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NEAR-TERM MARKET OUTLOOK

Are We There Yet? No! Are We There Yet?

Did the turmoil in late July finally put an end to the market decline that began 28 months ago? This has been the question most frequently posed by market participants in recent weeks, and it has taken many forms, such as:

Q: Was the plunge in stock prices through July 23rd a "capitulation sell-off"?

A: No, probably not. Although sharp, severe and capping a long, debilitating decline, last week's plunge in stock prices, may not signal the end of this major market correction. "Capitulation" implies exhaustion of selling interest in a burst of activity. At end-July, with strong volume, adequate depth and the put-call ratio only slightly below 1.0, there appears to be ample buyers and sellers. Further, sentiment may be deteriorating again. Belated recognition of greater weakness in the economy has left it, and the markets, more vulnerable to any new shock.

Q: Did this constitute a fundamental bottom formation or will markets retest these new lows?

A: Absent confirmation, this does not appear to be a fundamental or long-term bottom and equity markets are more likely than not to retest, if not fall through, the five-year lows just set. Confirmation could come if the pattern of successively lower lows and lower highs that market indexes have displayed is broken.

Q: Was the rebound in the final 5 days of July a bear rally or the start of a new bull market?

A: It has the appearance of a bear rally and given the relatively weak economic climate, current valuations, the potential for new "shocks" and depressed public trust in the markets, which will probably translate into continued net outflows from equity markets or at best, make it unlikely that a sustained rally will ensue.

Q: Are there reliable quantitative methods available to see if the market is undervalued/overvalued and if so, by how much?

A: Yes, but stock valuation still remains as much an art as a science. There are a number of valuation methodologies and each has its own limitations and each produces a different result. Sustained historically high levels of volatility, the ongoing overhaul of accounting practices and the cascade of restatements of historical balance sheets make the task harder still. However, each valuation approach is worth examining and each provides part of the answer.

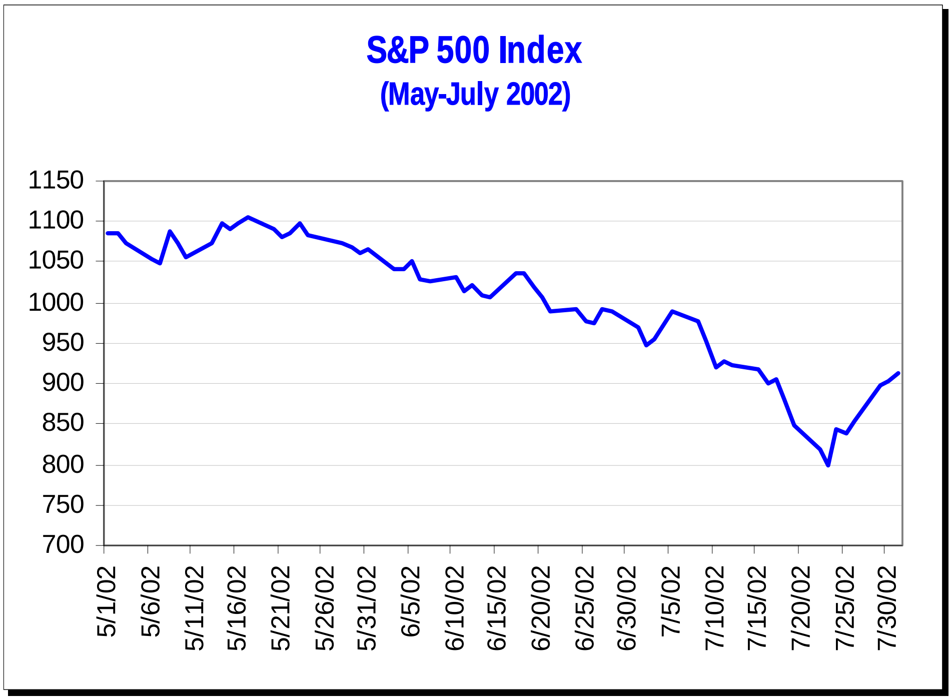
Q: Are we there yet? No. Are we there yet?

A: You will be there when you no longer need to ask the question.

These are simple answers to complex questions, and are just one viewpoint, and therefore are not very informative. In addition, there is considerable risk to any forecast of near-term equity market movements at this moment, a time of great uncertainty and risk and there are limitations inherent in each of the various approaches that can be employed to discern market valuations and market direction. Before providing more detail, it would be helpful to review recent developments.

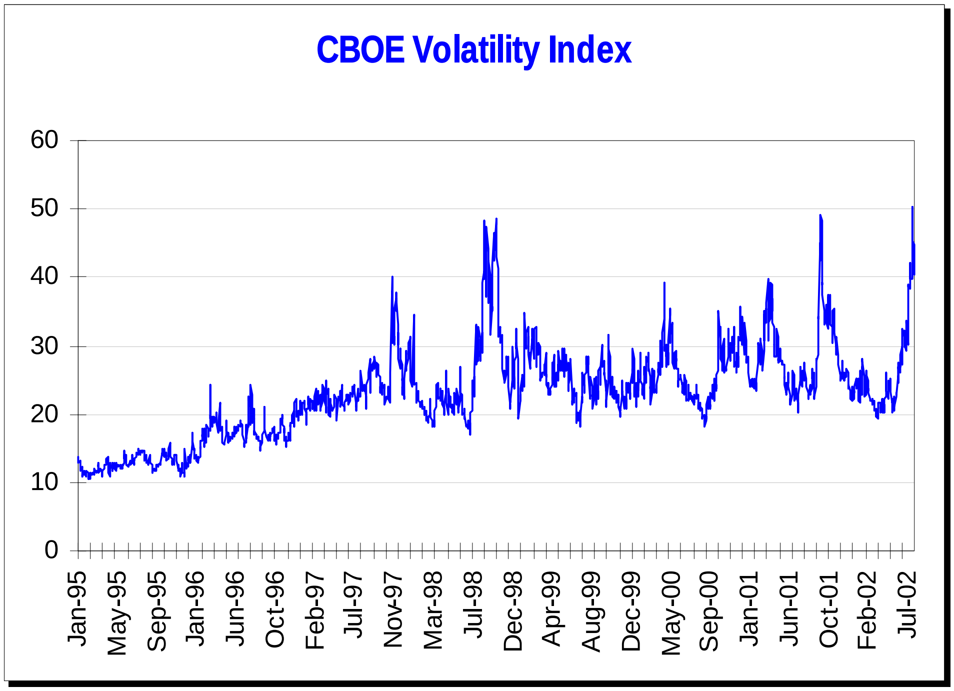
The Way We Live Now[1]

The market slide, that resumed in earnest in mid-May, dramatically accelerated in July, as steep declines drove broad market indexes to five-year lows on Tuesday, July 23rd. The next day, the "technically oversold" and highly volatile market staged a stunning rally, with the Dow Jones industrial average jumping 488 points (6.4%), its second largest point gain in history, and recorded, along with the S&P 500 Index, the biggest one day gain since the rebound from the 1987 market break. The market managed to hold onto most of Wednesday's advance and both these indexes finished with modest gains for the week of 1.1% and 0.6%, respectively. However, the Nasdaq and the broader Russell 2000 finished down 4.3% and 1.0%, respectively, recording their fourth consecutive weekly decline.



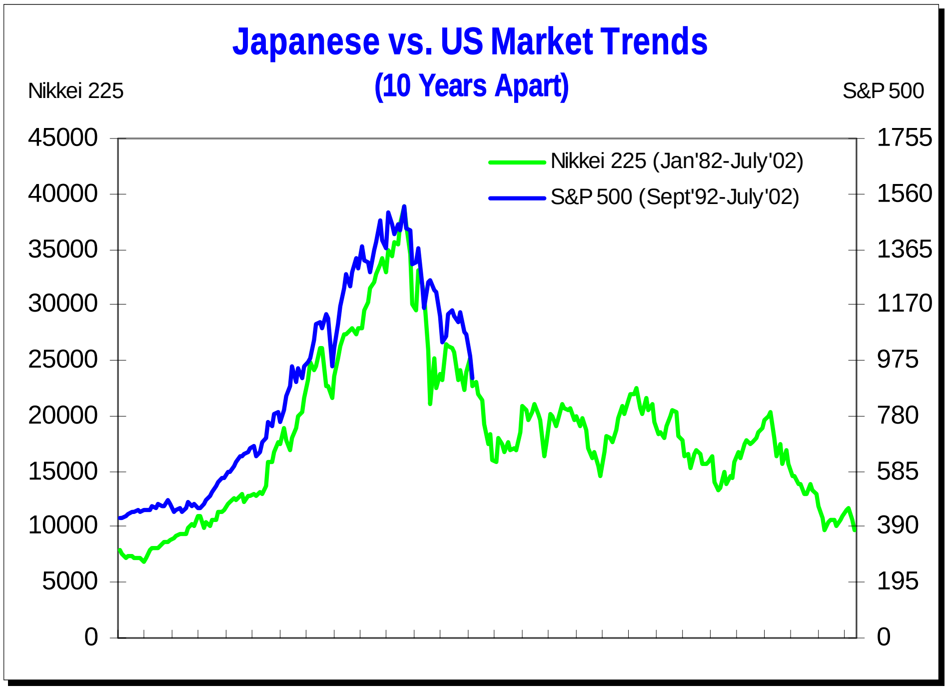
Wednesday's exceptional performance was repeated the following Monday as all major indexes surged again. The final two days of July were sedate by comparison. Modest gains extended a rally that lost strength in the face of disappointing economic news. Most telling was the release of the first estimate of 2Q 2002 real GDP, which was only 1.1%, well below the "consensus" forecast for 2.3% growth. This release was accompanied by the downward revision of previous year's data. Now, we are told, the U.S. had three quarters, not one, of falling output last year. And so concluded a historically weak July. Stock prices,[2] which had fallen 19.4% during the first 23 days of July, immediately, retraced most of that decline, climbing 14.3% before month's end. Despite this bounce the S&P 500 Index showed a monthly loss of 7.9%. It is now down more than 40% from its peak in early 2000, "making this on some measures a deeper bear market than 1973-74 (and thus the worst since the 1930's)."[3]

Not surprisingly, near record levels for trading volume and volatility were set. While equity prices set new near-term lows, falling below the levels reached during the week of September 17-23, 2001, volatility soared, "spiking" much as it did following the terrorist attacks. The VIX or volatility index, which reflects the cost of buying options, last Tuesday moved to levels only exceeded in October 1987, when the Dow fell 22% on Black Monday. The cost of hedging the risk of holding stocks, or of adding a "short" (borrowing stock and selling it with the expectation of buying it back at lower prices to repay the stock loan) had become prohibitively expensive. Knowledgeable "bears" took profits and their short covering, along with programmed buying triggered by Tuesday's plunge, led the market sharply higher the next day. Adding to the turmoil were very large actual and announced corporate stock buybacks and, reportedly, pension fund "rebalancing."

