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THE STATE OF HEDGE FUNDS: 2004

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MONTHLY STATISTICAL REVIEW

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The hedge fund industry has grown rapidly in the number of funds and the amount of assets under management. For a variety of reasons, including this rapid growth, a broadening investor base and a series of trading scandals that involved a number of hedge funds, U.S. Securities and Exchange Commission (SEC) Chairman William Donaldson has proposed new registration requirements for hedge fund managers (the "Proposal").[1]

With the discussion of hedge funds front and center, it seems timely to provide an update on the industry.[2] While the merits of the proposal's specifics are not the topic of this piece, some areas of the proposal have attracted considerable disagreement, not least of which among the five SEC commissioners; these will be touched upon.[3]

What is a Hedge Fund?

One of the difficulties in discussing the hedge fund industry is that there is no formal legal or regulatory definition of the term 'hedge fund'. There is, however, a measure of general understanding among market participants that the term originally described private investment funds that had both long and short equity exposure – hence "hedge" fund.

Over time, the term has come to describe ***private funds***[4], which generally: (1) take the form of a limited partnership or limited liability company; (2) are managed by investment managers, in the form of either a general partner or an investment advisor, who also make significant investments in the fund; (3) pay an asset-based management fee of one to two percent; (4) pay a performance-based incentive fee of 20% (with or without a ***high watermark***); and, (5) have strict policies limiting investors to high-net-worth individuals and institutions. Other qualities shared by hedge funds are that they usually concentrate on a stated specialized investment style (see the Appendix for an example of typical descriptions) and are expected to earn absolute returns, with low performance correlation with broad-based indexes.

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1 Securities and Exchange Commission, "Registration Under the Advisers Act of Certain Hedge Fund Advisers," 17 CFR Parts 275 and 279, [Release No. IA-2266; File No. S7-30-04], RIN 3235-AJ25 (http://www.sec.gov/rules/proposed/ia-2266.htm).

2 In 2003, the Securities Industry Association presented two research reports on hedge funds. The first report presented an update on the then current state of hedge funds and the second report discussed the then recently held Securities and Exchange Commission Hedge Fund Roundtable and the then soon-to-be-released SEC Hedge Fund Report. See Judith L. Chase, "The State of Hedge Funds," *SIA Research Reports*, Volume IV, No. 2, March 10, 2003, pp. 3-11 (http://www.sia.com/research/pdf/RsrchRprtVol4-2.pdf) and Judith L. Chase, "Hedge Fund Update," *SIA Research Reports*, Volume IV, No. 6, June 12, 2003, pp. 22-26 (http://www.sia.com/research/pdf/RsrchRprtVol4-6.pdf).

3 The disagreement was significant enough that the two dissenting commissioners took the unusual step of publishing their written dissent side by side with the proposal itself (http://www.sec.gov/rules/proposed/ia-2266.htm#dissent).

4 Terms in ***blue bold italics*** are defined in a glossary provided at the end of this piece.

One of the difficulties in discussing hedge funds is that over the years they have earned a reputation of being "high flying" or "high risk" investment vehicles, a reputation deserved only by a few. Lumping together all the investment styles employed by hedge fund managers is not very informative in that there is a wide range of investment philosophies, leverage use and risk tolerance among hedge funds. An interesting presentation of hedge fund characteristics and the use of leverage is contained in the following two tables[5].

Global Hedge Fund Characteristics
As of 1Q2003

	Mean	***Median***	**Mode**
Fund Size	$120 million	$33 million	$3 million
Fund Age	6.3 years	5.5 years	3.0 years
Minimum Investment Required	$630,414	$500,000	$1,000,000
Number of Entry Dates per Year	27	12	12
Number of Exit Dates per Year	22	4	4
Management Fee	1.3%	1.0%	1.0%
Performance Allocation ("Fee")	16.8%	20.0%	20.0%
			YES
Fund has ***hurdle rate***			18%
Fund has high watermark			89%
Fund has audited financial statements or audited performance			90%
Manager has $500,000 of own money in fund			82%
Fund can handle "***hot issues***"			56%
Fund is ***diversified***			51%
Fund can ***short sell***			87%
Fund can use ***leverage***			74%
Fund uses derivatives for hedging only, or none			66%
Level of ***turnover***[6]	Low = 21%	Medium = 26%	High = 53%
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5 For further information, please see www.hedgefund.com and refer to the Explanatory Notes under the Legal Considerations Section.

