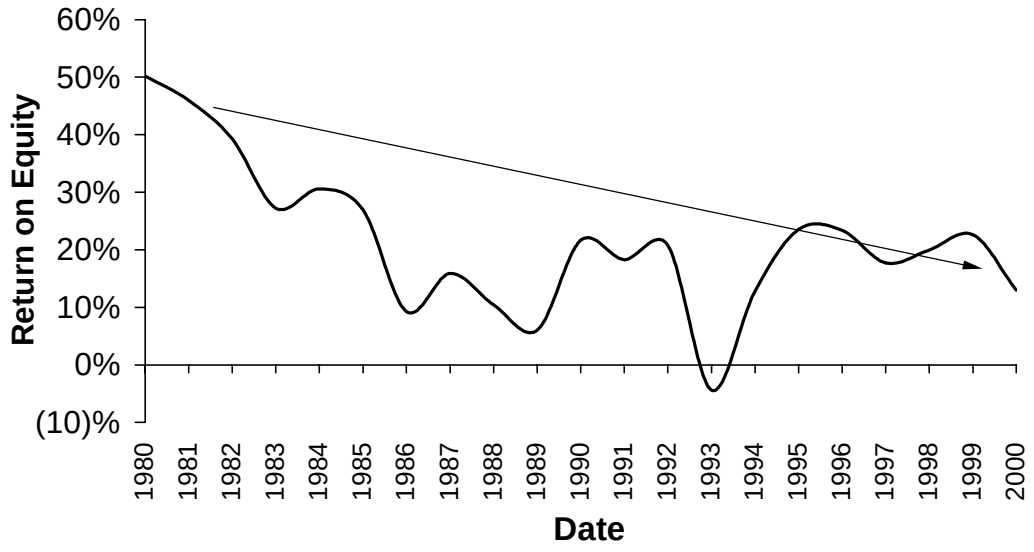
Return on equity for the institutional players in the securities industry has fallen from approximately 50% in 1980 to 30% in the mid-1980s to 20% in the 1997-99 TMT bubble before entering the current cyclical decline. These declines stem from troubling and persistent secular trends that will not solve themselves anytime soon: commoditization and cross-subsidization of products, lax expense control and increasing retention of capital.

Needless to say, this pretax margin decline has been partially hidden by the buoyant revenue figures, as shown in Exhibit 2. Net revenues for the LIBs have increased at a CAGR of 14.2% since 1980. In the early 1980s, the average pretax margin for the LIBs was 28.9%. In the mid-1990s, the pretax margin had dropped to as low as 11.2%. During the peak of the TMT boom, margins recovered to 16-17% before declining again in 2000–01.

[1] The Large Investment Banks consist of Bear Stearns, CSFB, DLJ Securities, Goldman Sachs, Lehman Brothers, JP Morgan Securities and Morgan Stanley.

Exhibit 1

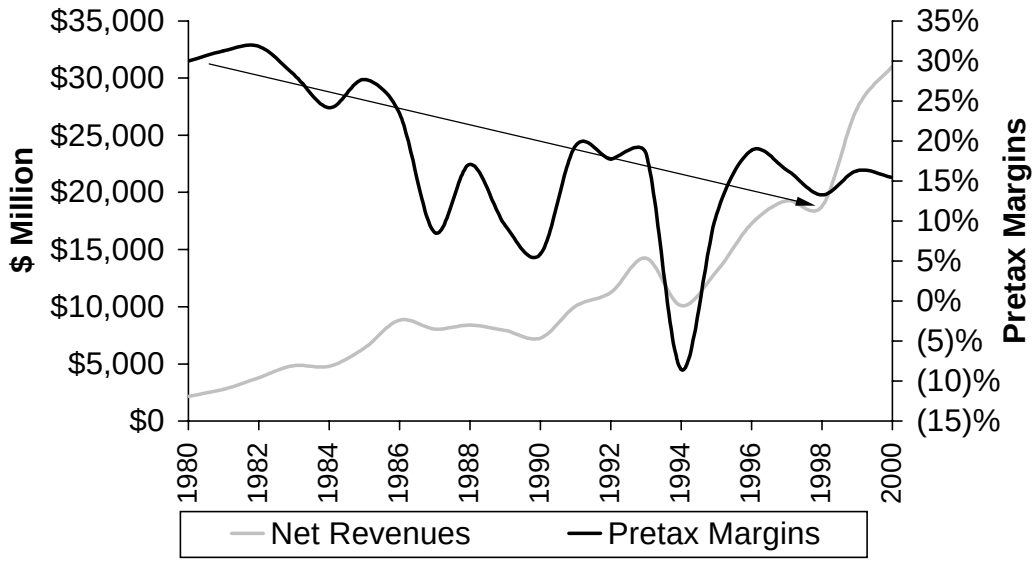
Large Investment Bank (LIB) ROE



Source: SIA DataBank

Exhibit 2

LIB Net Revenues and Pretax Margins



Source: SIA DataBank and Bernstein analysis

SIA Pretax Margin Analysis. Which investment banking businesses have been driving these pretax margin declines? To determine the pretax margin changes for the businesses over time, we analyzed the line of business information from the quarterly SIA income statement for the LIBs. Gross revenue items from the SIA DataBank were allocated to the broad categories of equity sales and trading, debt sales and trading, investment banking, and other. Assumptions as to the allocation of interest income and expenses based on inventory levels were made to determine the net revenues of each business.

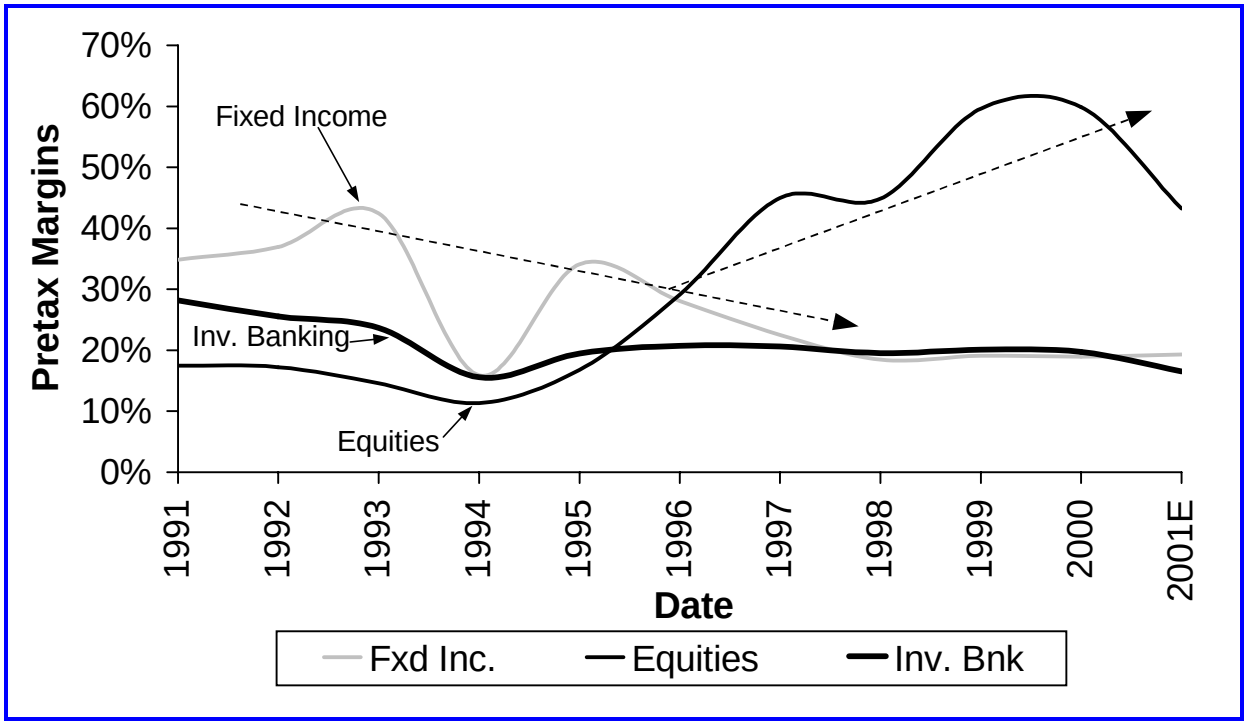
For the purpose of our analysis, the businesses are defined as: institutional equities business, which encompasses the agency business as well as proprietary-type equity operations and derivatives; fixed-income sales and trading business, which includes the agency and proprietary business plus mortgages, derivatives and foreign exchange; and investment banking, which includes all debt and equity underwriting and M&A advisory.

With the annual net revenue information for the lines of business and the LIB's annual pretax income, we conducted a series of regression analyses of overlapping five-year and seven-year samples of quarterly data to determine pretax margin by line of business for each respective period. The results of these statistical analyses are presented in **Exhibit 3**, which plots the pretax margins of fixed income, equities, and investment banking.

Using the annual pretax margins determined by each line of business above, the analysis was expanded to determine pretax income. Equity capital usage by year for each business was determined from the Bernstein Capital Allocation Model (see Bernstein's December 2002 whitebook, "Capital Does Count: The Bernstein Capital Allocation Model"). These two estimates were combined to determine pretax return on equity for each business.

Exhibit 3

LIB Line of Business: Pretax Margins



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001E
Fxd Inc.	34.8%	36.9%	42.4%	15.9%	34.1%	28.1%	22.5%	18.5%	19.1%	18.9%	19.3%
Equities	17.5%	17.2%	14.6%	11.3%	16.8%	29.2%	45.0%	44.9%	59.6%	59.9%	43.2%
Inv. Bank	28.1%	25.5%	23.7%	15.6%	19.5%	20.7%	20.6%	19.5%	20.1%	19.7%	16.5%

Source: SIA DataBank and Bernstein analysis

Large Investment Bank Margin Trends

Over the 1991-01E period, equity sales and trading pretax margin has averaged 32.6% for the LIBs; debt sales and trading has averaged 26.4%; and investment banking has averaged 20.9%.

The highest ROE within the LIB businesses is investment banking — due to its low capital requirements — which averaged an ROE of 57% over the last five years and even higher in the 1980s. Despite its high capital intensity, debt sales and trading has been able to achieve ROEs of 23% over the last ten years and 19% over the last five. Equity sales and trading has been a lower-return business — generating a ROE of 17% over the last ten years before increasing to 25% in the period ending 2000.

Although corporate bond defaults hit a record last year and the collapses of Enron and the Argentine economy have dominated the headlines, the impact on the financial services industry was felt mainly in the commercial banking subsidiaries of financial holding companies. The exposure of securities firms was mainly concentrated in a small number of firms, and for these firms it was limited in size relative to overall revenue. For over 99% of all securities firms, the only impact was what these events have done to the overall bond and equity markets.

Fixed Income Sales and Trading: Pretax margins declined over the period analyzed, averaging 31.1% for 1989-91, 30.8% for 1993-95 and 18.8% in 1998-00. The continuation of new entrants into the fixed-income marketplace and the increasing availability of pricing information and market data have narrowed trading spreads for "plain vanilla" trades. Pretax margins have been negatively impacted by low barriers to entry and increased competition from universal commercial banks. Margin compression on low value-added trading activities (e.g., governments, agencies, corporates, medium-term notes, money markets and preferred stock) as well as declining margins in "simple" derivative trades (i.e., interest rate and currency swaps) have offset the growth of higher pretax margin businesses such as high yield and credit derivatives.

Data on fixed-income revenues from the SIA DataBank[2] allow us to calculate fixed-income trading net revenues as a percentage of debt trading inventory. For the LIBs, the data indicate that in the late 1980s and early 1990s, net revenue returns in the range of 25 to 30 bp on inventories were routine. Specifically, comparing peak-to-peak years and trough-to-trough in terms of the quality of the markets overall, a 1990 trough-year ROA of 39 bp fell to 18 bp in 1994 and 14 bp in 1998, and a peak-year rate of 47 bp in 1991 declined to 27 bp in 1995. The estimated decline in pricing is over 40%.