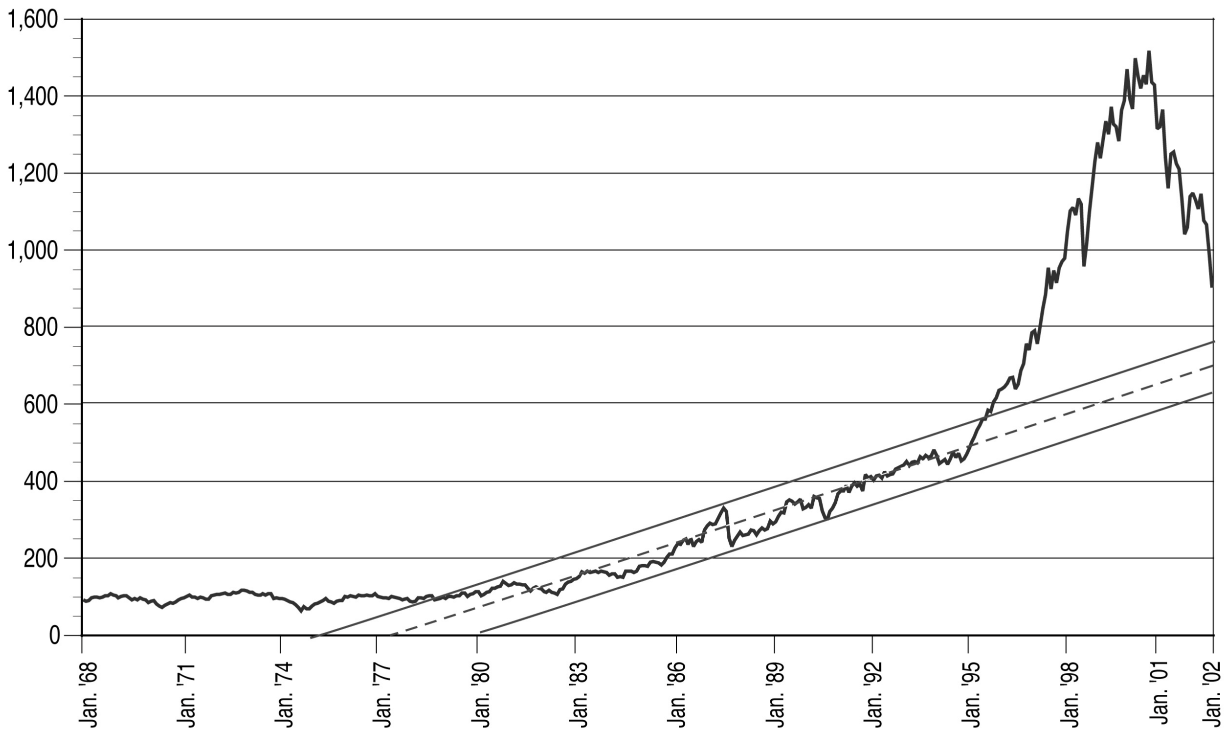


The recent turmoil amplified the chorus questioning whether last week was finally the end to this long bear market. General uncertainty sent market pundits searching for historical parallels, insights from technical analysis and even to apply long neglected fundamental analysis.[4] As this bear market deepens and extends, the number of useful historical examples shrinks. Some analysts have drawn convincing parallels to the recession that extended from November 1973 to March 1975 and the nearly decade long market slump that followed. Still others "think we are turning Japanese," noting the similarities in the movements of Japanese equity markets lagged ten years with their counterparts in the US currently. By other measures the severity of today's market "shock" is exceeded only by the period following October 1929.

An old saying points out that analysts can and do use statistics the way a drunk uses a lamppost: either for support or illumination. So it is with those searching for historical parallels to light the way forward. Few historical periods are analogous to the current market situation and fewer still may be relevant given the complexities and the rapid pace of change we now face. The unique factors driving this reversal of a speculative mania are most likely to generate a unique adjustment path. However, if a still older maxim (Those who are ignorant of history are doomed to repeat it) is applicable, it is worthwhile looking back at previous major market corrections, particularly those associated with the deflation or bursting of a speculative "bubble."


Japanese vs. US Market Trends
(10 Years Apart)
Nikkei 225
S&P 500
45000
40000
35000
30000
25000
20000
15000
10000
5000
0
1755
1560
1365
1170
975
780
585
390
195
0
Nikkei 225 (Jan'82-July'02)
S&P 500 (Sept'92-July'02)

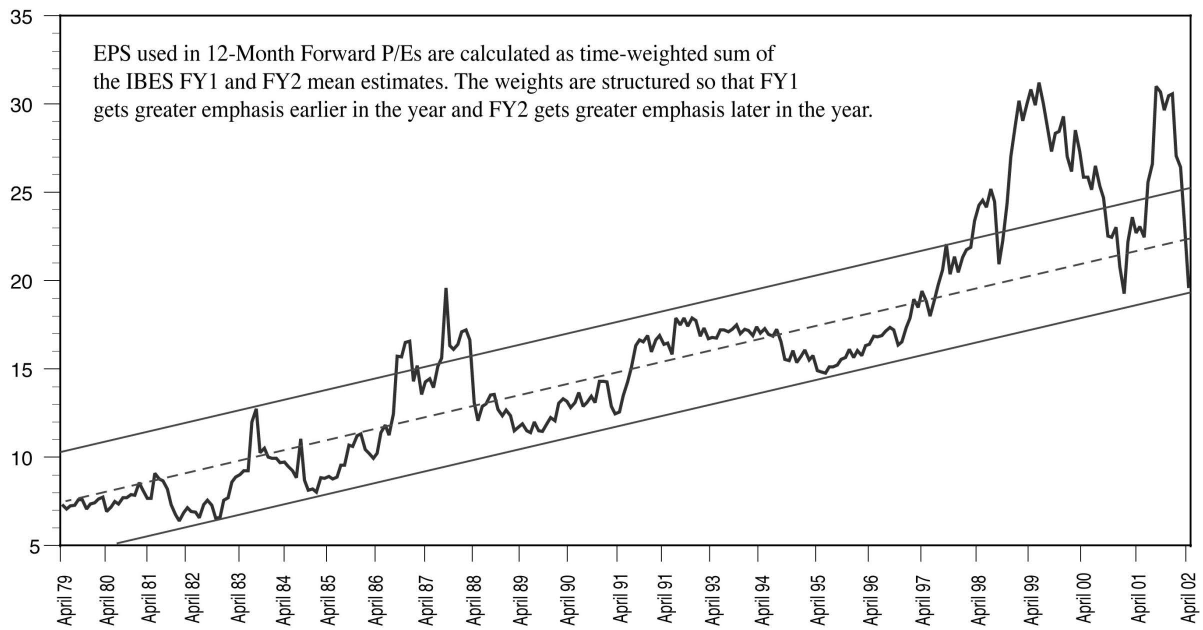
S&P 500 Index


1,600
1,400
1,200
1,000
800
600
400
200
0
Jan. '68
Jan. '71
Jan. '74
Jan. '77
Jan. '80
Jan. '83
Jan. '86
Jan. '89
Jan. '92
Jan. '95
Jan. '98
Jan. '01
Jan. '02

What's In A Name

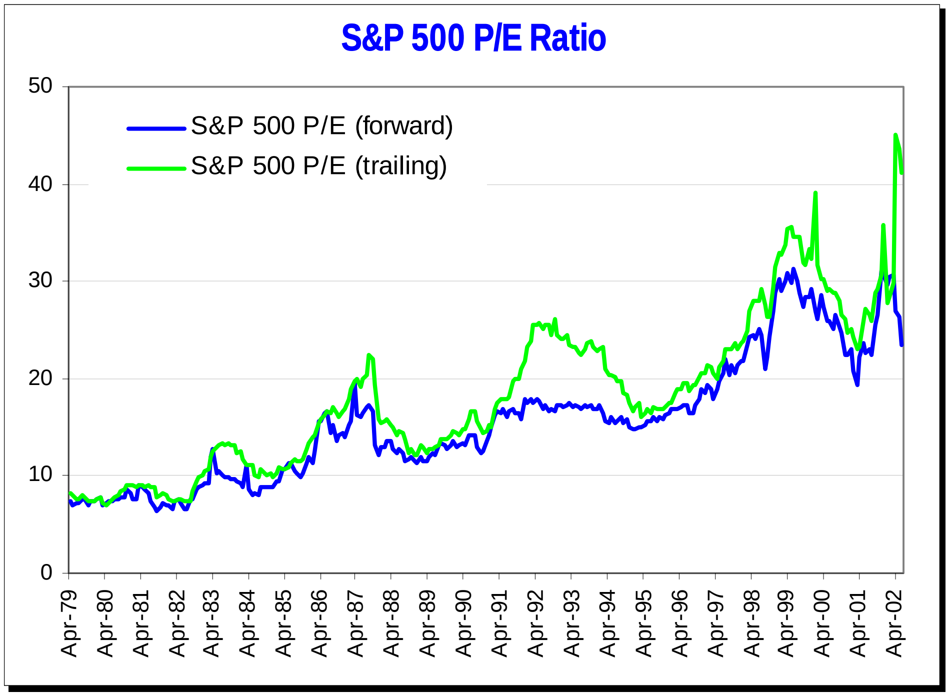
What then is the average investor to do? The answer is "your homework," remain calm and maintain a long-term investment horizon. As the mania subsides and popular delusions are shed, we have come to realize that successful investing is not a sport, but a rather serious undertaking. However, trying to tell whether a share, or the whole market is overvalued or undervalued has rarely been more challenging, as questions are raised about the valuation methods, the numbers that are employed by these methods and the conduct of those who prepare both the numbers and the assessments. Take for example, that tattered standard of orthodox valuation, the price-to-earnings ratio or P/E, which is enjoying a revival of sorts although others remain dismissive of its utility.[5] The P/E ratio is most commonly calculated using the last 12 months of earnings or "trailing" earnings. However, almost equally common is using a projection of earnings for the year ahead, or "forward" earnings on the argument that a share's price should represent the expected value of profits yet to be earned.

S&P 500 P/E Using 12-Month Forward Top-Down Earnings Estimates



Source: IBES, Merrill Lynch US Strategy

While there are a number of valid ways that one can make relative comparisons of corporate earnings, such as ebitda (earnings before interest, taxes, depreciation and amortization, sometimes called "earnings before bad stuff") or cash flow (which suffers from the same problems that the "E" in P/E does), two common P/E measures are displayed below: using "trailing earnings" and "forward earnings."



