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Summary

President Bush has proposed ending the double taxation of corporate earnings by eliminating the personal income tax on dividends. To support that worthy goal, an assessment of the absolute and relative costs and benefits of this significant change in our tax structure is presented below. We consider how the specific proposal encourages efficient capital formation, the growth of productivity as well as contributing to long run fiscal stability and moving the tax system towards fundamental reform, such as elimination of distortions and biases. On balance, the benefits of the proposal outweigh the costs in terms of reduced tax revenues and less stimulus of consumption.

The benefits of this change, although gradual, are sustained, providing long-term support for economic growth by encouraging savings and investment, reducing the cost of equity financing, improving corporate profitability (a greater proportion of which would likely flow to shareholders) and boosting share prices. More efficient use of resources, enhanced productivity and higher incomes are some of the expected indirect benefits. By removing the bias that encourages companies to become more highly leveraged and hence more prone to failure, the proposal would also help contain record bankruptcy rates and reduce the sustained, near-record volatility in asset prices seen in recent years.

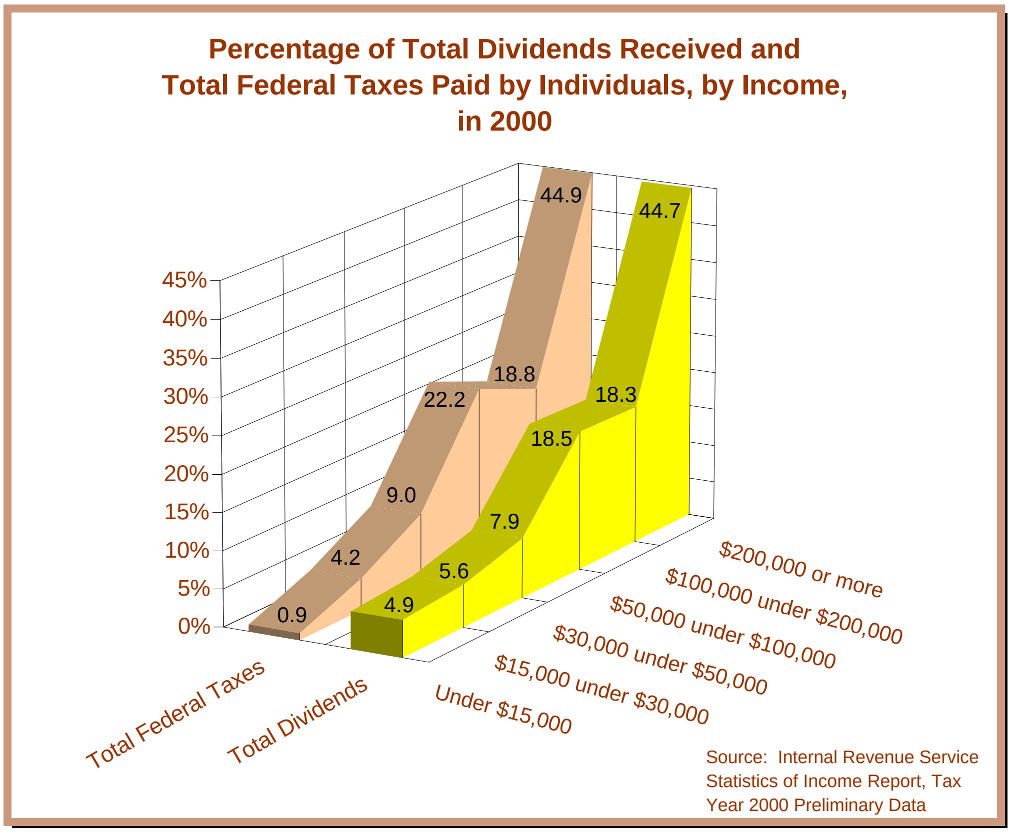
Eliminating the double taxation of dividends would also contribute to efforts to improve corporate governance. Achieving this goal would help restore public trust and confidence, a necessity if sustained economic growth is to ensue. The proposed tax change is expected to lead to: more accurate financial statements; less use of relatively opaque, non-corporate business structures (S-corps, L.P.s, sole proprietors and non-profits, which current tax rules favor over corporate forms); reduced opportunities and incentives for corporate managers to "game the system" (engage in transactions solely to reduce tax liabilities) or to mismanage; and, better alignment of management objectives with shareholder interests. It will encourage managers to focus more on the continuous, profitable operation of a firm, and less on activities that produce often transient stock price appreciation, and to undertake only the most productive investments rather than purchases that do not necessarily increase shareholder value.

Direct Benefits

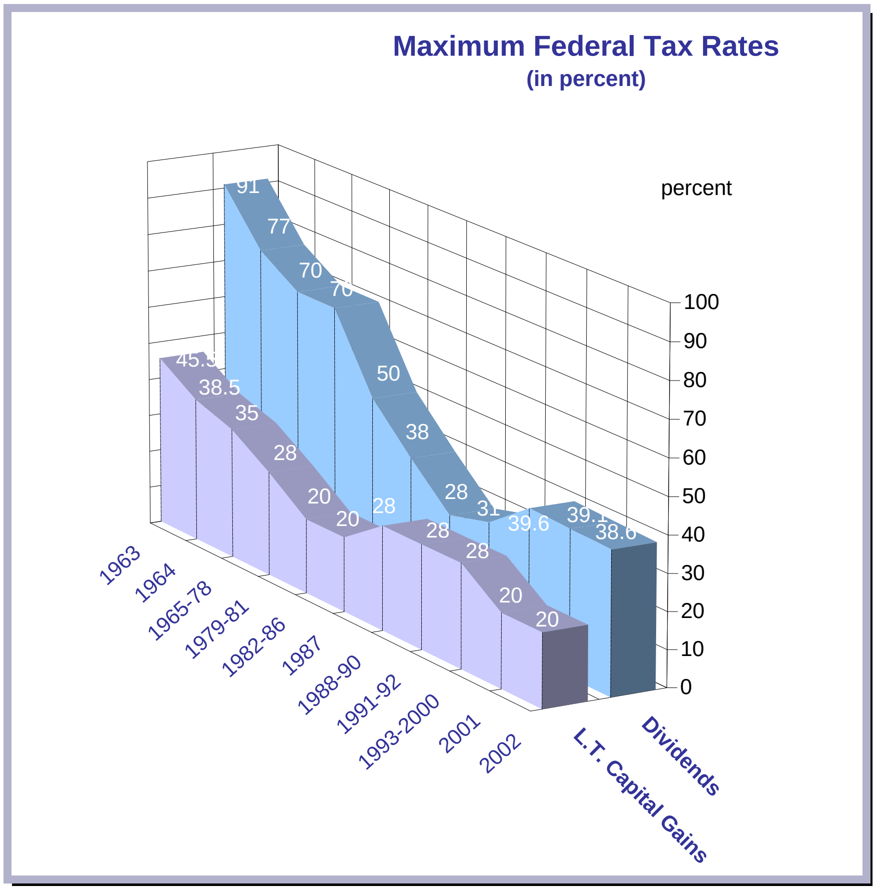
Everyone will benefit to varying degrees, either directly or indirectly, from the elimination of tax biases that distort corporate and investor decisions, and from the increase in incentives to save and invest. The proposal would benefit the economy (boosting incomes and job growth), the capital markets, and most of all, individual taxpayers, particularly those who invest, to whom the direct benefits flow.

Individuals, rather than corporations, are the direct beneficiaries, and the proposal would reward those who save and invest. Half of all American households (more than 84 million individual investors) own stock directly or through stock mutual funds, and are likely to benefit from the tax cut and the support to equity prices provided by this more neutral tax policy. Stock ownership, and the percentage of those receiving dividends, is expected to rise as this bias against dividend income is removed.

More than 34 million American households (26.4% of the 129.3 million households that filed returns in 2000) that invest in the stock market and receive taxable dividend income will benefit directly, and more than half these dividends go to America's seniors. 15.6 million or 45.7% of these households receiving dividends have adjusted gross income of $50,000 or less. Although this lower income group receives only 16.8% of the value of dividends distributed, this is slightly higher than the percentage of taxes that group pays, and the majority of people in that group are seniors.



Overall, the benefits of this tax proposal are largely neutral, in that they are distributed across income groups proportionate to the share of taxes they pay. Dividend recipients tend to be older, relatively wealthier Americans (similar to overall stock ownership patterns), many of them retirees, and many of those dependent on fixed income in part derived from dividends. This is similar to the distribution of tax payments relative to age and income as seen above.



The Current Tax Treatment

Under current law, corporate earnings are subject to two levels of tax: one at the corporate level and one at the shareholder level. Income earned by a corporation is taxed, generally at the rate of 35 percent. If the corporation distributes its after-tax earnings to shareholders in the form of dividends, this dividend income is generally taxed again at the shareholder level at rates as high as 38.6 percent.[1] The combined or effective tax rate on dividends can be as high as 60.1 percent. Alternatively, shareholders pay tax when they realize an appreciation in stock value that arises from retained corporate earnings, rather than earnings paid out as dividends, and reinvested in the corporation at a maximum tax rate of 20 percent.[2] The effective tax rate on income received this way is about 40.9 percent, taking into account the preferential tax rate on capital gains realizations and the benefits of tax deferral.[3] The President's proposal would equalize the effective tax rates confronted by investors receiving four principal types of income: dividends, retained earnings, debt and pass-through income.

Presidents since John Kennedy have proposed ending the double taxation of dividends, and no fewer than five separate legislative proposals were before Congress to accomplish this task when President Bush presented his plan. Virtually all economists would agree (a profession hardly known for unanimity of opinion) that ending the double taxation of dividends is long overdue, providing fundamental reform by removing some of the worst distortions and biases introduced by our tax system.

1 There is no specific "dividend tax" applied to receipt of dividend income, unlike the separate calculation applied to capital gains. Dividends, along with income from pensions, interest, alimony, salaries and wages are added together and deductions are netted in the calculation of adjusted gross income on individual tax returns. The rate of 38.6 percent is the maximum statutory rate on individual income.

2 The statutory tax rate on long-term capital gains held for more than five years is 18 percent, but taxes are deferred until the asset is sold, thereby lowering the effective rate on tax on capital gains. Taxpayers who hold assets until death receive a step-up of basis, and further reduce the effective rate.

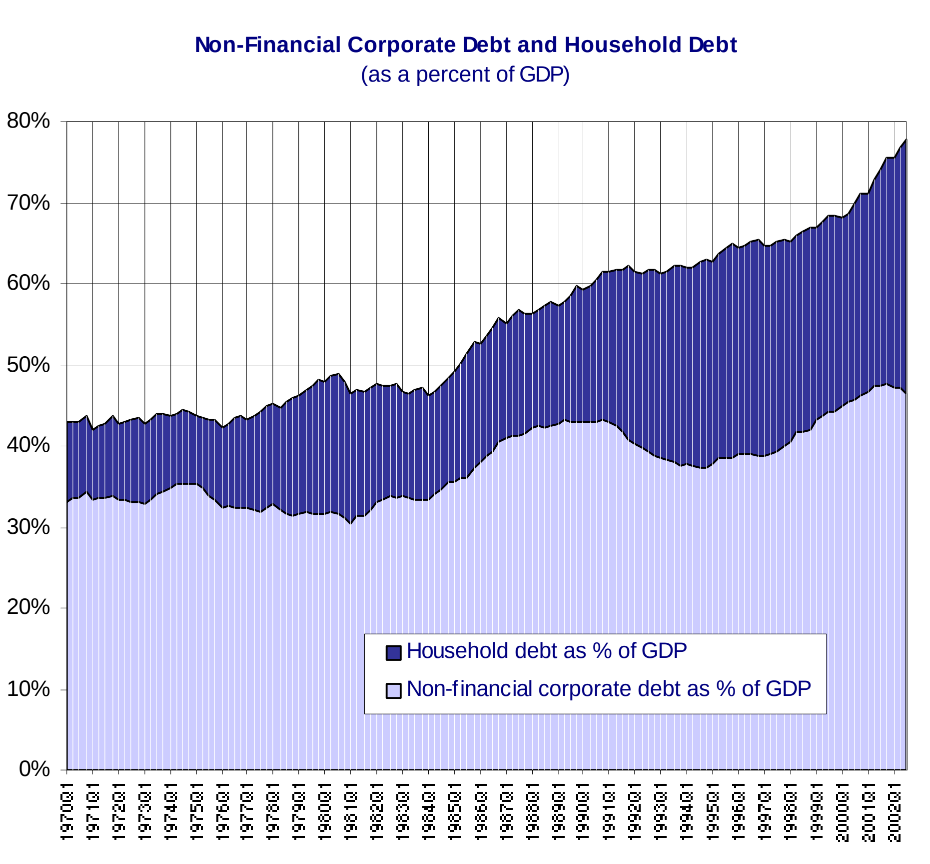
3 Council of Economic Advisers, "Eliminating the Double Tax on Corporate Income", January 7, 2003, p. 3.

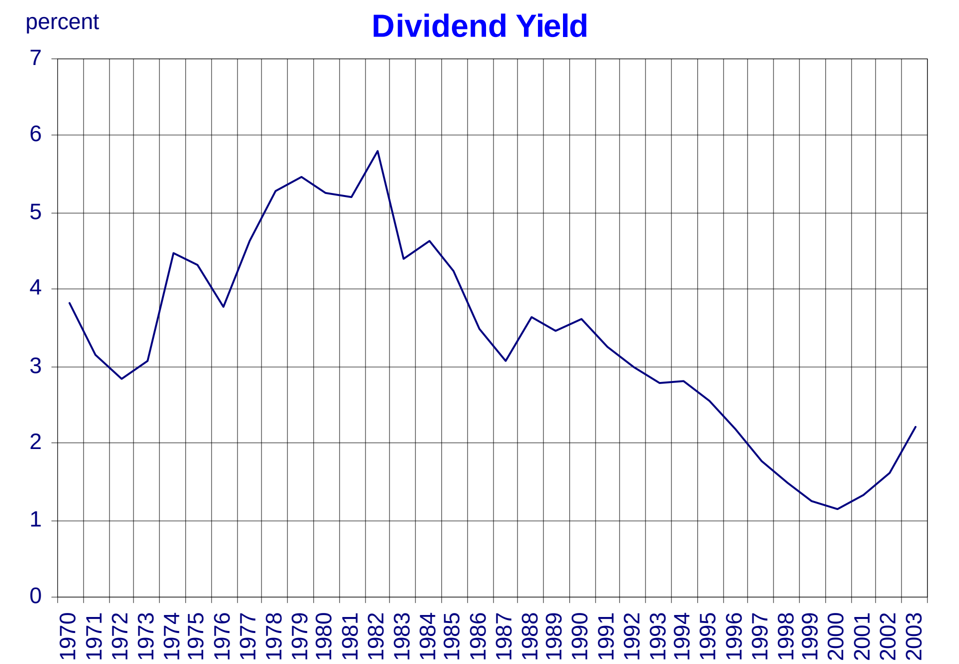
Biases and Distortions

The current tax treatment of dividends introduces a number of biases and distortions. One of the principal concerns is that it can distort corporate financing decisions, which prove to be less efficient for the firm and for the economy in the long run. Corporations raise capital through three principal methods: debt, equity and retained earnings. Current law introduces a tax bias against equity financing and in favor of use of retained earnings and debt financing, both of which are taxed more lightly. Debt receives the most favorable tax treatment. Interest payments are a deductible expense for corporations and hence reduce the amount of corporate profits subject to tax, while dividends are paid out of after-tax funds. Interest payments are taxed once, at most, at the individual level, and more lightly than dividends.

Retained earnings are also taxed twice, but not as heavily as dividends. Retaining earnings for investment purposes tends to push a firm's share prices higher. That additional price appreciation raises shareholders' capital gains taxes by a commensurate amount when the shareholder decides to sell their shares. However, capital gains tax rates are lower than ordinary income tax rates and investors determine when they sell their shares, potentially deferring these taxes almost indefinitely. As a result, retained earnings generate lower taxes at the individual level than dividend payments, which are subject to tax in the year in which the payment was made at individual tax rates.

These biases distort corporate decisions. The bias in favor of debt financing encourages companies to become more highly leveraged. Greater leverage leaves companies more prone to failure when their revenues fall and / or market interest rates rise. A corporation that relies more heavily on equity financing has more flexibility to meet fluctuations in the business cycle, reducing or raising dividends to reflect changes in net income. A heavily indebted company has much less adjustment capability in the face of market forces it cannot influence. Logically, one would expect higher bankruptcy rates and greater volatility in asset prices as a result. Those expectations have been met in a sustained manner.





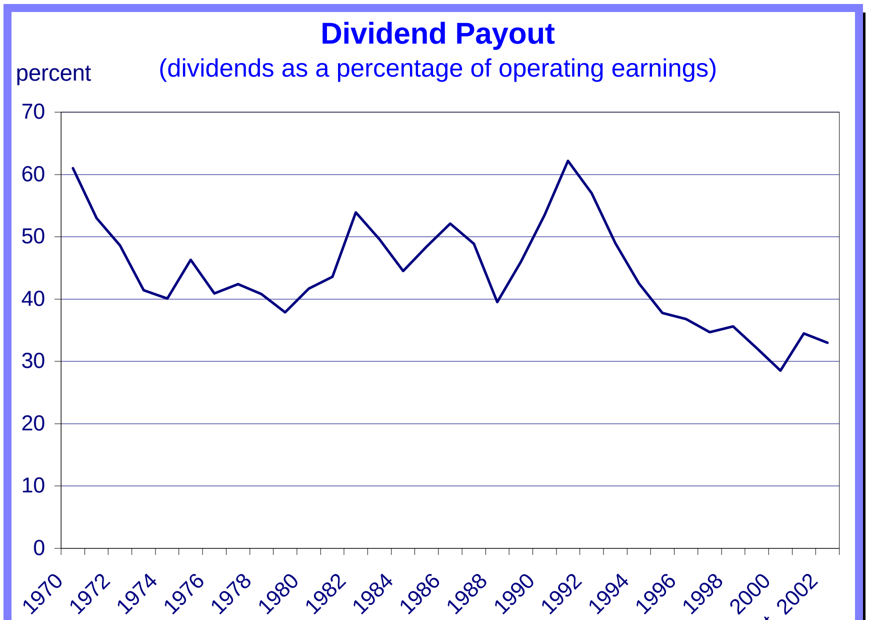
Source: Standard & Poor's; Bernstein Research; and SIA forecast

From the standpoint of the corporation trying to provide the greatest economic benefits to its shareholders, the current tax system favors retaining earnings and using them to buy back stock rather than distribute them in the form of dividends. To the investor, the buy-back raises stock prices (or prevents them from falling) and thereby generates a capital gains tax liability only if the investor chooses to sell. To tax-sensitive investors, the lower tax rate on capital gains makes it a preferable way to receive income. A surge in buybacks in the past decade has been coincident with dramatic growth of option-based compensation programs, and, increasingly, retained earnings have been used to fund the repurchase of shares granted through the exercise of these options. This surge has mirrored the decline in the dividend yield. During the 1990s, this form of variable compensation accounted for a greater and greater share of total compensation[4].

Although the evidence is far from clear regarding the impact of the second distortion, some would argue that the tax bias against equity financing and in favor of retained earnings may also distort the value of marginal investment decisions, encouraging investment in less productive projects or ones that do not add to shareholder value or add relatively little. Limiting the amount of funds over which managers have discretion may be one way to impose discipline in corporate investment decisions. Shareholders looking for the best return have far more options than corporate management and will, on average, prove more efficient in reinvesting surpluses. The more efficient "resource allocation" would likely lead to greater productivity and wealth in the economy.

[4] "In 1999, over 34% of publicly traded companies engaged in share repurchases, up from 28% in 1992. More striking is the fact that by 1999, almost 20% of earnings were paid out by share repurchases, nearly triple that of 1992." Statement by Pam Olson, Assistant Secretary for Tax Policy, Department of the Treasury, January 23, 2003. Both percentages continued to rise before peaking in 2001.

These tax biases have discouraged the use of equity as a financing mechanism (except as a method to fund compensation) and discouraged the use of dividends as a method of providing benefits to shareholders. Companies which pay dividends have declined both as a share of the total number of listed firms and as a share of the total market capitalization. As dividends became less and less important in investors' expectations of the total return on investments, an equity holder looks chiefly, if not solely, to price appreciation. This may have encouraged corporate management to focus more than in the past on these and other activities that sustain stock price appreciation and relatively less on ensuring the continuous, profitable operation of the firm required to sustain a long-term dividend stream.



Source: Standard & Poor's, Bernstein Research and SIA

Investors too may have fallen prey to focusing disproportionately on short-term, often transitory, price appreciation, in part due to this tax bias. Removing the tax bias against dividends might encourage individual investors to pursue sounder, more fundamental investment strategies to their long run financial benefit. According to a study by T. Rowe Price, dividends accounted for 50.8 percent of the total return of the Standard & Poor's 500 Index from 1980-2002. Dividends can offset a lack of price appreciation (or outright price declines) and always enhance total return.

Dividend paying companies tend to outperform those that do not pay dividends. In a study by Fama and French[5], which evaluated companies over the period 1963 to 1998, companies that paid dividends offered a higher return on assets (7.8 percent versus 5.4 percent) and a higher return on equity (12.8 percent versus 6.2 percent) than did companies that did not pay a dividend.[6] In a study by Standard & Poor's covering the three bear market years, 2000-2002, dividend payers in the Standard & Poor's 500 Index roughly broke even, while non-dividend paying firms fell significantly[7]. The prices of dividend paying stocks also tend to be less volatile, further enhancing their relative returns on a risk-adjusted basis. Discouraging dividends does little, if anything, to enhance investor returns and may well drive them lower than they would be otherwise.