The margin trends extended into declining ROE performance for the businesses over time (see **Exhibit 4**). Over the period analyzed, fixed-income inventories and equity capital use within the LIBs rose through 1997 as the industry shifted to a greater reliance on proprietary trading.

In the second half of the 1990s, return on equity for fixed-income fell to a low of 11% in 1998 (well below the cost of capital of a securities firm) before rebounding in 1999 and 2000 due to the industry's reduction in fixed-income inventories and trading risk following the emerging market and long-term capital management problems of 1998.

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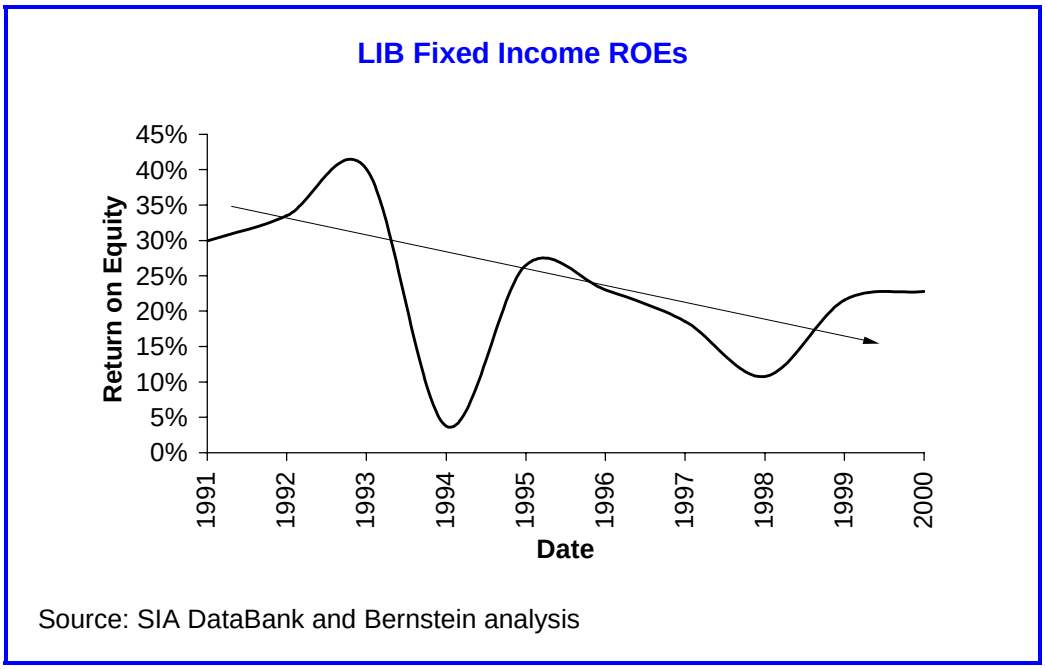
[2] This ignores mix changes but the trend is right.

Exhibit 4



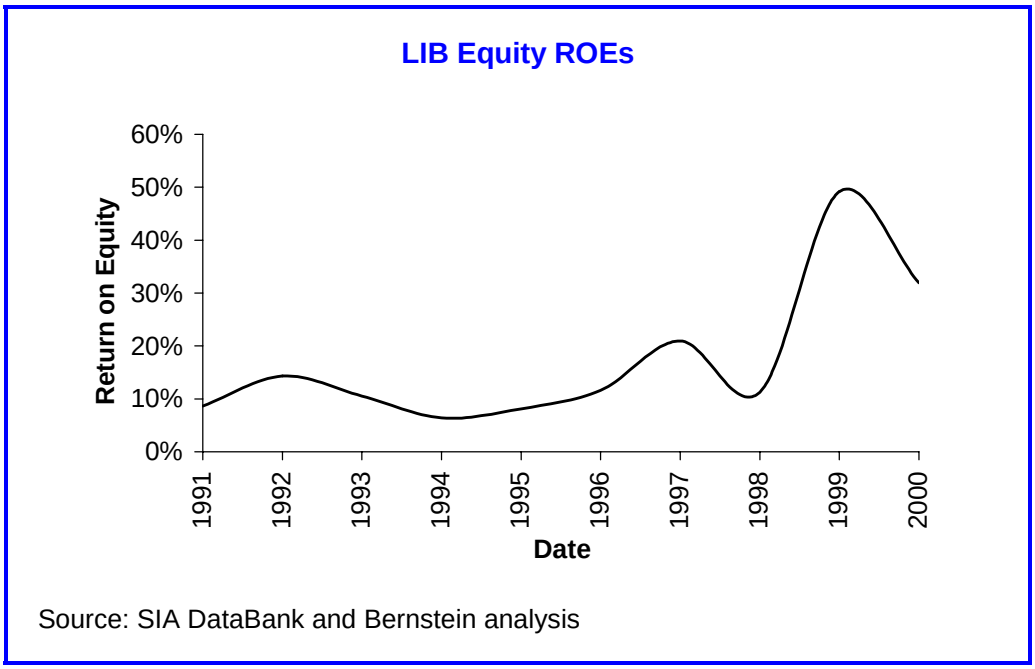
Source: SIA DataBank and Bernstein analysis

Equity Sales and Trading: Pretax margins declined from 1990 to 1994, stemming from narrowing commission rates. After 1995, equity pretax margins increased rapidly, reflecting the expansion of OTC equity derivatives and Nasdaq market-making profit centers. The growth of these high pretax margin activities served as an offset to the continued margin decline in equity commissions. Equity trading achieved ROEs that were below the industry's cost of equity capital during the 1991-96 period. This trend turned around during 1997-00 with ROEs averaging 28% due to the changing mix in equity revenues and the TMT boom (see **Exhibit 5**).

The decline in equity commission levels (see Exhibit 6) for the securities industry has been one of the principal drivers of change for the industry since the 1970s. As implied by the declining commission levels, equity secondary trading has become increasingly commoditized over time, the result of excess capacity in the industry's core business and the growing power of institutional equity investors to control trade commissions and demand larger capital commitments to trading desks. This has led to more efficient back offices on Wall Street and the declining profitability of block trading desks (loss ratios of 30% are not considered abnormal on block desks).

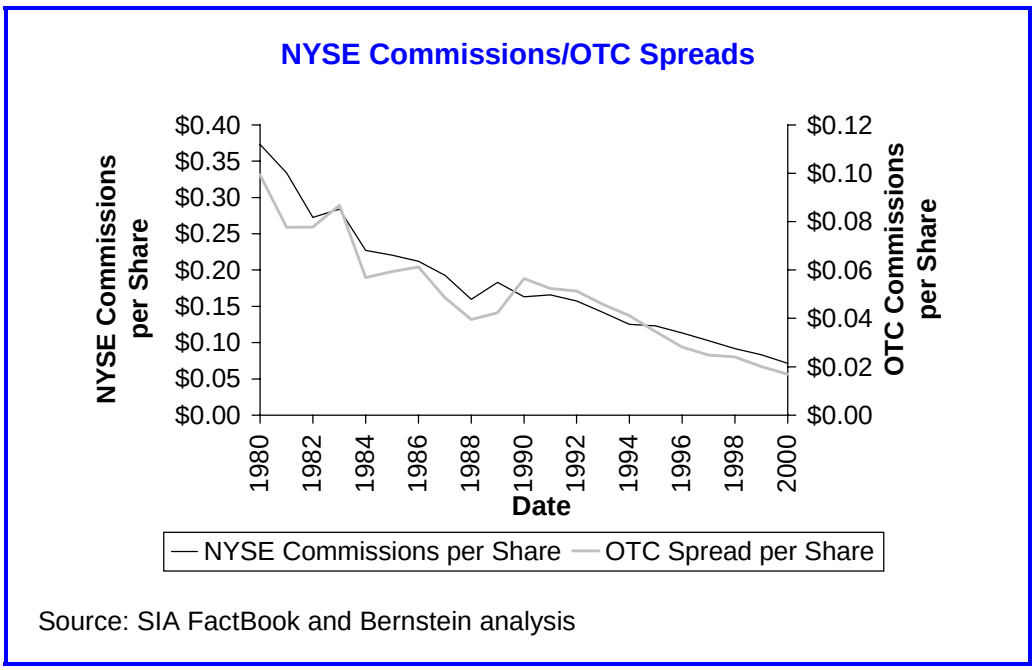
Secondary OTC equity market spreads have also declined with the expansion of Nasdaq volume and increasing competition for trades from alternative trading vehicles. Increasing retail volumes in Nasdaq largely offset the spread decline during the bull market of the 1990s. But the onslaught of decimalization has changed all that, and Nasdaq market-making is not covering its cost of capital today (see **Exhibit 6**).

Exhibit 5



Source: SIA DataBank and Bernstein analysis

Exhibit 6



Source: SIA FactBook and Bernstein analysis

As demonstrated by our pretax margin analysis for equity sales and trading, costs do not appear to have declined enough to offset the unit decline in pricing. In fact, the greater relative decline in the business' pretax margin points to an increase in the costs — size of the equity sales force and number of equity analysts — that the firms are incurring to run their equities business.

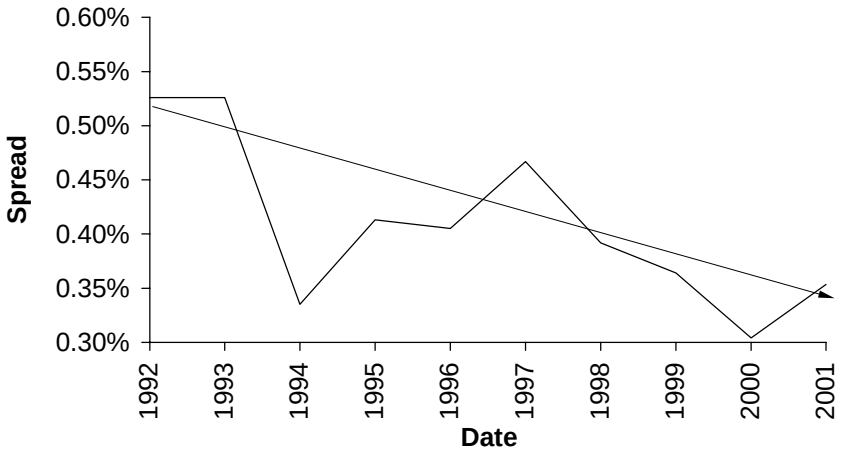
These pricing trends have been offset since the late 1990s by the rapid growth of high margin equity derivative books in the business during the past several years. Some firms have cited that up to 30% of their net revenues from institutional equities are now coming from derivative activities. Equity derivatives are driving a significant increase in the equity inventories held by LIBs to hedge their swap and option exposures. Since 1995, equity capital allocated to the institutional equity businesses of the LIBs has increased at a 28.8% annual rate.

Investment Banking: For the Large Investment Banks, pretax margins fell from 28% in 1991 to 16% in 1994. Pretax margins were largely unchanged thereafter, averaging 20% from 1995 to 2000. In general, narrowing spreads in various fixed income underwriting product lines were offset by a growing proportion of higher pretax margins from equity underwriting and mergers and acquisitions advisory revenues.

Since the passage of Rule 415, which established Shelf Registration and facilitated "bought deals" in the debt marketplace, investment grade debt underwriting spreads have come under pressure. The growing sophistication of issuers and the willingness of banks to offer lower pricing in order to capture either debt issuance-linked derivatives business or the secondary trading of the bonds being issued have steadily reduced underwriting pricing (see **Exhibit 7**).

Exhibit 7

Investment-Grade Debt Underwriting Spreads



Note: 2001 data are 1Q-3Q:01 annualized data.

Source: *Investment Dealer's Digest* (IDD).