6 Low = 0-25%; medium = 26-75%; and high = greater than 75% turnover.

Global Hedge Funds - Use of Leverage As of December 2002[7]				
Hedge Fund Style	Don't Use Leverage	Use Leverage		
		Low (<2.0:1)	High (>2.0:1)	Total
Aggressive Growth	24.5%	59.3%	16.2%	75.5%
Distressed Securities	48.2%	45.6%	6.1%	51.8%
Emerging Markets	36.3%	46.8%	16.9%	63.7%
Fund of Funds	31.9%	51.0%	17.1%	68.1%
Income	43.2%	29.7%	27.0%	56.8%
Macro	11.3%	37.1%	51.6%	88.7%
Market Neutral - Arbitrage	18.3%	22.8%	58.8%	81.7%
Market Neutral - Securities Hedging	25.4%	29.5%	45.1%	74.6%
Market Timing	38.2%	22.9%	38.9%	61.8%
Opportunistic	20.8%	44.5%	34.7%	79.2%
Several Strategies	30.2%	38.8%	31.0%	69.8%
Short Selling	32.6%	44.2%	23.3%	67.4%
Special Situations	20.7%	60.1%	19.2%	79.3%
Value	26.3%	56.3%	17.4%	73.7%
Total Sample	27.0%	45.1%	27.9%	73.0%
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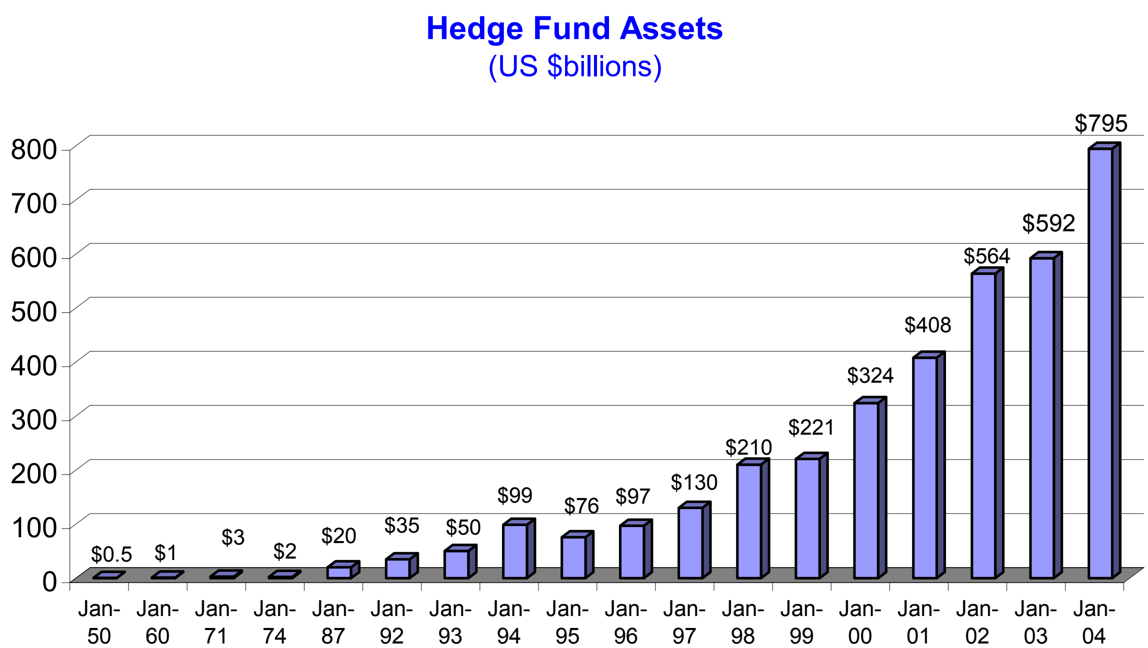
As is demonstrated above, while 73% of the sample surveyed employ leverage, less than 28% exceed Reg T levels (leverage equal to twice the ***net asset value*** of the fund). As described by Van Hedge Fund Advisors, "[h]edge funds are as varied as the animals in the African jungle. Over the years, many investors have assumed that hedge funds were all like the famous Soros or Robertson funds - with high returns, but also with a lot of volatility. In fact, only a small percentage of all hedge funds are 'macro' funds of that type. Among the others, there are many that strive for very steady, better-than-market returns," and exhibit relatively low volatility.[8]

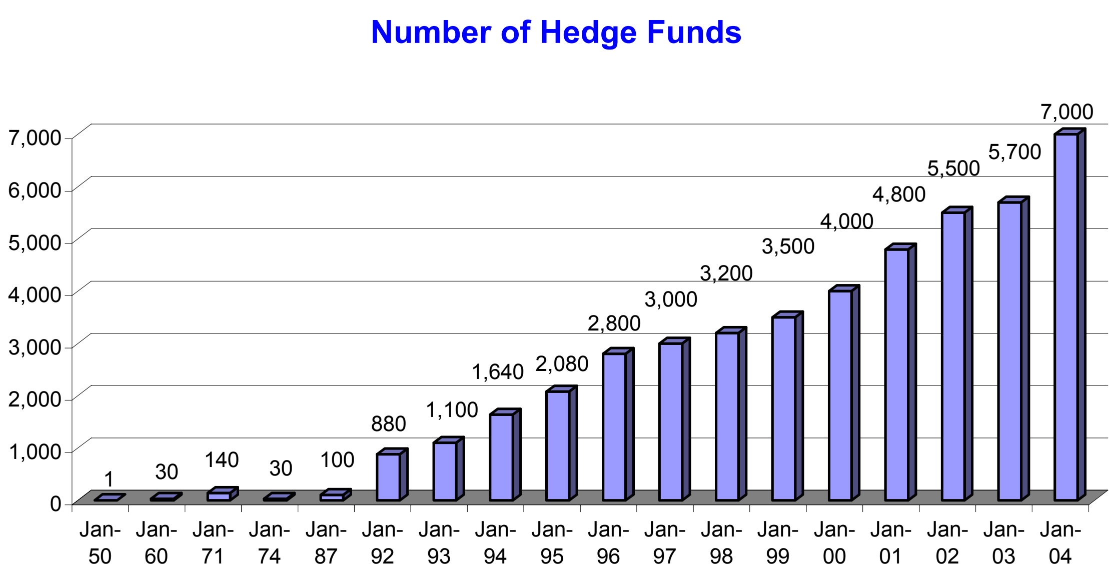
[8] See http://www.hedgefund.com/abouthfs/what/what.htm.