The current tax biases may also distort the choice of the organizational form of firms. The higher tax on corporations (C-corporations) relative to other businesses (such as S-corporations, partnerships, sole proprietorships and non-profit organizations) may distort the allocation of capital and entail an inefficient use of resources and reduce productivity and income.[8] According to the U.S. Treasury, "from 1980 to 1999, net income of C corporations fell from 78% to 57% of all business income with net income

5 E.F. Fama, and K.R. French, "Taxes, Financing Decisions and Firm Value," *Journal of Finance* 53, 1998, pp. 819-843.

6 A recent paper by K. Fuller and M. Goldstein found that over the period 1970-2000, dividend paying stocks outperformed those that did not, by on average 1.4 percent per month versus 0.9 percent per month. L. Kirschner and R. Bernstein of Merrill Lynch found that from the NASDAQ's inception in 1971 through September 2001, the tech-laden index under performed the S&P Utilities index (11.2% p.a. versus 12.0%).

7 Standard & Poor's *The Outlook*, "Dividends End 2002 on a Strong Note", January 2, 2003. In just 2002, dividend payers in the S&P 500 averaged a decline of 18.4%, compared with a 30.3% average plunge for stocks in the index that did not pay dividends.

8 This observation provided impetus to past proposals, to reduce this and other economic distortions, including the Report of the U.S. Treasury Department, *Integration of the Individual and Corporate Tax Systems*, January 1992.

net income of flow throughs rising by a corresponding amount. Similarly, the gross receipts of C corporations fell from 87% to 72% of all business receipts with the gross receipts of flow throughs rising by a corresponding amount."[9] The choice of organizational form may also have a direct bearing on the level of transparency and the degree of disclosure of financial information to investors.

The bias against dividends may also have contributed to the wave of recent corporate governance failures, and some portion of these multi-billion dollar failures should be assigned to the costs of this distortion. Dividend payments constrain the discretionary behavior of managers. Reducing the amount of cash at the discretion of management may reduce opportunities for corporate governance failures and lead management to undertake only the most productive investments and those that increase shareholder value. In addition, the tax biases may encourage managers to engage in transactions and activities solely for the purpose of reducing tax liabilities, incentives that would be reduced under a more neutral tax system.

Often referred to as "discipline of the dividend", payment of dividends forces managers to put less focus on short-term share price movements and more attention to sustainable profitability. A firm cannot pay dividends for any length of time unless it has a continuing stream of earnings to support such payments. Dividend payments also provide a "signaling function", providing management with a channel to inform investors about expectations of the firm's future cash flows and profitability.

The President's Proposal

On January 7, 2003, President Bush formally unveiled a $674 billion job creation and economic growth package that would, among other provisions, exclude dividends paid by corporations to individuals out of previously taxed corporate income from the individual's taxable income. The provision would be effective for dividends paid on or after January 1, 2003, with respect to corporate earnings after 2001, and accounts for the bulk, some $364 billion over the next decade, of the tax cut package.

To ensure that corporate income is taxed once but only once, an excludable dividend account (EDA)[10] would be created. This EDA would be the mechanism to determine the amount of income that has been fully taxed at the corporate level and, thus the amount of distributions to shareholders that would not be taxable. If a corporation made distributions in excess of the amount of earnings and profits that has already been fully taxed at the corporate level the excess distributions would be a taxable dividend to shareholders (or constitute a capital gain or a return of shareholders' investment). According to a Treasury release, the EDA will be computed using a relatively simple formula[11] and provided annually by corporations to shareholders[12].

In order to avoid a bias against retained earnings, (to effectively treat dividends and retained earnings alike) the proposal would allow corporations to make an adjustment that would flow through to their shareholders. The proposal would permit corporations that reinvest their taxed earnings to elect, either through a direct dividend reinvestment plan or through a "deemed dividend distribution"[13], to increase shareholders' stock basis[14] to reflect the taxed income that the corporation was retaining. The change in basis would reduce the amount of capital

[9] Op.cit. 4.

[10] A similar mechanism exists under current law. Distributions are treated as dividends only to the extent the corporation have earnings and profits.

[11] Annual additions to EDA = (U.S. taxes + foreign tax credits used to offset U.S. tax liability)/ .35 minus U.S. taxes + foreign tax credits used to offset U.S. tax liability + excludable dividend income. A corporation's U.S. taxes would include the total tax amount reflected on its U.S. federal income tax return filed during the calendar year. The first calculation is due September 15, 2003, using 2002 numbers.

[12] A corporation, mutual fund or stockbroker would be required to provide shareholders with the information they need in an end-of-year tax statement sent every January. The statement would indicate: how much of the dividend is tax free; how much of the dividend, if any, is taxable; and how much shareholders can add to what they paid for the stock to determine their tax when they sell their stock. This amount is the adjustment to shareholders' basis.

[13] A company would be required to treat undistributed or retained earnings as giving rise to a "deemed paid EDA" – the amount would be treated as distributed and recontributed to the corporation, with an adjustment to increase the shareholders stock basis, without additional tax at the shareholder level.

[14] Basis in the case of equity is the original cost of purchase of the shares plus transaction costs and adjustments for splits and if this proposal is approved, for deemed dividends. Adjustments to shareholders basis are to be made annually on December 31st by the amount retained per share. Corporations would report to shareholders the amount of Excludable Dividends and basis adjustments annually on IRS Form 1099.

gains tax liability when shareholders realize those gains through a sale of stock. The proposal would permit a mutual fund or a real estate investment trust that receives excludable dividends to pass those excludable dividends through tax-free to shareholders.

This element of the proposal, which will lower capital gains taxes, balances the views of both sides in a long-running dividend tax debate.[15] The traditional view of dividend taxation holds that lowering dividend taxes would make it easier for companies to raise capital that they could then pour into new plants and equipment. The opposing view holds that it would also make shareholders more demanding. "With lower dividend taxes, investors would expect executives to pay out more of their earnings in the form of dividends rather than pour them into new projects."[16] To incorporate both views, the "deemed dividend" was added to the President's proposal, which will allow a company to pursue investments funded by retained earnings and still pass along tax benefits to the investor through an adjustment of basis similar to those received in a dividend distribution. This will reduce shareholders' incentives to demand dividends from companies and make them more tolerant of reinvestment by companies by restoring some of the incentives to focus on capital gains. It will however limit some of the benefits already mention from elimination of the dividend tax that would prevail in the absence of this provision. The balancing of these two effects will likely be determined company by company and vary significantly across industries and sectors. Overall, the net investment impact is positive and significant, but likely will be less than most proponents expect.

Assessing the Economic Effects

Any realistic evaluation of the impact of this proposal must assess how individuals and businesses respond to it, the timing of its implementation and the likely evolution of macroeconomic variables. Thus far, estimates of the costs of this proposal are incomplete, while quantification of its benefits has been more the subject of partisan debate than the object of balanced appraisal. Both appear to be overstated. Overall, it would appear that the conclusion reached by the Treasury a decade ago still holds true: the long run benefits derived from eliminating biases and distortions is roughly comparable to the costs generated by lost tax revenues and resultant higher fiscal deficits. If one includes the long-term benefits of higher growth in incomes and jobs, the balance tips well in favor of the proposal.

Official projections of the impact of this proposal, those provided by the Administration and Congress, employ static analysis, and hence do not include any increase in economic growth likely to arise due to this tax change. This amount would be substantial and appears, in the long term, to outweigh the costs of the proposal. That Treasury study[17] from a decade ago suggested that even in the absence of increased investment eliminating double taxation would eventually raise economic welfare in the United States by about 0.5 percent of consumption, equal to about $36 billion each year (in 2003 dollars). Put differently, the reduced distortion of business decisions would be equivalent to receiving additional income of $36 billion every year forever. In addition, higher investment due to the lower tax on capital income would promote higher wages in the long run. The proposal would also enhance near-term economic growth.[18]

The President's Council of Economic Advisers (CEA) expects the dividend proposal, combined with the President's other proposals, to jointly add 0.4 percent to real GDP growth in 2003 and 1.1 percent in 2004. Over the next five years, GDP growth would be 0.2 percent higher on average. They estimate that the increase in the federal deficit if no impact of faster growth were factored in would total $146 billion for fiscal years 2003 and 2004, and $359 billion cumulatively for the period, 2003 to 2007. Including the impact of faster growth reduces those amounts to $119 billion and $166 billion, respectively, over the next two and five years. Roughly half these amounts are attributable to the dividend proposal, although a separate breakout has not yet been provided. This analysis assumes the proposal has no direct impact on equity markets and that no change in the stance of monetary policy occurs over the forecast period. It also makes relatively conservative assumptions con-

[15] See J. Hilsenrath, "Dividend Plan Straddles Academic Debate", *The New York Times*, The Outlook, Economy, January 2003. See also K. Hassett, and A. Auerbach, "On the Marginal Source of Investment Funds", *Journal of Public Economics*, December 2002, p. 205-232.

[16] Ibid.

[17] Report of the U. S. Treasury Department, *Integration of the Individual and Corporate Tax Systems*, January 1992.

[18] Op.cit. 3, p. 1-2.

cerning the impact of faster growth on Federal budget receipts (a $1 rise in real GDP generates 20 cents of Federal revenue) given the specific set of tax proposals considered.

The President's Proposals and the Economy

Impact of President's Proposals	2003	2004	2003-2007
Faster Real GDP Growth (Q4 to Q4, percentage points) (Year avg to Year avg, percentage points)	1.0 0.4	0.8 1.1	0.2* 0.2*
Additional Employment Growth (Q4 to Q4) (Year avg to Year avg)	510,000 192,000	891,000 900,000	140,000* 170,000*
Lower Unemployment Rate (Q4 level, percentage points) (Annual average, percentage points)	-0.3 -0.1	-0.8 -0.6	-0.5* -0.5*
Change in Fiscal Balance; No Impact of Faster Growth ($ billions, fiscal year)	-33	-113	-359+
Change in Fiscal Balance; Including Impact of Faster Growth/1 ($ billions, fiscal year)	-31	-82	-166+

* Average, 2003-2007
\+ Total, 2003-2007
/1 Excludes change in debt service

Most private sector analysts expect the proposals' impact over this period to be somewhat lower,[19] and more in line with the Federal Reserve's economic model, which "suggests that the add-on to GDP growth from a tax cut of this size would be just 0.4% and 0.7% in the first two years after enactment, respectively."[20] Benefits from the dividend proposal are expected to be negligible in the near term. While the proposal might become effective as early as 3Q 2003 and be applied retroactively, it is unlikely to alter consumer or investor behavior markedly before taxpayers begin to file in 2004, and the full benefits of the dividend tax break unlikely to be seen until the end of the second year.

[19] See for example, UBS Warburg, Global Economic Strategy Research, *U.S. Economic Perspectives*: "Time for a Tax Cut", January 10, 2003, which concluded "the lift for the economy looks likely to be smaller than the tax cut, which will total about 0.9% of GDP over the next 16 months.

[20] Ibid, p. 6.

Saving Rates by Income Quintile

Saving rates by income quintile estimated by Federal Reserve				
age group	30-59 (CES)	70-79 (CES)	average (CES)	30-59 (PSID)
quintile 1	-0.23	-0.49	-0.36	0
quintile 2	0.15	-0.34	-0.09	0.02
quintile 3	0.27	-0.14	0.07	0.05
quintile 4	0.35	0.05	0.2	0.05
quintile 5	0.46	0.32	0.39	0.11
Implied weighted average saving and spending rates from Bush tax proposal				
Saving rate	0.42	0.24	0.33	0.09
Spending rate	0.58	0.76	0.67	0.91
Domestic spending rate	0.52	0.68	0.6	0.81

Note: Spending rate equals 1 minus the saving rate. The domestic spending rate is the share of total spending that is allocated to domestically produced goods and services, which we estimate at about 89% of total spending.

Source: Citizens for Tax Justice, Federal Reserve Board, and UBS Warburg LLC estimates

Part of the reason for the lower estimates is that fiscal "stimulus will be stunted by leakage to savings." The boost to growth will be constrained as households save a portion of the increased after-tax income. Average savings rates have risen recently from record lows to about 4.3 percent, "but the 'leakage' from savings in the current tax cut could be larger than usual because the well-to-do will benefit disproportionately from the proposed tax cut" and they save more than low-income households. For example, the top income quintile, on average, can be expected to save as much as 39 percent out of after-tax income, while the next highest income quintile would likely save 20 percent.[21] Savings rates for the bottom two income quintiles are negative. Although savings rates rise with income among elderly households too, savings rates are lower at every income level than in younger households. Using these savings rates and the distribution of dividend receipts across income brackets provided by individual income tax return data for 2000, the latest year for which detailed data are readily available, one can estimated the share of the proposal which will be spent and what proportion will likely be saved.

These estimates indicate that the near term stimulus to growth would be small, in line with the Administration's estimates of a reduction in tax revenues between now and April 2004 of only $20 billion. Even those benefits may be overestimated and are unlikely to arrive until after investors turn their attention to tax matters at the start of 2004. Rather than provide a burst of short-term stimulus to consumption, which would likely prove transitory, it seeks to boost long-term growth by providing incentives to savings and investment. In that respect, it should succeed, in that the benefits flow to those most likely to save and invest the proceeds. Assuming half the benefits of the proposal go to the top two income quintiles, fully one-third of this amount would likely be saved, and the remainder spent.

[21] *Federal Reserve Consumer Expenditure Survey*, 2000 http://www.federalreserve.gov/pubs/oss/oss2/scfindex.html

The estimates of the costs of the proposal may also prove to be high for other reasons. The estimates are based in part on tax data on dividends for 2000, and substantial changes in income impacted by this proposal have occurred since then that suggested the estimates should be lowered. Some portion of the dividend income received by individuals reported in the tax data includes interest payments from money market mutual funds and bond funds, in addition to stock dividend income received outside of retirement plans and other tax-deferred vehicles, for which adjustments were made. However, since that time portfolios have changed. For example, during 2002, there was a net inflow into taxable bond funds of $124 billion, while the first annual net outflow of long term funds from stock mutual funds since 1988 occurred: some $27 billion. Individual investors also reduced their holdings of individual stocks. As a result, the portion of income derived from these interest payments and reported as dividends for calculation of AGI will be higher when tax returns are filed this spring and the adjustments made by those providing estimates should be commensurately raised.

In 2000, corporations paid an estimated $201 billion in dividends out of after-tax incomes.[22] More than half of these dividends were paid to tax-exempt entities – such as pension funds, IRAs, and non-profit foundations – or to individuals that owed no income tax. As a result, only about 46 percent of the dividends paid by corporations to individuals (or $93 billion in dividends) were subject to individual income tax in 2000.[23] These figures include those interest payments mentioned above. Since then, actual dividend payments fell 3.3 percent in 2001 before rising 2.1 percent last year. Equity ownership rose in 2001 in terms of the number of households and individuals holding equities, but fell as a portion of overall financial assets, as flows moved from equity to debt and as equity prices continued their three year decline.

In addition, it would appear that investors in recent years have allocated an increased portion of their equity holdings to tax deferred accounts such as 401(k) plans, IRA's and Keoghs and a corresponding portion of corporate bond holdings to their taxable portfolio,[24] and these trends appear to have continued in the past three years. As a result, the percentage of total dividends paid by corporations to individuals' taxable accounts has fallen significantly, to about 40 percent, from the 46 percent estimated for 2000. This investor behavior appears to be the opposite of what conventional wisdom would predict, but has rational explanations, and is largely induced by distortions introduced by the current tax policy. Stocks are expected to have most of their payout in the form of capital gains, which are taxed relatively lightly, while bonds pay interest, which is more highly taxed. Investors would be expected to choose to put the riskier asset, stocks, in the taxable portfolio and bonds in the tax-deferred account. Just the opposite has occurred in practice. One study notes that "if taxes on dividends were eliminated, there would be greater incentive to hold stocks outside a tax-sheltered portfolio. So we would expect to see investor portfolios shift more in the direction the theory predicts: taxable bonds in tax-deferred accounts, and stocks in taxable accounts to the advantage of lightly taxed capital gains and untaxed dividends."[25] The impact of changes in securities ownership, both actual changes in the last two years and prospective changes if the proposal is approved, need to be added to the analysis.

[22] The Urban Institute-Brookings institution Tax Policy Center.

[23] William G. Gale, "About Half of Dividend Payments Do Not Face Double Taxation", *Tax Notes*, November 11, 2002.

[24] James M. Poterba, *The Rise of the "Equity Culture:" U.S. Stockownership Patterns, 1989-1998,* Massachusetts Institute of Technology, January 2001, http://econ-www.mit.edu/faculty/poterba/files/aea2001.pdf

[25] H. Varian, "What would be the long-run impact of tax-free dividends on the market?" *The New York Times, Economic Scene,* January 16, 2003, p. C2.

U.S. Household Ownership of Equities, 1999 and 2002

	Percent of All Households		Number of Households (millions)		Number of Indiv. Investors (millions)	
	1999	2002	1999	2002	1999	2002
Any type of equity (net)[1,2]	48.2	49.5	49.2	52.7	78.7	84.3
Any equity inside employer-sponsored retirement plans	31.8	34.0	32.5	36.2	52.0	57.9
Any equity outside employer-sponsored retirement plans	35.5	33.7	36.3	35.9	61.6	57.4
Individual stock (net)[1]	26.1	23.9	26.7	25.4	40.0	38.1
Individual stock inside employer-sponsored retirement plans	10.5	8.3	10.7	8.8	14.0	12.3
Employer stock inside employer-sponsored retirement plans[3]	6.0	5.6	6.1	6.0	8.0	7.8
Non-employer stock inside employer-sponsored retirement plans[4]	8.0	3.5	8.2	3.7	11.4	5.2
Individual stock outside employer-sponsored retirement plans[3]	21.4	19.7	21.9	21.0	32.8	31.5
Stock mutual funds (net)[1]	40.9	44.2	41.8	47.0	66.8	70.5
Stock mutual funds inside employer-sponsored retirement plans	27.9	31.2	28.5	33.2	39.9	46.5
Stock mutual funds outside employer-sponsored retirement plans	27.2	27.0	27.8	28.7	44.4	43.1

[1] Multiple responses included.

[2] The average number of individuals owning equities per household owning equities was 1.6 in 1999 and 2002.

[3] Excludes employer stock options.

[4] The decline in the number of households and individual investors owning non-employer stock inside employer-sponsored retirement plans reflects a change in questionnaire design. In the 2002 survey, respondents owning non-employer stock inside retirement plans had to indicate that their plans provided a brokerge account window. The 1999 survey did not include a question about brokerage account windows.

Note: The U.S. had approximately 106.4 million households in 2001, the most recent estimate available [U.S. Bureau of the Census, Current Population Reports, p. 60-213 (September 2001)].

Source: *Equity Ownership in America 2002*, Investment Company Institute and the Securities Industry Association, www.sia.com/publications/pdf/equity_owners02.pdf

The most tangible economic benefits of the proposal arise from the increased incentives to savings and investment. These additional savings are invested and spur additional capital formation, boosting business fixed investment spending and generating additional output and jobs. This, combined with the likely effects of the additional consumption spending and the additional investment income, provides for substantially lower cost estimates of the proposal, and ones roughly in line with the dynamic estimates provided by the CEA. These benefits generate additional tax revenues sufficient to offset slightly more than half the tax revenues foregone by the proposal.

Other dynamic effects of the proposal, such as the impact on capital markets (including a boost, albeit small, to equity prices) and the long run encouragement of higher rates of savings and investment need to be considered. Estimates of the increase in stockholder wealth generated by the proposal, which range from $600 billion to $1.7 trillion, also appear to be overstated, but still large. These latter effects arrive with substantial lags and are difficult to forecast, but are likely to grow over the long term. This suggests that while the stimulative effects of the proposal are muted in the near term, they will likely expand significantly over time, as investor and consumer behavior changes in response to this fundamental reform.

In conclusion, the President's proposal is worthy of support. Its value rests in the very reasons for which it is most heavily criticized: that it does not provide a short-term stimulus to consumption, nor achieve any redistribution of tax burdens across income groups. Instead it provides a long-term boost to saving and investment, a boost that provides lasting support for growth in jobs and income. This is particularly important now since the recent recession, unlike most in history, was not led by a decline in consumption. Instead, consumption has been sustained, growing in excess of income with the deficit filled by record levels of debt in both the household and corporate sector. This deficit in the corporate sector which reached 6 percent of GDP at its peak in 2000 has since fallen to a more manageable 2 percent last year, while consumers have thus far failed to retrench, encouraged to continue to borrow and spend by recent fiscal and monetary policy.

Prospects for emerging from the economy's current "soft patch"[26] might well be dependent on a revival of sharply reduced and still moribund business fixed investment before consumers inevitably retrench, as they may well be doing in early 2003. The need for longer-term stimulus is even more pressing if America goes to war in the months ahead. Such action could well plunge the U.S. economy into renewed recession late this year, and fiscal stimulus delayed until early 2004 might well prove very timely.