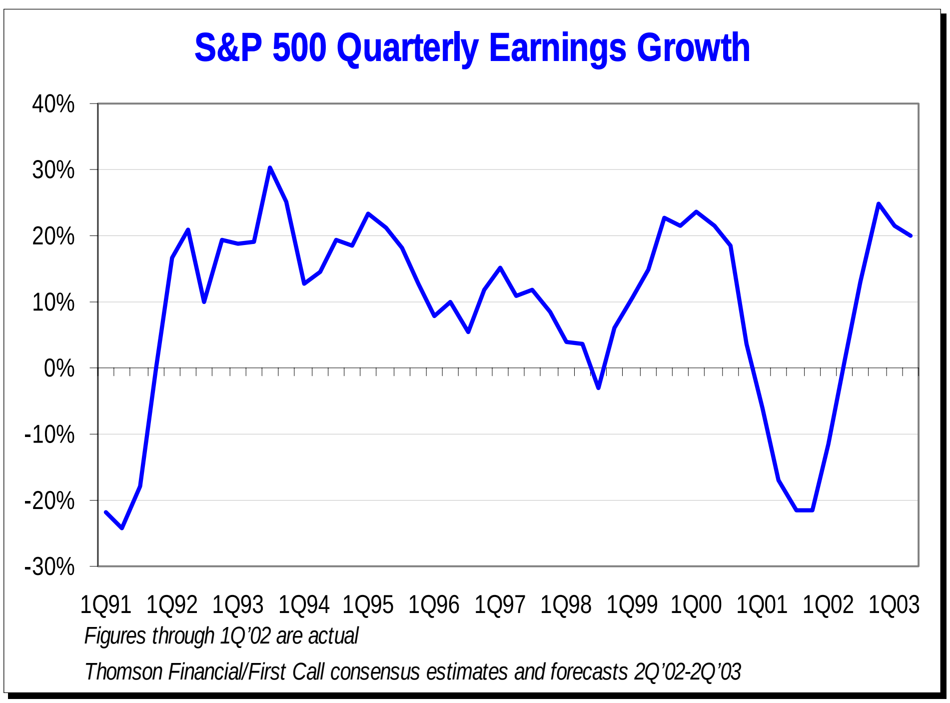
Using trailing earnings to guide your investing strategy is akin to driving while looking in the rear view mirror. A forward look is more applicable in discerning near-term possibilities, but this measure suffers from both forecasting error and an "optimistic bias" inherent in analyst's consensus forecast of earnings. Both suffer from ongoing problems in corporate reporting and accounting. If "trailing earnings" are used, we continue to confront a badly overvalued market with a P/E ratio near 40. If forward P/E ratios, which are in the mid-20's, are employed a significantly less "overvalued" and more optimistic picture emerges. Over the last century or so, the market P/E has widely fluctuated around a mean of 15.8. "Before the 1990's, the highest it (the P/E ratio, employing a "smoothed" trailing ten-year moving average for earnings) had ever climbed to was 28, just before the crash of 1929. At the peak in 2000 it was 45."[6] Using a simpler, less "smooth" version of P/E and conservative expectations for future earnings that are more in line with the picture of a weaker economy that has emerged in the past few days, produces a ratio only slightly less inflated than the 1929 peak. While interesting, this may not be a valuable insight into near-term market direction. As a seasoned Wall Street veteran once put it "It's all about the flow."

What About The Technicals?

Unfortunately a cloudy picture emerges here as well. Some (but not all) technical indicators signaled "buy" at end-July and the market indexes formed the second leg of a "W" over the past year or what appeared to be a "classic double-bottom". This is the fundamental bottom that often characterizes the end of a bear market. Unrepentant optimists were quick to see Tuesday's plunge as the long-hoped for "capitulation sell-off" that would set a floor for the stock market's trading range. Reanimated day-traders who acted on this view profited handsomely in the past week, but this is not a sustainable nor recommended strategy. In a real sense, technicals provided a self-fulfilling prophecy. These "buy" signals triggered programmed trading activity that helped propel the market off its lows. Day-traders, traders managing proprietary books of financial firms and some hedge funds added to the momentum, buying in anticipation of the activation of increased programmed trading and the need for some institutional investors to "rebalance" by months end.

However, the success of this type of trading strategy could prove very short-lived, just as judgments that the bear market has ended could prove premature. As stock prices have fallen, so have actual and prospective corporate earnings, leaving fundamental valuation techniques such as price/earnings ratios near historic highs. The nascent rebound, which failed to persist in beleaguered tech and telecom stocks at week's end, appears to reflect more an exhaustion of selling interest rather than a fundamental revival of demand for equities.

Mixed economic signals and fears of further negative surprises (external "shocks," more revelations of corporate misbehavior and a continuation of the wave of earnings restatements when corporate executives are forced to certify their companies results on August 14th) held all but the boldest investors in check. Caution is appropriate. The economy remains vulnerable to a new downturn if oil prices rise, consumers cut spending, housing prices weaken substantially, the next terrorist attack is not thwarted or ill-advised foreign policy actions are taken, just to name a few possible shocks in the months ahead. Only if all these nasty pitfalls are avoided is the economy likely to improve gradually into 2003. If this transpires, corporate earnings are likely to recover more rapidly than the overall economy, which would in turn buoy investor confidence and market valuations.



Until these threats to the near-term outlook are either mitigated or realized, it would be wise to practice caution and prudence in your approach to investing. Timing a market and identifying major inflection points or turning points in market indexes is difficult if not impossible, for most, if not all of us. Assuming you are not one of those lucky few who can clearly see into this vale, we recommend you visit our investor education website and offer a quick quote on the value of acting with deliberation and discretion from the father of our country: "It would be the point of prudence to defer forming one's ultimate irrevocable decision so long as new data might be offered." – George Washington.

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

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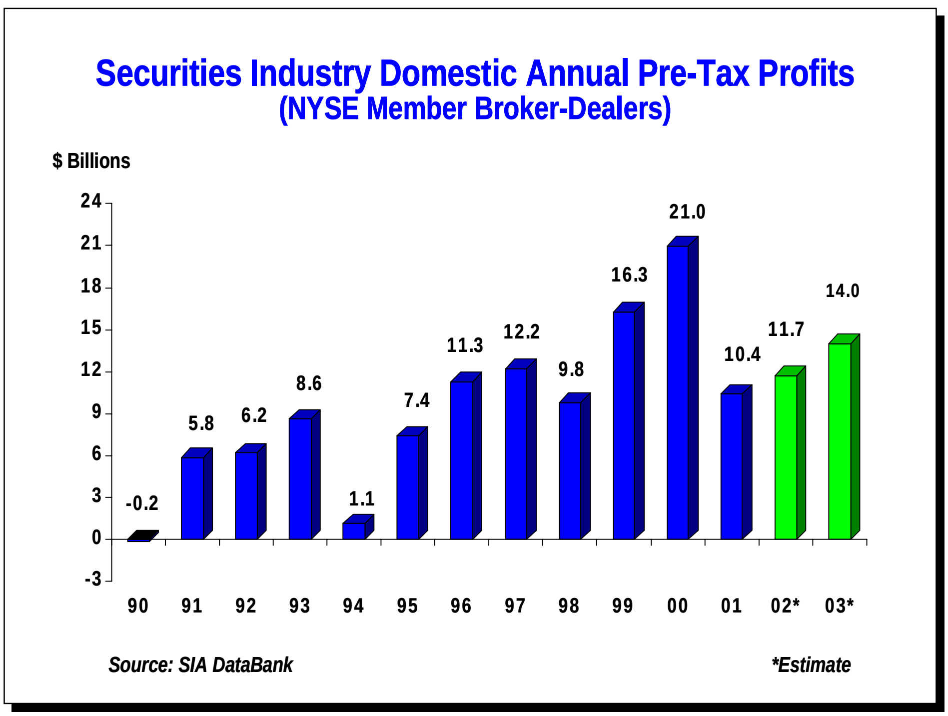
[1] In 1875, Anthony Trollope published ***The Way We Live Now***, which chronicled the rise and fall of the fictional railway speculator Augustus Melmotte. The story was set in the historical period surrounding the Panic of 1873, one of the early speculative boom-and-bust cycles that modern financial markets have endured. The striking similarities between Trollope's fictional tale, as well as the actual inflation and deflation of that speculative bubble a century and a quarter ago, and the present day was most recently noted by Amity Shales, "The Good Things About The Way We Lived Then," Financial Times, July 16, 2002, p.11.
[2] Using the S&P 500 Index as a gauge.
[3] "The Bear Days of July," The Economist, July 27th, 2002, p.13.
[4] "Economic Focus: How far is down? *When valuing shares, orthodoxy is back in favor-with worrying conclusions,*" The Economist, July 27th, 2002, p.65.
[5] Altman, Daniel, "Is the P/E Ratio Becoming Irrelevant?" The New York Times, July 21, 2002, p. 8 BU.
[6] Op.cit. 4.

SECURITIES INDUSTRY PROFIT REBOUND DELAYED UNTIL 2003[1]

Hope is fast-fading that securities industry profitability will rebound in the second half of 2002. Second quarter financials for brokerage firms reporting on a calendar quarter basis were released in late July and their results helped confirm the diminished prospects for a quick recovery. These results along with the latest trends and data, indicate that the industry's recovery will be delayed until at least early 2003. Deteriorating equity markets, hibernating retail investors and idled investment bankers are not likely to be revived soon given slowing economic growth prospects and rising uncertainty clouding the investment horizon.

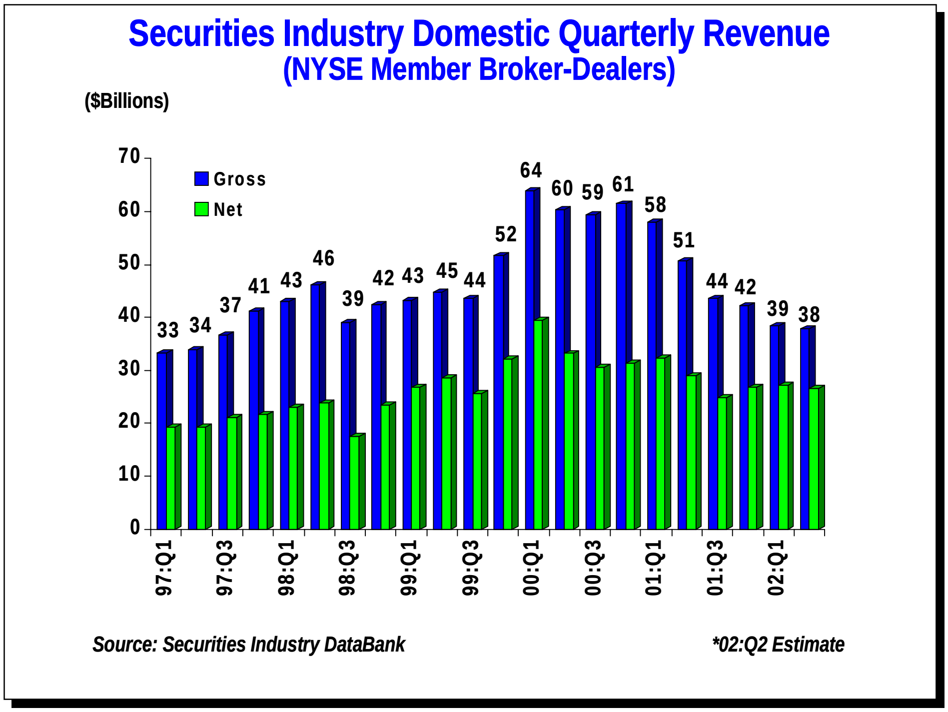
In last month's issue of *Research Reports*, we warned that there would be "very slow growth seen for the remainder of 2002" for the securities industry. We thus lowered our forecast for industry profits by 3% to $3.1 billion for Q2 2002 and by 1.5% to $13.0 billion for full-year 2002. One month later, with results for June-reporting firms in hand and the latest data indicating continuation of past trends, we are cutting the estimate further, by an additional 3%. Estimated profits for 2Q 2002 are expected to reach just $2.9 billion, 3% below 1Q 2002 results of $3.0 billion, but still 3% above the $2.8 billion in pre-tax profits logged in 2Q 2001. However, with no rebound expected until 2003, we have now lowered our full-year 2002 profit forecast by 10% to just $11.7 billion. While this is only slightly more than half the record $21.0 billion in pre-tax profits reported in 2000, it is still 12% higher than last year's $10.4 billion and would also keep 2002 as the fourth best profit year on record.