Hedge Fund Industry Size Estimates

Just as it is difficult to define what a hedge fund is, it is difficult to measure the size of the hedge fund industry. There are, however, many hedge fund consulting firms that track the industry. Each one has its own slightly different take on the market, but they all are in the same ballpark when it comes to overall size. Below are estimates of the size of the U.S. hedge fund industry extrapolated by one such firm from its own annual survey, which captures a significant portion of the industry as a whole.



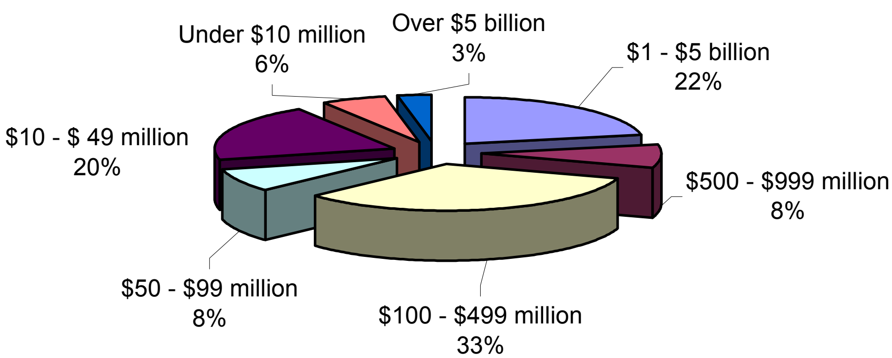
Source: Hennessee Group LLC 2004 Industry Research



Source: Hennessee Group LLC 2004 Industry Research

The chart below shows the breakdown of the survey sample used to estimate the size of the U.S. hedge fund industry in the two charts above.

2004 Hennessee Group Manager Survey Participants
by Hedge Fund Asset Size



Source: Hennessee Group LLC Industry Research

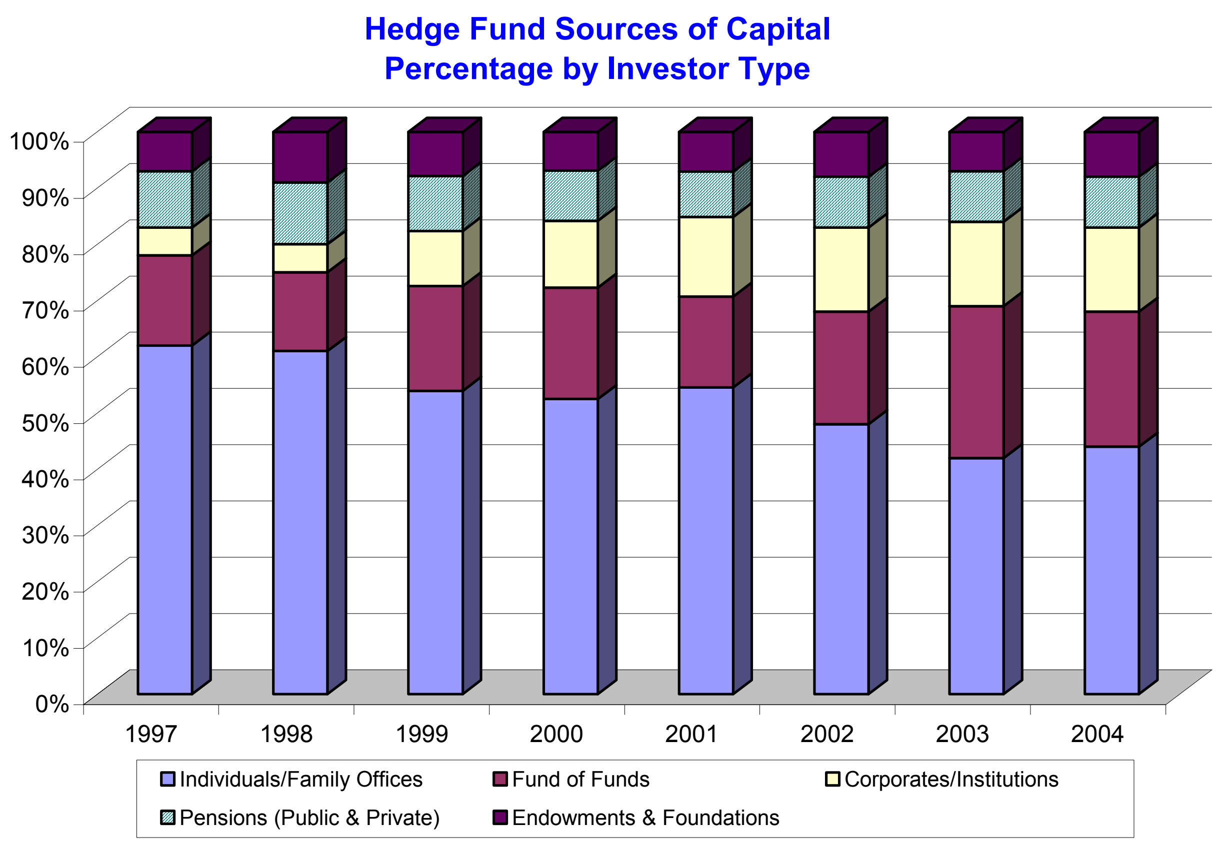
Manager Participants: 789 hedge funds managed by 174 management companies representing $144 billion in assets

Another hedge fund consulting firm has come up with similar size estimates and has broken them into U.S. and offshore segments. It is interesting to note that while this source estimates a somewhat smaller U.S. hedge fund industry size, it also provides data showing the off shore market to be nearly as large as that in the United States.