High-yield debt underwriting spreads also have declined from 1995-96. The high-yield market has experienced pricing pressure from new market entrants and from established market participants who have ramped up marketing efforts in an attempt to improve pretax margins by emphasizing "higher return" businesses (see **Exhibit 8**).

Thomson Financial Securities Data Co. shows a steady decline in M&A fee levels over the last ten years. This may be a statistical anomaly. The industry believes that, with the exception of M&A engagements for the portfolio companies of financial sponsors/private equity firms, there has been little price compression in M&A. Since M&A fee pricing is based on a sliding scale related to the size of the transaction, the truth lies somewhere in between — there has been a modest fee reduction trend but this has been offset by the rising average size of M&A engagements.

IPO underwriting spreads have declined at a CAGR of 2.09% over the last ten years. Despite this drop, the IPO business remains a high pretax margin activity for the securities industry. Certain investment banks still command the ability to earn higher pretax margins for their equity underwriting services.

Once more, it becomes clear looking at data on underwriting volumes and pricing that good overall revenue growth has been offset by pricing declines, particularly in the area of fixed-income underwriting. Total fixed-income underwriting volume has grown at approximately an 11.3% rate from 1992-00. Growth of lower pretax margin investment grade debt has been relatively rapid, while that of the more lucrative high yield has occurred more slowly. Equity underwriting has grown at a rate slower to that of fixed-income, approximately 6.9% over 1990-01 (see **Exhibit 10**).

Exhibit 8

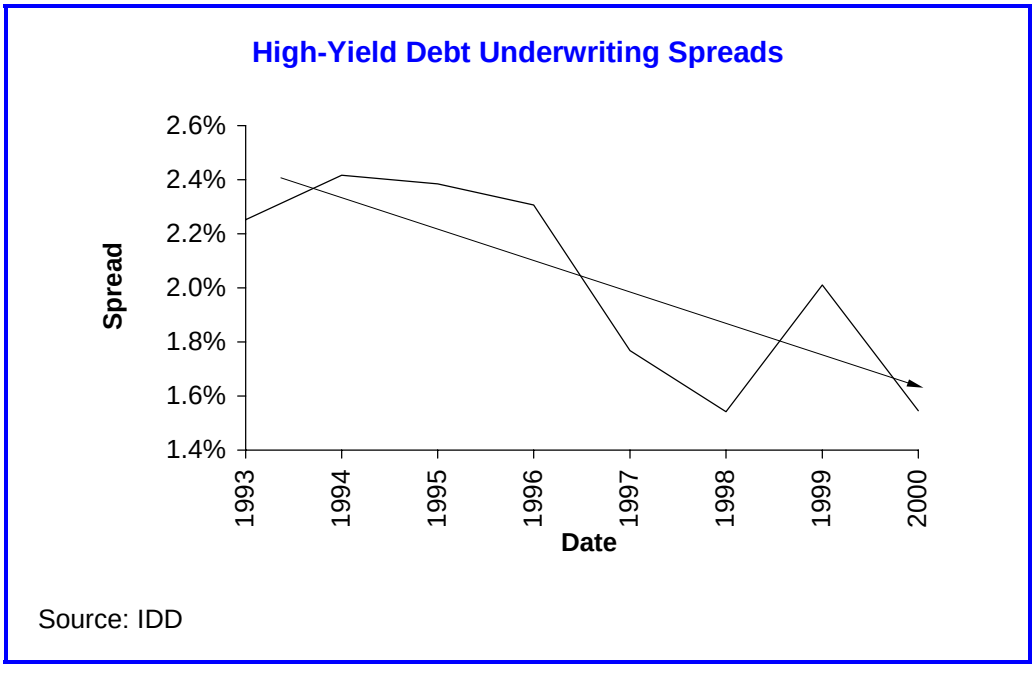
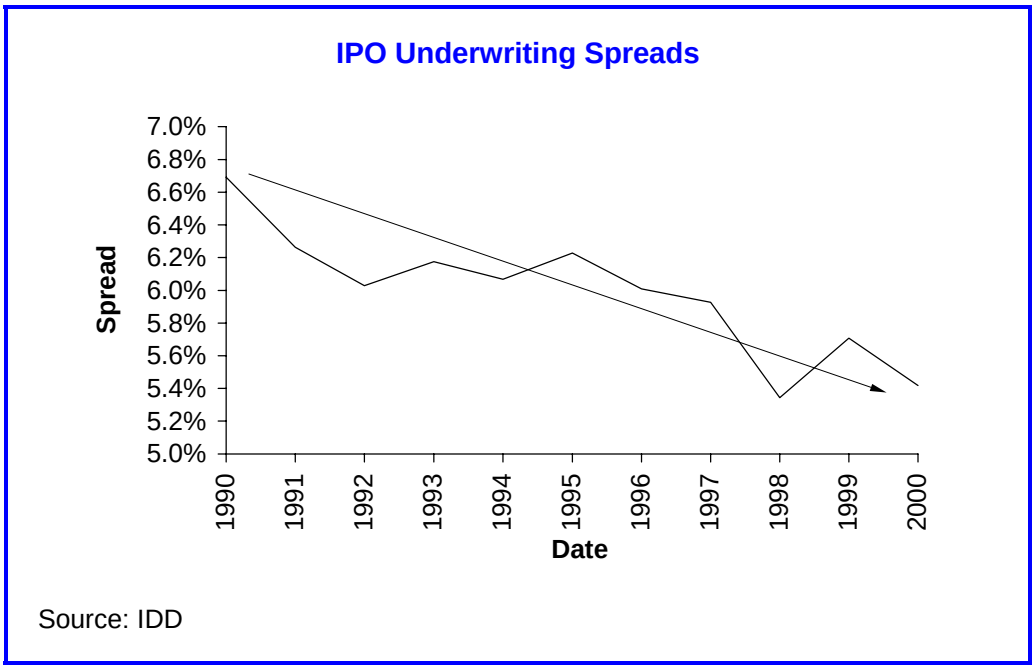


Exhibit 9



Source: IDD

Exhibit 10

Compound Annual Growth Rates (1992-00)	
Product	CAGR
Global M&A	49.3%
IPOs	9.2
High Yield Debt	5.3
Investment Grade Debt	11.3

Source: IDD

Going forward, the investment banking business should continue to feel the effects of pressures on returns. The reason for our assessment is outlined in the section on cross-subsidization and commoditization, but centers on our view that this business will become more competitive with new entrants believing they can capture higher returns.

Wave After Wave of New Competitors

Over the last ten years, we have seen waves of new competitors enter the industry. It is certainly not news that another new group of capital markets knowledgeable universal banks have targeted the securities industry, committed to expanding in markets which provide higher returns on equity compared to their traditional spread lending businesses and to recapturing business lost to the capital markets. European universal banks and U.S. money center banks have all expanded their investment banking resources and acquired securities firms or boutiques in order to accelerate their plans for expansion. New regional bank competitors have also entered the marketplace targeting the retail brokerage marketplace and certain sectors of investment banking.

The strategy that these new competitors are following is to establish a beachhead in lower margin fixed-income transactions. Typically, the fixed-income business has low barriers to entry and is price sensitive. Thus

new competitors can "buy marketshare" and build new client relationships. The competitive impact due to the banks expanding in this sector are: (1) increased price sensitivity of the marketplace; (2) accelerating commoditization of products in fixed-income sales and trading, certain "standard" investment banking products with the commercial banks dominating in "plain vanilla" debt markets; and (3) further pressure on higher pretax margin high-yield debt, equity and advisory business.

Of the existing investment banking businesses, equities and M&A will be the most difficult areas to penetrate for all but a select few of the banks. Both these businesses depend on well-developed relationships at a very high level of management, and in the case of stock underwriting, large, costly-to-develop equity research capabilities. Nevertheless, established players will find that competition will intensify with the increased entry of the banking sector, and that profitability of these core products will likely erode.

Commoditization and Cross-Subsidization. As the margin analysis indicates, many of the core businesses of the securities industry have witnessed a steady decline in returns brought on by competitive pricing pressure from market participants, the availability of sophisticated market pricing data and the client's tendency to trend away from "relationships." The product lines affected are: within equities — equity block trading and Nasdaq market-making; in fixed income — repo, preferred stock, some derivatives, all money markets, most governments and agencies, and floaters; and, in investment banking — investment-grade debt underwriting can no longer generate attractive returns on capital employed. These businesses must rely on cross-subsidization from higher pretax margin activities to justify their existence.

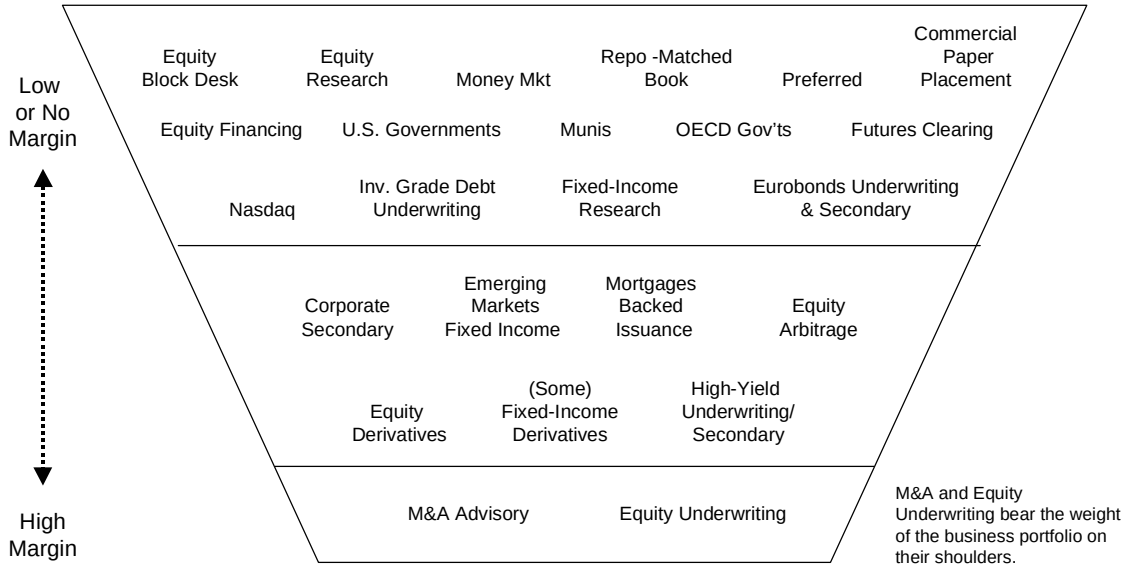
Cross-subsidization is the bane of securities industry investors. One product that loses money (e.g., commercial paper issuance) is justified by its favorable impact on debt underwriting business relationships. Debt underwriting is then rationalized by its impact on profitable derivative trades and secondary corporate bond trading. These subsidization arguments all have some merit, but the reasoning weakens as trading spreads narrow and ROEs decline (see **Exhibit 11**).

As for equity underwriting, the strong profitability of IPOs has been cited as a reason for maintaining the huge and costly (and low return) equity secondary trading and execution businesses. For the super bulge players, the equity business model may work. The infrastructure costs of an equity business are high, but the lion's share of IPO revenues accrue to the largest players. For smaller players and the banks attempting to get into an equity business on a de-novo basis, the numbers are not very appealing.

With the number of high profit pretax margin businesses such as equity underwriting, mergers and acquisitions, high-yield underwriting, merchant banking and equity derivatives all under attack by new entrants — one question facing management is: "How can we continue to subsidize low (or no) profit margin client services?" The securities industry faces a real "loaves and fishes" problem — too many mouths to feed with too little food. This means that a resizing of the company's business lines will be necessary in many of the commoditized businesses in order to balance the higher return lines of the firm with the rest of the franchise in an effort to preserve adequate returns. But such an endeavor requires unraveling the myriad of product and client relationships within each of these full-service oriented businesses. Hence, if the industry cannot restructure, it has to cut expenses.