[1] This article features highlights from the upcoming August 2002 issue of ***Securities Industry Trends***. The full report will be available for *subscriber* viewing, or for *ordering*, at: http://www.sia.com/reference_materials/html/securities_industrytrends.html

All data for these articles and *Trends* can be obtained from a subscription to the SIA ***Securities Industry DataBank;*** for further details, visit http://www.sia.com/reference_materials/html/databank.html

During 2Q 2002, both gross and net revenue are estimated to have fallen 2% from 1Q 2002 levels, to $37.8 and $26.7 billion, respectively. This was also the sixth consecutive quarterly drop in gross revenue, mainly due to lower interest revenue, and set a five-year low. Historically low interest rates and the resultant strong fixed income origination and trading gains again saved the quarter from what would otherwise have been much lower revenue and profits. Quarterly interest costs fell for the sixth consecutive quarter to $11.1 billion, its lowest level in seven years and a mere one third of gross interest expense just 18 months ago (4Q 2000's record $30.1 billion).



In sum, our expectations for the year 2002 as a whole will be for a continuation of current trends. The industry is expected to post lower revenue across the board, with the exception of a minor improvement in commission revenue, for a decline in total gross revenue of 22%. However, a larger 24% drop in total expenses, mainly from a 45% drop in interest costs and a 7% reduction in compensation, will lead to a 12% improvement in annual profits.

George R. Monahan
Vice President and Director, Industry Studies

MARKET STRUCTURE UPDATE

In the past several months, there have been several important regulatory and industry developments that will affect a broad range of SIA member firms. This article includes updates on: decisions made regarding industry straight-through processing and T+1 goals; SEC funding and Senate confirmation of commissioners; the status of the rules for the trading of single stock futures; the SEC policy change on market centers sharing revenue from market data fees with members; proposed NASD regulatory fee changes; and the status of Nasdaq's SuperMontage and Alternative Display Facility. The article closes with an overview of a panel discussion on Order Routing and Best Execution held at the SIA Market Structure conference in June.

STP/T + 1 Changes

In mid-July, SIA's Board of Directors replaced the plan to convert from three-day to one-day settlement with a **comprehensive straight-through processing (STP) program**. Instead of planning for a shortened settlement time for securities in 2005, this program focuses on gaining efficiency through the automation of the trade process in 2003 and 2004. The shortening of the settlement period to T+1 is to be reevaluated in 2004. This shift in focus was motivated by several factors, including: the commitment of firms' resources to business continuity planning; a 10% reduction in firms' spending on information technology; and the firms' desire to focus on buttressing investor confidence in the current business environment.

The STP program will provide for the automated clearance and settlement of equities, bonds, and other securities. STP, at its core, involves removing manual intervention from the trade process in order to reap the efficiency benefits from completely integrating systems and processes that are used throughout the trade cycle. The STP effort will affect the trade process from beginning to end, including execution, confirmation, and settlement steps. The Institutional Transaction-Processing Model that has been created to help facilitate straight-through processing is described below. Moving to STP will also require targeted efforts to automate operations relating to syndicate underwriting, stock lending, and the registering of corporate actions such as dividends. The use of physical securities will be discontinued. Jeffrey C. Bernstein, who is a Senior Managing Director at Bear Stearns, was chosen to chair SIA's STP Steering Committee.

The STP program directly builds on work already begun under the T+1 plan, because the implementation of straight-through processing is itself a prerequisite for shortening the trade cycle. STP/T+1 was initiated in 1999, and was made up of 17 subcommittees and 30 working groups, which were populated by hundreds of industry volunteers. These groups were able to identify regulatory changes that would be necessary for the entire industry to undertake coordinated action, identify the enormous number of participants and related processes that STP would affect, and map out the complicated dynamic ingredients of both current and ideal trade cycles.

In mid-June, SIA released the **Institutional Transaction Processing Model** that was approved by both the ITP and STP/T+1 Executive Committees, after having been reviewed by those and many other committees. The ITP Committee developed this model over the course of three years. Part of the thought behind this automated model and the use of electronic messenging is that the quick matching of trades will lead to any errors being identified and resolved earlier in the cycle than they otherwise might have been.[1] In contrast, many firms currently use what is known as the "batch method" for trade processing. The use of the fax machine or the phone to confirm or affirm trades will be replaced with electronic notifications.

Specifically, the model can be described to impact three phases of the trade cycle: trade agreement, settlement agreement, and settlement. The first phase covers the Notice of Execution, allocation, matching of trade details and status information. The second phase includes determining the means by which the trade will be settled. In the final phase, the virtual matching utility produces settlement instructions and also authorizes settlement.

SEC, SROs, and Market Center Changes

Toward the end of July, the U.S. Senate unanimously confirmed **four new SEC commissioners** to fill empty positions. The new commissioners are Paul Atkins, Roel Campos, Cynthia Glassman, and Harvey Goldschmid. One month earlier, the U.S. House of Representatives passed H.R. 3764, a funding measure that was introduced by House Financial Services. This bill authorizes $776 million for the SEC for fiscal 2003, $326 million of which will go to the Enforcement Division. This **authorization represents a 77% increase in the SEC budget**, and pay parity with federal banking regulators. The confirmation of the new commissioners and the increase in funding were necessary steps to ensure that the Commission can effectively tackle its large regulatory and enforcement workload.

Also toward the end of July, the SEC and CFTC agreed on **finalized customer margin rules for single stock futures, a prerequisite to the commencement of trading those products**.[2] The SEC and CFTC are engaged in joint regulation because the 2000 Commodity Futures Modernization Act ruled that these products be treated both as securities and as futures. The rules designate a minimum level of margin that customers must have in place while engaging in the trading of security futures. The level is set at 20% and is based on portfolio margining. The rules will officially go into effect 30 days after the rules are published in the Federal Register. This means that the trading of these products could begin as early as this September, subject to SROs issuing additional guidance to firms who plan to participate in this market. The rules provide for comparable margin requirements for securities options and securities futures in order to curtail potential opportunities for regulatory arbitrage.

At the beginning of July, the **SEC abrogated all market data revenue sharing programs.**[3] This decision affected programs at Nasdaq and at the Cincinnati and Pacific Stock Exchanges. Each of those market centers had filed for extensions with the SEC of their respective pilot programs to share market data revenues. The extensions went into effect upon filing, but the SEC is allowed to abrogate those rules within 60 days of filing and force the market centers to re-file the rule changes. Those proposed changes are then reviewed by the Commission to evaluate whether or not the rules are consistent with investor protection goals. The Commission was concerned that the SROs would not have the adequate funding to regulate their members appropriately due to the fact that they were sharing the market data revenue in order to compete as exchanges. The Commission was also concerned that traders would conduct trades for the sole purpose of receiving market data fee rebates.

There have been several proposed market structure changes that stem from the demutualization of Nasdaq, a process which legally separates the NASD regulatory arm from the Nasdaq market center operations. In late July, the NASD released a Notice to Members[4] stating that the NASD Board of Governors **approved proposed changes to NASD's Gross Income Assessment, Personnel Assessment, and Regulatory Fees**. NASD had abandoned an earlier proposal to change these fees[5] after receiving industry comment letters that voiced reservations about those proposed changes. The new proposal will soon be filed with the SEC, and interested parties may file their own formal comment letters through the SEC regarding the proposal at that time. This version proposes to eliminate the NASD Regulatory Fee that is currently assessed, and institute in its place a Trading Activity Fee on the sell side of all member trades in covered securities, irrespective of the market center at which the trade is executed. The NASD created this transaction-based fee, similar to SEC Section 31 fees, in order to avoid influencing where members choose to execute trades. Regarding the Gross Income Assessment (GIA), the NASD has proposed a three-tiered flat rate that will be applied to gross FOCUS revenue. The NASD wanted to eliminate current GIA deductions and exclusions that "have been subject to varying interpretations." It was further proposed that the Personnel Assessment be raised to a three-tiered rate structure of $65 to $75, depending on the firm's number of registered representatives, a change designed to "reflect the vast differential of NASD's member firms."

Another market structure development stemming from the demutualization of Nasdaq was the recent **SEC approval of rules governing the operation of Nasdaq's Alternative Display Facility (ADF)**, which was launched on July 29th. The Commission approved the use of the facility for Nasdaq-listed securities on a pilot basis until April 24th of next year.[6] Because the SEC has not yet approved Nasdaq's application for exchange status, NASD will operate both Nasdaq and the ADF during the next 9 months. The ADF, which will not provide order execution or routing services, is designed as a venue for publishing quotes and reporting trades by NASD market makers and ECNs who choose not to participate in SuperMontage, Nasdaq's proprietary trading platform. ADF participants are required to provide electronic access to their ADF-displayed orders and best-priced quotes to all NASD members. The SEC approved a fee structure that allows participants to send quotations and trade reports to the ADF free of any transaction charges for 3 months. The SEC has not yet approved final rules related to quotations and trades of NYSE and AMEX securities.

The approval of the ADF was a precondition of the SuperMontage launch. SuperMontage is an electronic execution platform that allows participants to access multiple quotes and orders at different price levels from a single point of entry. The SEC decides whether or not all of the Commission preconditions for SuperMontage to being trading live securities have been met at an August 12th meeting. However, on July 29th, **Nasdaq did launch SuperMontage with 32 test securities**.[7] Subsequently, Nasdaq will phase-in groups of securities over several different time periods until SuperMontage has been fully implemented. Firms were invited to participate in 10 weekend tests of the system prior to the launch.

Market Structure: 2002 & Beyond - SIA Conference, June 7, 2002
Order Routing and Best Execution – Panel Discussion

Note: This overview is not meant to be a transcript of the panel, and therefore does not reflect direct quotes from participants.

The panel of six participants included representatives of a market maker (MM) firm, an institutional brokerage (IB) firm, a global financial services company (FS), the NYSE, and the Division of Market Regulation at the SEC. The moderator was a partner of a law firm. The topics of discussion were: 1) achieving best execution in tough markets; and 2) gauging the effects of the Order Routing and Execution Rules for market centers and brokerages, 11Ac1-5 and 11Ac1-6 respectively.[8] Rule 11Ac1-5 stipulates that market centers trading national market system securities must generate monthly electronic reports that display publicly available uniform statistical measures of execution quality on covered orders. These measures include fill rates, speed of execution, and effective spreads, and are broken down into buckets by individual security, by order type, and by order size.

The FS representative began the discussion by saying that in her experience with 11Ac1-5, the statistics being reported by market centers do generate some information about internalization and about the implications of routing to different centers. However, on the whole, the data don't tell the whole story. In particular, the data are influenced by the mix of stocks handled by that center, and by the level of difficulty of trading those stocks. The data must be analyzed using sophisticated statistical techniques in order to account for these and other differences across market centers. Moreover, the overall numbers may not reflect your specific firm's order flow. Finally, explicit fees are not included in the data, while implicit fees are.