Hedge Funds: Number of Funds & Dollars Under Management
1999-2004

	1999	2000	2001	2002	2003	2004
U.S. Hedge Funds						
No. of Funds	4,150	4,250	4,400	4,600	4,875	—
$ Under Management (bn)	$255	$280	$315	$340	$420	—
Offshore Hedge Funds						
No. of Funds	2,050	2,250	2,600	2,900	3,225	—
$ Under Management (bn)	$225	$240	$285	$310	$400	—
Global Hedge Funds						
No. of Funds	6,200	6,500	7,000	7,500	8,100	8,800
$ Under Management (bn)	$480	$520	$600	$650	$820	$970

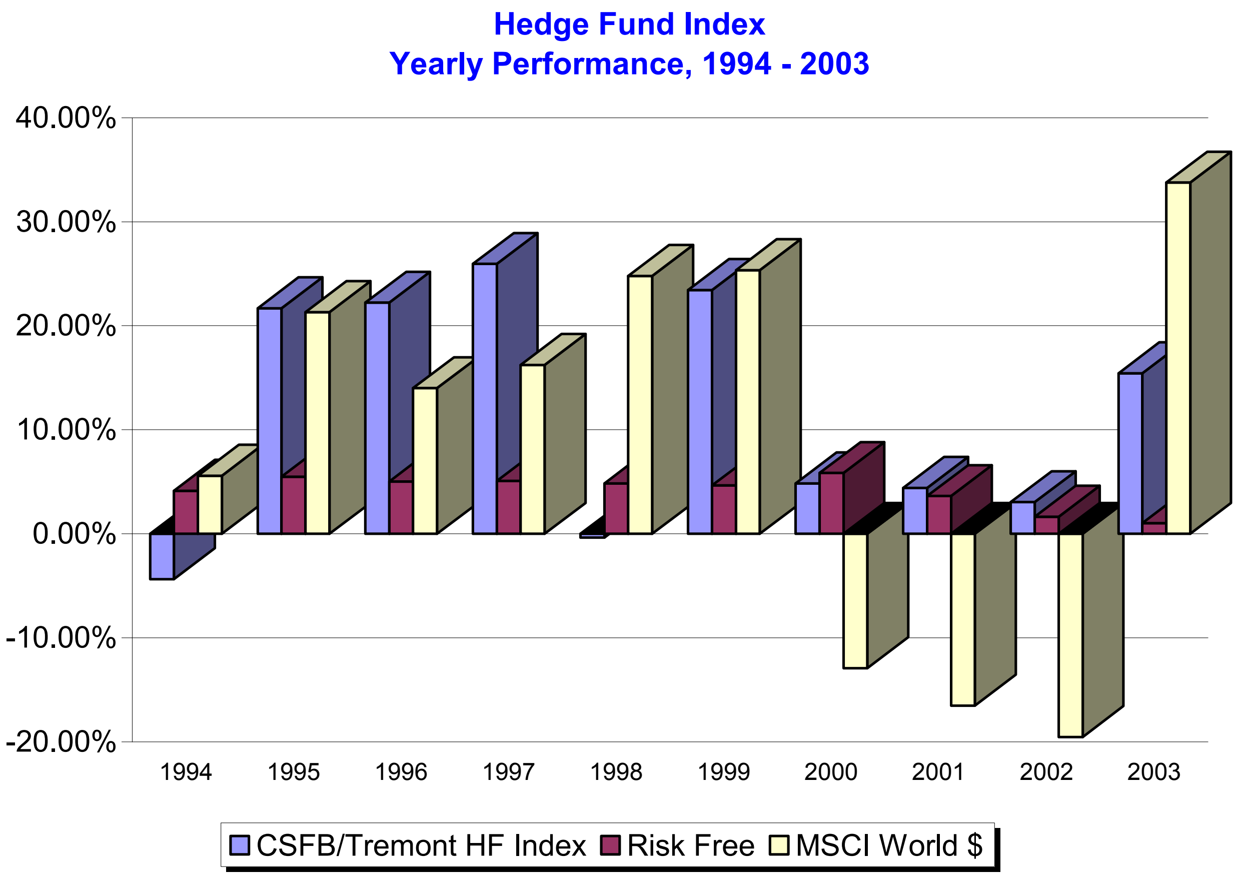
Hedge fund industry growth is composed of two elements: asset appreciation (discussed in the following section) and net fund inflows (new capital). New capital is a particularly interesting subject because it is at the center of much of the current debate about the need or the absence of need for additional hedge fund regulation. Has the hedge fund industry changed in some fundamental way that exposes ordinary investors to the risk inherent in investing in hedge funds? According to the data below, the answer would appear to be no. High net worth individuals and family offices still make up the largest single source of capital for hedge funds. Fund of funds, or more specifically, funds of hedge funds, have become a larger source of capital, but they are themselves regulated entities in terms of retail investors. Institutional investors, who are by definition professional investors, have become a more important source of capital, while pensions or endowments have maintained a rather steady pace.



Source: Hennessee Group LLC 2004 Industry Research

Hedge Fund Performance

There are many sources of information on hedge fund performance. In addition to hedge fund consulting firms, there are hedge fund tracking services and fund of funds that follow very large segments of the industry. There is also a growing number of hedge fund indexes that are used both to track the industry and as the basis for investment vehicles (investments in the index components and investments linked to the value of the index itself). The yearly performance of one of the hedge fund indexes is presented below.