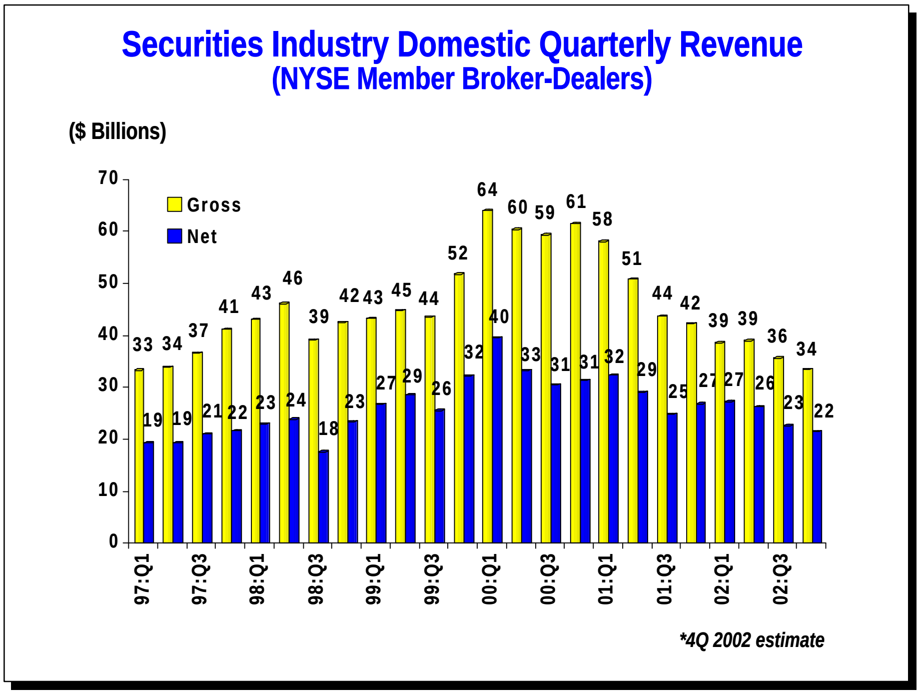
More importantly for our long term economic health and fiscal stability is the direct support for savings provided by the proposal. This represents fundamental reform rather than countercyclical tinkering. Americans do not save enough - not nearly enough and it is not even close. We do not save enough for retirement, which is the principal goal of equity investors, cited by 89 percent of those surveyed,[27] nor enough to meet other primary objectives such as college education. The President's proposal addresses this problem directly and will change savings and investment behavior, slowly over time, but permanently for the better. Americans are too myopic and consumption-oriented to the point of their long-term detriment. If the fiscal cost of altering that (in terms of reduced tax revenues and less stimulus to current spending in the near term) is viewed as too great, it should be an invitation to more, not less, fundamental tax reform to remedy that problem, rather than rejecting a proposal which removes some of the most egregious distortions and biases of our tax system and addresses some of America's most pressing needs. From a broader macroeconomic perspective the long run benefits of the proposal outweigh these costs.

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

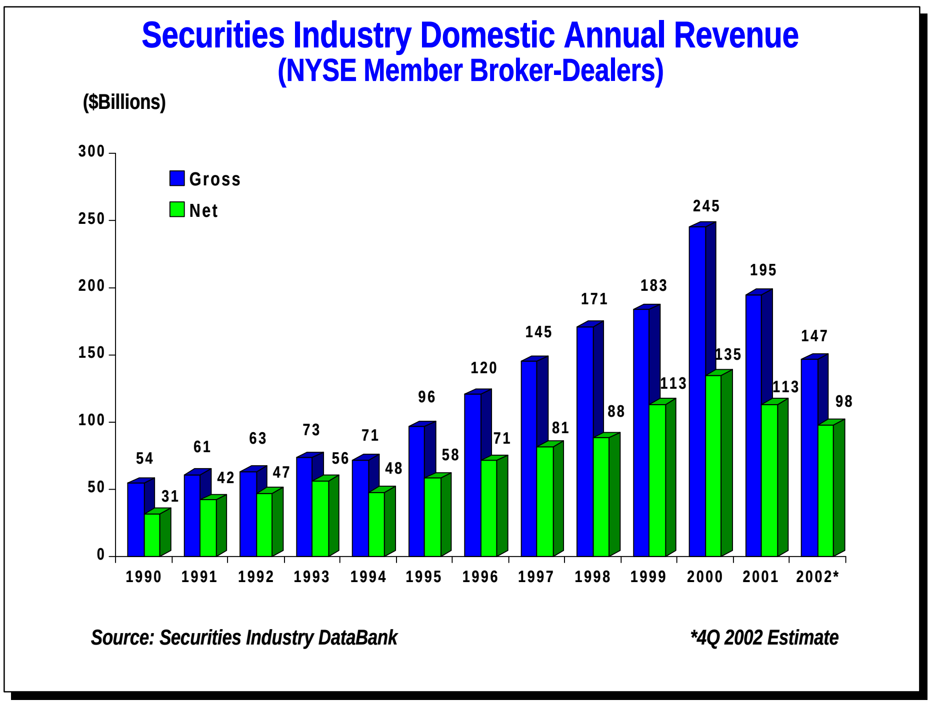
[26] A euphemism for the decline in real GDP growth in Q4 2002 to less than 1 percent and perhaps still lower in the current quarter, in large part due to weak corporate earnings, geopolitical uncertainties and a loss to public trust and confidence arising from corporate governance failures, and other elements of the hangover from one of the worst speculative manias in our history, all factors unlikely to be affected by a short-term stimulus to consumption.

[27] *Equity Ownership in America, 2002*, Investment Company Institute and the Securities Industry Association, www.sia.com/publications/pdf/equity_owners02.pdf.

Gross and net revenue in last year's final quarter fell to five and four-year lows, respectively, falling to half their record levels reached just two years ago. Profits, meanwhile, plunged to an eight-year low. During Q4 2002, gross revenues fell an estimated 5.9% to $33.5 billion from $35.6 billion in preceding quarter. Net revenue (net of interest expense) of $21.5 billion was 5.1% below Q3 2002 levels. Operating expenses fell even faster. Profits, which had slumped to just $868 million in Q3 2002, reached $1.2 billion in the quarter just ended, <u>before</u> research settlement charges and write-offs for potential litigation costs turned the balance into a $1.0 billion quarterly loss.

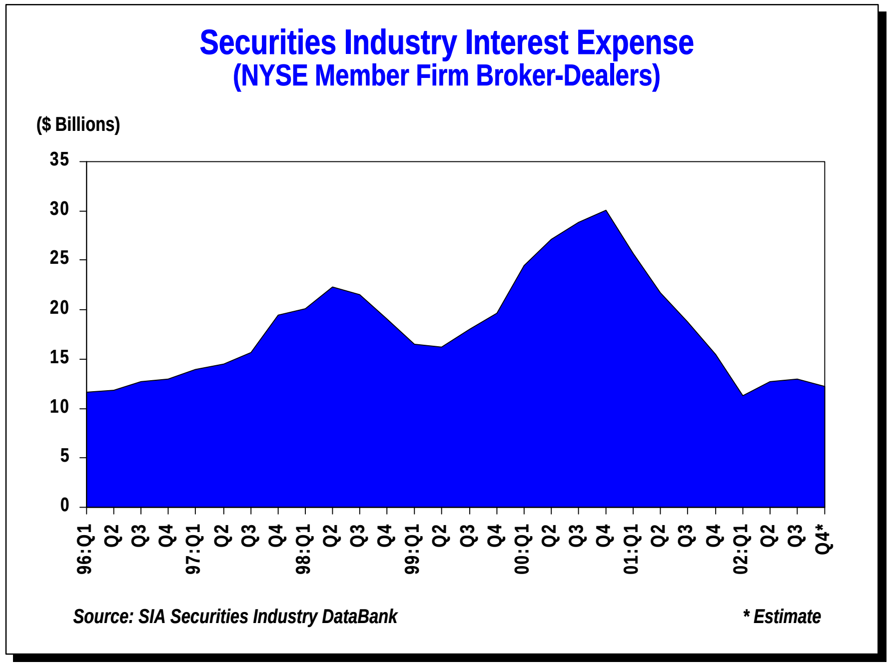


The revenue declines in the fourth quarter extended to almost all the industry's product and service lines. Commissions; trading, investment, and asset management revenues; mutual fund sales; margin income; and, other interest revenue were down across the board. The lone exception was underwriting revenue, which inched up a marginal 2% from depressed levels.

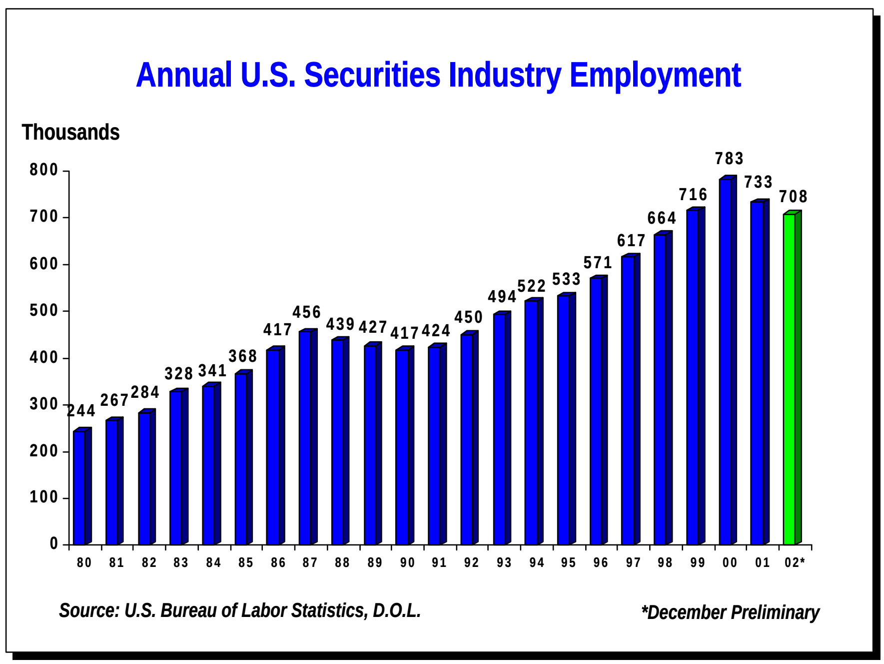


On an annual basis, gross revenue of $146.7 billion last year was 24.3% below 2001's $194.8 billion and 40% below 2000's record of $245 billion. Net revenue (net of interest expense) of $97.7 billion last year was 13.7% below 2001's $113.2 billion reflecting a huge 40% reduction in the industry's gross interest costs last year. Last year's net revenue also sat 39% below 2000's record $135 billion.

Thanks mainly to Fed easing, as well as reduced firm borrowings and retirement of older, high interest rate debt, the industry's quarterly gross interest expense has been slashed by an enormous $17.9 billion, or 59%, from $30.1 billion in 2000's final quarter to just $12.2 billion in last year's final quarter. That brought the industry's largest expense line back to levels not seen since 1996 and about on parity with total compensation costs. This reduction, along with other cost cutting measures, managed to keep the industry's bottom line in the black during this longest and deepest bear market in decades.



For the year as a whole, 2002's revenue lines were also down almost universally. Only commission revenue came in ahead of 2001, albeit by just 1%, while commodities-related revenue shot up to a record $8 billion from $2001's previous record $5 billion. Although that was welcome, it didn't recoup the $9 billion and $10 billion losses in this line the two previous years. Even commissions' marginal improvement to $27.1 billion still fell 20% short of 2000's record 33.7 billion.



Every other revenue line was down again for the second straight year. Trading revenues plunged 59% in 2002 vs. 2001 to $10.2 billion which was just over one-fifth of the $44.7 billion earned two years ago. Investments for broker-dealers' own accounts went negative for the first time in 12 years. Underwriting revenue fell for the second straight year to $12.8 billion, its lowest level since 1997.

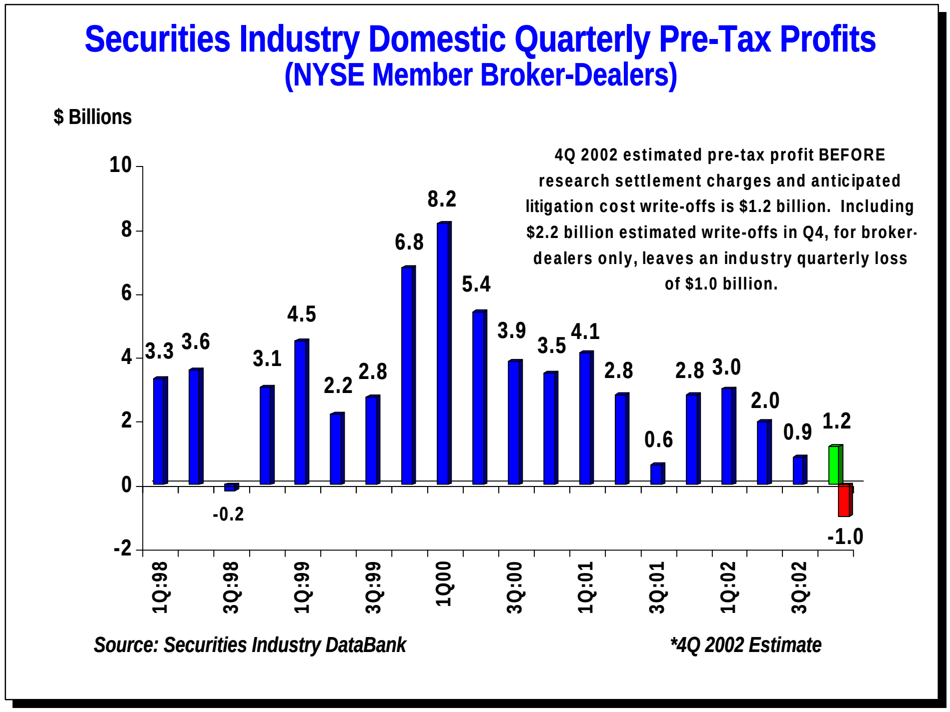
Meanwhile, margin interest was more than cut in half to just $6.0 billion from $12.8 billion in 2001 and just over one-quarter of the $22.3 billion earned in 2000. This was also an eight-year low. Mutual fund and asset management revenues fell to five and three-year lows, respectively.

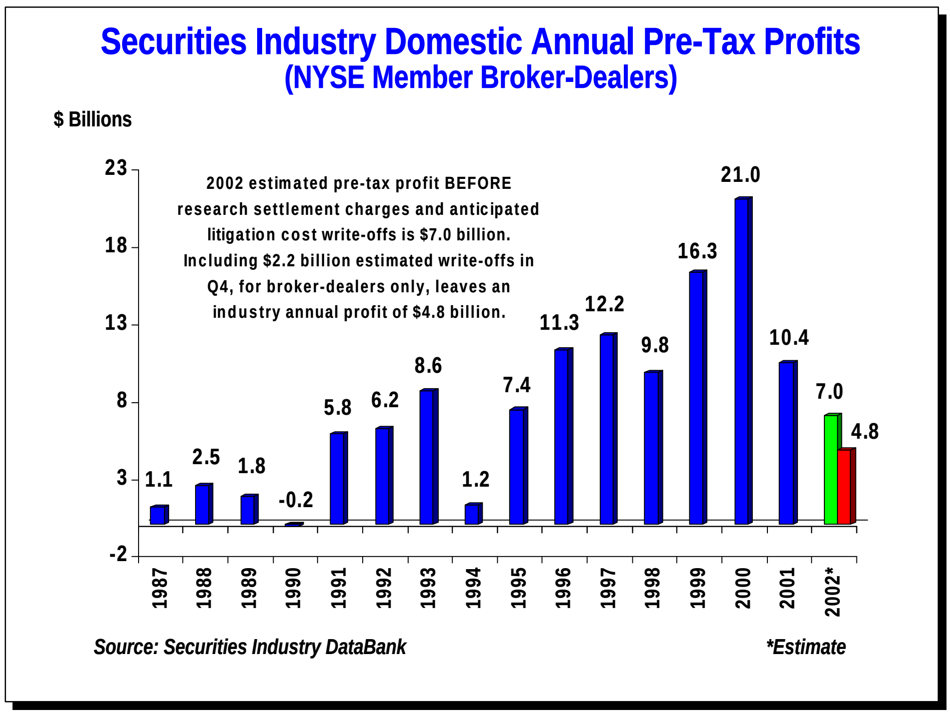
Besides falling interest rates, headcount reduction and other compensation cuts, i.e. reduced bonuses and frozen salaries, kept the industry's number two cost line, total compensation, falling in tandem with revenues allowing for black ink in bleak times. Total compensation reached a peak of $69 billion in 2000, was slashed to $60.6 billion in 2001 and fell again to just $53.3 billion last year, its lowest level since 1998. However, industry headcount has also been trimmed back to 1999 levels. Standing at 707,600 at year-end, this is the industry's smallest workforce since October 1999.

Industry profitability last year was tossed into turmoil by the late December agreement in principle by 10 large investment banking firms to make a global settlement surrounding the conflicts of research analysts. Even though this settlement is not final, some firms have decided to include the cost of this settlement and potential future litigation costs into their 2002 year-end operating expenses. Without this settlement, the industry would still have posted its worst profit year in eight years with just $7.0 billion in pre-tax profits, a mere one-third of the record $21.0 they posted just two years ago. Adding these charges cut 2002 profits to an estimated $4.8 billion.

On December 20, 10 investment banks reached a "global settlement" understanding on Wall Street research conflicts and practices with the SEC, NY Attorney General, NASD, NASAA, NYSE and State Regulators. The settlement called for $1.4 billion in payments ($900 million in penalties, $450 million to be escrowed for independent research, and $85 million for investor education). Several of the affected companies elected to expense the full amount of this "agreement in principle" into their fourth quarter financial statements as an operating expense, not an extraordinary item, and many went well beyond these amounts, expensing additional billions of dollars. These charges included: the anticipated future costs of private sector litigation; payments surrounding research conflicts; and other anticipated litigation matters, including financial advisory work for Enron, loan losses, restructuring charges, and losses on divestitures of brokerage units.

The full impact of these write-offs, at the securities firm or at the holding company level, already exceeds $5 billion, with some firms yet to include either the settlement or anticipated litigation costs. Based on individual firm disclosures to date, we anticipate $2.2 billion in settlement and litigation set-asides to be booked as operating expenses in the fourth quarter. This will lower the fourth quarter 2002's results to a loss of $1.0 billion. Without these charges the industry in 2002 would have booked $7.0 billion in pre-tax profits. Now, pre-tax profits will be reported as only $4.8 billion — either way, an eight-year low. In addition, there is still at least a $1.0 billion overhang in potential 2003 write offs for the settlement and estimated future costs of litigation which will be reported in 2003.





George R. Monahan
Vice President and Director, Industry Studies

TIBURON RELEASES UPDATED VERSION OF ITS COMPREHENSIVE REPORT ON FEE-ACCOUNTS, TURNKEY ASSET MANAGEMENT PROGRAMS (TAMPs), & THE BOOMING SEPARATELY MANAGED ACCOUNTS MARKET

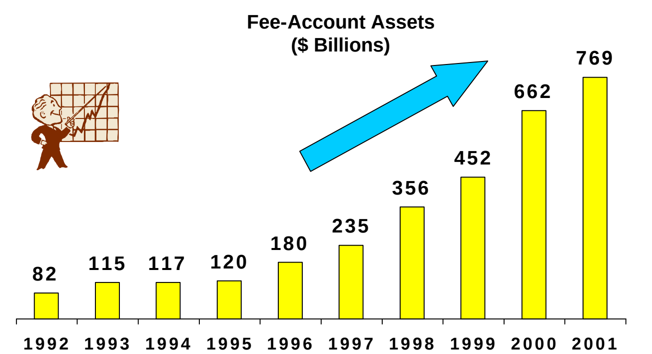
Report highlights the state of the fee-accounts market including its background, growth, & current status; report also highlights the four types of fee-accounts and profiles the leading proprietary fee-account program sponsors

TIBURON, CA, January 16, 2003 - Tiburon Strategic Advisors, a research-based strategic consulting firm serving the brokerage and investment management industry, recently released an updated version of its research report on fee-accounts, turnkey asset management programs (TAMPs), & the booming separately managed accounts market. In this release, Tiburon addresses the state of the fee-accounts market, its background, growth, and current status. In addition, this release highlights the four types of fee-accounts that exist, and profiles the leading proprietary fee-account program sponsors.

Market Growth

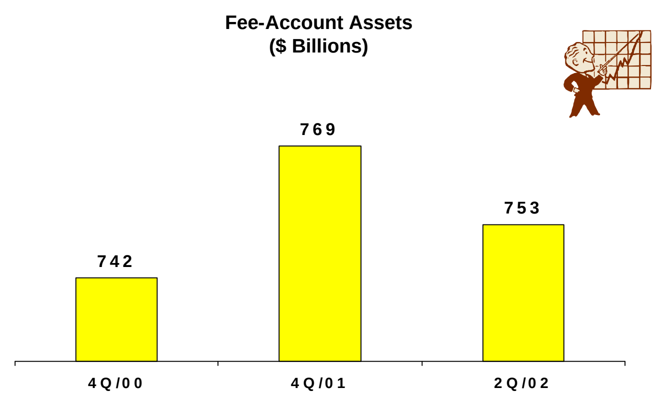
The fee-accounts marketplace now includes four types of programs and almost $800 billion in assets. All of the programs charge fees in lieu of commissions but various industry terminology is used which confuses many market participants, the media, and consumers. The term wrap accounts is now being disowned by the industry. The term managed accounts is sometimes used to refer to all four types of accounts but is other times used to just refer to separately managed accounts using third-party managers or the combination of those programs and mutual fund wraps. Sometimes proprietary managers are included in data; sometimes not. Sometimes non-wrapped institutional consulting business is included; sometimes not. And turnkey asset management programs have become the common name for independent fee-account providers. All this creates unnecessary confusion. In any case, this report will refer to four types of fee-accounts which generally have in common the services of client profiling, asset allocation, investment selection, ongoing monitoring, rebalancing, and performance reporting.