The moderator asked how regulators plan to use the data. The SEC representative responded that market centers should keep in mind that they are free to put out any additional data that they want to. He said that the NYSE, for example, has many statistics on their website that help to represent who they are as a market. He said that before the 11Ac1-5 data was mandated, during the examination process it was easier for examinees to be vague about the criteria upon which their routing decisions were based. Now the regulators are able to ask examinees about the extent to which they analyze their own routing data. The moderator agreed that examinees should make a good faith effort to look at their data, and that best execution committees should certainly review that data in a general way.

The moderator then asked the MM representative, as a liquidity provider, whether or not his firm's customers have asked about the firm's data. The MM representative said that his company does focus on it and makes sure that it is accurate. He said that, in his experience, customers do make routing decisions based on that data, which has resulted in market share increases for his company. He disagreed with some of the FS representative's comments regarding the usefulness of the data. He said that the rule does not require aggregation of the data. Rather, firms should be looking at individual stocks in individual buckets of order size, at the execution of trades in AOL stock in the 500-share bucket, for example As for customization of the data for individual customers, this

MM firm has three people on staff to perform only that function. The FS representative responded by saying that since the data and the rule are still new, there does exist a temptation to look at the data in aggregate. The IB representative added that his firm also customizes data for customers, and that it is useful because his firm has a diverse customer base with a wide range of difficulty in the stocks that it handles.

The NYSE representative, an economist, agreed that the data could be potentially very useful, but that there is not enough emphasis on market depth in a decimal environment. Regarding the effective spread measure, he noted that the bigger the order is, the bigger the effective spread statistic is. He noted that the NYSE does get sent very difficult order flow. To illustrate the idea that the statistics may not always be the best criteria upon which to base a routing decision, he offered the example of a person with a disease not choosing a doctor based on whose death rates are the lowest. The SEC representative noted that a sick person could, however, look at the death rates of hospitals and not go to the ones with the highest rates.

The NYSE economist responded that some market centers could focus their business on obtaining order flow that is easier to execute, thereby improving their statistics. He also said that centers that pay for their order flow could have better statistics as a result. It does bother him that the 11Ac1-5 data is used as a marketing tool, but he is happy that the SEC will not be using the data to "lean" on examinees. He also said that the way in which vendors package and present the data can make a big difference in the way the statistics are received. He reiterated that he does not think that that the statistics are ready to be the basis of customers' routing decisions, and that he would welcome additional measures that are indicative of depth.

The MM representative made the point that a focus on the effective spread measure does tell you something about depth. The SEC representative said that the idea of a depth measure was raised in the proposal stage, but that SEC wanted to achieve a workable balance between the complexity of the statistics and their usefulness. The IB representative also noted that the realized spread measure can be a good tool for comparing difficulty of order flow across market centers.

The moderator then switched the discussion to 11Ac1-6 statistics. Rule 11Ac1-6 stipulates that broker-dealers generate quarterly reports designed to facilitate customer understanding of the firm's routing practices. The reports are required to identify market centers to which the broker routes a significant percentage of their orders, as well as the nature of the broker's relationships with market centers, including disclosure of internalization or payment for order flow agreements.

The FS representative opened the discussion by saying that disclosure of a payment for order flow relationship did appear on confirms in the past. Now there is also an individual equity ownership disclosure requirement. For firms, this means carrying out super due diligence on the destinations of their orders. The representative from the SEC noted that if a firm has a regularly scheduled examination approaching, then examiners will look at the firm's 11Ac1-6 data in order to be generally informed.

The moderator noted that trade-throughs (i.e. departure from price priority) can be indicative of less-than-optimal execution quality, but that in a pennies environment, it may not have the same significance. He asked whether or not trade-throughs are commonly found on Nasdaq, and if so, will those be fixed by the implementation of SuperMontage?

The IB representative said if trade-throughs are not fixed by SuperMontage, then they could not represent a very significant problem He said that the SEC Office of Economic Analysis tried to gather data together for the 11Ac1-5 proposal, and that June Nasdaq OATS (Order Audit Trail System) data indicated that 5.3% of small Nasdaq trades, below 500 shares, were generally getting done outside the quote. He said that the comparable NYSE number was 7.5%, although those are listed stocks and subject to the ITS trade-through rule. He said that when there is less depth at the inside, you would expect fewer trade-throughs. He said that market forces on the Nasdaq side have the same success in limiting trade-throughs as the ITS trade-through rule does. The SEC representative said that the person from the IB firm is correct that trade-throughs on the listed side have been mounting due to decimalization, but that the data is showing that they are not having a significant impact.

The FS representative then asked whether or not the SEC believes that U.S. markets are coming to a point where mandated linkages are no longer necessary. She said that when markets are fragmented, her firm has to link to others, which makes their job harder. The SEC representative said that he has learned that markets will put up obstacles to block competitors if given the chance. The FS representative noted that market center access fees are part of the execution equation. The moderator noted that access fees are a thorny issue, and asked if there is a possibility of resolution. The SEC representative replied that that access fees represent a second-tier market structure issue that will be resolved in the relatively near future.

The moderator noted that up until that point, the discussion was about best execution on the sell side. He asked the panel what best execution means on the buy side. The IB representative said that best execution means something different on the buy side. For example a buyer might ask how much market impact his or her trade had. He noted that the comment period on Association for Investment Management and Research (AIMR)'s Investment Management guidelines had closed, and that they were likely to be approved. The guidelines focus on three areas: 1) trade management; 2) disclosure conflict; and 3) record keeping. He did, however, note that a fair criticism of best execution guidelines is that there is not one true best way to measure execution. He asked whether or not the SEC would piggyback off of these guidelines. The SEC representative replied that these guidelines represent industry best efforts, and not a regulatory approach.

The moderator brought up the fact that he believes that the recent SEC soft dollar interpretive release is the most significant on this topic since 1986. He said that the implications of this release may not apply solely in a commission context, but to other riskless principal and principal contexts. He asked the SEC representative if the implications of the release could apply to other financial arrangements. The SEC representative said that it would be a mistake to read that release too broadly. He said that debt does not fit into this category, and that the only category that he knows of to which the release applies is equity riskless principal.

The FS representative noted that with regard to options, a number of factors involved in options trading makes best execution review almost impossible. One of these factors is the lack of firm quotes. She said that options exchanges have been trying to provide trade-through reports to their customers, but that these reports are not uniform across exchanges. Deciding where to route orders is therefore sometimes based on relatively primitive criteria such as the volume level of the exchange. Smart order routing technology may help create effective linkages and a virtual National Best Bid and Offer (NBBO) even before the mandated linkages are in place, making more high-powered analysis possible.

The moderator noted that there will be an options linkage in 9-10 months, and we will therefore have quotes with size. He asked the SEC representative if there will be an 11Ac1-5 rule for options. The SEC representative said that given the lack of a BBO and options quote series, an 11Ac1-5 rule for options could be challenging, but he said that the SEC is considering it.

The moderator said that decimals are probably here to stay because the clock will not be turned back, but he asked the panel what in their estimation had changed about the market as a result. The FS representative said that some liquidity is hidden now, making the broker role more important. The NYSE economist agreed. He said that for retail investors, decimals have resulted in some cost savings, but that everyone is still learning how to execute institutional trades in that environment.

Finally, the moderator asked the SEC representative what issues are in the Commission's queue for consideration. The SEC representative said that areas under active consideration include: Nasdaq'sexchange application; the short sale concept release; market data fees; Regulation ATS; and foreign exchange access. He said that some issues have their own timetables, forcing SEC action, such as the trading of single stock futures.

Judith Chase
Vice President and Director, Securities Research

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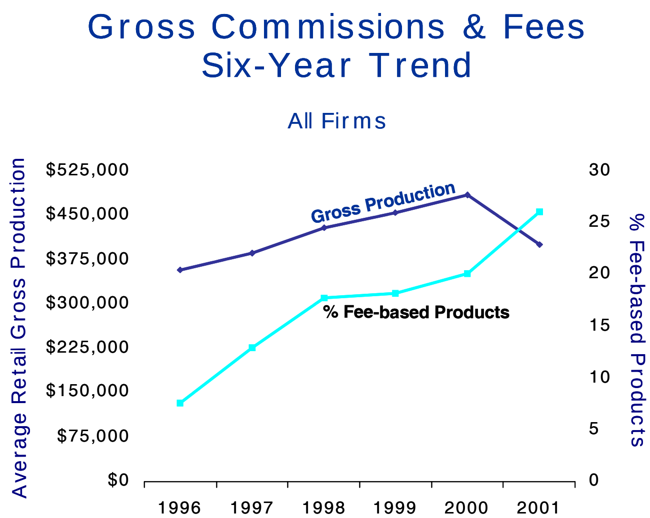
[1] For detailed information on the steps of the Institutional Transaction Processing Model and general information on STP, see http://www.sia.com/stp/.
[2] For background on the issue of trading single stock futures, see "Single Stock Futures: An Overview Of Market Structure And Regulation," in Vol. III, No. 3 (4/10/02) of *SIA Research Reports* at http://www.sia.com/reference_materials/html/research_reports.html.
[3] For the full SEC Order of Summary Abrogation, see http://www.sec.gov/rules/sro/34-46159.htm.
[4] For the full text of this NASD *Notice to Members*, see http://www.nasdr.com/2610_2002.asp#02-41.
[5] See NASD *Notice to Members* 02-09 at www.nasdr.com for details on the earlier fee change proposal.
[6] The SEC release is available at www.sec.gov/news/press/2002-112.htm. The NASD release is available at http://www.nasdr.com/news/pr2002/release_02_035.html.
[7] See http://www.nasdaqtrader.com/trader/news/2002/headtraderalerts/hta2002-100.stm.
[8] For a summary of the Order Routing and Execution Rules, see http://www.sia.com/order_disclosure/html/summary_of_rules.html.

FEE-BASED PRODUCTS ACCOUNT FOR MORE THAN ONE QUARTER OF BROKERS' GROSS PRODUCTION, UP 30% FROM 2000

Difficult Market Conditions, Stagnant Economy, September 11 Events Lower Total Commissions, Fees, Earnings

Fee-based brokerage relationships continue to redefine the way individual investors and registered representatives conduct business. Fee-based products now account for more than one quarter of an RR's total gross commissions and fees, rising from 20.1% in 2000 to 26.1% in 2001, according to SIA's *Report on Production & Earnings of RRs - 2001.*



Clients now have more opportunities than ever to select the type of relationship that works best for them, which builds stronger, long-term relationships based on trust and customer preference. This results from the evolution of the retail business from a traditional, transaction-based relationship between financial consultant and client to a fee-based relationship built on choice. In 1996, less than 10% of production came from fee-based products according to SIA's survey that year.

While the share of production from fee-based products increased dramatically in 2001, RRs' commissions, fees, and earnings fell after six years of consecutive gains, according to SIA's report. In 2001, average gross commissions and fees decreased 17.5%, from 2000's $485,478 to $400,538; average total earnings fell 17.7%, from 2000's $199,804 to $164,393. Median gross commissions and fees decreased 18.9%, from $366,042 to $296,923, and median total earnings fell 20.3%, from $140,744 to $112,227.

The decline in broker compensation reflects what happened more broadly in 2001. It was a tough year with a slowing economy, market instability, and the tragic events of September 11. It was trying for investors, and not surprisingly, RRs' lower total earnings reflected that.