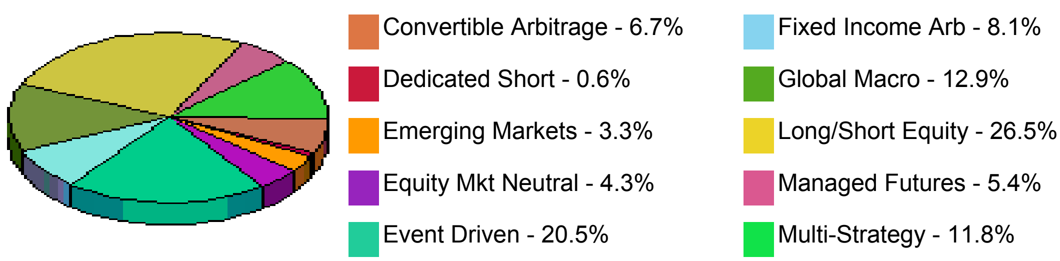
Source: Credit Suisse First Boston/Tremont Index LLC

While it is interesting to note that this hedge fund index has generally performed well over the past ten years, it may be more informative to examine the performance of different investment philosophies than the performance of hedge funds as a whole. Hedge funds are a type of investment vehicle that share some characteristics, but cover a wide range of investment styles. In any given year, one such style might flourish, while another languishes. Performance, broken down by investment style, is more illustrative. One source of such performance information is the CSFB/Tremont Index's sub-indexes (descriptions of the investment styles captured in the sub-indexes are presented in the Appendix). While indexes are not necessarily indicative of the industry as a whole due to survivorship bias and self-selection, they at least provide an indication of the trends in the industry.

Hedge Fund Index and Sub-Index Performance				
Index	**July 2004**	**Year to Date**	**1 Year**	**Average Annual***
CSFB/Tremont HF Index	-0.31%	2.61%	9.65%	10.74%
Convertible Arbitrage	-0.20%	0.27%	5.04%	9.91%
Dedicated Short Bias	8.12%	7.73%	-7.92%	-2.32%
Emerging Markets	-0.14%	1.24%	14.67%	6.82%
Equity Market Neutral	0.31%	2.53%	5.69%	10.30%
Event Driven	0.00%	5.23%	12.68%	11.27%
Distressed	0.52%	6.55%	15.51%	13.29%
Multi-Strategy	-0.34%	4.38%	10.62%	10.15%
Risk Arbitrage	-1.52%	0.62%	5.48%	8.00%
Fixed Income Arbitrage	0.70%	5.09%	8.45%	6.92%
Global Macro	0.82%	5.21%	12.58%	14.18%
Long/Short Equity	-1.42%	1.37%	10.60%	11.59%
Managed Futures	-1.95%	-5.54%	0.32%	6.10%
Multi-Strategy	-0.29%	2.39%	9.57%	9.42%

*Index data begins January 1994.
Source: Credit Suisse First Boston/Tremont Index LLC.

CSFB/Tremont Hedge Fund Index Weights



Source: Credit Suisse First Boston/Tremont Index LLC.

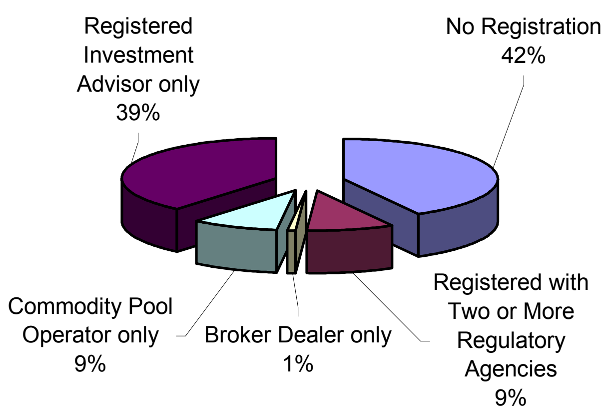
Clearly, it has been a very mixed year for hedge funds. Year-to-date (as of end-July 2004), the assorted investment styles tracked by CSFB/Tremont have recorded returns ranging from down 5.54% (Managed Futures) to up 7.73% (Dedicated Short Bias), with their overall hedge fund index registering a modest gain of 2.61%. During the same period, however, the S&P 500 Index fell nearly 1.0% and the Nasdaq Composite Index fell nearly 6%.

Hedge Fund Regulation

One of the many misconceptions about hedge funds is that they are unregulated. Whether the current level of regulation is sufficient is a completely different question. U.S. hedge funds are subject to a variety of types of regulation, not least of which are the anti-fraud provisions of U.S. securities laws. In addition to being subject to securities regulation in any jurisdiction in which they operate, U.S. hedge funds are often subject to a myriad of reporting requirements by the Federal Reserve, U.S. Department of Treasury, SEC, Commodities Futures Trading Commission (CFTC), National Futures Association, state regulators and various securities and futures exchanges. In addition, the SEC, CFTC, and the Office of the Comptroller of the Currency, among others, have "statutory authority… to receive information about hedge funds through examinations and inspections of hedge fund brokers, dealers, lenders and counterparties."[9]

In addition to the information available due to current requirements, many hedge fund advisors who are not required to register as investment advisors with the SEC do so anyway. Current SEC investment advisor registration requirements generally only apply to investment advisors managing assets for 15 or more clients. Current rules define each fund counting as a single client as long as the funds themselves follow certain guidelines regarding the wealth and the number of their investors. According to recent estimates produced by the hedge fund consulting firm Hennessee Group LLC, as many as 58% of hedge fund advisors are registered with at least one regulatory agency.