Fee-Accounts Have Grown Substantially Over the Past Five Years to Almost $800 Billion



Note: All fee-account numbers include TAMPs; double counting between sponsors, TAMPs, and managers has been eliminated
Note: One source reported that the wirehouses had $515 billion in fee-accounts at 12/00; another source reported $684 billion at 12/01; others reported $728 and $800 billion at 12/01
Source: 9/30/02 IIR Conference Brochure (Cerulli); 9/23/02 Investment News; 8/7/02 Wealth Management Letter; 6/02 Ticker; 5/27/02 Merrill Presentation (Cerulli); 9/12/01 State Street Presentation (Drinkwater); 9/12/01 IIR Conference Brochure (Cerulli); 7/13/01Cerulli Presentation (SIA); 1/01 Investment Advisor (Cerulli); 11/00 HD Vest Presentation (Pinion); 9/30/99 SG Cowen Presentation (Cerulli); 9/99 Senior Consultant (SIA); 1/95 Cerulli Report; Tiburon Research & Analysis

Assets in Fee-Accounts are Down Six Percent in the First Half of 2002 Due to the Market



Source: 10/02 Bank Investment Marketing (Cerulli); Tiburon Research & Analysis

The four key types of fee-accounts are:

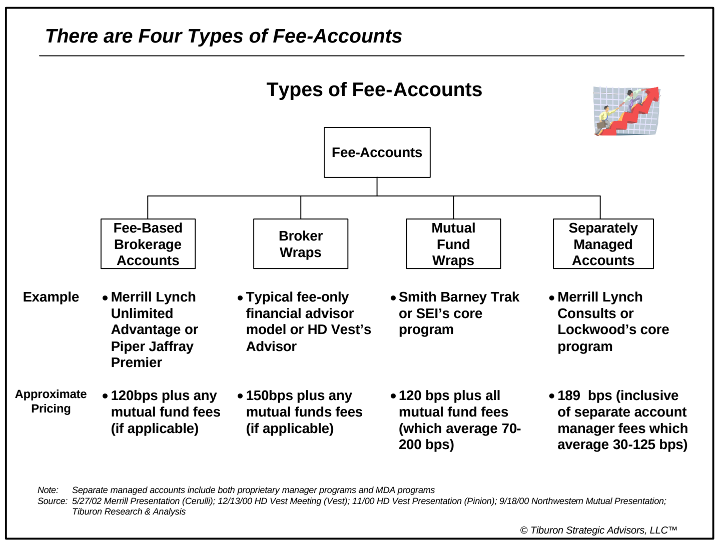
- Separately managed accounts
- Mutual fund wraps
- Broker wraps
- Fee-based brokerage accounts

Fee-accounts have grown substantially over the past five years to almost $800 billion. As recently as 1995, total assets were just $120 billion before going on a seven year growth spurt. Between 1992 and 1996, the assets in fee-accounts stayed relatively flat. In 1992, the assets in fee-accounts totaled less than $100 billion; in 1996 this number increased to just $180 billion. 1996 really was the beginning of the movement into fee-accounts. Since 1996, the assets in fee-accounts have grown to an amazing $769 billion.

Assets in fee-accounts are down six percent in the first half of 2002 due to the market. At June 2002, total assets in fee-accounts were $753 billion. Frankly though this is impressive; the fee-accounts industry has held up better than most other financial products in this difficult market.

Highlights of The Four Types of Fee-Accounts

There are four types of fee-accounts: separately managed accounts, mutual fund wrap accounts, broker wraps, and fee-based brokerage accounts. Separately managed accounts were first introduced in the late 1970s. They were the first type of fee-account to emerge. In such an account, the advisor picks one or more outside money managers and these managers pick the stocks and bonds that go into portfolios. The key in this account is that the broker just picks the managers rather than the portfolio's actual holdings. For the purposes of this release and Tiburon's report, both proprietary manager programs and MDA programs will be covered in the separately managed accounts section. Mutual fund wraps, developed in the early 1990s, are quite similar; the one big difference being that the advisor picks mutual funds into which to allocate the assets as opposed to separate account managers. With this model the assets are still managed by a professional manager, however, and the funds offer the benefit of having significantly lower minimums. The third type of fee-account is the broker wrap. This model gained popularity in the mid-1990s, and it's where the advisor is the money manager, as opposed to using a third-party manager. Finally, the fourth type of fee- account is the fee-based brokerage account. This is where the client picks all the holdings but the brokerage firm is paid in the form of an asset-based fee as opposed to commissions; in this account the broker has no fiduciary responsibility.



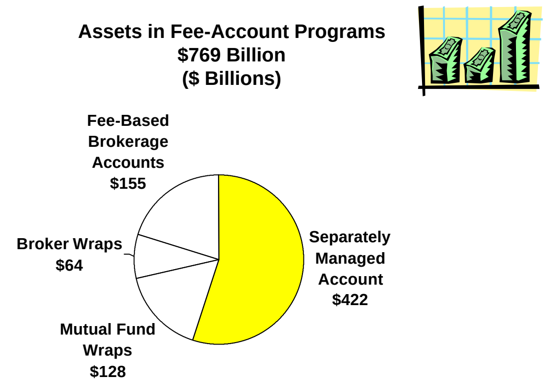
Some examples may help to clarify each:

- The typical average separately managed account charges 189 bps which includes the underlying manager's fee; typical examples are Merrill Lynch's Consults program and Lockwood's program

- Mutual funds on the other hand appear to have lower fees of typically near 120 bps but investors must still though pay separately for the underlying funds that may cost 70-200 bps each; typical examples include Smith Barney'sTRAK or SEI's core program

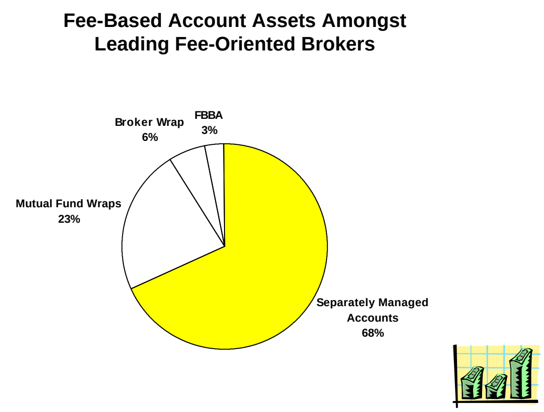
- Broker wraps are really the essence of the typical fee-only financial advisor offer or the basis of programs like HD Vest's Vest Advisor whereby the advisor in the field manages the account; pricing is often 150 bps plus again any underlying mutual fund fees (if any)
- Finally, fee-based brokerage accounts include products like Merrill's Unlimited Advantage or Piper Jaffray's Premier; pricing is typically 120 bps plus underlying fund fees (if any)

Separately Managed Accounts Clearly Dominate the Fee-Account Market



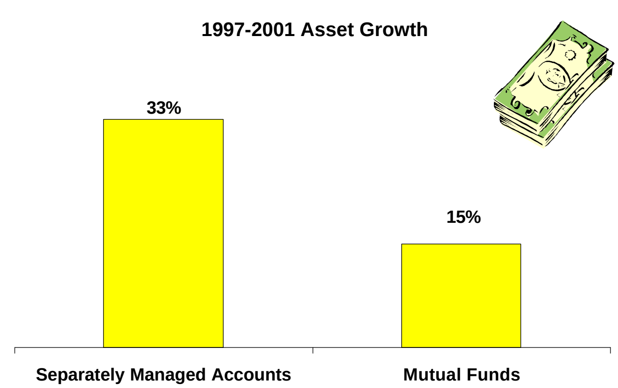
Source: 5/27/02 Merrill Presentation (Cerulli); 9/23/01 Investment News; 9/30/02 IIR Conference Brochure (Cerulli); 8/7/02 Wealth Management Letter; 1/02 Lockwood Research; 6/5/01 RunMoney Presentation; 4/16/01 RunMoney Presentation; 12/26/00 Business Week (MMI); 11/00 HD Vest Presentation (Pinion); Tiburon Research & Analysis

Amongst a Group of High-End Fee-Oriented Full-Services Brokers Recently Interviewed, Over Two-Thirds of their Client Assets are in Separately Managed Account



Source: 11/01 Full-Service Broker Interview; Tiburon Research & Analysis

Separately Managed Accounts Have Been Outgrowing Mutual Funds Over the Past Few Years



Note: More detailed annualized growth rates were 7%, 24%, 21%, 31%, 29%, 30%, 19%, and 0% for separately managed accounts in 1994-2001 and 1%, 31%, 24%, 28%, 20%, 23%, -2%, and –8% for mutual funds in 1994-2001
Source: 6/02 Ticker (MMI); 1/02 Lockwood Research; 11/01 On Wall Street; 8/6/01 Investment News (Cerulli; Strategic Insight); Tiburon Research & Analysis

Separately managed accounts clearly dominate the fee-account market, accounting more than half of all assets in fee-account programs. As described earlier, the total assets in fee-account programs is $769 billion and separately managed accounts account for over $400 billion of these assets. Mutual fund wrap accounts account for $128 billion; broker wraps account for $64 billion; and fee-based brokerage accounts account for $155 billion of fee-account assets. Separately managed accounts have such a leading market share predominantly because they have been available for significantly longer than the other forms of fee-accounts. Mutual fund wraps, for the most part, have leveled off in terms of percentage of market share. One interesting point is the relative unpopularity of broker wraps; this product has been around for several years now but has less than half the assets of fee-based brokerage accounts which have only been around since 1999. Broker wraps started out as a fairly hot product but lost steam when brokers were given the opportunity to sell fee-based brokerage accounts without having to take on the fiduciary responsibility, while earning relatively the same amount of fees.

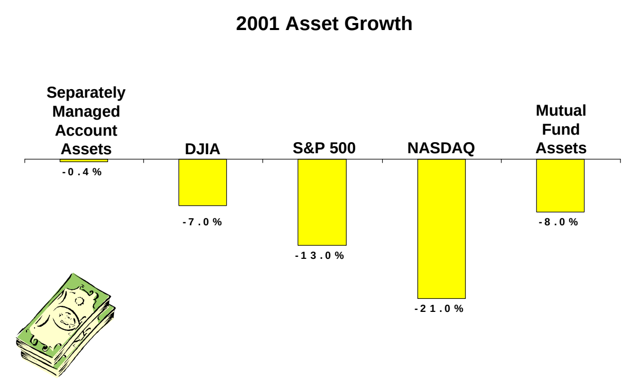
Although often overlooked, there are many similarities between mutual funds and separate accounts. For instance, investors in both get professional management, investment discipline, and diversification.

High-end full-service brokers are even more focused on separately managed accounts. Amongst a group of high-end fee-oriented full-service brokers recently interviewed, over two-thirds of their client assets are in separately managed accounts. Specifically, we see that those high-end brokers rely on separately managed accounts for 68% of assets while using mutual fund wraps for 23% of assets – neither broker wraps or fee-based brokerage accounts were widely used by this group; those products are generally more widely used as simply pricing alternatives for stock-picking oriented brokers.

Separately managed accounts have been outgrowing mutual funds over the past few years. Specifically between 1997 and 2001, separately managed accounts grew 33% per annum while mutual funds grew 15% per annum.

More specifically, separately managed accounts held steady in 2001 despite the market declines while mutual fund asset values fell 8%. Separately managed account assets were able to hold their own in spite of the fact that the DJIA was off 7%; the S&P was off 13%; and the NASDAQ was off 21%.

Assets in Separately Managed Accounts Held Steady in 2001 Despite the Market Declines While Mutual Fund Asset Values Fell 8%



Source: 2/02 Investment Consulting News; Tiburon Research & Analysis

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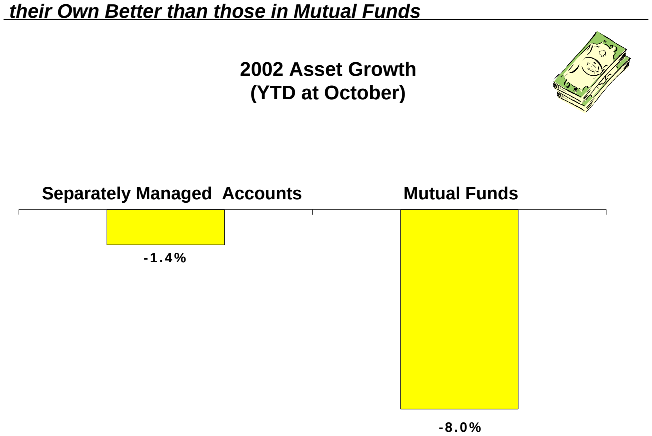
In 2002, assets in separately managed accounts are holding their own better than those in mutual funds. At October, mutual fund assets were off another 8.0% while separately managed account assets were off just 1.4%.

And if this were all not enough, remember that separately managed accounts are just being introduced in the independent advisor markets…

In 2002, Assets in Separately Managed Accounts are Holding their Own Better than those in Mutual Funds



Source: 10/30/02 American Banker; Tiburon Research & Analysis

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In any case, Tiburon expects that brokerage firms will continue to expand all types of fee-account programs. The number of product offerings will continue to grow. Advisors must offer a variety of ways to implement investment strategies, including no-load mutual funds, institutional mutual funds, index funds, and separately managed accounts. Furthermore, the number of investment vehicles is likely to expand much further; for instance, several firms are already building wraps around ETFs and folios. Tiburon believes that all types of fee-accounts will be successful in the future. The selection of the appropriate investment vehicle should depend only on the investor's preference and the level of financial resources.

Proprietary Fee-Account Program Sponsors

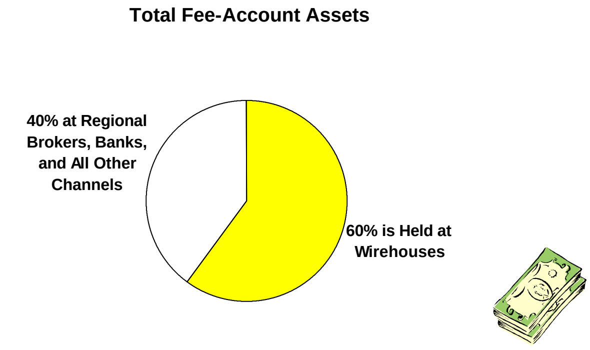
The wirehouses (and to some extent the regional brokerage firms) dominate the fee-accounts market. Sixty percent of all fee-account assets are held at the five wirehouses, including Merrill Lynch, Smith Barney, Morgan Stanley, UBS PaineWebber, and Prudential Securities. Wachovia Securities, Raymond James, Deutsche Bank Alex Brown, and AG Edwards are some the leading regional firms.

Smith Barney and Merrill Lynch dominate the other players in total fee-account assets. Specifically, Smith Barney has $195 billion in assets and Merrill Lynch has $194 billion. These firms battle for the lead and often change places quarter over quarter. UBS PaineWebber is third in overall fee-account assets with $60 billion (just 1/3 of the leaders) and Morgan Stanley trails closely behind with $57 billion. Prudential Securities trails its peers quite substantially with just $35 billion of assets (about 1/6 that of the leaders). Following the five wirehouses are SEI ($28 billion), American Express ($19 billion), Wachovia ($18 billion), Raymond James ($17 billion), and Fidelity ($16 billion).

From a market share perspective, Smith Barney and Merrill Lynch control half of the fee-accounts market, with each holding about a quarter. Smith Barney earned its market dominating position through its pioneering market moves, inherited asset base from EF Hutton, and continual strong commitment to consultative programs. The firm's Consulting Services Division (CSD), based in Wilmington, Delaware, has significant resources. Merrill has earned its equally dominating position from rapid and leading-edge product development capabilities (including its leading-edge fee-based brokerage account Unlimited Advantage) and from the sheer power of its distribution system. Market shares of the others firms decline quickly with UBS PaineWebber leading the way at just 9%.

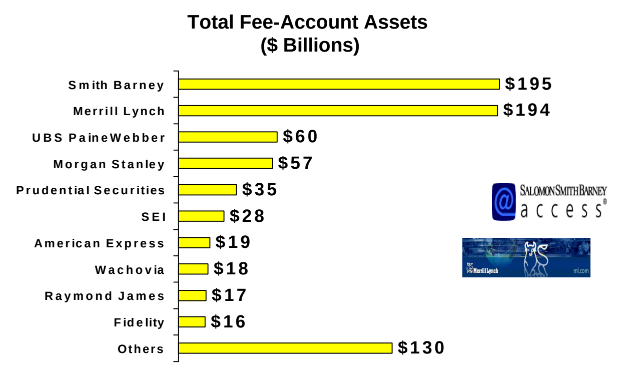
Industry trackers Cerulli Associates and the Money Management Institute disagree about the recent successes of the wirehouses; Cerulli says that they lost 10% market share between 1997 and 2001 while MMI believes that they have held their share steady. According to one report, Morgan Stanley and Prudential picked up a bit of share in 2001.

The Wirehouses (and to Some Extent Regional Firms) Dominate the Fee Account Market



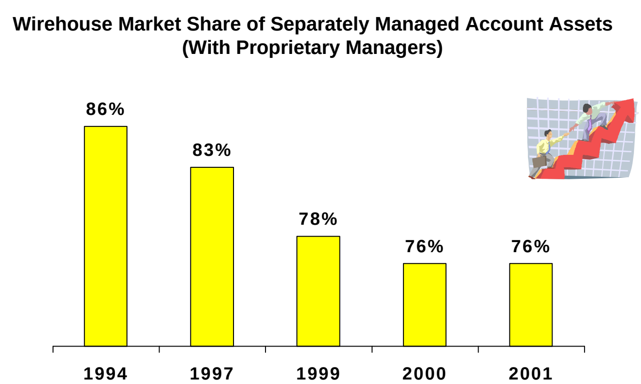
Note: Wirehouses include: Merrill Lynch, Smith Barney, Morgan Stanley, UBS Paine Webber, and Prudential Securities
Note: Another study said that some 65% of the business is dominated by five wirehouses
Source: 9/26/02 On Wall Street Conversation (Plummer); 6/02 Ticker (Cerulli); 5/27/02 Merrill Presentation (Cerulli); 12/24/01 Fund Marketing Alert; 1/01 Investment Advisor (Cerulli); Tiburon Research & Analysis

Smith Barney and Merrill Lynch Dominate the Other Players in Total Fee-Account Assets



Note: Smith Barney accomplished its market dominance through its pioneering market positioning, inherited asset base from its acquisition of EF Hutton, and its strong commitment to consultative programs
Source: 8/12/02 Fund Marketing Alert; 6/02 Ticker (Cerulli); 5/27/02 Merrill Presentation (Cerulli); 12/24/01 Fund Marketing Alert (Cerulli); 12/17/01 Investment News; Tiburon Research & Analysis

Wirehouse Market Share of Separately Managed Account Assets has Been Declining Over the Past Few Years



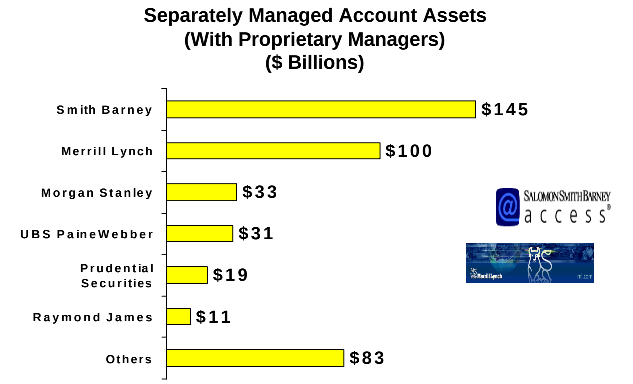
Note: Multiple other sources reported 72% and 70% for 2001; one which said 72% broke out the remaining share as: 17% for regional broker/dealers, 9% for TAMPs, and 2% for independent broker/dealers
*Source: 11/1/02 SunTrust Presentation (O'Reilly) (Cerulli); 9/02 Bloomberg Wealth Manager; 6/02 Ticker (MMI); 2/7/02 Prudential Presentation (Kinne); 9/12/01 E*Mat Presentation (Klem); Tiburon Research & Analysis*

Separately Managed Accounts

The wirehouses' market share of separately managed account assets has been declining over the past few years. From a high of 86% in 1994, the share of the wirehouses has slowly eroded to 76% in 2001. However, this data could easily be mis-interpreted; the wirehouses have actually done quite well during this time period and continued to gather substantial assets and lead the industry in product innovation. The declining market share of the wirehouses is simply attributed to the emergence of dozens of new competitors, which are chipping away at their very substantial market share.

Smith Barney and Merrill Lynch dominate the other players in separately managed account assets, especially when including proprietary managers. Smith Barney has $145 billion and Merrill Lynch has $100 billion. Other players trail far behind with Morgan Stanley's $33 billion of assets leading the way (that is about 1/5 of the assets of Smith Barney). UBS PaineWebber at $31 billion, Prudential Securities at $19 billion, and leading-edge regional broker Raymond James at $11 billion round out the leaders list.

Smith Barney and Merrill Lynch Dominate the Other Players in Separately Managed Account Assets, Especially When Including Proprietary Managers



Source: 8/12/02 Fund Marketing Alert; 6/02 Ticker (Cerulli); 5/27/02 Merrill Presentation (Cerulli); 12/24/01 Fund Marketing Alert (Cerulli); 12/17/01 Investment News; Tiburon Research & Analysis

In terms of market share, Smith Barney and Merrill Lynch control almost 60% of separately managed account assets when proprietary managers are included. Smith Barney's share is 33% alone! The dominance of the leaders in separately managed accounts is impressive. Merrill controls 24% of this market and Morgan Stanley leads the others with 9%. Raymond James' 3% market share is an impressive showing for a regional firm. The major point, however, is that about three-quarters of the separately managed accounts market is dominated by the five wirehouses, implying that there is significant room for growth in other distribution channels.