Two broad indicators of the markets' performance, the Dow Jones Industry Average and Nasdaq Composite Index, dropped 7.1% and 21.1%, respectively, in 2001. Total share volume on Nasdaq and the New York, American, and Regional Stock Exchanges, however, increased 10.5% between 2000 and 2001. Meanwhile, gross domestic product retrenched in the second and third quarters last year, rising just .3% and then falling 1.3%, respectively, causing economists to proclaim that the United States had entered into a recession.

While 2001 was the first time that some brokers had seen a bear market, the industry continues to be populated by seasoned RRs. On average last year, RRs had worked at their firm for 8.4 years, and in the industry for 11.2 years. Overall, the RR turnover rate was 19.2%, with newer RRs (brokers working one to two years) having the highest rate of separation (36.3%).

The size of the average retail branch remained relatively constant. In 2001, respondents had 14.2 RRs, 6.5 sales assistants, and average gross commissions and fees in excess of $5.6 million. In 2000, branches averaged 14.6 RRs, 6.7 sales assistants, and production of $6.2 million. Non-producing branch managers, who typically oversee larger, more complex branches, had higher earnings ($415,379) than producing branch managers ($312,812). This reflects the fact that non-producing managers have additional responsibilities than producing managers, who tend to oversee smaller branches and derive a portion of their income from commissions and fees generated from their retail clients.

SIA's comprehensive report also includes information on payout rates, ticket size, plus information on trainee compensation and training costs.
Other survey highlights:

- New information in this year's survey includes the average number of active accounts per RR (542), average value of an active customer account ($127,018), and average value of total customer assets per RR ($66,367,593).

- The average and median payout rates in 2001 were 37.6% and 35.3%, respectively.

The survey's results are based on responses from 34 member-firms, which collectively employed more than 47,200 registered representatives and generated almost $19 billion in gross production during 2001. These firms had 3,070 branch managers and operated 3,782 branches.

The report is available for purchase on CD-ROM. Contact Steve Carlson, (212) 618-0572, scarlson@sia.com or Carmen Fernandez, (212) 618-0515, cfernandez@sia.com.

Stephen L. Carlson
Vice President and Director, Surveys

MONTHLY STATISTICAL REVIEW

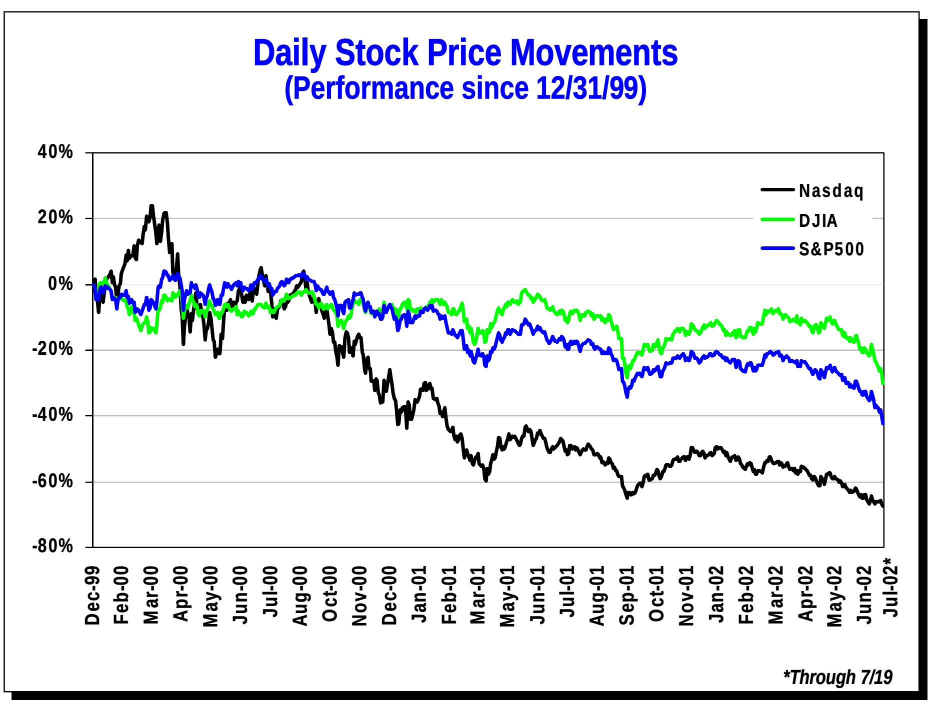
U.S. Equity Market Activity

Stock Prices – The 28-month old bear market deepened since the end of March and drove all key stock market indexes down to new four or five year lows. The Nasdaq Composite and the S&P 500 have fallen in 15 of the last 18 weeks ended July 19th, and the Dow has been down in 14 of those weeks. Indeed, the market break for the two weeks ended July 19th was the worst since the 1987 stock market Crash. Several factors have caused the pervasive skepticism and fear that has gripped the market, including a wave of corporate governance and accounting scandals, blowups of major companies such as WorldCom, earnings disappointments, and continued threats of terrorism.

This unrelenting selling drove the Nasdaq Composite down to 1319.15 on July 19th. So far this year, it has lost 32.4%, after plunging 21.1% in 2001 and 39.3% in 2000. The broad-based S&P 500 is down 26.2%, while the blue-chip stocks of the DJIA are off 20.0% since the start of the year.

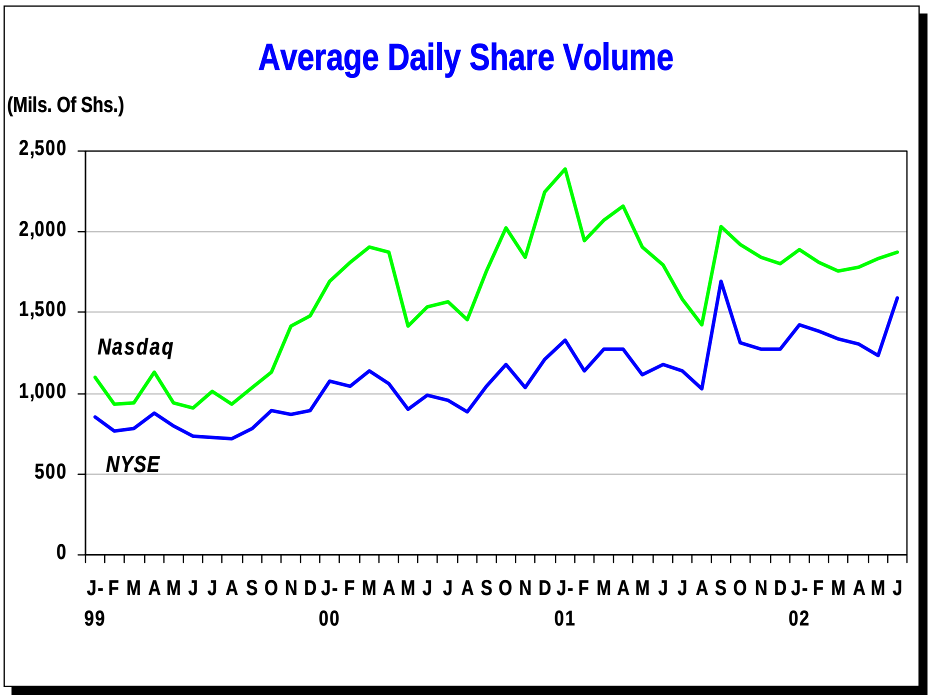
As of July 19th, the Nasdaq Composite, dominated by beleaguered technology stocks, stood at its lowest level since May 1997 and was 73.9% off its record of 5048.62 on March 10, 2000. The S&P 500 was at its lowest level since June 1997 and down 44.5% from its March 2000 peak, marking the worst bear market since the 1973-74 decline, when the S&P dropped 48.2% in 21 months. The Dow Jones Industrial Average revisited levels last seen in October 1998 and stood 31.6% below its high of 11722.98 set on January 14, 2000.

As things stand now, there is a real possibility that the stock market could suffer a third down year in a row, something that hasn't happened since 1939-1941. Many market analysts predict that only an improving economy coupled with an actual earnings recovery will turn this market around. Even if these come to pass, 20% to 32% recoveries, with less than six months to go, are challenging.



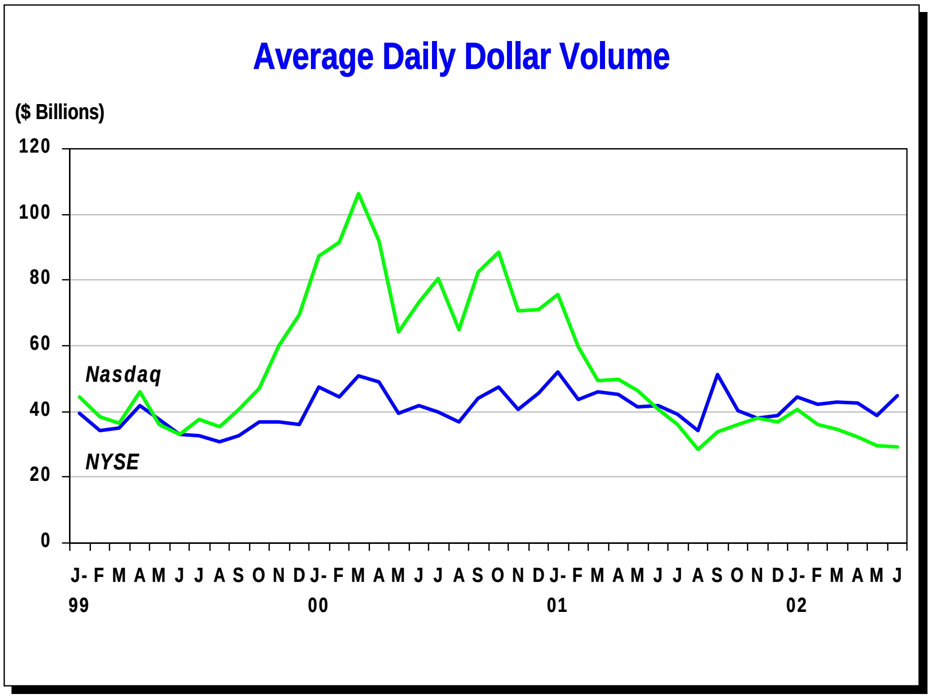
Share Volume – Trading activity was hectic on both major markets in June. NYSE volume, after trending downward for four consecutive months to a 2002 low of 1.23 billion shares daily in May, surged 28.6% to 1.59 billion shares daily in June, marking its highest level since last August. That brought the year-to-date average to 1.36 billion daily, up 10.9% from the annual record pace of 1.24 billion per day set in 2001.

On Nasdaq, average daily volume edged up 2.3% from May's level to 1.88 billion shares per day in June, its second best monthly showing this year behind January's 1.89 billion share daily average. Despite modest increases in volume registered on this market over the past three months, Nasdaq volume for the first half of the year, at 1.82 billion per day, was still 4.0% shy of the 1.90 billion daily record set last year. However, the torrid trading pace so far in July is sure to boost the 2002 totals.