Hedge Fund Registration



Source: Hennessee Group LLC 2004 Industry Research

The current SEC proposal concerning hedge fund advisor registration would require that each fund no longer be counted as a single client, but instead that each investor in each fund be counted towards the 15 client limit for the registration exemption. This proposal has raised much disagreement within the SEC, among the various regulators, and throughout the investment community. The comment period closed in mid-September and has drawn a wide range of opinions, including alternative suggestions as to how the SEC might accomplish its stated goals of (1) collecting information in order to minimize the potential for adverse market impact and systemic risk posed by hedge fund trading practices; (2) preventing fraud; and, (3) protect-

[9] Managed Funds Association, "Information Available to U.S. Regulators about Hedge Funds," February 2004 (http://www.mfainfo.org/images/pdf/MFA Hedge Fund InfoSourceList.pdf), p. 13.

ing investors, specifically arising from the purported "growing exposure of smaller investors" to hedge funds.

The International Dimension

The hedge fund industry is truly a global phenomenon. While local regulation varies greatly, prospects for growth seem to be flowering everywhere. Outside of the U.S., hedge fund managers generally register where their main offices are located, while the hedge funds themselves are concentrated in offshore centers such as the Cayman Islands, Channel Islands and Ireland, which are all low or no-tax jurisdictions that court hedge fund business. There is some consensus that should regulation become too onerous, such as it currently is in some European countries, even more hedge funds will migrate to offshore havens. This would lead to an opposite outcome of what is desired – the industry would become less transparent, rather than more.

There is a feeling among some observers that European regulators, while desiring more hedge fund regulation, are waiting to see what happens in the U.S. before proceeding. That has not stopped some from being quite vocal in support of greater regulation: as Axel Weber, the head of the German central bank and member of the European central bank's governing counsel, made very clear – the U.S. Federal Reserve is not interested in "controlling hedge funds," while "our conception is different."[10] The fact that the Europeans are mulling hedge fund regulation is another reason why some industry observers believe that what is necessary is a broader approach than that recently proposed by the SEC – one that takes into account the global dimensions of the industry.

Whither Hedge Funds?

Having recently undergone a period of very rapid growth, hedge funds have come up against tough market conditions in 2004. In addition to the difficulty of making money in an essentially flat market, even more hedge fund managers are chasing after the same types of trades, leaving even smaller margins available for profit. That being said, many investment styles are performing well – and most, better than the broad-based indexes. It will be interesting to see when the pendulum of hedge fund growth swings away from its current apex which funds survive and flourish. In the meantime, it is not productive to look at hedge funds as some sort of strange phenomenon outside of the mainstream of investing. Hedge funds are an important and integral part of capital markets and their future is part and parcel of the market's future.

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Vice President and Director, Securities Research

[10] AFP, "ECB, Fed mulling ways to corral hedge funds: Bundesbank chief," 6 July 2004.

APPENDIX:
Descriptions of Hedge Fund Investment Styles[11]

Convertible Arbitrage
This strategy is identified by hedge investing in the convertible securities of a company. A typical investment is to be long the convertible bond and short the common stock of the same company. Positions are designed to generate profits from the fixed income security as well as the short sale of stock, while protecting principal from market moves.

Dedicated Short Bias
Dedicated short sellers were once a robust category of hedge funds before the long bull market rendered the strategy difficult to implement. A new category, short-biased, has emerged. The strategy is to maintain net short as opposed to pure short exposure. Short biased managers take short positions in mostly equities and derivatives. The short bias of a manager's portfolio must be constantly greater than zero to be classified in this category.

Emerging Markets
This strategy involves equity or fixed income investing in emerging markets around the world. Because many emerging markets do not allow short selling, nor offer viable futures or other derivative products with which to hedge, emerging market investing often employs a long-only strategy.

Equity Market Neutral
This investment strategy is designed to exploit equity market inefficiencies and usually involves being simultaneously long and short matched equity portfolios of the same size within a country. Market neutral portfolios are designed to be either beta or currency neutral, or both. Well-designed portfolios typically control for industry, sector, market capitalization, and other exposures. Leverage is often applied to enhance returns.

Event Driven
This strategy is defined as 'special situations' investing designed to capture price movement generated by a significant pending corporate event such as a merger, corporate restructuring, liquidation, bankruptcy or reorganization. There are three popular sub-categories in event-driven strategies: risk (merger) arbitrage, distressed/high yield securities, and Regulation D.

Risk (Merger) Arbitrage: Specialists invest simultaneously long and short in the companies involved in a merger or acquisition. Risk arbitrageurs are typically long the stock of the company being acquired and short the stock of the acquirer. By shorting the stock of the acquirer, the manager hedges out market risk, and isolates his exposure to the outcome of the announced deal. In cash deals, the manager needs only to be long the acquired company. The principal risk is deal risk, should the deal fail to close. Risk arbitrageurs also often invest in equity restructurings such as spin-offs or 'stub trades'.

Distressed/High Yield Securities: Fund managers in this non-traditional strategy invest in the debt, equity or trade claims of companies in financial distress or already in default. The securities of companies in distressed or defaulted situations typically trade at substantial discounts to par value due to difficulties in analyzing a proper value for such securities, lack of street coverage, or simply an inability on behalf of traditional investors to accurately value such claims or direct their legal interests during restructuring proceedings. Various strategies have been developed by which investors may take hedged or outright short positions in such claims, although this asset class is in general a long-only strategy.

Regulation D, or Reg. D: This sub-set refers to investments in micro and small capitalization public companies that are raising money in private capital markets. Investments usually take the form of a convertible security with an exercise price that floats or is subject to a look-back provision that insulates the investor from a decline in the price of the underlying stock.

[11] The descriptions in this Appendix are drawn from the CSFB Tremont web site, www.hedgeindex.com. There are many ways to describe the breakdown of investment styles employed by hedge fund managers – this example is one of them.