Both Smith Barney and Merrill have pushed significant assets into their in-house managers through their separately managed account programs. But even when excluding proprietary managers, Smith Barney and Merrill Lynch dominate the other players in assets. Counting third-party managers only, Smith Barney can claim $82 billion of assets and Merrill can claim $72 billion; Merrill closes the gap in this measure as Smith Barney has pumped significantly more money to its in-house managers than any other program sponsor. Most of the others firms hold their positions and their relative asset levels as few others have pushed significant assets to their in-house managers. Lockwood does slip into sixth place with $9 billion in assets while Raymond James falls back, as $6 of its $11 billion of assets go to internal managers. Beyond the wirehouses and Lockwood, third-party managers should be most interested in the existing assets of the programs at AG Edwards, Deutsche Bank Alex Brown, and Wachovia Securities.

Again looking at this data from a market share perspective reveals that Smith Barney and Merrill Lynch alone control half of separately managed account assets, even after excluding proprietary managers. Smith Barney has 26% and Merrill is at 23%. UBS PaineWebber leads the others with 10%.

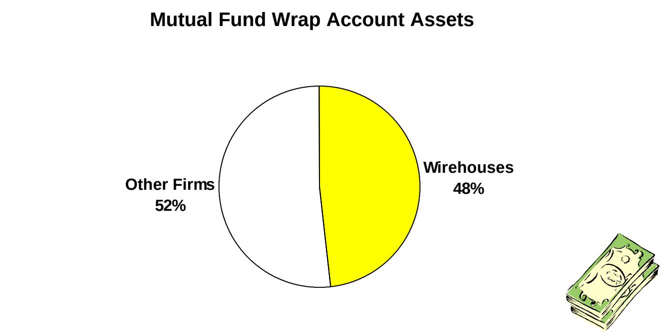
Smith Barney has been slowly losing share in separately managed account assets while some new players have been gaining. Smith Barney's market share has gone from 30% in 1999 to the 26% reported above. However, we again caution against wrong conclusions here; Smith Barney is doing just fine. Other types of firms are having varying levels of success in the rapidly growing separately managed accounts market:

- Some of the regional broker/dealers are doing well; leaders include Wachovia Securities, Raymond James, Deutsche Bank Alex Brown, RBC Dain Rauscher, and Morgan Keegan
- Banks control just 3%-4% of the separately managed accounts market; activity has been slow in this market
- Independent broker/dealers control just 2% of the separately managed accounts market. These firms should though be able to leverage the new TAMPs and tools companies; Tiburon also expects big results from them with recently invented multiple discipline accounts (MDAs)
- Third-party TAMPs are gaining share in separately managed accounts. Leaders include Lockwood, SEI, and EnvestnetPMC

Mutual Fund Wraps

The wirehouses' share of mutual fund wrap account assets is lower with just 48%. It is almost a joke to say "only" 48% but it is relative at this point! Firms other than the wirehouses control 52% of the mutual fund wrap market while they only command 40% of the more rapidly growing separately managed accounts market.

Wirehouses' Share of Mutual Fund Wrap Accounts is Lower



Source: 5/99 Registered Rep; Tiburon Research & Analysis

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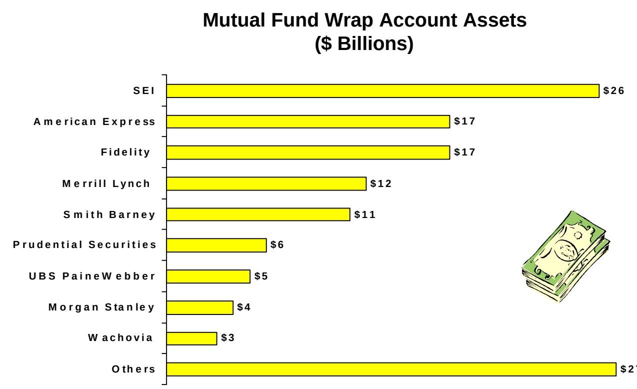
The leaders in mutual fund wraps include SEI, American Express, and Fidelity; there is also a long list of other key participants. SEI has $26 billion of assets and American Express and Fidelity each have $17 billion in assets. The wirehouses then hold the next five places with Merrill at $12 billion, Smith Barney at $11 billion, Prudential at $8 billion, UBS PaineWebber at $6 billion, and Morgan Stanley at $4 billion. Wachovia rounds out the leaders list with just $3 billion in assets.

The Leaders in Mutual Fund Wraps Include SEI, American Express, and Fidelity; There is Also a Longer List of Others



Note: The majority of SEI's assets have come from a hybrid or sub-advised mutual fund wrap program; this will be further explained in the TAMPs section
Source: 10/15/02 American Express Presentation (Cerulli); 6/02 Ticker (Cerulli); 5/27/02 Merrill Presentation (Cerulli); 12/17/01 Investment News (Cerulli); 10/23/01 CDC Meeting (Jarrett); 4/01 Institutional Investor; 5/23/00 AssetMark Presentation (Steiny); 10/98 Ticker; Tiburon Research & Analysis

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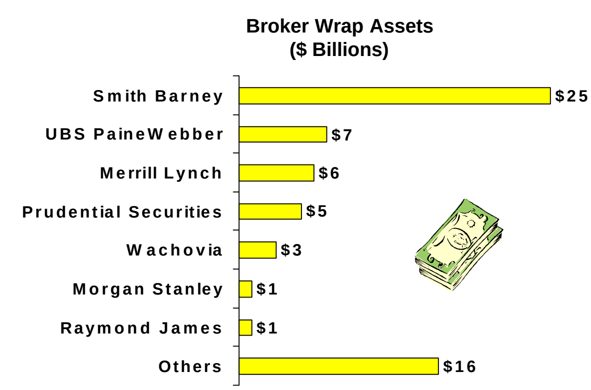
In terms of market share, the three leaders in mutual fund wrap account assets control almost half the market. SEI's assets result in a 19% market share while American Express and Fidelity each command 12%. Merrill leads the wirehouses and the others with just 9%.

SEI and other leaders have been continuing to grab market share while others have been fading. With the majority of the industry's attention going to separately managed accounts, these three firms have done well in extending their market leading positions. SEI has lifted its share from 17% to 19% over the past two years while both American Express and Fidelity are up to 12% from 11% and 10% respectively. Put another way, independent broker/dealers, TAMPs, and direct distributors are doing well in mutual fund wrap accounts.

Broker Wraps

Although it is much smaller than the aforementioned markets, it is probably not surprising to find out that Smith Barney also dominates the broker wrap market with $25 billion in assets. UBS PaineWebber edges out Merrill with $7 billion versus $6 billion for second place. Prudential comes next with $5 billion and then Wachovia out-distances Morgan Stanley with $3 billion versus $1 billion. Raymond James rounds out the leaders list, also with $1 billion.

Smith Barney Dominates the Broker Wrap Market



Source: 6/02 Ticker (Cerulli); 5/27/02 Merrill Presentation (Cerulli); 12/17/01 Investment News (Cerulli); 10/23/01 CDC Meeting (Jarrett); 4/01 Institutional Investor; 5/23/00 AssetMark Presentation (Steiny); Tiburon Research & Analysis

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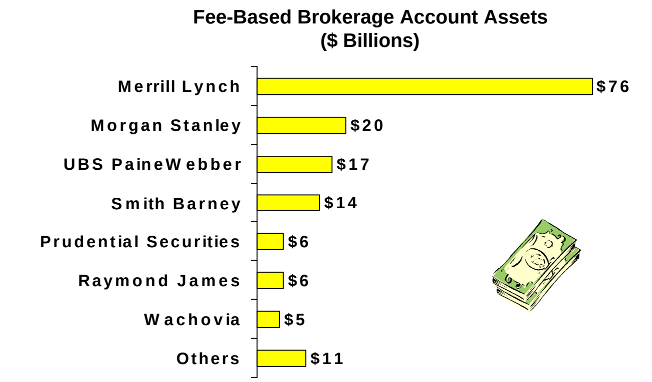
In terms of market share, Smith Barney's assets translate into over one third of the broker wrap market (38%). UBS PaineWebber has 11% and Merrill leads the others with 9%.

Fee-Based Brokerage Accounts

On the other hand, Merrill Lynch dominates the fee-based brokerage account market with $76 billion in assets; this is almost four times the second place firm, which is Morgan Stanley with $20 billion in assets. The other wirehouses follow with UBS PaineWebber at $17 billion, Smith Barney at $14 billion, and Prudential Securities at $6 billion. Raymond James also with $6 billion and Wachovia Securities with $5 billion again round out the leaders list.

In terms of market share, Merrill Lynch's dominating position translates into almost half of the fee-based brokerage account market (49%). Morgan Stanley follows with 13% and UBS PaineWebber has 11%.

Merrill Lynch Dominates the Fee-Based Brokerage Account Market



Source: 6/02 Ticker (Cerulli); 5/27/02 Merrill Presentation (Cerulli); 12/17/01 Investment News (Cerulli); 10/23/01 CDC Meeting (Jarrett); 4/01 Institutional Investor; 5/23/00 AssetMark Presentation (Steiny); Tiburon Research & Analysis

Hopefully this was a helpful backdrop of the sponsors of proprietary fee-account programs. In short, Smith Barney and Merrill Lynch dominate in most categories. Smith Barney is the leader in the booming separately managed accounts market and in broker wraps while Merrill leads in fee-based brokerage accounts. Other players SEI, American Express, and Fidelity slip in to lead in mutual fund wraps. In short, this is a booming market, today led by a few traditional players. Potential abounds. Good luck!

Tiburon Strategic Advisors

Tiburon Strategic Advisors, based in Tiburon, CA, was formed in 1998 to offer research-based strategic consulting and other related services to financial institutions and investment managers. The firm has served almost 200 corporate clients and completed over 400 research and strategic planning projects in that period. The firm's knowledge base ranges from mutual fund distribution, to separately managed account programs, alternative investments, wealth management, the fee-only financial advisor market, the CPA firm market, and advisor best practices.

Tiburon tries to make its research widely available at reasonable prices. For instance, its comprehensive research on this topic can be accessed in at least three ways:

- Tiburon Research Report – The most economical method to access this research is to purchase the Tiburon Research Report, which in this case is a 300-page report, with over 250 updated charts and graphs. Tiburon Research Reports cost just $1,000.
- Tiburon Market Seminars – For firms which want to discuss the implications of this research, Tiburon consultants can present a seminar, many of which are used for board meetings, strategic planning sessions, and management offsites. In this case, a seminar could include any of the 2,000+ pages of Tiburon findings. Two Tiburon consultants conduct each market seminar and seminars cost $8,500 plus travel expenses.
- Tiburon Conference Speeches – Tiburon executives are well-known conference speakers and this research could be summarized into an informative presentation for executives of firms attempting to compete in the fee-accounts, TAMPs, and/or separately managed accounts markets. This material is also utilized by Tiburon to speak at many program sponsors' conferences for their advisors; in this case, Tiburon is able to give the advisors an excellent summary of the market and likely developments. Tiburon Conference Speeches are $8,500 plus travel expenses for Tiburon's Managing Principal; other Tiburon speakers are also available at lower rates.

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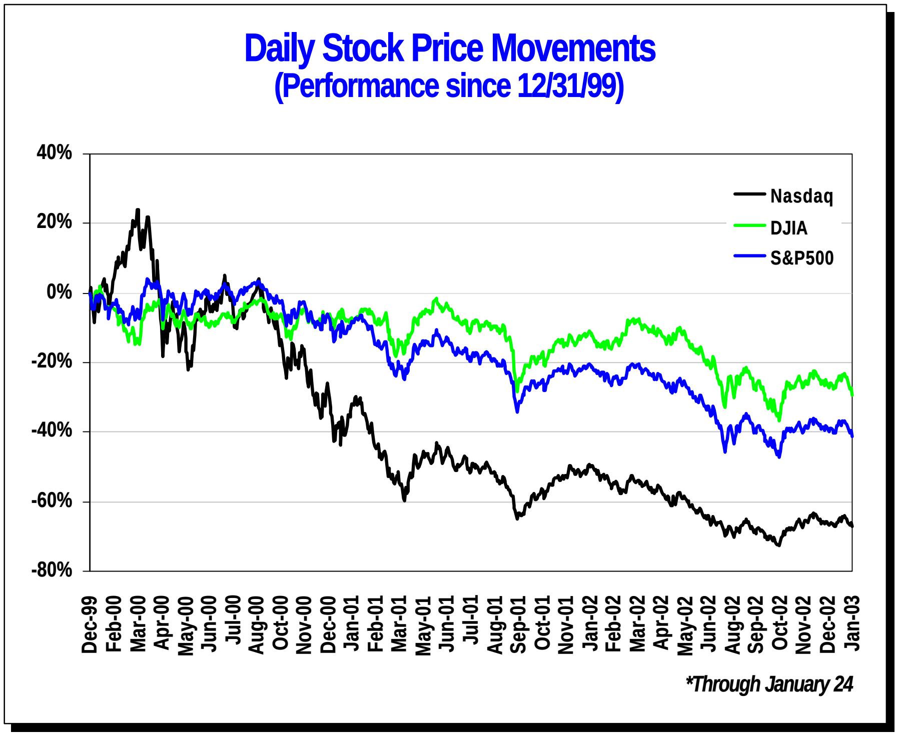
U.S. Equity Market Activity

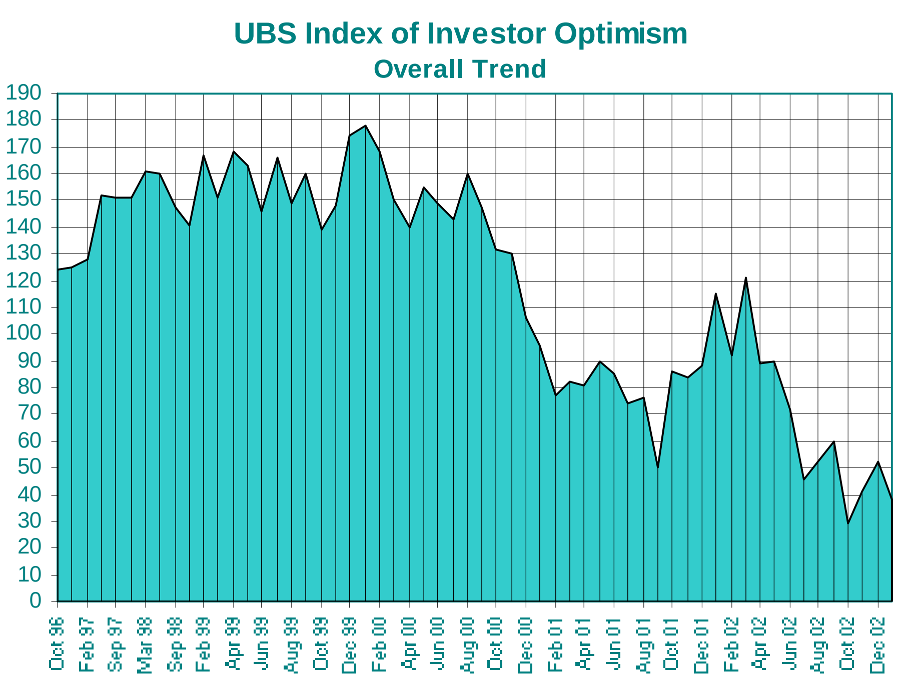
Stock Prices **–** The U.S. stock market suffered its third consecutive year of losses in 2002. Ongoing concerns about the sluggish economy, weak corporate earnings, corporate scandals, and geopolitical tensions helped drag down stock prices to six-year lows by October 9. An ensuing eight-week rally ran out of steam in December with the DJIA and S&P 500 recording their biggest December declines since 1931. Both of these indexes dropped 6% for the month, while the Nasdaq Composite lost nearly 10%.

It was the Dow's first three-year losing streak since 1939-41. There were only two other periods since 1900 when the market lost ground for three years in a row: 1929-32 and 1901-03. The DJIA closed 2002 at 8341.63, down 17% for the year and its steepest annual loss since 1977. The S&P 500's decline of 23% in 2002 was the sharpest for any year since 1974 and was broad-based, with all ten sectors of the index registering losses. Over the past three years, the S&P 500 declined 40%, and was down 49% from its March 24, 2000 peak to its October 9, 2002 trough. This bear market follows on the heels of one of the best three-year periods for the index, 1997-99, which showed a 98% gain. Technology and telecommunications stocks were the hardest hit, driving the Nasdaq Composite Index down to 1335.51 at year-end 2002, a 32% loss for the year and a 74% decline from its March 2000 peak. Hopefully the worst is over, as a four-year streak of negative returns would be almost unthinkable. That happened only once in the 20th century, from 1929-32.

The major market indices kicked off 2003 on a bullish note. Both the DJIA and S&P 500 gained 5% and the Nasdaq Composite advanced 8% in the first two weeks of January, as investors shifted money into equities, and were encouraged by President Bush's proposed 10-year, $674 billion fiscal stimulus plan that includes eliminating taxes that shareholders pay on corporate dividends. However, during the remainder of the month these gains were erased, before the major indexes moved into negative territory as investor sentiment weakened further in response to more evidence of a stalled economy, corporate earnings disappointments and, most tellingly, the rising probability of war with Iraq. For January as a whole, the Dow fell 3.5%, the Nasdaq dropped 1.1% and the S&P 500 Index declined 2.7%.

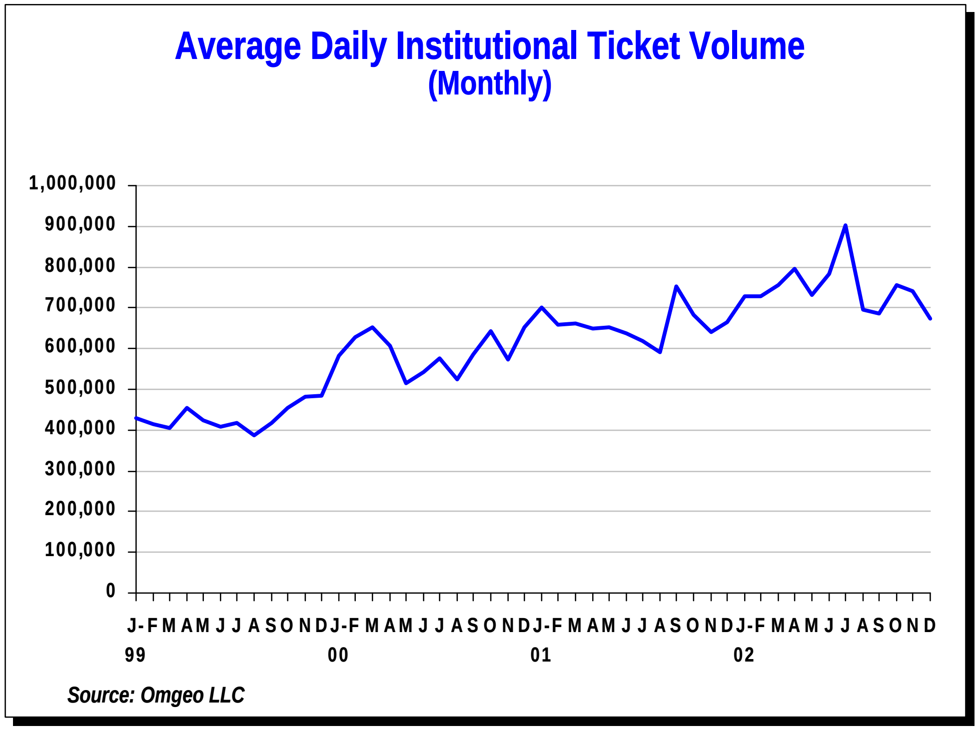
Global stock markets also retreated for the third straight year in 2002. The Dow Jones World Stock Index, excluding the U.S., sank 16% for the year, leaving it down 45% over the past three years. London's FTSE 100 Index fell more than 24% in 2002, while Frankfurt's Xetra DAX Index tumbled 44%. In Japan, the Nikkei 225 index declined 19% to a 20-year low. January 2003 proved dismal for offshore markets with the *London Times* using the term "Black January" to describe the FTSE's performance.