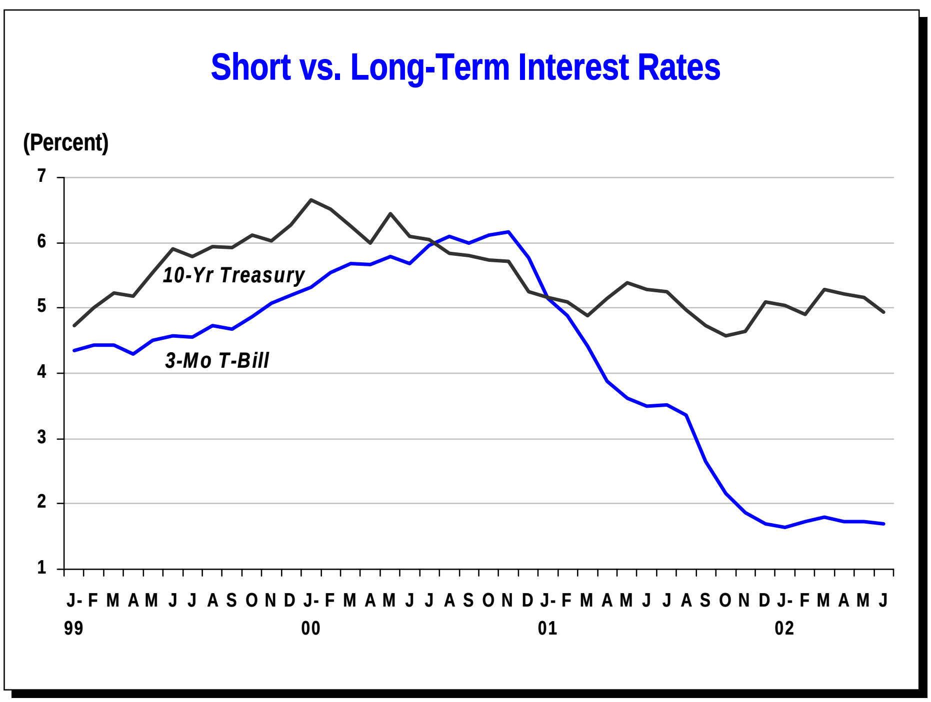


Dollar Volume – In June, the dollar value of trading in Nasdaq stocks fell to a 10-month low amid plunging share prices. Average daily dollar volume sank monthly this year from $40.8 billion daily in January to $29.4 billion daily in June. That dragged down the year-to-date average to $33.7 billion daily, a 23.6% drop from 2001's $44.1 billion daily average and 58.3% below the record $80.9 billion daily pace set in 2000.

Due to increased trading activity in June, the dollar value of trading in NYSE stocks jumped 15.2% to $44.8 billion from May's 2002 low of $38.9 billion. At $42.5 billion daily year-to-date, dollar volume in NYSE stocks is minimally above 2001's $42.3 billion daily pace, yet still trails the $43.9 billion daily record set in 2000. It is worth noting, however, that this is the first year since 1998 that dollar volume has been stronger on the NYSE than on Nasdaq.



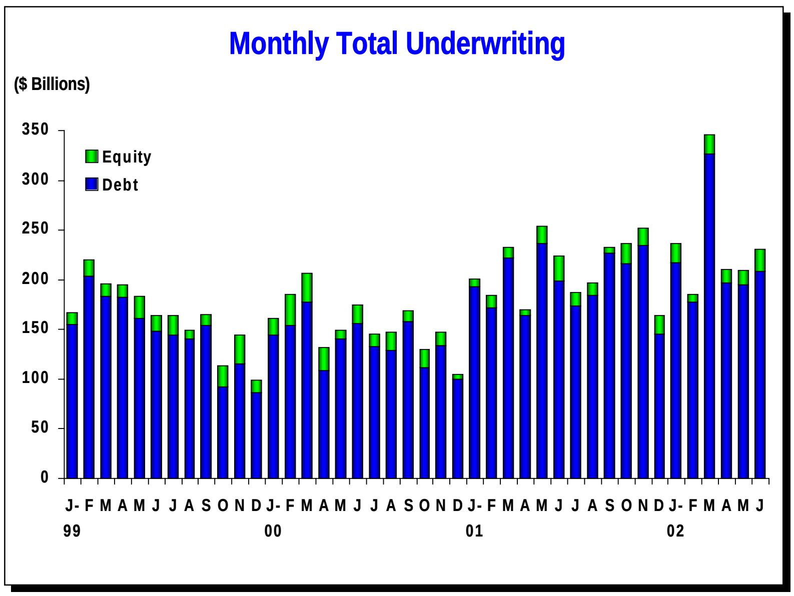
Interest Rates – Many investors turned to fixed-income instruments amid the volatile stock market conditions, driving down yields on both short- and long-term government securities. The yield on three-month T-bills slipped to a five-month low of 1.70% in June, down 3 basis points from June and 179 basis points below where it stood a year ago. Meanwhile, the 10-year Treasury yield fell 23 basis points to 4.93% in June, a seven-month low and 35 basis points below its year-earlier level. As a result, the yield spread between the 10-year Treasury and the 3-month T-bill narrowed to 323 basis points in June from 343 basis points in May.

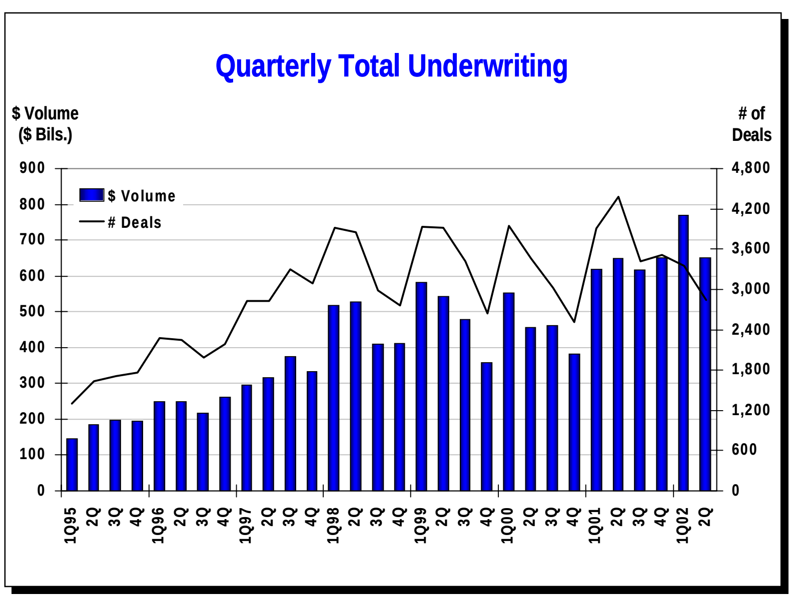


U.S. Underwriting Activity

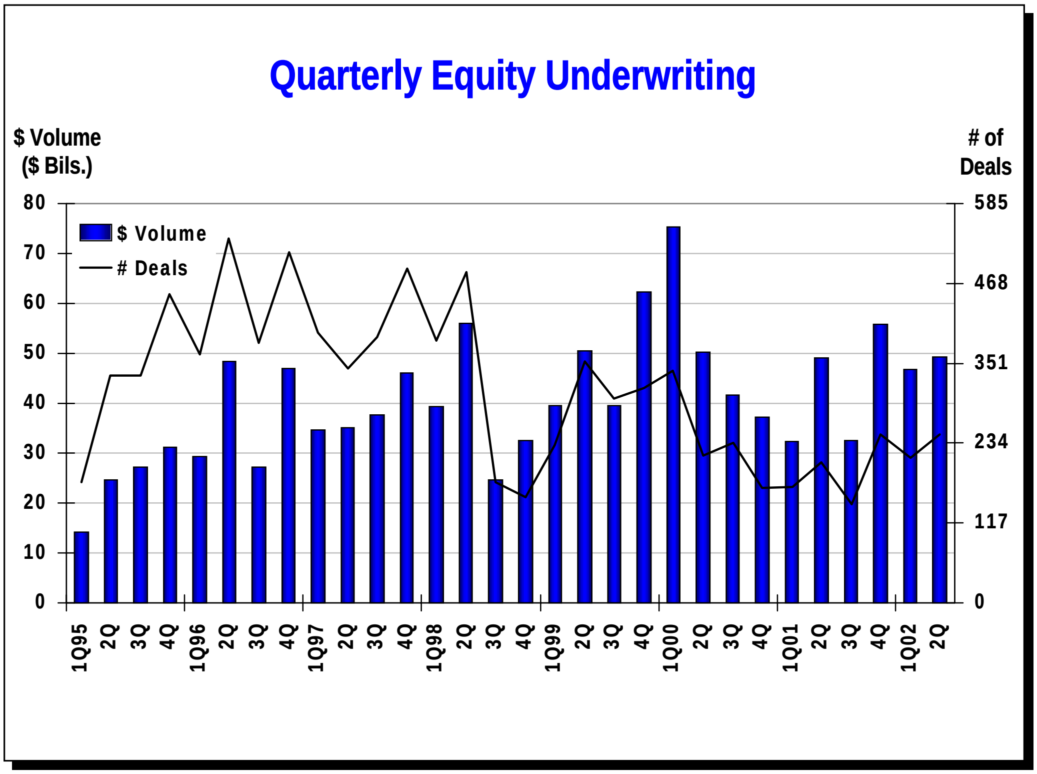
Total Underwriting -- Underwriting volume across all debt and equity product lines was up in June. Dollar proceeds rose 9.7% from May's level to $230.3 billion in June. That was the strongest monthly showing during 2Q '02, but was nowhere near the record $346.6 billion reached in March. For the first half of 2002, overall volume of stock and bond underwriting in the U.S. market totaled $1.4 billion, 12.0% above the amount raised a year ago. However, the number of deals completed so far this year, at 6,204, is one-fourth lower than the 8,286 deals offering during the same period last year.

Much of this year's underwriting volume has been driven by issuers seeking to refinance existing debt at interest rates not seen in 30 years, reduce their reliance on short-term financing, and shore up their balance sheets, rather than to finance corporate growth or acquisitions, which are the "usual" drivers of new issuance.





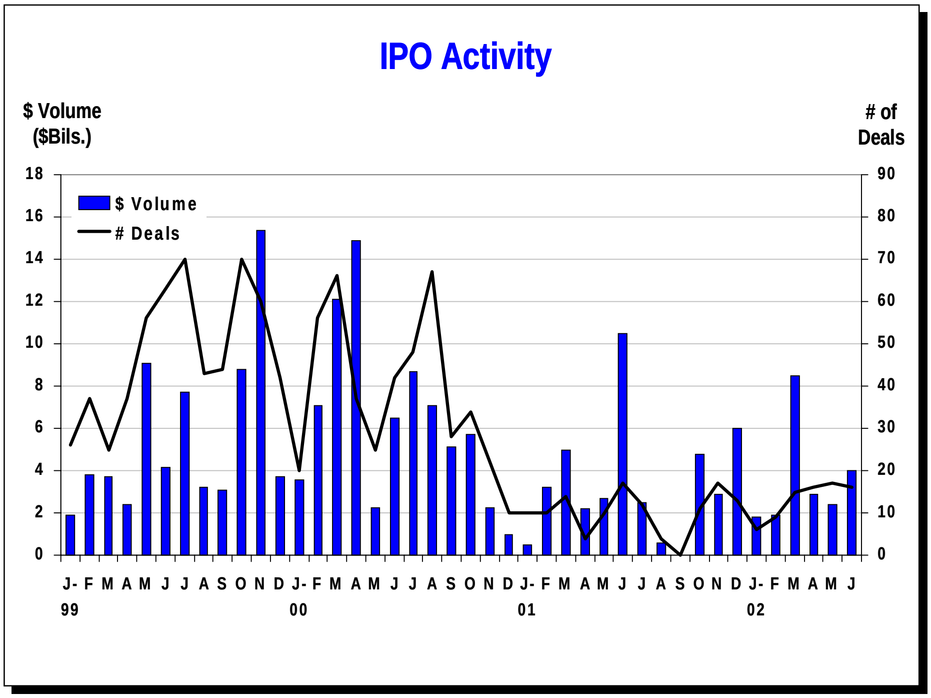
Equity Underwriting – Common and preferred stock issuance surged 43.6% from May's level to $21.4 billion in June, representing its best showing in 12 months. Both deal and dollar volume picked up in 2Q 2002, which was somewhat surprising. Year-to-date, equity underwriting is running ahead of last year's pace, as $96.2 billion was raised via 459 deals compared with $81.5 billion raised from 375 deals in the same period a year ago.