Fixed Income Arbitrage

The fixed income arbitrageur aims to profit from price anomalies between related interest rate securities. Most managers trade globally with a goal of generating steady returns with low volatility. This category includes interest rate swap arbitrage, U.S. and non-U.S. government bond arbitrage, forward yield curve arbitrage, and mortgage-backed securities arbitrage. The mortgage-backed market is primarily US-based, over-the-counter and particularly complex.

Global Macro

Global macro managers carry long and short positions in any of the world's major capital or derivative markets. These positions reflect their views on overall market direction as influenced by major economic trends and or events. The portfolios of these funds can include stocks, bonds, currencies, and commodities in the form of cash or derivatives instruments. Most funds invest globally in both developed and emerging markets.

Long/Short Equity

This directional strategy involves equity-oriented investing on both the long and short sides of the market. The objective is not to be market neutral. Managers have the ability to shift from value to growth, from small to medium to large capitalization stocks, and from a net long position to a net short position. Managers may use futures and options to hedge. The focus may be regional, such as long/short U.S. or European equity, or sector specific, such as long and short technology or healthcare stocks. Long/short equity funds tend to build and hold portfolios that are substantially more concentrated than those of traditional stock funds.

Managed Futures

This strategy invests in listed financial and commodity futures markets and currency markets around the world. The managers are usually referred to as Commodity Trading Advisors, or CTAs. Trading disciplines are generally systematic or discretionary. Systematic traders tend to use price and market specific information (often technical) to make trading decisions, while discretionary managers use a judgmental approach.

Multi-Strategy

Multi-Strategy funds are characterized by their ability to dynamically allocate capital among strategies falling within several traditional hedge fund disciplines. The use of many strategies, and the ability to reallocate capital between them in response to market opportunities, means that such funds are not easily assigned to any traditional category. The Multi-Strategy category also includes funds employing unique strategies that do not fall under any of the other descriptions.

GLOSSARY[12]

Diversified refers to the hedge fund portfolio containing a variety of kinds or types of investments. Diversification is generally used as a risk management technique designed to minimize the impact of any one security on overall portfolio performance.

Fund of funds, or more specifically, funds of hedge funds (FOHF) are funds that invest in other hedge funds. FOHFs are designed to achieve greater diversification than traditional hedge funds. Some, but not all, FOHFs register their securities with the SEC. SEC-registered FOHFs must provide investors with a prospectus and file semi-annual reports with the SEC. Many FOHFs have much lower investment minimums (e.g., $25,000) than individual hedge funds. Thus, some investors who would be unable to invest in a hedge fund directly may be able to purchase funds of hedge funds. One drawback of FOHFs are their overall expense fees which are typically higher than those on regular hedge funds because the FOHF manager charges management and performance fees in addition to passing along the fees charged by the underlying hedge funds.

High watermark, in this context, refers to the highest peak in value that a hedge fund has reached, and must reach (if it has fallen below it) before the hedge fund manager may begin accruing its performance fee. For example, in a hedge fund with a high watermark provision, if the fund reaches a value of 100 in year one, falls to 95 in year two, and then rises 110 in year three, although the annual increase in year three is 15, the manager could only charge a fee on the performance in excess of the high watermark.

Hot issues refers to restrictions regarding the purchase of public offerings of stock trading at a premium, and limitations that a hedge fund may face in purchasing such shares if certain of its investors are restricted from purchasing them.

Hurdle rate, in this context, refers to the minimum level of return that a hedge fund must attain before the hedge fund manager may charge its performance fee. For example, in a hedge fund with a 10% hurdle rate, if the hedge fund ended year one at 100 and rose to 115 in year two, the performance fee could only be charged on the performance in excess of 110.

Leverage is the use of various financial instruments, such as futures, options and derivatives, or borrowed capital, such as margin, to increase the potential return of an investment.

Mean, ***Median*** and ***Mode*** are three different ways of representing an average number. The mean (or arithmetic mean) is an average obtained by adding together the individual numbers concerned and dividing the total by their number. For example, the mean of 2, 3, 4, and 7 is 16/4 = 4. The median represents the midpoint in a set of numbers, so that 50% of the numbers are higher and 50% of the numbers are lower. The median is the midpoint of the range numbers that are arranged in order of value. For example, in an odd set of numbers – 1, 3, 5, 5, 5, 6, 7, 8,12, 13, 25 – the median would be 6 because half of the other numbers are below it, and half are above it. Alternatively, in an even set of numbers—23, 23 24 25 26 28 42 44 – the median would be 25.5 (26+25/2=25.5). The mode is a statistical term referring to the most frequently occurring term in a set of numbers. For example, in the following set of data – 32, 34, 34, 34, 45, 67, 71, 43 – the mode is 34 because it is the most common number in the set.

Net asset value is total value of the fund's portfolio less its liabilities.

Private fund is a term used to distinguish hedge funds (which are usually privately placed in the U.S.) from public funds, such as mutual funds and other such funds open to the general public for investment, which are covered by the expensive regulatory regime under the *Investment Company Act of 1940*.

The term "private funds" was recently used by the SEC in the Proposal and is therein defined to mean funds that share three characteristics common to "virtually all hedge funds." In summary, a private fund

[12] Definitions are taken from a variety of sources, including: www.investopedia.com, www.hyperdictionary.com, www.investorwords.com, and Dictionary of Finance and Banking, Oxford University Press, 1997, among others.

would be limited to a company that: (1) would be subject to regulation under the *Investment Company Act of 1940* but for the exception provided in either section 3(c)(1) (a "3(c)(1) fund") or section 3(c)(7) (a "3(c)(7) fund") of such Act; (2) permits investors to redeem their interests in the fund (i.e., sell them back to the fund) within two years of purchasing them; and, (3) sells interests in itself based on the ongoing investment advisory skills, ability or expertise of the investment adviser.[13]

Short selling is the selling of a security that the seller does not own, or any sale that is completed by the delivery of a security borrowed by the seller. A short seller believes that he will be able to buy the security at a lower price than the price at which he sold short.