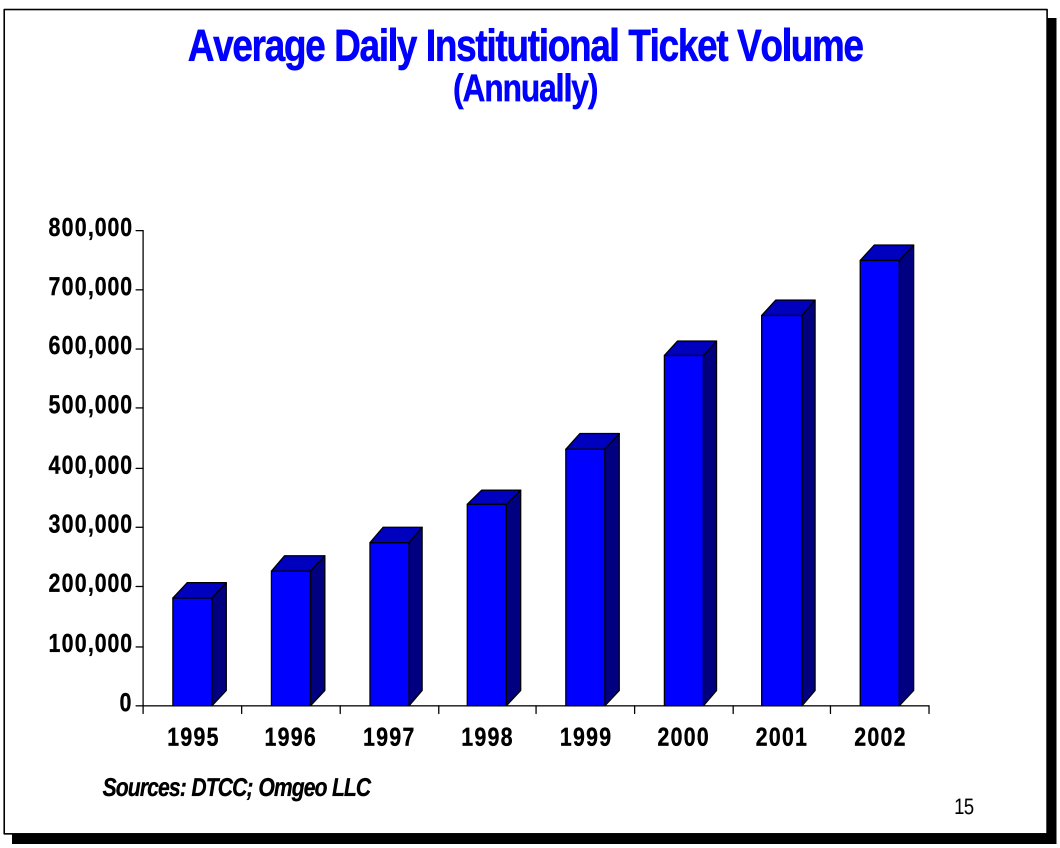




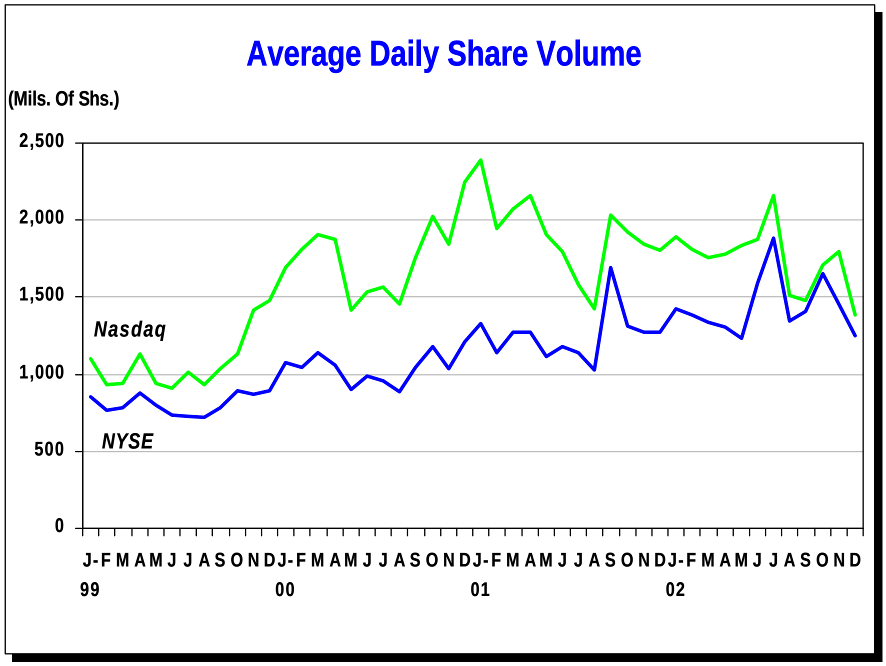
Source: UBS AG Financial Services Group

Trade Volume – Institutional trades processed through Omgeo TradeSuite slipped to a 2002 monthly low of 674,268 in December, reflecting the seasonal slowdown in activity. Daily ticket volume peaked in July at 903,601. For the year overall, average daily institutional ticket volume hit a record 749,267, up 14% from 2001's previous record of 656,888 tickets daily.

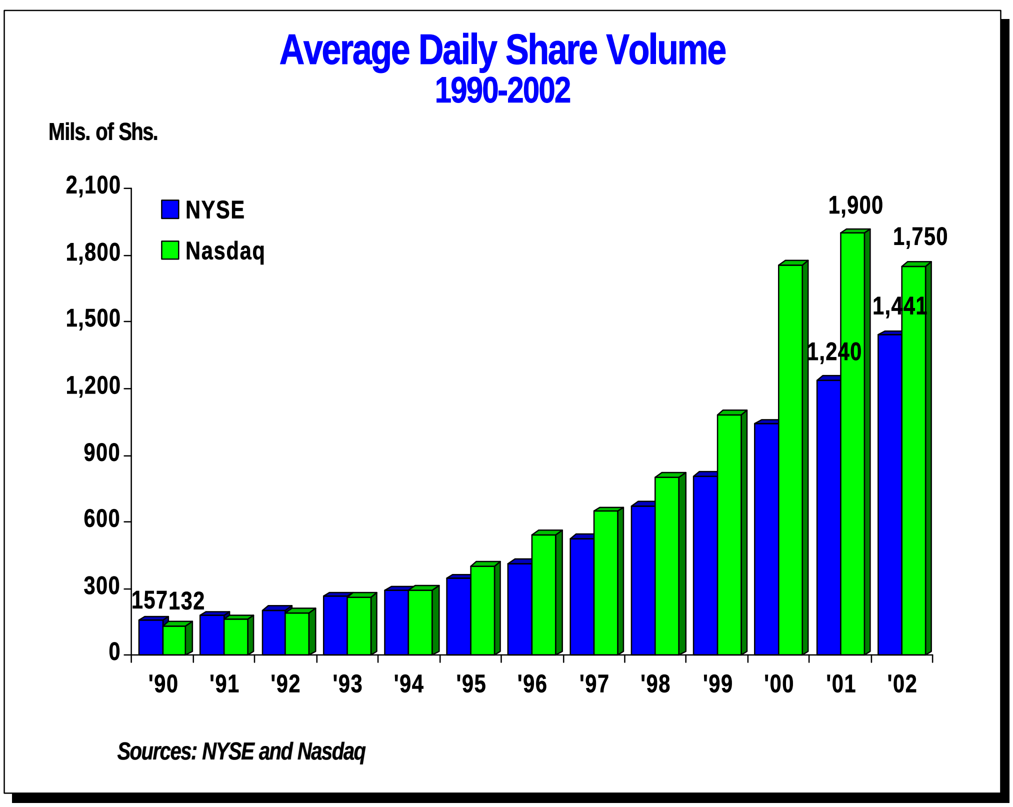




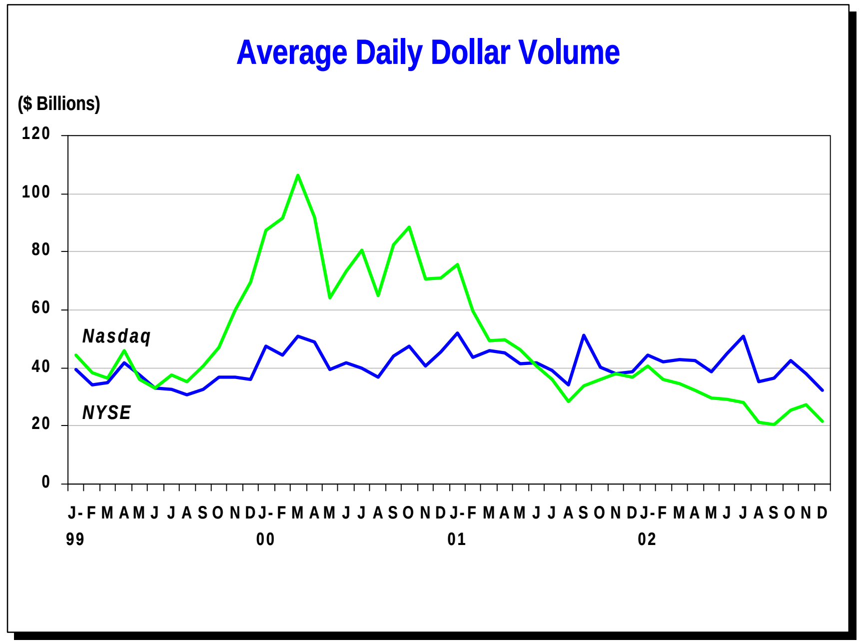
Share Volume – Investors went on hiatus in December. Nasdaq volume sank to a 38-month low of 1.39 billion shares daily, down 23% from November. On the NYSE, volume fell 14% in December to 1.25 billion daily, the second slowest month of the year behind May.



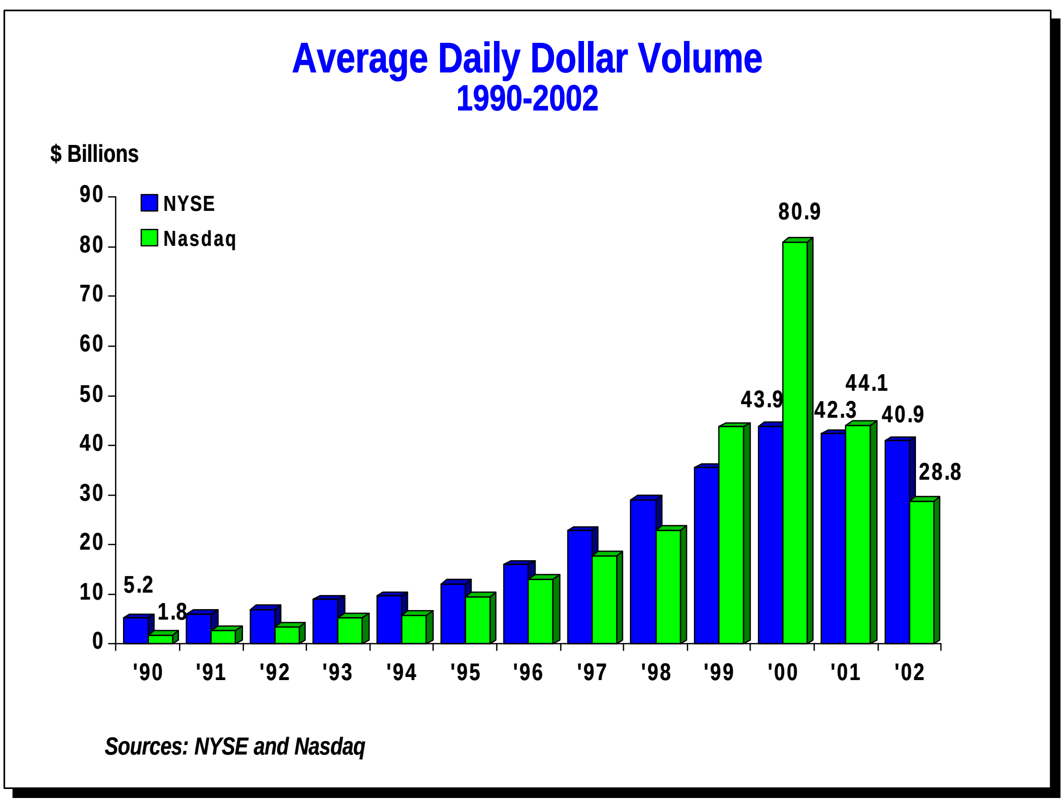
For the year 2002, Nasdaq volume averaged 1.75 billion shares daily (preliminary), down 8% from 2001's record 1.90 billion daily. That marked the first yearly decline in Nasdaq share volume since 1990. On the other hand, NYSE volume increased for the 12th straight year to a record 1.44 billion shares daily, eclipsing the previous record of 1.24 billion per day set in 2001 by 16%.



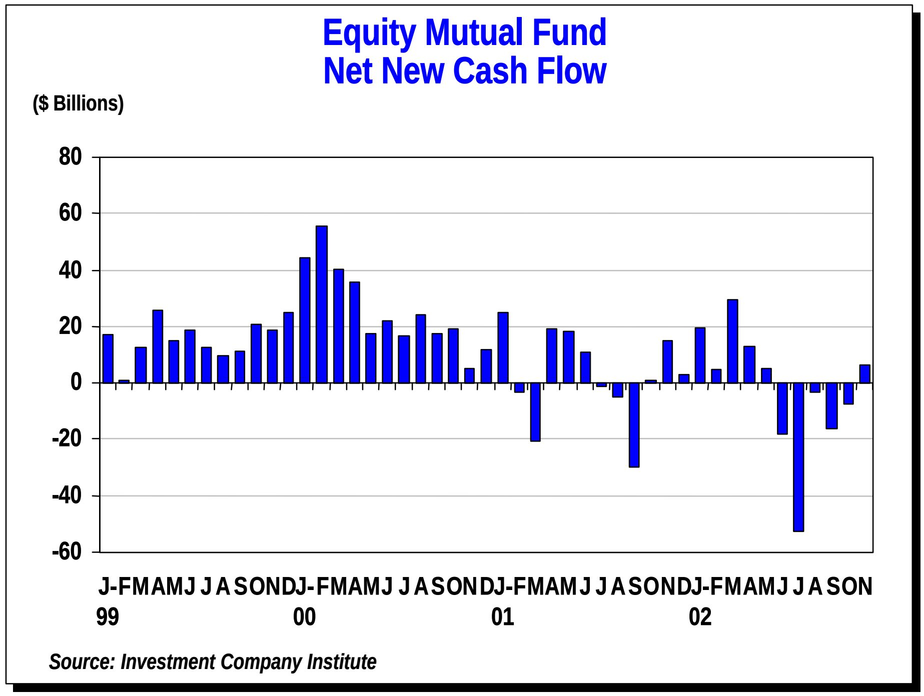
Dollar Volume – The value of trading also sank in December amid falling stock prices and curtailed trading. Nasdaq dollar volume tumbled 21% from November to $21.5 billion daily, while NYSE dollar volume dropped 15% to $32.1 billion daily in December.



For the year 2002, the value of trading on Nasdaq averaged $28.8 billion daily, down 35% from $44.1 billion daily in 2001, and 64% below the record $80.9 billion set in 2000. On the NYSE, dollar volume averaged $40.9 billion daily in 2002, just 3% short of 2001's $42.3 billion daily pace, and 7% behind 2000's record $43.9 billion daily average.

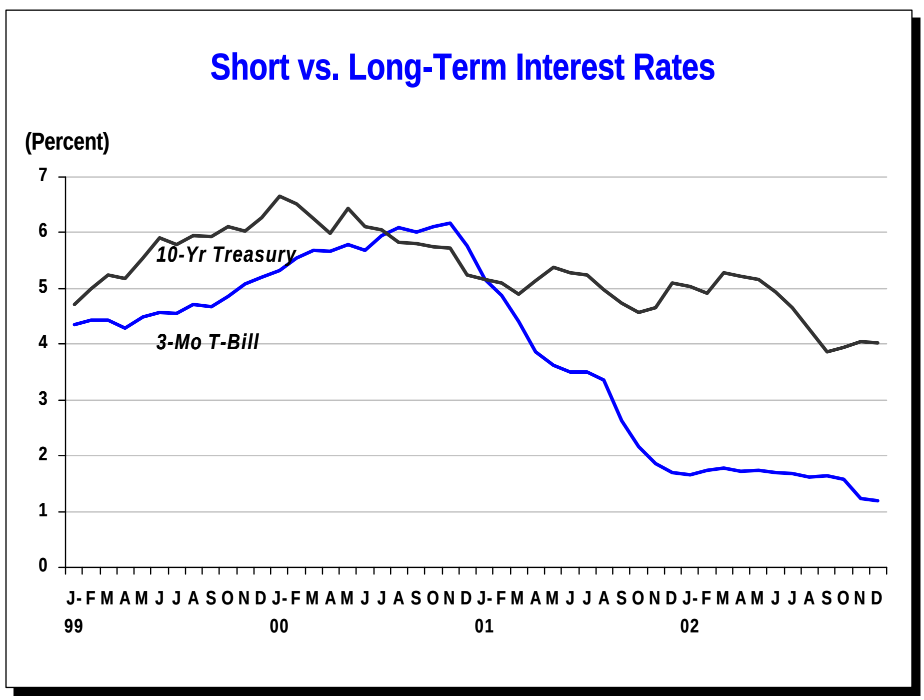


Stock Mutual Funds – Equity mutual funds bounced back in November, with $6.5 billion in net new cash inflow following five months of outflows. However, with outflows of $19.9 billion through the first 11 months of 2002, and an outflow of $7.75 billion in December, equity funds finished the year 2002 with outflows for the first time in 14 years.



Long-term stock mutual fund outflows for 2002 totalled more than $27 billion, contrasting with the $31.9 billion flowing into those funds in 2001. That $27 billion represents the first annual net outflow from long-term stock mutual funds since 1988, when outflows represented 8.0% of assets, compared to only 0.9% in 2002. Activity in long-term taxable bond mutual funds reflected the opposite trend, as one might expect. These bond funds saw an influx of $124 billion in 2002, up from $76.1 billion in 2001.

Fixed-Income – The bond market outperformed stocks for the third straight year. That's happened just three times in the past, most recently during the 1930s. Investment-grade bonds overall, including Treasuries, corporates, mortgages and agencies, had a total return of 10.3% last year, according to Merrill Lynch's US Broad Market Index.

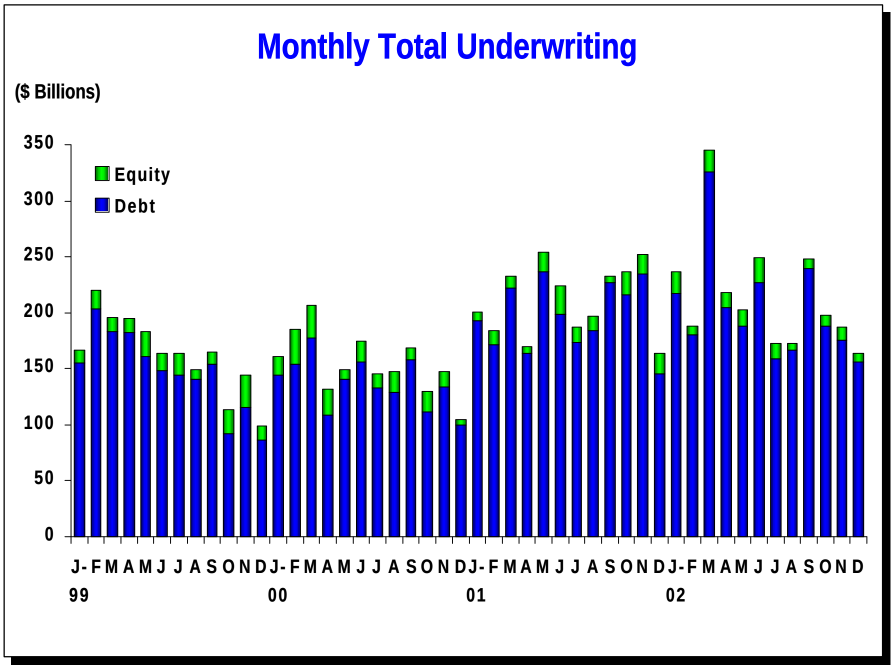


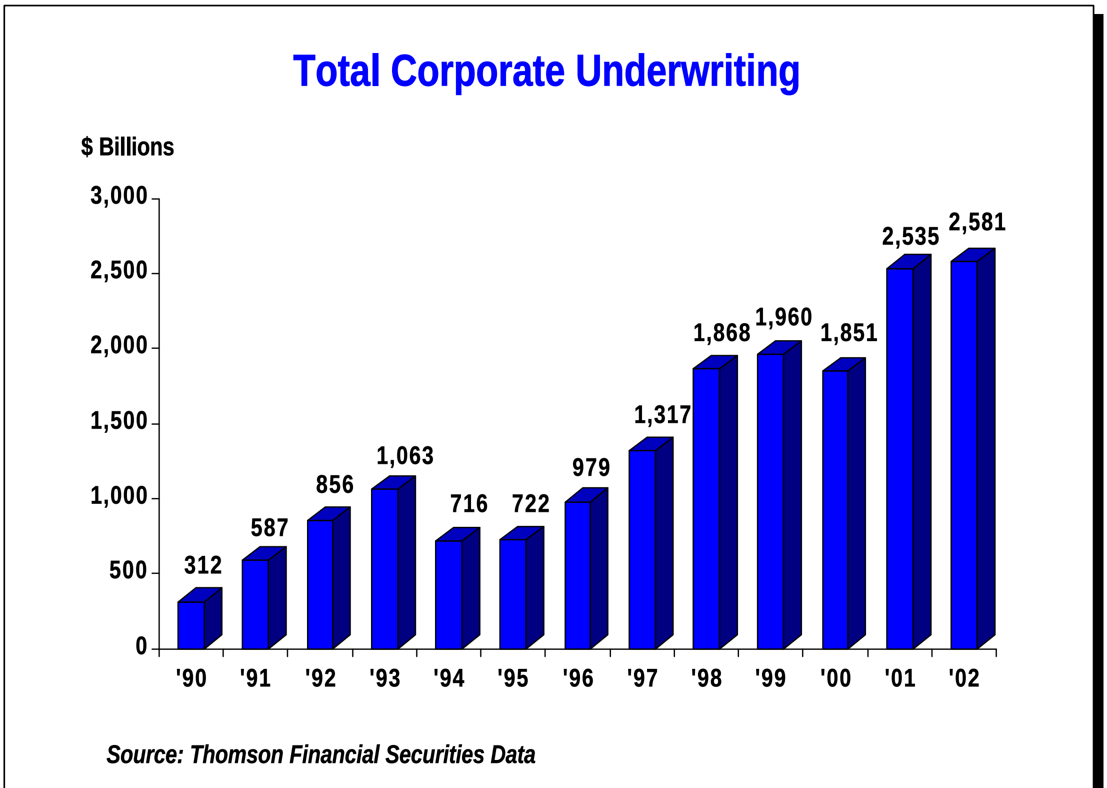
Long-term Treasury bond prices rose sharply in 2002, as investors seeking safety and an alternative to the stock market flocked to U.S. government securities. Yields on 10-year Treasury notes started the year at 5.07%, then moved as high as 5.44% on April 1 before descending dramatically. By Oct. 9, it fell to just 3.61%, a 44-year low, and it finished the year at 3.83%.

U.S. Underwriting Activity

Underwriting volume slowed in December, as it typically does during the holiday-shortened deal calendar. Monthly declines in all but preferred stock offerings drove December total underwriting activity to a 2002 monthly low of $164.0 billion, down 13% from November. In January 2003, estimated underwriting volume fell further as IPOs vanished.