Exhibit 11

Cross-Subsidization — Low-Return Businesses are Supported by a Declining Number of High-Margin Businesses



Source: Bernstein analysis

Expenses

Shortcomings in expense control is clearly one of the drivers in the pretax margin decline. As pricing pressure increased on its various lines of businesses, the industry has been unable to reduce its expense levels to offset the changes.

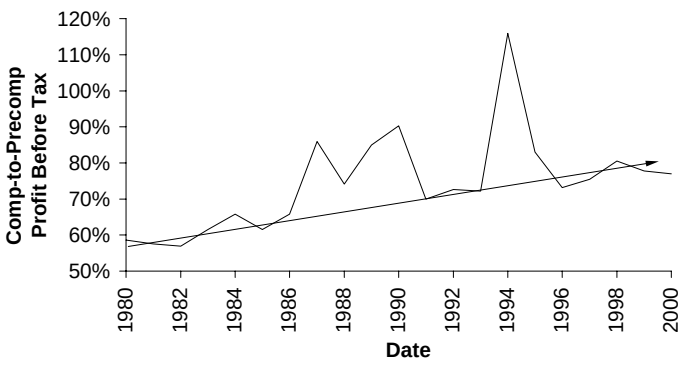
Expenses have moved up at the LIBs, with the compensation to net revenues ratio increasing from the 43.7% average in the early 1980s to 49.7% in the mid-1990s to 51.6% today. Compensation trends appear even more alarming to an investor when viewed through the lens of pretax income. The compensation to pre-compensation profit before tax ratio of the investment banks was 60.1% in the early 1980s and rose to 70.0% by 1991 and has averaged 78.4% over the last three years (see Exhibit 12).

Non-personnel/non-interest expense (NPE) increased at a 15.3% CAGR, industry headcount grew at 5.0% CAGR and total compensation expense grew 15.4% annually. The non-personnel expense (NPE) ratio has moved from 28% of net revenues to 33% of net revenues in recent years.

The regression analysis of the SIA DataBank lines of business provides a means to quantify the fixed cost structure of the large investment banks. The fixed costs of the LIBs grew from $680 million in 1990 to $1.34 billion in 1995 — representing a CAGR of 14.6%.

Since 1995, the industry has displayed a better ability at controlling its expenses and shifting its cost structure to a variable rather than a fixed base. Fixed cost growth slowed after 1995 to 4.6% annually. Fixed costs as a percentage of non-compensation and non-interest expenses totaled 16.6% in 2000.

Exhibit 12



Source: SIA DataBank and Bernstein analysis

Capital Retention Grows

While expense management remains a problem for Wall Street, another factor driving down ROEs has been a somewhat cavalier attitude regarding the retention of equity by the investment banks. The LIBs' equity levels have increased almost fifteen-fold since 1980, while their net income has moved up only seven times. Total equity capital usage for the LIBs has grown at a 17.7% growth rate between 1996 and 2000, increasing from $11.8 billion to $19.9 billion.

Fixed-income equity usage rose rapidly throughout the 1990s, as balance sheet was used to support growing proprietary trading. As a result of declining returns and difficult market conditions, it peaked in mid-1998 at $25.0 billion in assets before declining 22.8% to $19.3 billion at year-end 2000. By contrast, capital allocated to equity sales and trading was relatively flat throughout the early 1990s before rapidly increasing by 138.2% from mid-year 1997 to year-end 2000 as high return equity derivative activities and Nasdaq secondary trading activities increased.

In the last two years, the LIBs have again been ramping up their capital. Total capital retained has grown 23% more rapidly than the demand for capital from the underlying businesses of the industry. Why does this mismatch in supply and demand exist? It is the threat of the commercial banks and the prowess of their large balance sheets. The securities firms are husbanding their capital resources for a long battle ahead. The industry appears to be ready to use its capital to fight commercial bank capital over the M&A business, which means more capital with the same amount of business — resulting in lower ROEs.

The Convergence of Corporate Strategies — A Recipe for a War of Attrition

With narrowing margins in most core businesses and an even smaller group of high-return businesses supporting the performance of the companies, the investment banks have all converged on the same corporate strategies. More importantly to an investor, unlike previous waves of competitors, the new bank entrants into investment banking appear to have learned "the tricks of the trade." For the first time, the strategies of all securities industry participants — new competitors, wire houses, trading shops and white shoe investment banks — appear remarkably alike. The differences between the firms are few and their strategic goals are virtually the same. Everyone is trying to grow the remaining high-margin businesses ("RHMBs") — M&A, equity derivatives, credit derivatives, high yield underwriting and IPOs.

The evolution in strategy should not be surprising given the tumultuous history of the industry. The more daring and aggressive management teams of the industry have been taken out over time by market surprises, earnings downturns and risk management mistakes. Those who have remained in the industry are tough survivors who understand the economics of the business and know how to control risk.

What is the impact of the convergence of "follow the leader" corporate strategies? With common corporate strategies, deep pockets and strong capital positions, it will become increasingly difficult for industry participants to achieve portfolio return breakthroughs. We can expect that low barriers to entry businesses in sales and trading will see accelerating pretax margin compression and commoditization. Capital commitments and lending will be used to market RHMBs such as M&A and high yield underwriting, potentially leading to these attractive sectors being "over-banked" and "over-marketed." Merchant banking portfolio investments will be used as another means of "buying" captive clients and growing market share in equity underwriting and advisory assignments. This ultimately leads to a stalemate in RHMB market share — that is a war of attrition — among industry participants, and a continuation of the industry's long history of gradual decline in the pretax margins and ROE of attractive businesses through competitive pressure and commoditization.

The Performance Impact

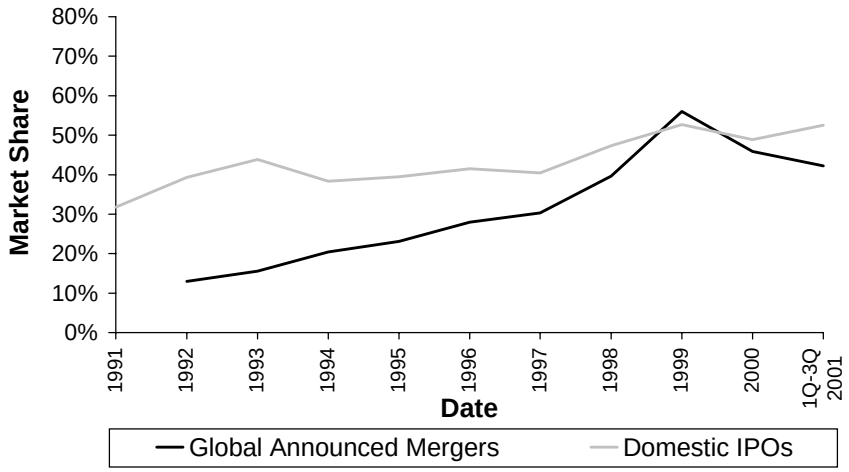
Over the next five years, we believe that margin declines in the securities industry will significantly impact low-barrier to entry products such as fixed-income underwriting and trading and equity secondary products. Margin pressure, however, will be felt across the industry's entire range of businesses, as market participants pursue similar strategies and as new competitors try to expand in investment banking. Capital will increasingly be employed to buy league table rankings in hopes of more lucrative business (e.g., M&A, derivatives, high-yield underwriting) with negative impact on ROE performance.

Among the RHMBs, equity underwriting will be harder to penetrate for all but a handful of competitors. This business depends on a well-developed reputation for successful distribution and large, costly-to-develop equity research capabilities. Still, the established players will find that competition will intensify with the increased entry of the banks, and that profitability of even this core product will likely erode through underwriting spread reductions or increasing costs associated with successfully competing for IPOs. Going forward, the margin pressure will cause the ROEs of the LIB sector to decline to mid-teen levels (16-17%) at the peak of the next industry revenue cycle.

Certain firms will perform better in the difficult strategic environment. We believe that the firms that have achieved commanding market share in advisory work and equity underwriting — the Super Bulge bracket firms — will have the ability to beat the industry average ROEs. The market share of the investment banking RHMBs have proved to be relatively stable historically (see Exhibit 13). This should allow the earnings of the current market leaders to continue to relatively outperform despite the margin declines with peak cycle ROEs of 300 to 400 basis points above the mean of the group. For those securities firms that have weaker RHMB market share, the next five years will prove to be more difficult as they are faced with the challenge of growing RHMB market share in the face of expanded competition and margin pressure.

Exhibit 13

Market Share Trends of Big Three in High-Margin Investment Banking



Source: IDD

Brad Hintz presented this report to the SIA Board of Directors meeting in New York on January 17, 2002. Prior to joining Bernstein, Brad spent 13 years on Wall Street as Chief Financial Officer and Managing Director of Lehman Brothers Holdings and Managing Director and Treasurer of Morgan Stanley Group.

Brad Hintz
Equity Research Analyst
Sanford C. Bernstein & Co.
(212) 756-4590
hintzcb@bernstein.com

Kelly Lee Tang
Equity Research Associate
Sanford C. Bernstein & Co.
(212) 756-4151
tangkl@bernstein.com

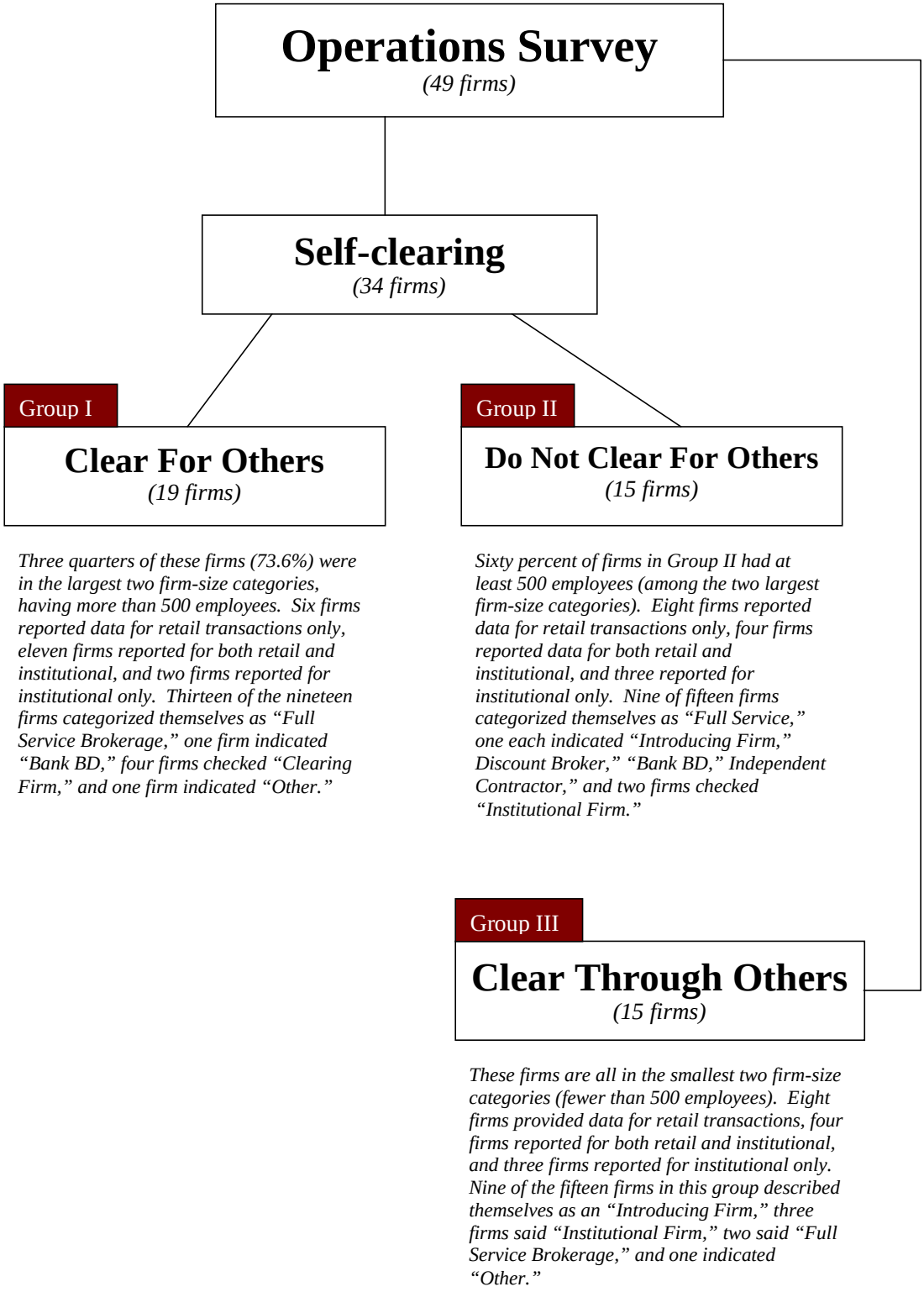
OPERATIONS IN THE SECURITIES INDUSTRY

The second edition of the *Report on Operations in the Securities Industry*, which has just been issued, includes a broad spectrum of information about operations within the securities industry, including:

- **Firm Information** – type of firm, number of branch offices, number of Registered Representatives, number of home office operations employees and the percent of those employees that are management vs. non-management;
- **Financial Information** – average revenue per firm and source of revenue, average expense per firm, average compensation expense per operations employee;
- **Trading** – Average monthly trades, composition of trades, cancels/corrects, Internet trading, cost per trade, trades per operations employee;
- **Account Information** – average number of customer accounts, IRA and Safekeeping accounts, dividend reinvestment programs, electronic payments & credits, money collection/disbursements methods, householding, sweeps;
- **Fees and Charges** – interest paid, interest charged, fees & charges;
- **Information Technology Support** – organization of IT functions, annual expenditures on IT, IT staffing, T+1 initiatives, use of leading technologies, functions performed on a 24x7 basis;
- **Management Policies and Practices** – most successful operations-related initiatives, key monitoring and evaluation measures.

Overall, forty-nine firms provided data for this report. Those firms employ more than 92,000 full-time individuals, represent over 50,000 Registered Representatives, cover nearly 13,000 branch offices and handle more than twenty million trades each month.

Because of the diversity of firms within the industry and the even greater diversity of how operations functions are organized, one of the major challenges facing any study of this sort is to present the information in as homogenous a way as possible. No one segmentation scheme is perfect; however, segmenting the firms by clearing arrangements seemed to work best. Therefore, firms in this study have been segmented into three groups as follows: **Group I** = firms that are self-clearing and also clear for others; **Group II** = firms that are self-clearing, but do not clear for others; and **Group III** = firms that only clear through others.


Operations Survey
(49 firms)
Self-clearing
(34 firms)
Group I
Clear For Others
(19 firms)
Three quarters of these firms (73.6%) were in the largest two firm-size categories, having more than 500 employees. Six firms reported data for retail transactions only, eleven firms reported for both retail and institutional, and two firms reported for institutional only. Thirteen of the nineteen firms categorized themselves as "Full Service Brokerage," one firm indicated "Bank BD," four firms checked "Clearing Firm," and one firm indicated "Other."
Group II
Do Not Clear For Others
(15 firms)
Sixty percent of firms in Group II had at least 500 employees (among the two largest firm-size categories). Eight firms reported data for retail transactions only, four firms reported data for both retail and institutional, and three reported for institutional only. Nine of fifteen firms categorized themselves as "Full Service," one each indicated "Introducing Firm," Discount Broker," "Bank BD," Independent Contractor," and two firms checked "Institutional Firm."
Group III
Clear Through Others
(15 firms)
These firms are all in the smallest two firm-size categories (fewer than 500 employees). Eight firms provided data for retail transactions, four firms reported for both retail and institutional, and three firms reported for institutional only. Nine of the fifteen firms in this group described themselves as an "Introducing Firm," three firms said "Institutional Firm," two said "Full Service Brokerage," and one indicated "Other."

Each section of the report presents the relevant data in several ways:

- **Summary tables** that provide top-line information;
- **Scatter Diagrams** that show firm-specific measures in a non-identifying, graphic format;
- **Data Arrays** that show individual firm-specific information in a non-identifying tabular format.

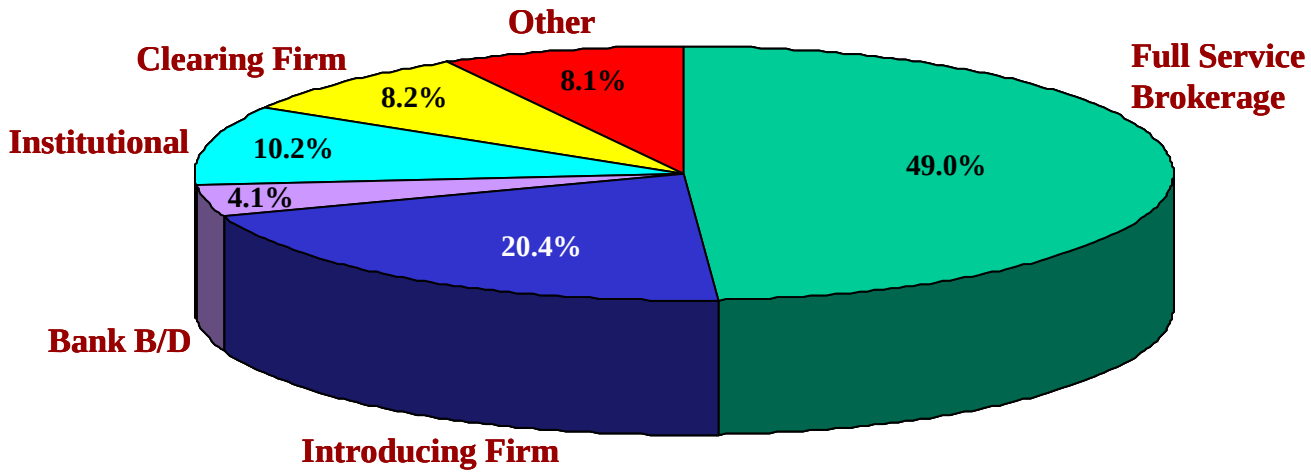
The Scatter Diagrams and Data Arrays provide a very granular look at the data and illustrate the range and diversity of the responses.

The chart below illustrates the composition of firms participating in this study. Nearly half (49%) identified themselves as Full Service Brokerage Firms; the second largest category, Introducing Firms, accounted for twenty percent of the total. The remainder represents a mix of Bank Broker Dealers, Institutional Firms, Clearing Firms, and others.

Of the firms providing data for this study, most (73.5%) reported on domestic operations while 26.5 percent reported on global activities. Forty-one percent of participating firms reported on retail business only, fourteen percent reported on institutional business, and forty-five percent reported on both.

In terms of total firm revenue, firms reported that slightly over one third (35.1%) of their total income was derived from retail and institutional commission; another 30.9% percent was derived from interest income; and the remainder (34.0%) was from other sources, including 11.1% from Fee-based Accounts.

Participating Firms by Category

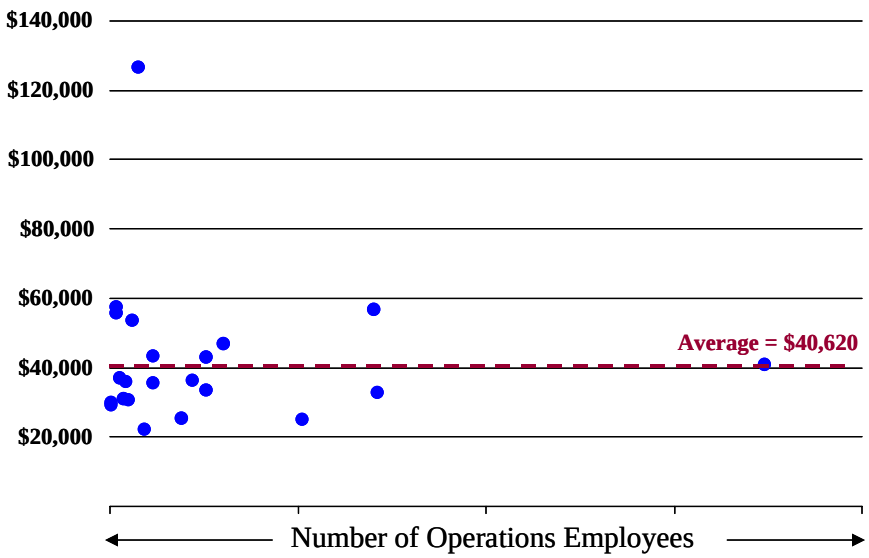


Firm Information

Average total revenue per firm was $660 million, of which retail and institutional commissions accounted for 35.1%. Average revenue ranged from $317.1 million for Group I to $22.8 million for Group III. Average firm expense was $606.1 million. This section of the report also calculates the average compensation expense per operations employee. The data are presented by group and for Full Service Firms. The Scatter Diagram below illustrates these data for Full Service firms.

Average Compensation per Operations Employee

Full Service Firms



Trading

Number of Trades: In total, participating firms handled more than 20 million trades each month, the majority of which were retail trades (62.9%). Principal trades accounted for over twenty five percent (25.8%) of the trades, and institutional trades accounted for another 11.3 percent.

Overall, the majority of trades were equities, ranging between 77% for retail and 90% for institutional. The table to the right summarizes the composition of trades by type.

Percent of Average Monthly Trades

	Principal (%)	Retail (%)	Institutional (%)
Equity	81.7	77.0	90.4
Options	0.2	3.6	0.9
Fixed Income			
Corporate	3.0	0.6	1.9
Munis	5.9	2.9	1.8
US Government	4.8	1.5	4.3
Mutual Funds	0.6	13.2	0.1
Other	3.8	1.2	0.6
TOTAL	100.0	100.0	100.0

Cancels & Corrects: One of the metrics participating firms wanted to better understand was the ratio between the number of trades and the number of cancels and corrects. For all firms and all types of trades, cancels and corrects accounted for 1.4% of trades. The table to the right summarizes these data. In the report, these data are presented in considerably more detail.

Cancels/Corrects as Percent of Trades

Total	Principal	Retail	Institutional
1.4%	0.7%	1.2%	3.0%

In addition to knowing the ratio between trades and cancel/corrects, firms also wanted to have more comparative data on the reasons for those cancels and corrects. This study found that, in aggregate, "Commission Charge" (33.0%) was the single largest reason for retail trades; for institutional trades, "Account Number" was the single largest reason, accounting for 71.9%. The table to the right summarizes the reasons.

Reasons for Cancels/Corrects

	Retail (%)	Institutional (%)
Don't Know (DK's)	10.0	5.9
Account Number	24.8	71.9
Buy vs. Sell Designation	2.0	2.2
Quantity Change	7.0	4.0
CUSIP Change	1.9	1.7
Commission Charge	33.0	9.5
Account Type	13.9	0.1
Other	7.4	4.7
Total	100.0	100.0

Forty-one percent (40.8%) of the firms responding indicated that they offered Internet Trading; among those firms that do not currently offer Internet trading, 29.6% are planning to do so.

Two other trading-related metrics were of interest to participating firms. These included (1) cost per trade, and (2) number of trades per operations employee.

Cost Per Trade: Because the accounting systems at many firms treated cost items differently, there was no overall cost measure that could be calculated consistently across all firms. Therefore, it was decided to calculate two subsets of data related to operations: (1) the total compensation costs and (2) the cost for Information Technology. The table to the right summarizes the cost-per-trade data in aggregate. The report provides much more detailed data on cost per trade.

Cost per Trade[1]

	Compensation Cost	Information Technology
All Firms	$1.44	$1.28

[1] *Trade data was annualized to conform to annual compensation and IT cost data.*

Trades per Operations Employee: As one measure of efficiency, the number of trades per operations employee was calculated. On average, firms reported that there were nearly 29,000 trades made per operations employee. The report contains more detailed data on this topic.