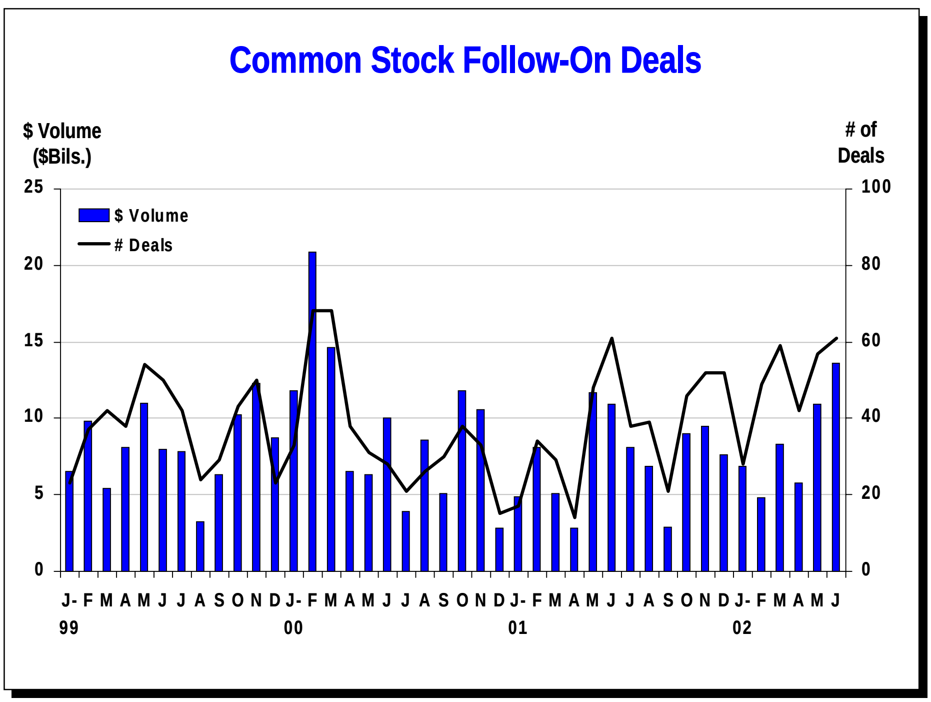
Dollar proceeds from IPOs (including closed-end funds) totaled $4.0 in June, two-third above the modest $2.4 billion raised in May. Despite the monthly increase, IPO dollar volume year-to-date, at $21.5 billion, is down 10.2% from year-earlier levels, as adverse market conditions have delayed many IPOs.

This year's issuance leaned more to the low-risk area for companies going public; those having proven track records of profits or realistic prospects for earnings growth. Also, many more deals were offered at lower multiples than in earlier years.

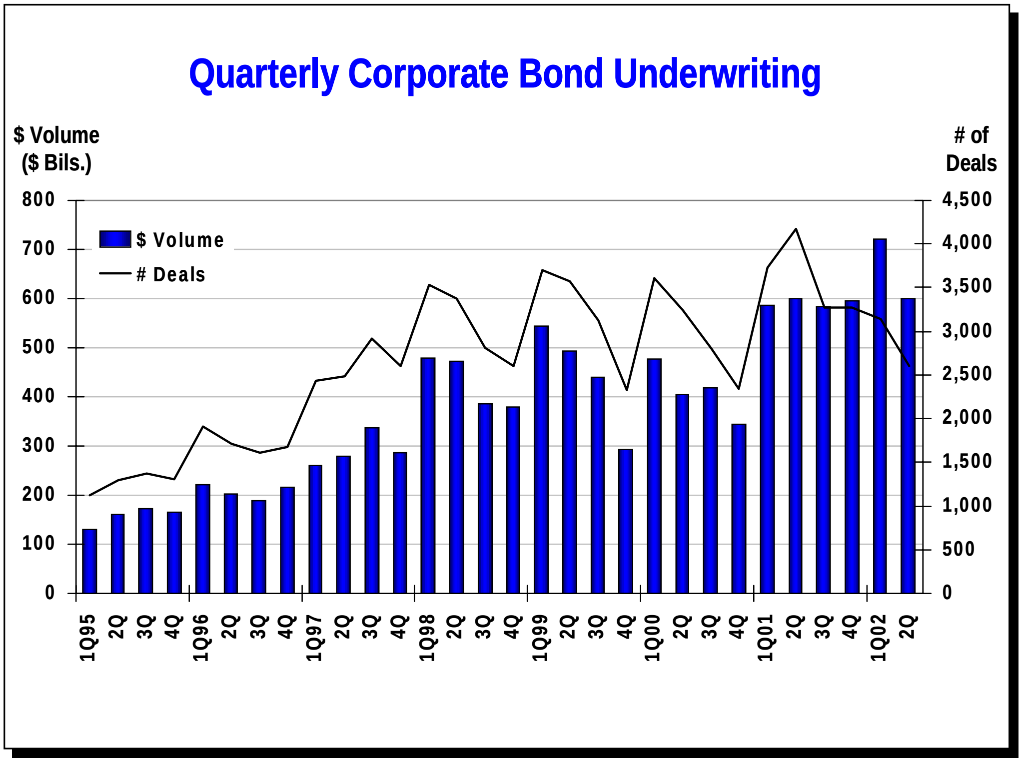
The outlook for the IPO market for the rest of the year remains uncertain, as investors are averse to risk given the depressed stock market and continuing scandals.



In June, follow-on volume climbed to a 2002 monthly high of $13.6 billion, up 24.8% from $10.9 billion in May. Follow-on volume for the first half of 2002, at $50.2 billion, is up 15.3% from $43.6 billion in the same period last year. Again, as with IPOs, investors have preferred follow-on deals since these are seasoned companies with established track records. In addition, there have been some major issuers offering large follow-on deals to deleverage their balance sheets.



Corporate Bond Underwriting – Corporate bond issuance rose for the first time in three months, increasing 7.1% from May's level to $208.9 billion in June. Driven by record issuance in 1Q 2002, corporate bond underwriting volume reached $1.3 billion year-to-date, an 11.6% increase over the nearly $1.2 billion raised in last year's comparable period. As mentioned, historically low interest rates and a shift away from short-term commercial paper to longer-term bonds contributed to the rise in corporate bond issuance. In addition, the issuance has mainly been by higher credit issuers since investors are avoiding any company tainted with the slightest hint of weakness or impropriety.



Straight corporate bond issuance, after declining steadily from the record $2004 billion in March to a 2002 monthly low of $104.6 billion in May, increased 12.2% in June to $117.4 billion. That brought the year-to-date total to $801.5 billion, just 2.6% short of the $822.9 billion issued a year ago.

Asset-backed bond issuance over the past six months has remained strong from both a supply and demand perspective. Buyers have preferred the relative safety of collateralized securities with their de-facto or implied triple-A credit. Sellers, particularly banks and mortgage issuers, have tried to free up credit on their balance sheets for new mortgage issuance with the record level of refinancing activity in residential real estate. In both May and June, proceeds totaled roughly $90 billion. Year-to-date, issuance of asset-backed securities totaled $513.4 billion, surpassing the volume recorded a year earlier by 47.6%.

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
<u>2001</u>											
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
<u>2002</u>											
Jan	145.9	0.2	71.0	217.1	4.8	8.6	10.8	19.4	1.8	6.9	236.5
Feb	106.1	3.8	67.7	177.6	1.2	6.6	1.3	7.9	1.9	4.8	185.5
Mar	200.4	3.2	123.5	327.0	4.5	16.9	2.7	19.5	8.5	8.3	346.6
Apr	127.1	0.0	69.8	196.9	2.6	8.7	4.4	13.1	2.9	5.8	210.0
May	104.6	0.1	90.2	195.0	0.1	13.3	1.5	14.9	2.4	10.9	209.9
June	117.4	0.4	91.2	208.9	2.8	17.6	3.8	21.4	4.0	13.6	230.3
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '01	822.9	14.2	347.9	1,184.9	21.0	67.6	13.9	81.5	24.0	43.6	1,266.4
YTD '02	801.5	7.7	513.4	1,322.6	16.0	71.8	24.4	96.2	21.5	50.2	1,418.7
% Change	-2.6%	-45.8%	47.6%	11.6%	-24.0%	6.2%	75.2%	18.0%	-10.2%	15.3%	12.0%

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	12.2	13.3	4.3	3.8	8.1	21.4	1.65	5.04	3.39
Feb	1.5	10.4	11.9	4.9	3.9	8.8	20.7	1.73	4.91	3.18
Mar	1.7	12.9	14.6	4.9	5.5	10.5	25.0	1.79	5.28	3.49
Apr	2.3	14.4	16.7	4.4	4.0	8.4	25.1	1.72	5.21	3.49
May	2.4	20.7	23.0	4.1	6.7	10.8	33.8	1.73	5.16	3.43
June	1.5	19.4	20.9	5.2	10.9	16.1	37.0	1.70	4.93	3.23
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '01	7.3	78.5	85.8	24.8	24.9	49.7	135.5	4.24	5.16	0.92
YTD '02	10.4	90.0	100.4	27.9	34.8	62.7	163.1	1.72	5.09	3.37
% Change	42.4%	14.7%	17.1%	12.2%	39.7%	26.0%	20.3%	-59.4%	-1.4%	265.5%

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	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	600.43	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	574.18	1,688.23	1,307.3	55.4	1,779.0	42.4	32.1
May	9,925.25	1,067.14	570.78	1,615.73	1,234.2	61.5	1,834.2	38.9	29.8
June	9,243.26	989.82	533.07	1,463.21	1,587.0	66.9	1,877.1	44.8	29.4
July									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '01	10,502.40	1,224.42	621.76	2,160.54	1,217.7	72.5	2,045.1	45.0	53.4
YTD '02	9,243.26	989.82	533.07	1,463.21	1,375.7	58.9	1,824.8	42.5	33.7
% Change	-12.0%	-19.2%	-14.3%	-32.3%	13.0%	-18.8%	-10.8%	-5.5%	-36.9%

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