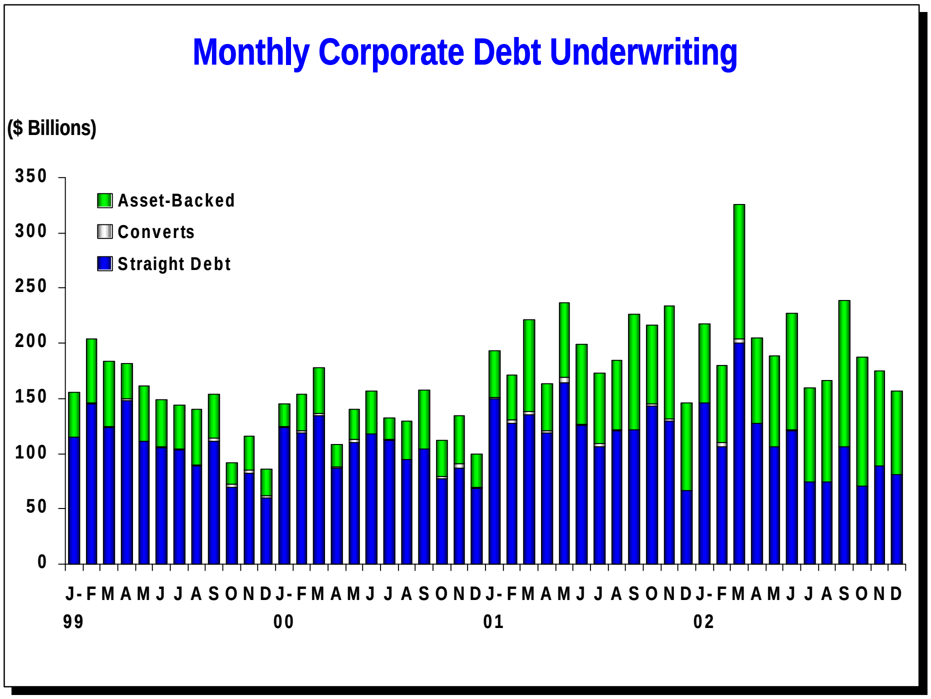
For the year 2002 overall, new issuance of corporate stocks and bonds inched up to record $2.58 trillion from $2.54 trillion in 2001. However, deal volume fell 31% to 10,572 – the lowest level since 1996.

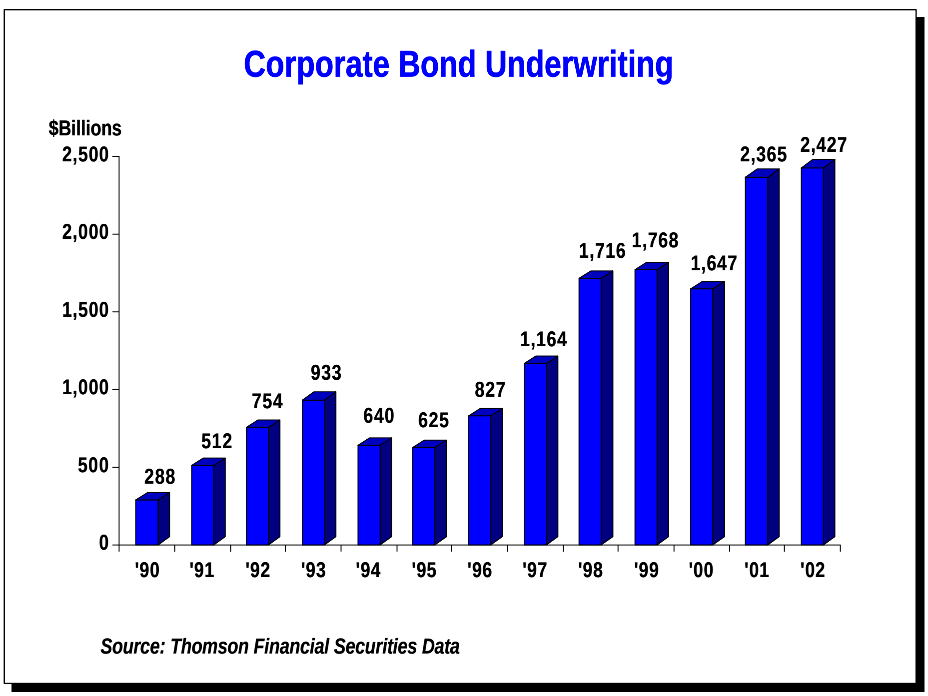




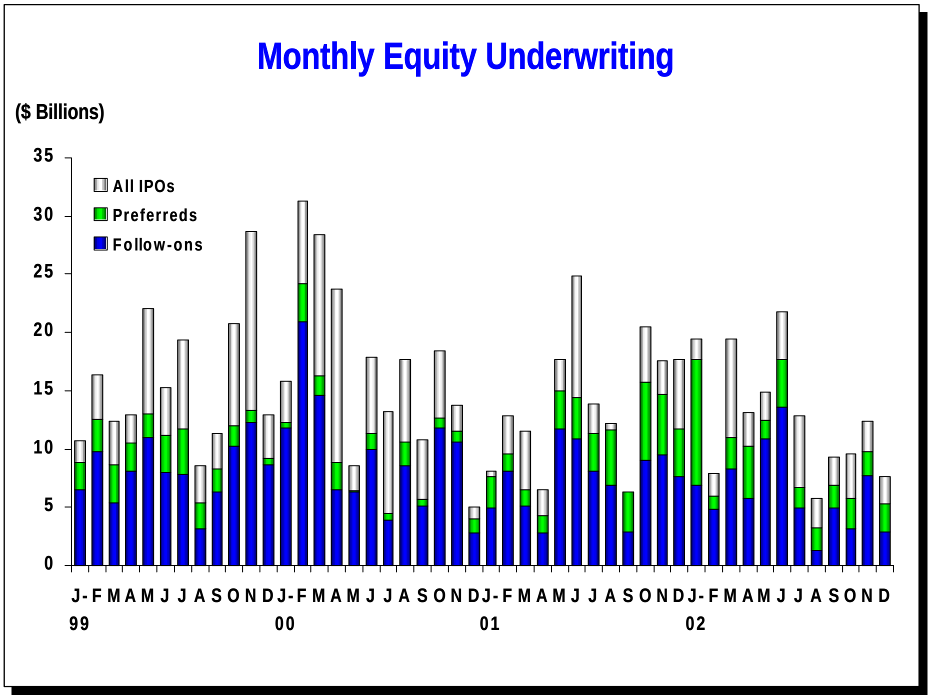
Source: Thomson Financial Securities Data

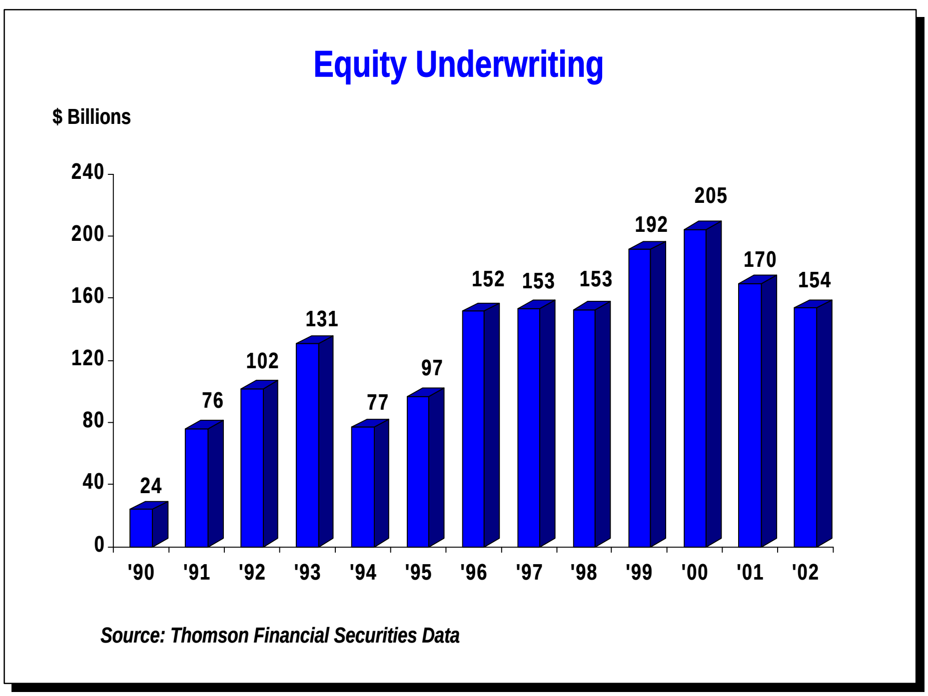
Corporate Bond Underwriting – Only asset-backed debt offerings increased over 2001, fueled by the record level of mortgage refinancing activity in residential real estate. Issuance surged 34% to a record $1.12 trillion in 2002. That helped drive total debt proceeds to a record $2.43 trillion in 2002, up 3% from $2.37 trillion in 2001. Nonetheless, the number of corporate debt deals sank 32% last year to a six-year low.





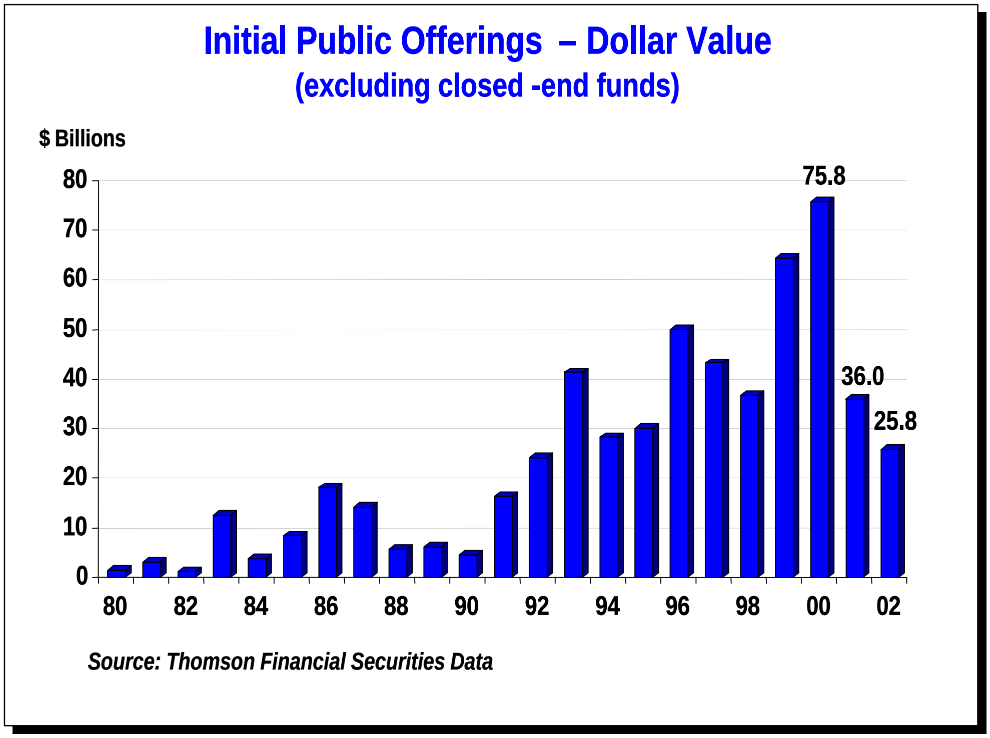
Equity Underwriting – Common and preferred stock issuance fell to a four-year low of $154.0 billion in 2002, down 9% from 2001 and 25% short of 2000's record $204.5 billion. Deal volume fell 5% to a 12-year low of 731, compared with 766 in 2001 and a record 1,862 in 1993.

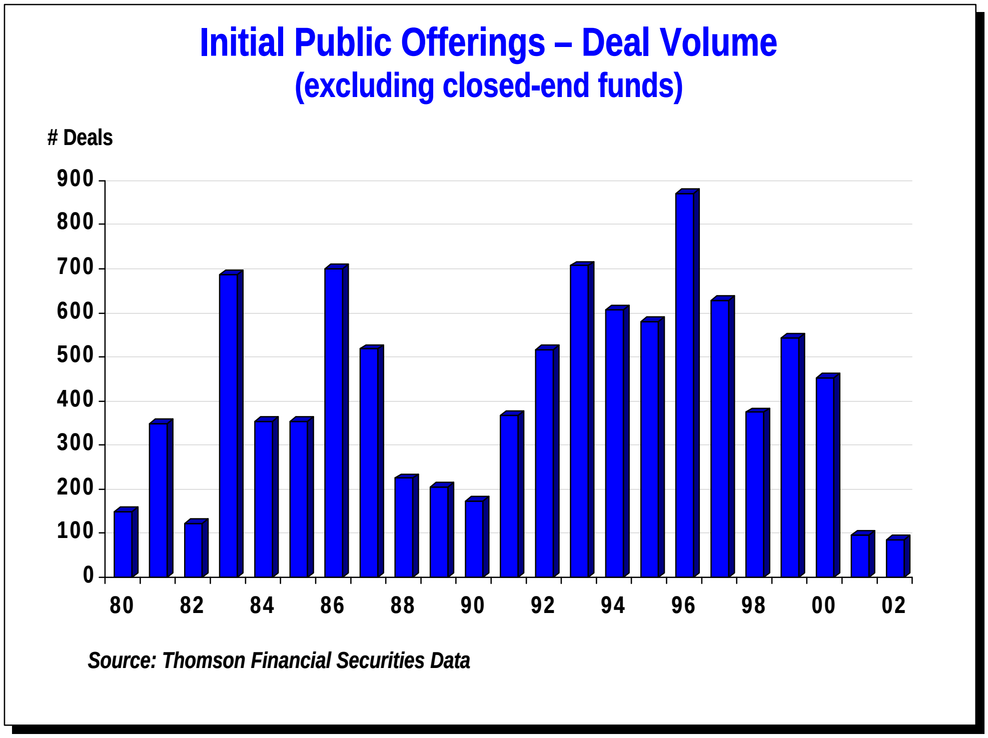




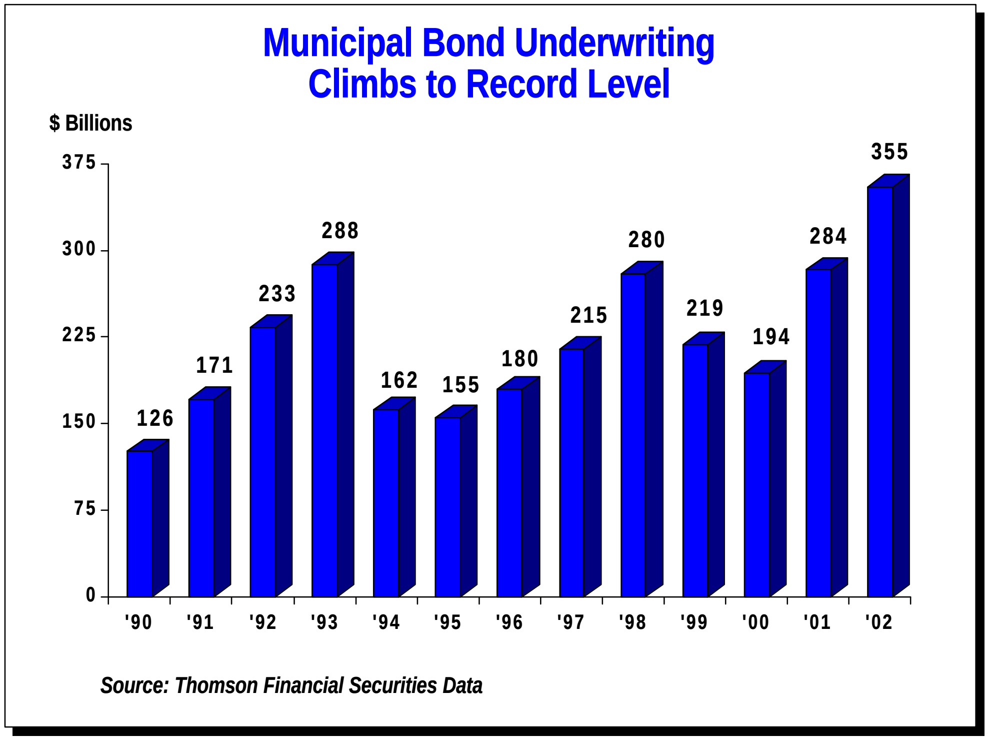
During 2002, IPO dollar volume sank to a 10-year low, while deal volume hit its lowest level since 1978. Dollar proceeds from IPOs (excluding closed-end funds) totaled $25.8 billion in 2002, a 28% decline from 2001's total and just one-third the record $75.8 billion set in 2000. Only 86 deals were completed in 2002, down 9% from 2001 and a mere one-tenth the record 871 in 1996. Activity slowed as the year progressed, with 4Q'02 volume sinking to $5.0 billion, just half the amount raised in 1Q'02.

A rebound in IPO activity in 2003 isn't expected any time soon, as there are only 38 deals in the equity pipeline totaling $4.9 billion, according to Dealogic. In January no IPOs were reported.

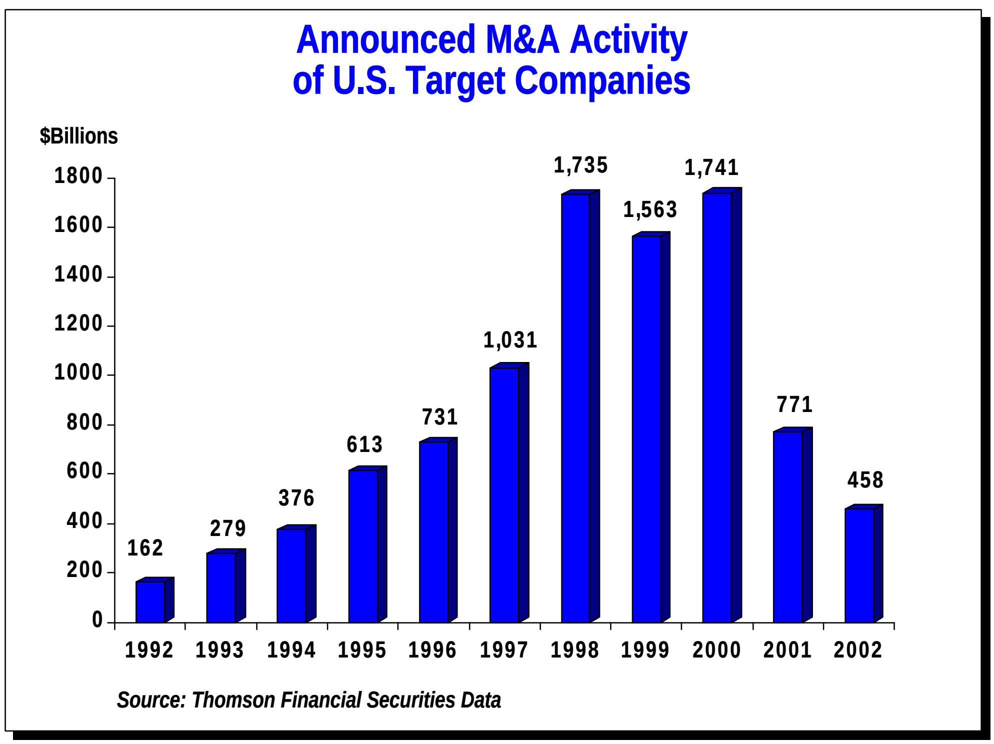




Municipal Bond Underwriting -- In the public financing sector, underwritten municipal bond issuance reached a record $355.4 billion in 2002, 23% higher than the previous record of $287.9 billion set in 1993, and a 25% increase over the $283.5 billion raised in 2001. State and local governments tapped the capital markets to fund growing budget deficits, and to refinance higher interest debt at very low borrowing costs.



M&A Activity – Falling stock prices, economic uncertainty and tight credit markets led to a further deterioration in M&A activity. The value of announced mergers and acquisitions of U.S. target companies in 2002 fell 41% in 2002 to $457.8 billion, its lowest level since 1994. From its peak in 2000, the value of announced M&A deals has fallen by 74%.