Account Information

Firms provided considerable account-related data, including information about: the number of accounts; dividend reinvestment programs; electronic payments/credits; money collection and disbursement methods; Sweeps; and Householding of accounts, among other topics.

Customer Accounts: On average, firms reported having more than 463,000 retail customer accounts per firm, and roughly 21,000 institutional accounts. IRA Accounts represented almost thirty percent (29.6%) of retail accounts. The following table provides summary data on customer accounts.

Number of Customer Accounts per Firm

Retail		Institutional	
Average (#)	**Median (#)**	**Average (#)**	**Median (#)**
463,315	52,250	20,767	4,900

Electronic Payments/Credits: Nearly eighty percent (79.2%) of the firms responding indicated that they offered electronic payments/credits to their customers for at least some transactions. Almost two thirds (63.2%) the firms offering offer a full range of transaction alternatives: (1) credits from broker to customer bank account; (2) debits from customer bank account to broker; (3) dividends received to customer bank account.

Money Collection/Disbursement Methods: The following table presents data on various money collection and disbursement methods. For both collection and disbursement, check is the predominant method, followed by wired funds. Direct deposit and cash accounted for a very small share of the total.

Money Collection/Disbursement Methods

	Collection	Disbursement
Check	58.4	58.0
ACH	10.0	12.7
Wired Funds	26.7	25.1
Direct Deposit	2.3	0.3
Cash	0.2	0.1
Other	2.4	3.8

Householding: More than sixty percent of firms (60.8%) indicated they have implemented householding for statements; however, only 31.1% said they had implemented householding for confirms and only 33.3% for other activity.

Fees and Charges

This section of the report presents information on a variety of fees and charges, including: interest paid on Free Credit Balances; the various bases used to set interest rates; and the specific fees charged for a variety of specific services. The table to the right shows the extent to which firms charge for a sampling of specific services. The Data Arrays in the Fees and Charges section of the report present a full array of fees charged.

Extent To Which Fees Are Charged For Specific Services

	All Firms (%)	
	Do Not Charge	Charge
Inactive Account	63.0	37.0
Safekeeping	80.0	20.0
Postage & Handling	37.8	62.2
ACATS (All)	35.0	65.0

Information Technology Support

Nearly two thirds (61.3%) of the firms participating in the survey indicated that the Information Technology support for Operations was centrally managed. Slightly more than one third (34.7%) indicated that IT resources were centrally managed, but there were dedicated IT resources for Operations. Only 2.0% said that IT resources were decentralized within Operations.

Slightly over half the firms reported that they tracked and allocated expenses for Information Technology. This ranged from78.9% for Group I to 21.4% for Group III.

When asked about the relative emphasis firms were placing on several key T+1 initiatives, "making modifications to internal processes" ranked first, capturing 32% of the points.

The most widely used leading edge technologies included (1) Internet Access for Customers (80.8% are currently using), (2) Imaging (70.2% are using), and (3) WEB based applications development (64.5% are using). The report also presents information about what functions can be performed on a 24x7 basis (e.g., order entry, order execution, access to account information, allocation and confirmation of trades, calculation of Margin/Risk metrics, transfer of funds/securities, trade accounting, and financial accounting).

Management Policies and Practices

This section of the report presents verbatim responses to questions about two types of management policies and practices: (1) the most successful initiatives to increase revenue, develop new products and services, and reduce costs; (2) the key measures used to monitor and evaluate resource productivity, timeliness and accuracy of processing, and quality of service.

Based on responses to the second set of questions, it is clear that firms do not have a consistent set of measures that are used to evaluate resource productivity, timeliness and accuracy of processing, or quality of service.

Stephen L. Carlson
Vice President and Director, Surveys

To order a copy of this report, visit our web site www.sia.com/surveys where you can obtain an order form and additional information about this survey as well as many other industry-specific reports available from SIA.

PRICES CHARGED RETAIL CLIENTS – 2001

To provide member firms with a broad array of information on the business practices at counterpart firms, SIA conducts a number of studies, including reports on *Operations in the Securities Industry*, *Asset Management Accounts*, and *Institutional Business Activity.* In addition, every three years a study is conducted on *Prices Charged Retail Clients*, containing a vast array of retail pricing information for industry firms.

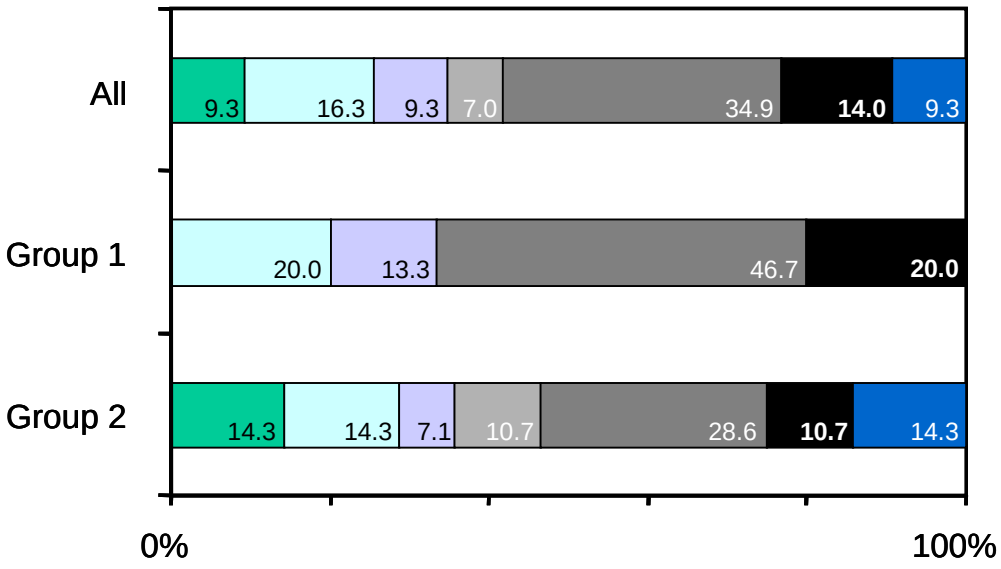
Eighteen firms participated in this year's study, reporting information on commission charges for stocks and options; discounting (i.e., the most common percentage discount, average discount and maximum discount allowed); set-up and maintenance fees for retirement accounts; fees for legal transfers, returned checks, postage and handling, safekeeping, reorganization, etc. In addition, this 130-page report provides data on topics such as interest charged on Margin Accounts, Wrap Accounts, Asset Management Accounts, and contains numerous summary tables as well as extensive data arrays, which present non-identifying, firm-by-firm data.

Data in the report is segmented into several firm-size groups and presented for each firm-size group, as well as for all participating firms, with Group I reporting data for firms with fewer than 600 RRs in 2001, and Group II reporting data on firms with greater than 600 RRs in 2001. This year's survey participants collectively employ more than 20,000 RRs, and the majority of firms (77.8%) described their firm as a Full-Service Brokerage.

Eighty-three percent of this year's participants had a minimum commission for stocks that they charged clients, ranging between $1 and $65, with the most common minimum commission charged equal to $50, versus 76.5 percent of respondents who cited a minimum commission charge for options. The minimum commission charge for options ranged between $35 and $50, with a midpoint of $43.50. Forty-seven percent of participants surveyed charged clients on a per contract basis for options. Commission grids for equities and options transactions are included in the report, provided on a firm-specific basis, as well as in summary tables illustrating the *lowest, median* and *highest* amounts charged by survey participants in 2001.

According to this year's study, 24 percent of firms said that the extent to which discounts are offered on retail agency stock transactions has increased since 2000. Roughly 35 percent of firms explained that most discounting decisions made by RRs take into account the total relationship with the client, as opposed to focusing solely on the size of a particular trade. The next most common factor in determining discounts given is the length of time that RRs have worked at the firm, with 16.3 percent of respondents stating that newer RRs tend to discount more than others. Table 1 illustrates firm policies and practices regarding discounting on retail agency stock transactions.

FIRM POLICIES & PRACTICES WITH RESPECT TO DISCOUNTING ON RETAIL AGENCY STOCK TRANSACTIONS



We tend to discount more in geographic areas where there is stronger competition from discount firms.

Our newer RRs tend to discount more than our established RRs.

We tend to discount more in major metropolitan areas than in less populated ones.

In our firm, the extent of discounting can depend on the particular branch manager and the strength of his/her management experience.

Most discounting decisions by our RRs take into account the total relationship with the client, as opposed to focusing solely on the size of a particular trade.

Most of our discounted trades arise from a suggestion or request by the client.

We are discounting more today than a year ago.

18

The most common *estimated* percentage discount given on common stocks was 25 percent, or a 5 percentage point increase from the last time the study was conducted in 1998. The largest discount an RR can give without "higher approval" ranged between zero and 100 percent, with a median of 49.0 percent. The overall percent of retail agency trades that receive a discount ranged between zero and 90.0 percent, with a midpoint of 45.0.

Table 2 shows a summary of the information included in the report regarding various fees firms charge clients and the median amounts charged by All Firms.

Type of Fee	Charged? *Yes* (%)	*No* (%)	Median Amount Charged
Exit Fee on IRA's	83.3	16.7	$50.00
Postage & Handling Fees	58.8	41.2	$4.88
Fee for Extensions	5.6	94.4	n/a
Custody Fees for Inactive Accounts	37.5	62.5	$30.00
Wire Fee Transfers	77.8	22.2	$15.00

Other types of fee information covered in the report includes service charges, charges for inactive accounts, legal transfer fees, charges for returned checks, international wire transfer fees, accommodations transfer fees, charges for transfers to new brokers or from street name to individual name, reorganization fees, annual fees and bond redemption fees. In addition, the report provides detailed firm-by-firm information on set-up and maintenance fees (for self-directed IRA, Keogh and Other accounts); interest charges on margin accounts (based on the size of debt balance); and detailed wrap account information (i.e., asset ranges and percentages charged, minimum assets per new account, kinds of managers used in wrap account programs, aggregate composition of assets, and more).

To purchase a copy of this year's report on CD-ROM, visit our website at www.sia.com/surveys or contact Carmen Fernandez at (212) 618-0515 or (cfernandez@sia.com).

Erin Burke
Survey Analyst

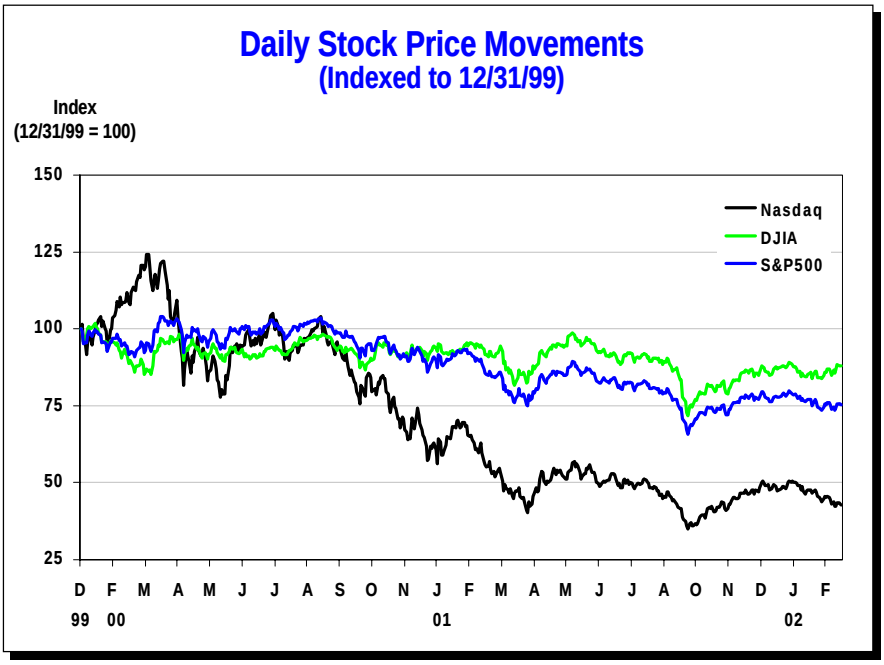
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices – Stock prices seesawed throughout the month of February, as ongoing concerns about questionable accounting practices and persistent weakness in the technology and telecom sectors plagued the market. Nasdaq stocks slumped to a four-month low of 1716.24 on February 21 as several leading tech companies lowered revenue forecasts. By February's close, the Nasdaq Composite Index stood at 1731.49, a 65.7% decline from its all-time high of 5048.62 in March 2000. For the month of February, it lost 10.5%, bringing 2002's year-to-date performance down 11.2%.

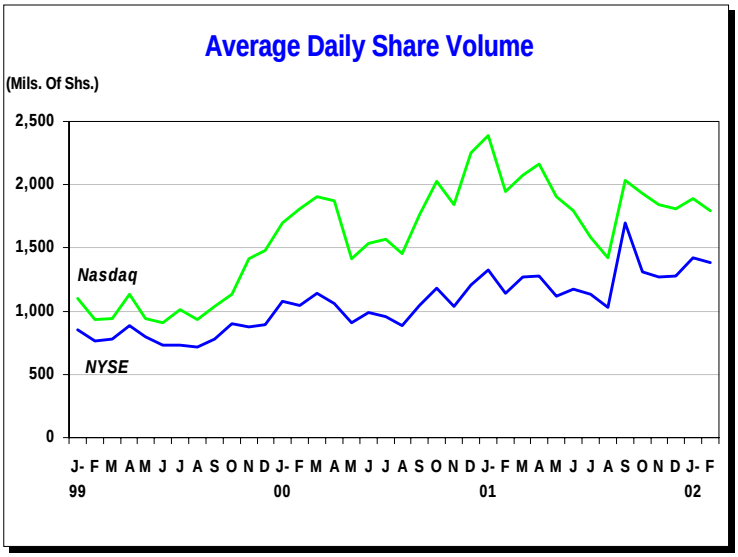
The S&P 500 painted a similar, but less dramatic, picture, as it also touched lows unseen since Halloween. It slipped for the second straight month to close at 1106.73 by February's end, down 27.5% from its March 2000 peak. For the month of February, it lost 2.1% and is down 3.6% year-to-date.

The Dow Jones Industrial Average managed to post a gain for February, erasing the January setback. Dow stocks were buoyed by a string of good economic news and benefited from a rotation into "old economy" stocks. It finished the month at 10106.13, or up 1.9%, which brought the year-to-date gain to 0.8%. Still, the DJIA is 13.8% below its January 2000 peak and is back to levels of three years ago, when the Dow first broke through the 10,000 barrier on March 29, 1999.



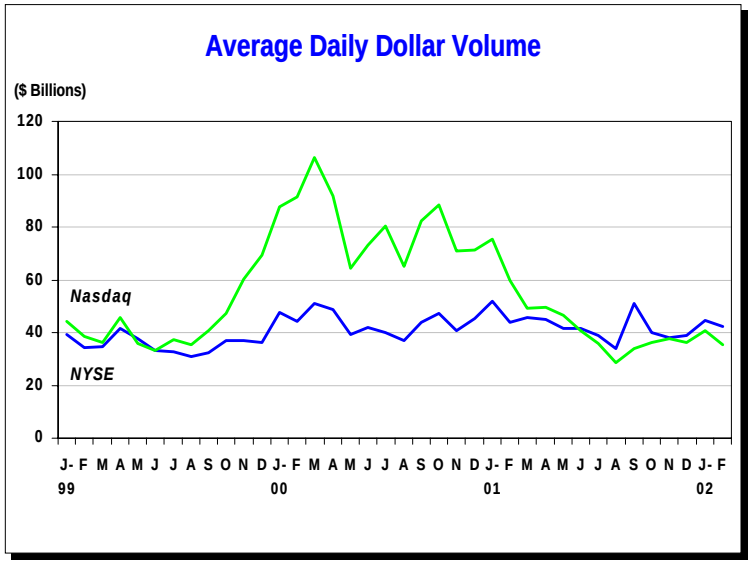
Share Volume – Trading activity on the major U.S. equity markets subsided from January's levels. NYSE volume fell 3.1% in February to 1.38 billion shares a day from January's 1.43 billion daily. Nevertheless, year-to-date volume is up 13.6% compared with the first two months of 2001 and is running 13.3% ahead of 2001's full-year record of 1.24 billion shares daily.

On Nasdaq, 1.79 billion shares traded daily in February, 5.3% short of January's average. Unlike the NYSE, Nasdaq's volume so far this year is off from last year's record pace as investors shy away from tech stocks. Year-to-date volume of 1.84 billion daily stands 15.5% below the 2.2 billion daily average recorded in the year-earlier period, and is down a modest 3.1% from 2001's full-year record of 1.9 billion per day. Meanwhile, Amex volume for the first two months of 2002 was down 22.0% from the comparable period last year.

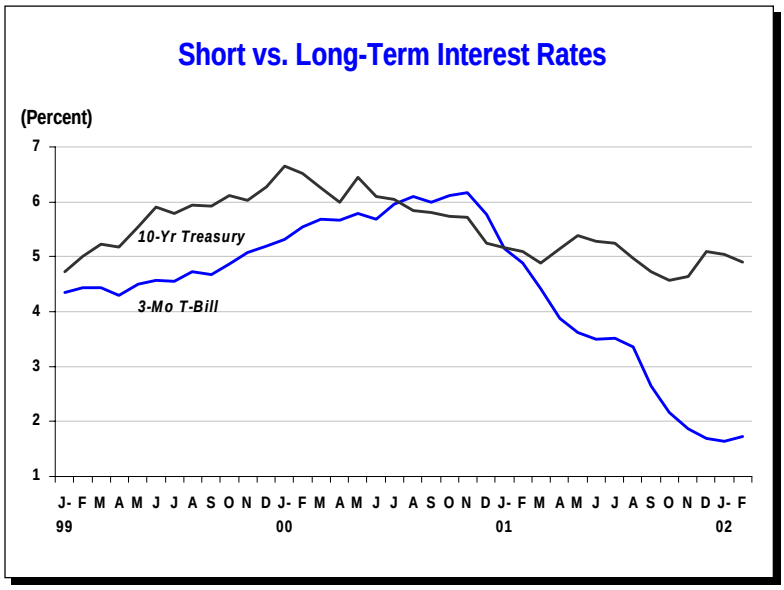


Dollar Volume – Reduced trading activity and lower stock prices in February depressed the value of trading on the NYSE and Nasdaq. Nasdaq's average daily dollar value traded dropped 13.0% from $40.8 billion in January to $35.5 billion daily in February, a five-month low. Year-to-date dollar volume, at $38.3 billion daily, is down 43.7% year-over-year and off 13.2% from 2001's $44.1 billion daily average.

Average daily dollar volume in NYSE stocks slipped 5.4% from January's level to $42.1 billion in February. The year-to-date value of trading on the NYSE, at $43.3 billion daily, is down 10.0% from last year's comparable period, but remains 2.4% ahead of 2001's $42.3 billion daily average.

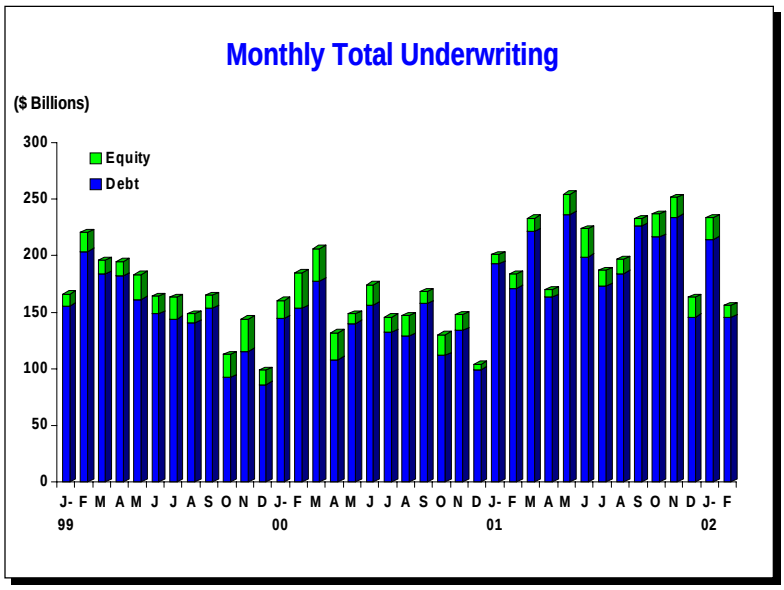


Interest Rates – For the month of February, yields on three-month T-bills inched up to 1.73%, 8 basis points higher than January's average yet still 315 basis points below where it stood a year ago. Meanwhile, 10-year Treasury yields slipped to 4.91% in February, down 13 basis points from January and 19 basis points below its year-earlier level. As a result, the spread between three-month and 10-year Treasuries narrowed to 318 basis points, but remained well above the spread of 22 basis points a year ago.

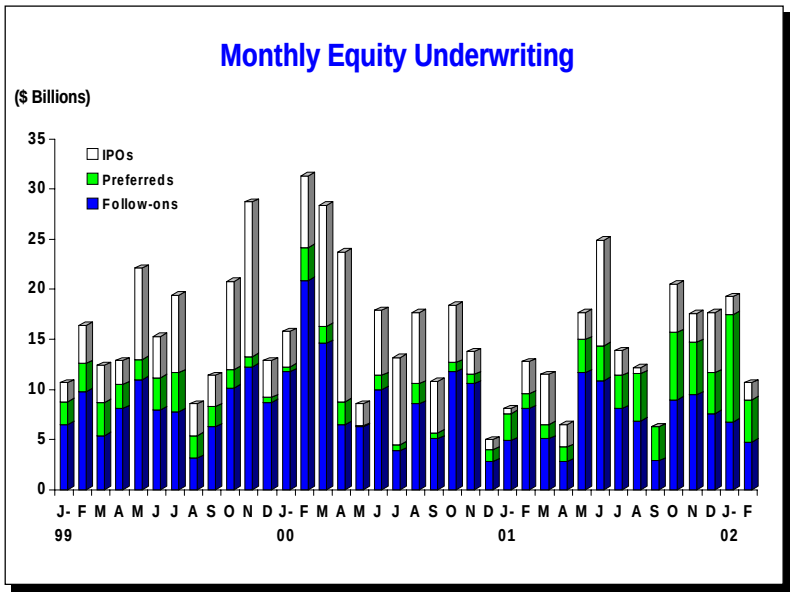


U.S. Underwriting Activity

After an upturn in January, new issuance of all security classes fell sharply in February amid concerns over corporate credit quality and an uneasy stock market. Total dollar proceeds of corporate underwriting (excluding Rule 144A private placements) slumped to $156.0 billion in February, a 33.3% decline from $233.9 billion a month earlier. Nevertheless, underwriting activity is running slightly ahead of last year's pace, as issuance now stands at $389.9 billion year-to-date compared with $385.2 billion a year ago.