Grace Toto
Vice President and
Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	TOTAL **DEBT**	Common Stock	Preferred Stock	TOTAL **EQUITY**	All IPOs	"True" IPOs	Follow-Ons	**TOTAL** UNDER-**WRITINGS**
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2001											
Jan	149.6	1.7	41.7	193.0	5.4	2.7	8.1	0.5	0.2	4.9	201.1
Feb	127.5	3.3	40.5	171.3	11.3	1.5	12.8	3.2	3.2	8.1	184.1
Mar	135.5	2.3	83.8	221.6	10.1	1.4	11.5	5.0	4.1	5.1	233.1
Apr	119.3	1.1	42.9	163.4	5.0	1.5	6.5	2.2	2.2	2.8	169.9
May	164.8	4.8	67.0	236.6	14.4	3.3	17.8	2.7	2.3	11.7	254.4
June	126.1	1.0	71.9	199.0	21.4	3.5	24.9	10.5	9.9	10.9	223.8
July	106.8	2.6	63.9	173.3	10.6	3.3	13.9	2.5	2.3	8.1	187.2
Aug	121.2	0.2	63.0	184.4	7.6	4.7	12.3	0.6	0.6	6.9	196.7
Sept	121.8	0.0	104.6	226.5	2.9	3.4	6.3	0.0	0.0	2.9	232.8
Oct	142.8	2.7	70.8	216.4	13.7	6.7	20.4	4.8	4.4	9.0	236.8
Nov	129.3	1.9	102.9	234.2	12.4	5.2	17.6	2.9	1.3	9.5	251.8
Dec	66.4	0.0	79.4	145.8	13.6	4.1	17.7	6.0	5.5	7.6	163.4
2002											
Jan	145.7	0.2	71.2	217.1	8.6	10.8	19.4	1.8	1.3	6.9	236.5
Feb	106.2	3.8	70.2	180.1	6.7	1.2	8.0	1.9	1.2	4.8	188.0
Mar	200.5	3.2	121.7	325.4	16.9	2.7	19.6	8.5	7.5	8.3	344.9
Apr	127.3	0.0	77.5	204.9	8.7	4.4	13.1	2.9	2.2	5.8	218.0
May	106.7	0.1	81.4	188.2	13.3	1.6	14.9	2.4	1.8	10.9	203.1
June	121.3	0.4	105.2	226.9	17.7	4.1	21.8	4.1	1.4	13.6	248.7
July	74.1	0.4	84.9	159.4	11.0	1.8	12.8	6.1	5.4	4.9	172.2
Aug	74.7	0.0	91.7	166.4	3.8	2.0	5.7	2.5	0.1	1.3	172.2
Sept	106.8	0.0	132.3	239.1	7.3	2.0	9.3	2.4	0.0	4.9	248.4
Oct	70.5	0.1	117.4	188.1	7.0	2.6	9.5	3.8	2.2	3.2	197.6
Nov	88.5	0.4	86.4	175.3	10.2	2.1	12.3	2.6	1.6	7.7	187.6
Dec	80.8	0.0	75.6	156.4	5.2	2.4	7.6	2.3	1.2	2.9	164.0
YTD '01	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
YTD '02	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
% Change	-13.8%	-60.4%	34.0%	2.6%	-9.4%	-9.0%	-9.3%	1.0%	-28.4%	-14.2%	1.8%

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

MUNICIPAL BOND UNDERWRITINGS
(In $ Billions)

INTEREST RATES
(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	**TOTAL REVENUE BONDS**	Compet. G.O.s	Nego. G.O.s	**TOTAL G.O.s**	**TOTAL MUNICIPAL BONDS**	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
<u>2001</u>										
Jan	1.2	4.9	6.1	4.4	1.9	6.3	12.4	5.15	5.16	0.01
Feb	0.9	10.3	11.2	4.7	5.1	9.8	21.0	4.88	5.10	0.22
Mar	1.2	16.2	17.4	2.7	5.1	7.8	25.1	4.42	4.89	0.47
Apr	1.0	10.5	11.5	3.6	3.5	7.1	18.6	3.87	5.14	1.27
May	1.2	18.5	19.7	4.4	4.5	8.9	28.6	3.62	5.39	1.77
June	1.8	18.1	19.9	5.1	4.8	9.9	29.9	3.49	5.28	1.79
July	1.5	13.1	14.7	3.8	2.3	6.1	20.8	3.51	5.24	1.73
Aug	1.6	12.6	14.2	3.9	5.8	9.7	23.9	3.36	4.97	1.61
Sept	0.9	9.1	10.0	2.2	2.0	4.2	14.1	2.64	4.73	2.09
Oct	3.1	15.1	18.2	4.8	9.0	13.8	32.0	2.16	4.57	2.41
Nov	2.0	18.2	20.2	3.4	5.8	9.2	29.4	1.87	4.65	2.78
Dec	1.1	17.6	18.8	2.5	6.5	9.0	27.8	1.69	5.09	3.40
<u>2002</u>										
Jan	1.1	12.3	13.4	4.3	3.8	8.1	21.5	1.65	5.04	3.39
Feb	1.5	10.6	12.1	4.9	4.0	8.9	20.9	1.73	4.91	3.18
Mar	1.7	13.0	14.7	4.9	5.6	10.5	25.2	1.79	5.28	3.49
Apr	2.3	14.7	17.0	4.4	4.1	8.5	25.5	1.72	5.21	3.49
May	2.4	20.7	23.1	4.0	6.9	10.9	34.0	1.73	5.16	3.43
June	1.5	20.3	21.8	5.2	11.6	16.8	38.6	1.70	4.93	3.23
July	1.1	15.7	16.8	4.8	6.2	11.0	27.8	1.68	4.65	2.97
Aug	0.6	20.4	21.0	3.8	6.6	10.4	31.5	1.62	4.26	2.64
Sept	1.1	16.8	17.8	4.1	5.6	9.7	27.5	1.63	3.87	2.24
Oct	2.9	24.0	26.9	5.9	8.9	14.8	41.7	1.58	3.94	2.36
Nov	1.4	25.3	26.7	3.0	5.6	8.5	35.2	1.23	4.05	2.82
Dec	2.0	16.6	18.6	2.9	4.4	7.3	26.0	1.19	4.03	2.84
YTD '01	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
YTD '02	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
% Change	10.8%	28.2%	26.5%	15.0%	29.8%	23.2%	25.3%	-52.7%	-8.1%	84.6%

Sources: Thomson Financial Securities Data; Federal Reserve

STOCK MARKET PERFORMANCE INDICES (End of Period) | **STOCK MARKET VOLUME** (Daily Avg., Mils. of Shs.) | **VALUE TRADED** (Daily Avg., $ Bils.)

	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	121.58	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	138.58	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	138.23	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	156.26	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	195.04	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	180.49	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	229.44	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	240.21	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	259.08	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	250.94	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	329.51	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	392.30	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	511.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	595.81	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	650.30	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	656.87	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	589.80	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
<u>2001</u>									
Jan	10,887.36	1,366.01	663.64	2,772.73	1,325.9	72.5	2,387.3	52.0	75.6
Feb	10,495.28	1,239.94	626.94	2,151.83	1,138.5	70.9	1,947.6	43.8	59.7
Mar	9,878.78	1,160.33	595.66	1,840.26	1,271.4	82.5	2,071.4	45.9	49.2
Apr	10,734.97	1,249.46	634.83	2,116.24	1,276.5	78.4	2,162.8	45.1	49.6
May	10,911.94	1,255.82	641.67	2,110.49	1,116.7	66.7	1,909.1	41.4	46.4
June	10,502.40	1,224.42	621.76	2,160.54	1,175.0	63.8	1,793.9	41.6	40.6
July	10,522.81	1,211.23	616.94	2,027.13	1,137.1	56.0	1,580.7	39.0	36.0
Aug	9,949.75	1,133.58	587.84	1,805.43	1,025.7	49.1	1,426.4	34.0	28.4
Sept	8,847.56	1,040.94	543.84	1,498.80	1,694.4	72.8	2,033.0	51.2	33.9
Oct	9,075.14	1,059.78	546.34	1,690.20	1,314.3	67.8	1,926.0	40.1	36.1
Nov	9,851.56	1,139.45	579.27	1,930.58	1,270.1	57.8	1,840.3	38.1	37.8
Dec	10,021.50	1,148.08	589.80	1,950.40	1,275.3	54.1	1,807.0	38.8	36.2
<u>2002</u>									
Jan	9,920.00	1,130.20	578.50	1,934.03	1,425.9	56.1	1,888.7	44.5	40.8
Feb	10,106.13	1,106.73	578.60	1,731.49	1,381.8	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	600.43	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	574.18	1,688.23	1,307.3	55.4	1,779.0	42.4	32.1
May	9,925.25	1,067.14	570.78	1,615.73	1,234.2	61.5	1,834.2	38.9	29.8
June	9,243.26	989.82	533.07	1,463.21	1,587.0	66.9	1,877.1	44.8	29.4
July	8,736.59	911.62	491.37	1,328.26	1,886.3	79.0	2,158.2	50.9	28.1
Aug	8,663.50	916.07	495.55	1,314.85	1,341.4	58.4	1,509.0	35.5	21.2
Sept	7,591.93	815.28	445.44	1,172.06	1,409.0	90.3	1,477.3	36.3	20.5
Oct	8,397.03	885.77	472.90	1,329.75	1,654.8	68.3	1,709.3	42.5	25.4
Nov	8,896.09	936.31	495.27	1,478.78	1,454.4	57.7	1,799.5	37.9	27.3
Dec	8,341.63	879.82	472.87	1,335.51	1,247.9	57.6	1,386.8	32.1	21.5
YTD '01	10,021.50	1,148.08	589.80	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
YTD '02	8,341.63	879.82	472.87	1,335.51	1,441.0	63.7	1,749.7	40.9	28.8
% Change	-16.8%	-23.4%	-19.8%	-31.5%	16.2%	-3.1%	-7.9%	-3.3%	-34.7%

MUTUAL FUND ASSETS

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**
1985	116.9	12.0	122.6	243.8	495.4
1986	161.4	18.8	243.3	292.2	715.7
1987	180.5	24.2	248.4	316.1	769.2
1988	194.7	21.1	255.7	338.0	809.4
1989	248.8	31.8	271.9	428.1	980.7
1990	239.5	36.1	291.3	498.3	1,065.2
1991	404.7	52.2	393.8	542.5	1,393.2
1992	514.1	78.0	504.2	546.2	1,642.5
1993	740.7	144.5	619.5	565.3	2,070.0
1994	852.8	164.5	527.1	611.0	2,155.4
1995	1,249.1	210.5	598.9	753.0	2,811.5
1996	1,726.1	252.9	645.4	901.8	3,526.3
1997	2,368.0	317.1	724.2	1,058.9	4,468.2
1998	2,978.2	364.7	830.6	1,351.7	5,525.2
1999	4,041.9	383.2	808.1	1,613.1	6,846.3
2000	3,962.0	346.3	811.1	1,845.2	6,964.7
2001	3,418.2	346.3	925.1	2,285.3	6,975.0
<u>2001</u>					
Jan	4,093.5	354.9	833.3	1,954.8	7,236.5
Feb	3,688.9	344.9	844.5	2,018.7	6,897.0
Mar	3,402.9	333.7	852.1	2,035.5	6,624.2
Apr	3,715.7	348.0	846.0	2,031.5	6,941.2
May	3,744.6	352.6	858.4	2,070.9	7,026.5
June	3,677.2	349.9	860.8	2,052.5	6,940.4
July	3,589.3	351.7	882.3	2,069.8	6,893.1
Aug	3,382.7	342.6	908.3	2,104.3	6,737.9
Sept	3,018.9	324.1	909.6	2,161.7	6,414.3
Oct	3,111.2	330.3	935.2	2,239.7	6,616.4
Nov	3,348.6	343.0	934.1	2,306.5	6,932.2
Dec	3,418.2	346.3	925.1	2,285.3	6,975.0
<u>2002</u>					
Jan	3,372.1	347.2	946.9	2,303.4	6,969.6
Feb	3,310.5	348.3	962.5	2,301.0	6,922.3
Mar	3,495.7	359.2	958.3	2,247.9	7,061.1
Apr	3,367.8	354.5	980.6	2,231.4	6,934.4
May	3,341.5	356.4	994.1	2,230.7	6,922.7
June	3,088.7	341.4	1,003.7	2,197.4	6,631.2
July	2,770.1	320.7	1,032.9	2,254.6	6,378.4
Aug	2,781.1	324.9	1,063.7	2,217.5	6,387.3
Sept	2,505.3	305.4	1,089.0	2,164.6	6,064.2
Oct	2,659.5	316.7	1,083.6	2,177.5	6,237.2
Nov	2,818.6	332.0	1,097.9	2,306.6	6,555.1
Dec					
YTD '01	3,348.6	343.0	934.1	2,306.5	6,932.2
YTD '02	2,818.6	332.0	1,097.9	2,306.6	6,555.1
% Change	-15.8%	-3.2%	17.5%	0.0%	-5.4%

MUTUAL FUND NET NEW CASH FLOW*

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	8.5	1.9	63.2	-5.4	68.2	73.6
1986	21.7	5.6	102.6	33.9	163.8	129.9
1987	19.0	4.0	6.8	10.2	40.0	29.8
1988	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	5.8	4.2	-1.2	64.1	72.8	8.8
1990	12.8	2.2	6.2	23.2	44.4	21.2
1991	39.4	8.0	58.9	5.5	111.8	106.3
1992	78.9	21.8	71.0	-16.3	155.4	171.7
1993	129.4	39.4	73.3	-14.1	228.0	242.1
1994	118.9	20.9	-64.6	8.8	84.1	75.2
1995	127.6	5.3	-10.5	89.4	211.8	122.4
1996	216.9	12.3	2.8	89.4	321.3	232.0
1997	227.1	16.5	28.4	102.1	374.1	272.0
1998	157.0	10.2	74.6	235.3	477.1	241.8
1999	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	32.2	9.5	87.8	375.3	504.8	129.6
<u>2001</u>						
Jan	24.9	2.5	9.0	103.5	139.9	36.4
Feb	-3.3	1.3	8.9	58.2	65.1	6.8
Mar	-20.7	-0.4	7.7	13.7	0.4	-13.3
Apr	19.1	1.2	1.4	-10.5	11.2	21.7
May	18.4	0.9	6.3	34.3	59.8	25.6
June	10.9	1.2	2.3	-24.2	-9.8	14.3
July	-1.3	1.3	9.3	12.2	21.5	9.3
Aug	-5.0	-0.7	16.7	26.1	37.2	11.0
Sept	-30.0	-1.3	7.7	52.9	29.3	-23.6
Oct	0.9	1.6	13.6	74.2	90.2	16.0
Nov	15.2	1.0	6.9	60.3	83.3	23.0
Dec	2.9	1.0	-1.9	-25.4	-23.3	2.1
<u>2002</u>						
Jan	19.4	2.2	10.4	14.0	46.0	32.0
Feb	4.7	2.3	10.9	-5.5	12.4	17.9
Mar	29.6	3.3	6.6	-53.0	-13.5	39.5
Apr	12.8	3.3	7.7	-19.6	4.3	23.9
May	4.8	1.5	10.5	-3.2	13.6	16.8
June	-18.3	0.4	12.2	-43.6	-49.3	-5.7
July	-52.6	-4.7	28.1	54.6	25.4	-29.2
Aug	-3.1	0.6	17.4	-38.7	-23.9	14.9
Sept	-16.1	-0.6	15.4	-54.9	-56.2	-1.4
Oct	-7.5	-1.0	6.4	12.5	10.4	-2.1
Nov	6.5	1.2	7.7	127.6	143.0	15.4
Dec						
YTD '01	29.1	8.5	89.7	400.7	528.0	127.4
YTD '02	-19.9	8.5	133.5	-10.1	112.0	122.1
% Change	-168.2%	-0.3%	48.7%	-102.5%	-78.8%	-4.2%

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

SIA RESEARCH MANAGEMENT CONFERENCE
Thursday, March 6, 2003 – New York City

SIA, together with its Research Directors Roundtable, is hosting an intensive one-day seminar for research professionals in New York City on Thursday, March 6, 2003. This is being held in conjunction with the following day's annual meeting of the Research Directors Roundtable.

Today's sell-side research analysts function in a work environment significantly different from just a few years ago. A stagnant U.S. economy, passage of the landmark "Sarbanes-Oxley Act," agreement on the global research settlement, and new federal regulations have redefined their role and responsibilities. Analysts are implementing a battery of new regulations while monitoring additional rule proposals and facing greater scrutiny from the Securities and Exchange Commission, the self-regulatory organizations, the media, and their customers. How can analysts keep abreast of these changes while producing superior research analysis?

In an effort to address these changes and their impact on research analysis, the Securities Industry Association has developed an intensive, one-day conference designed exclusively for senior research analysts and directors of research. The event will showcase industry experts from the regulatory and legislative communities and from within the industry, and is an excellent opportunity to examine at one time the many legal, compliance, and business changes within research analysis.

Other issues to be examined include: the standardization of pro-forma earnings; the importance of credit ratings agencies; employment and compensation; research technologies; professional conduct and ethics; restoring the public's trust in securities research; and, the outlook for both the capital markets and the securities industry in general. Preliminary topics are listed in the program that, along with registration form, airline discount form and information on area hotels, are available at SIA's web site at http://www.sia.com/ResearchManagement/. The preliminary program and registration form are also posted on the next two pages for your convenience. As speakers and topics are confirmed, SIA will update this site.

Don't delay – register today. The conference's format is highly interactive and therefore limited to the first 70 paid registrants. SIA is charging a minimal fee of $475 for SIA member-firms; $675 for non-members. For more information, contact Frank Fernandez, chief economist and senior vice president, research, (ffernandez@sia.com) or George Monahan, vice president, research (gmonahan@sia.com).

CLE credit in New York is available for this event. Fee reduction may be available for qualified registrants. Contact: George Monahan at gmonahan@sia.com for more information on CLE credit.

SIA RESEARCH MANAGEMENT CONFERENCE

Thursday, March 6, 2003
Merrill Lynch Conference Center
222 Broadway, 20th Floor
New York, NY 10038

PRELIMINARY PROGRAM

8:00 a.m.
Registration and Continental Breakfast

8:45 – 11:45 a.m.
Morning General Sessions

Compliance and Legal Issues

- Sarbanes-Oxley: Implementation Update: impact of changes in the corporate disclosure regime on issuers
- Recent NYSE/NASD/SEC Rule changes: review/unresolved issues; disclosure and record-keeping requirements of public appearances/holdings/contacts with issuers; separation of research and investment banking; analyst certification; trading restrictions
- Independent equity research and analyst objectivity
- E-mail surveillance and maintenance
- Restoring the role/importance of the Supervisory Analyst (Series 16)

Coffee Break

Technology Issues

- Regulation and standardization of control framework
- Benchmarking
- RIXML and industry standards
- Upcoming white papers
- Industry and client survey standardization

Noon. – 1:30 p.m.
Luncheon

Lunch Address:

- Standardization of pro-forma earnings and other measures/credit rating agency issues

1:45 p.m. – 5:00 p.m.
Afternoon General Sessions

Business Issues

- Employment, Compensation and Evaluation Practices
- Production and Dissemination Platforms: Cost/Benefits of Partial Outsourcing
- Professional Conduct, Ethics and the Restoration of Public Trust and Confidence
- The impact of accounting rule changes on financial analysis and valuation

Refreshment Break

Securities Industry Outlook

- The Changing Structure of the Industry and the Market

Conference Registration Form

SIA Research Management Conference

March 6, 2003

Merrill Lynch Conference Center • 222 Broadway, New York City

The registration fee is $475 per registrant for SIA member firms, $675 per registrant for non-member firms. Fee includes general sessions, continental breakfast, lunch, morning and afternoon refreshments and meeting materials. All sessions are subject to change. **NOTE: SPACE IS LIMITED TO FIRST 70 REGISTRANTS. Don't delay, register today!**

Please enclose your check, made payable to the Securities Industry Association and mail to the address below or provide credit card information on this completed registration form (incomplete forms will be returned.) Online registration is also available on our website: www.sia.com

Securities Industry Association
Attention: Betty Lai
120 Broadway, 35th Floor • New York, NY 10271-0080

Firm: ____

Address: ____

City / State / Zip: ____

Registrants *(photocopy for additional registrants):*

❏ Mr. ❏ Ms. ____

Corporate Title: ____

Functional Title: ____

Telephone: ____________________ Fax: ____________________ Email: ____________________

If paying by credit card, please complete this portion of the registration form and fax to Betty Lai at (212) 968-0653. Faxed forms without credit card information will be returned.

Credit Card Type (All major credit cards accepted): ______________________________

Credit Card Number: ______________________________ _Expiration Date: ____________________

Name on Credit Card: ____

Signature: ____

If you wish to be included in the roster of participants for this meeting, your completed registration form along with payment must be received by February 24, 2003. Forms received after that date will not be included in the roster.

Note: No refunds will be made for cancellations after February 24, 2003. All cancellation requests are subject to a $75 processing fee. Cancellations prior to refund cutoff date, must be in writing. Please fax your cancellation request to Betty Lai at (212) 968-0653 or email blai@sia.com

All information provided is subject to SIA's Privacy Policy, which is available on SIA's website, www.sia.com.

Airline Discount

American Airlines in cooperation with the Securities Industry Association offers you an exclusive Meeting Saver Fare to:

SIA Research Management Conference

March 6, 2003

Merrill Lynch Conference Center • 222 Broadway, New York City

AAnytime Fares

AAnytime coach and first class fares are available any time, any day, any seat, with unlimited capacity. They give you the flexibility your meeting schedule demands. There are no Saturday stay overs required. No holiday blackout periods. No advance purchase requirements. Which means you can book your trip at the last minute and still enjoy low fares. Plus, the tickets are refundable if your schedule changes before ticketing, you can always change or cancel your reservation without charge. And, if you need to change your routing or cancel for a refund after ticketing, you can for a minimal administrative service charge. Your exclusive Meeting Saver fare entitles you to 5% off your AAnytime fares.

PlanAAhead Fares

Stay over Saturday night and enjoy even lower fares based on how far in advance you buy your ticket. Like most low price advance-purchase fares, PlanAAhead tickets are for roundtrip travel only and must be purchased within 24 hours of making reservations. Seats are limited and tickets are nonrefundable. PlanAAhead fares offer you more flexibility, because they are reusable if your plans change. American or your travel professional will reticket you for a minimal service charge as long as you meet the applicable advance-purchase and length of stay requirements. Your exclusive Meeting Saver fare entitles you to 5% off your PlanAAhead seven or fourteen day advance-purchase fare.

Y26 Coach Fares

This fare encompasses some of the features and restrictions of the AAnytime and PlanAAhead fares. A seven day advance purchase is required. All tariff rules apply. Your exclusive Meeting Saver fare entitles you to 10% off your Y26 coach fare.

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Our meeting service specialists will do their best to book you on the flights you want when you want them and assign the seats of your choice. We'll also arrange for your car rental. Airline tickets may be obtained through American Airlines or your travel professional. If so, have your agent reserve through our Meeting Services Desk toll free number. For reservations and information, call:

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