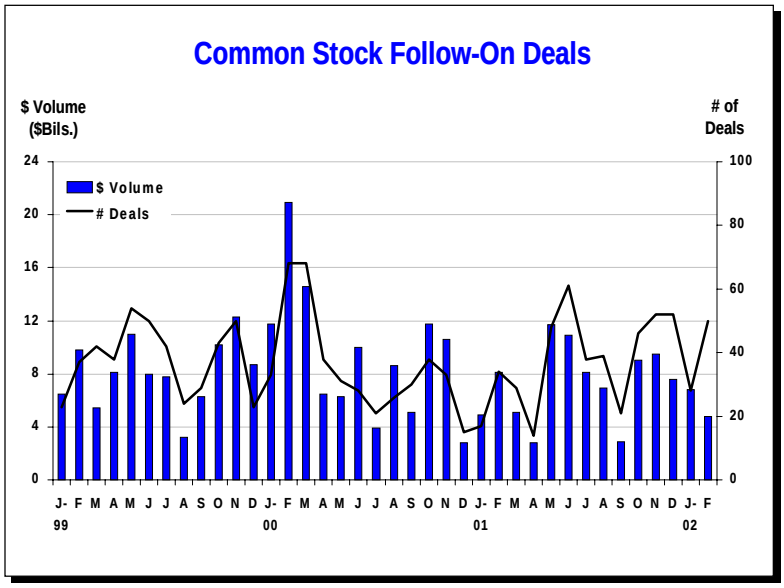


Equity Underwriting – Total equity underwriting activity sank in February, mainly due to a cutback in preferred stock offerings. After increasing to $19.3 billion in January, new issuance of common and preferred stock plummeted 45.1% to $10.6 billion in February. Still, the amount of equity deals underwritten so far this year, at $29.9 billion, is up 43.5% from $20.8 billion in last year's comparable period (albeit, an anemic underwriting environment).

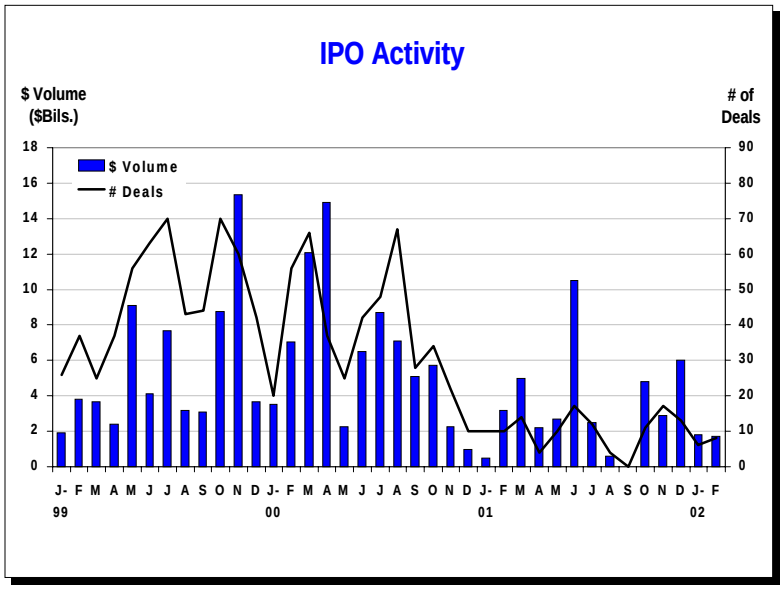


New issuance of preferred stock plunged 60.7% from January's monthly record $10.7 billion to $4.2 billion in February. Although February's activity was down sharply from January, it was still relatively strong and above 2001's monthly average. Year-to-date, $14.9 billion was raised via preferred stock underwriting, more than triple the $4.2 billion raised in the same period a year ago.

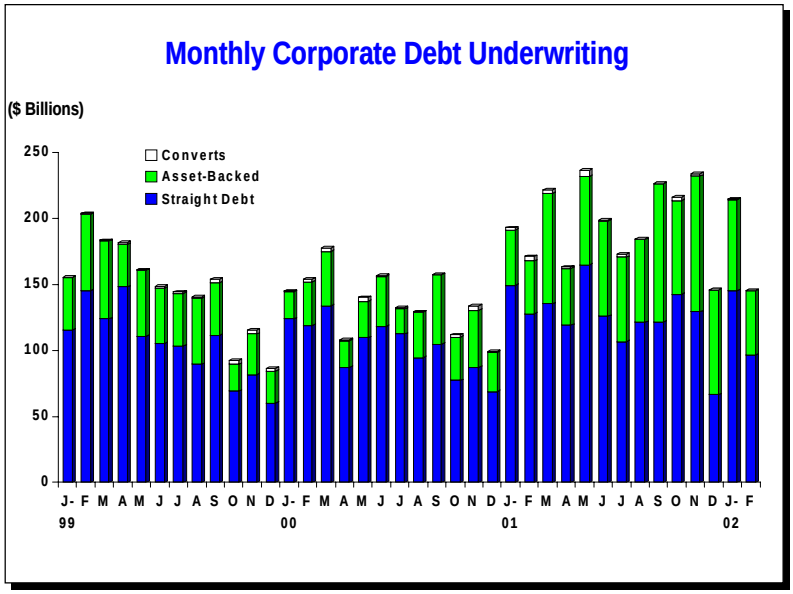
Follow-on common stock deals slid to its lowest level in five months. At $4.8 billion, February's tally was 29.4% below the $6.8 billion raised in January. The year-to-date total of $11.6 billion is 10.8% below the amount raised during last year's comparable period.



The IPO market has remained lackluster so far this year, as IPO dollar volume totaled under $2 billion in both January and February. With the exception of Kraft Foods Inc.'s $7.3 billion deal in June of last year, the IPO market has been quiet since late 2000. Year-to-date, $3.4 billion was raised via IPOs, down 5.3% from the same period a year ago.



Corporate Debt Underwriting – Domestic underwriting of corporate debt securities plummeted 32.2% to $145.4 billion in February from January's robust $214.6 billion. That brought the year-to-date total to $360.0 billion, just shy of the $364.3 billion raised a year ago.



Straight corporate debt offerings tumbled 33.5% to $96.7 billion in February compared with $145.4 billion in January. The year-to-date total of $242.1 billion is 12.7% below the $277.1 billion raised in the same year-ago period.

Despite a 29.5% plunge in asset-backed bond issuance in February to $48.7 billion from $69.1 billion in January, year-to-date dollar proceeds are up 43.3% compared to the same period last year.

February marked the third month out of the last six that no new convertible debt issues were offering in the public market (Rule 144A deals, however, are being privately placed). Year-to-date, a mere $0.2 billion was raised via convertible securities compared with $5.0 billion in last year's like period.

Grace Toto
Assistant Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	**TOTAL DEBT**	High-Yield Bonds	Common Stock	Preferred Stock	**TOTAL EQUITY**	All IPOs	Follow-Ons	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	14.2	24.7	8.6	33.3	8.5	16.2	138.0
1986	149.8	10.1	67.8	227.7	31.9	43.2	13.9	57.1	22.3	20.9	284.8
1987	117.8	9.9	91.7	219.4	28.1	41.5	11.4	52.9	24.0	17.5	272.3
1988	120.3	3.1	113.8	237.2	27.7	29.7	7.6	37.3	23.6	6.1	274.5
1989	134.1	5.5	135.3	274.9	25.3	22.9	7.7	30.6	13.7	9.2	305.5
1990	107.7	4.7	176.1	288.4	1.4	19.2	4.7	23.9	10.1	9.0	312.3
1991	203.6	7.8	300.0	511.5	10.0	56.0	19.9	75.9	25.1	30.9	587.4
1992	319.8	7.1	427.0	753.8	37.8	72.5	29.3	101.8	39.6	32.9	855.7
1993	448.4	9.3	474.8	932.5	55.2	102.4	28.4	130.8	57.4	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	33.3	61.4	15.5	76.9	33.7	27.7	716.4
1995	466.0	6.9	152.4	625.3	28.9	82.0	15.1	97.1	30.2	51.8	722.4
1996	564.8	9.3	252.9	827.0	37.2	115.5	36.5	151.9	50.0	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	31.4	120.2	33.3	153.4	44.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	42.9	115.0	37.8	152.7	43.7	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	36.6	164.3	27.5	191.7	66.8	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	25.2	189.1	15.4	204.5	76.1	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	30.6	128.4	41.3	169.7	40.8	87.6	2,535.1
2001											
Jan	149.6	1.7	41.7	193.0	5.9	5.4	2.7	8.1	0.5	4.9	201.1
Feb	127.5	3.3	40.5	171.3	4.1	11.3	1.5	12.8	3.2	8.1	184.1
Mar	135.5	2.3	83.8	221.6	1.3	10.1	1.4	11.5	5.0	5.1	233.1
Apr	119.3	1.1	42.9	163.4	3.1	5.0	1.5	6.5	2.2	2.8	169.9
May	164.8	4.8	67.0	236.6	3.1	14.4	3.3	17.8	2.7	11.7	254.4
June	126.1	1.0	71.9	199.0	3.6	21.4	3.5	24.9	10.5	10.9	223.8
July	106.8	2.6	63.9	173.3	0.2	10.6	3.3	13.9	2.5	8.1	187.2
Aug	121.2	0.2	63.0	184.4	2.7	7.6	4.7	12.3	0.6	6.9	196.7
Sept	121.8	0.0	104.6	226.5	0.2	2.9	3.4	6.3	0.0	2.9	232.8
Oct	142.8	2.7	70.8	216.4	1.9	13.7	6.7	20.4	4.8	9.0	236.8
Nov	129.3	1.9	102.9	234.2	3.1	12.4	5.2	17.6	2.9	9.5	251.8
Dec	66.4	0.0	79.4	145.8	1.4	13.6	4.1	17.7	6.0	7.6	163.4
2002											
Jan	145.4	0.2	69.1	214.6	4.8	8.6	10.7	19.3	1.8	6.8	233.9
Feb	96.7	0.0	48.7	145.4	1.2	6.4	4.2	10.6	1.7	4.8	156.0
Mar											
Apr											
May											
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '01	277.1	5.0	82.2	364.3	10.0	16.7	4.2	20.8	3.6	13.0	385.2
YTD '02	242.1	0.2	117.8	360.0	6.0	15.1	14.9	29.9	3.4	11.6	389.9
% Change	-12.7%	-96.5%	43.3%	-1.2%	-40.0%	-9.6%	254.8%	43.5%	-5.3%	-10.8%	1.2%

Note: High-yield bonds is a subset of straight corporate debt. IPOs and follow-ons are subsets of common stock.
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
2001										
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
2002										
Jan	1.1	11.6	12.7	4.3	3.7	8.0	20.7	1.65	5.04	3.39
Feb	1.4	8.4	9.8	4.6	3.3	7.8	17.6	1.73	4.91	3.18
Mar										
Apr										
May										
June										
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '01	2.1	15.2	17.3	9.1	7.0	16.1	33.4	5.02	5.13	0.11
YTD '02	2.4	20.0	22.5	8.9	6.9	15.8	38.3	1.69	4.98	3.29
% Change	16.9%	31.9%	30.1%	-2.1%	-1.4%	-1.8%	14.7%	-66.3%	-3.0%	2756.5%

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
2001									
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
2002									
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	55.8	1,789.5	42.1	35.5
Mar									
Apr									
May									
June									
July									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '01	10,495.28	1,239.94	626.94	2,151.83	1,236.9	71.8	2,178.4	48.2	68.1
YTD '02	10,106.13	1,106.73	578.60	1,731.49	1,405.0	56.0	1,841.6	43.3	38.3
% Change	-3.7%	-10.7%	-7.7%	-19.5%	13.6%	-22.0%	-15.5%	-10.0%	-43.7%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**	Equity	Hybrid	Bond	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
2001R	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	139.8	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	1.3	1.4	-10.3	11.6	21.8
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	3,372.3	346.6	947.2	2,301.9	6,968.0	19.6	2.2	10.6	14.0	46.4	32.4
Feb											
Mar											
Apr											
May											
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '01	4,093.5	354.9	833.3	1,954.8	7,236.5	24.9	2.5	9.0	103.5	139.8	36.4
YTD '02	3,372.3	346.6	947.2	2,301.9	6,968.0	19.6	2.2	10.6	14.0	46.4	32.4
% Change	-17.6%	-2.3%	13.7%	17.8%	-3.7%	-21.3%	-10.7%	18.2%	-86.5%	-66.8%	-10.8%

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