Turnover refers to the percentage of a fund's assets that have changed over the course of a given time period, usually a year. For example, a fund with turnover of 100% replaces its entire portfolio in a year.

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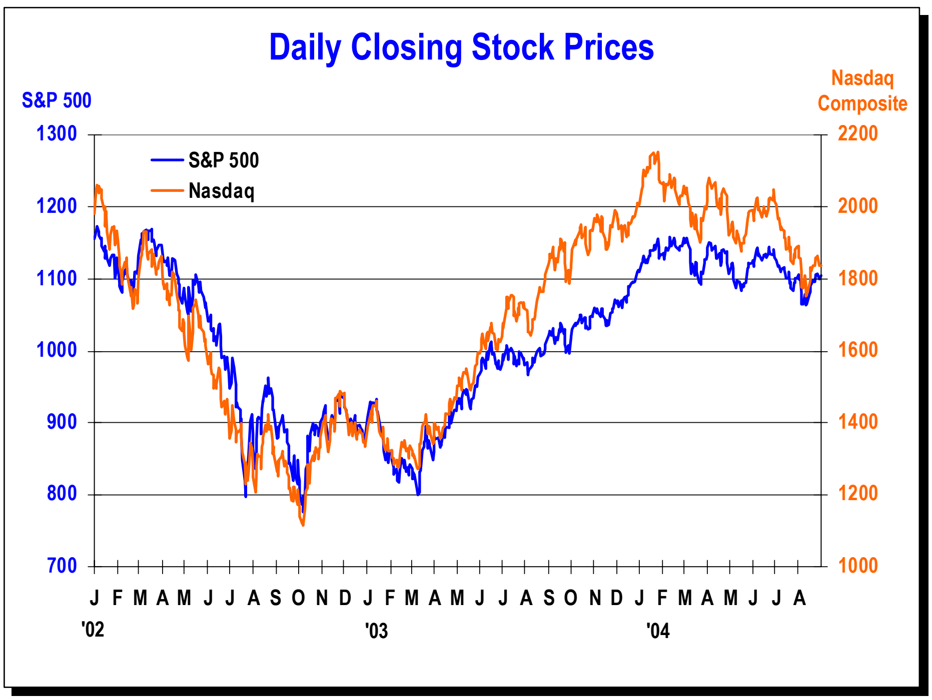
[13] Please see the Proposal, Section D: Definition of "Private Fund," for the full SEC definition.

MONTHLY STATISTICAL REVIEW

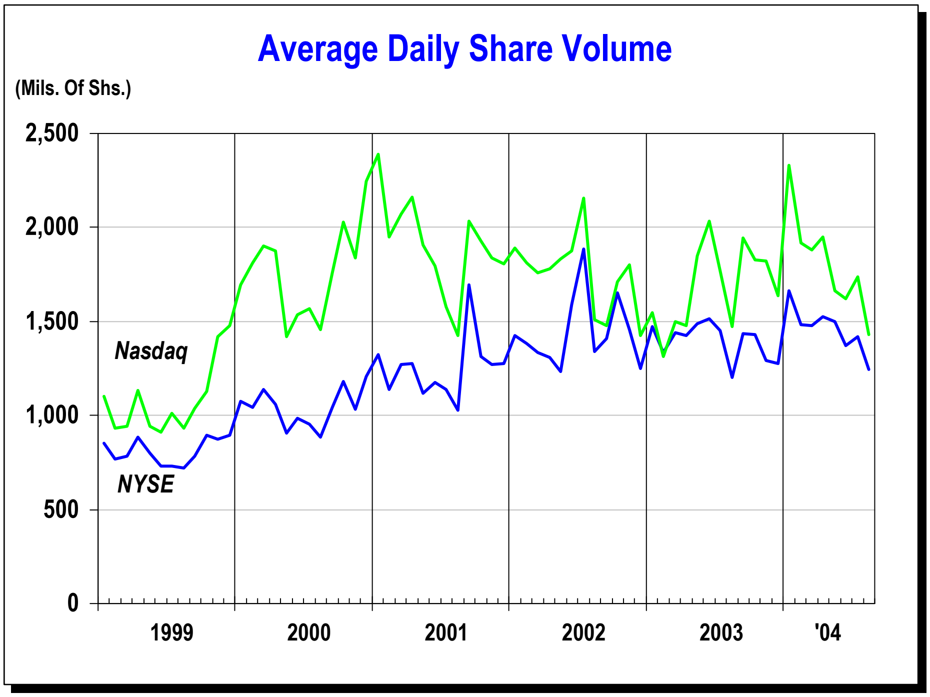
U.S. Equity Market Activity

Stock Prices – The U.S. primary and secondary markets took a summer recess in 2004, with both trading and underwriting activity easing in August to their slowest pace of the year. In the equity market, stock prices followed a downward trajectory from early June through mid-August, as nagging worries over rising oil prices, slowing rates of corporate earnings growth, and geopolitical risks persisted. All three major market indices sank to new 2004 lows on August 12 before bargain hunting in the troubled technology sector and a drop in crude oil prices provided some upward momentum in the latter half of the month. However, that mini-rally came on the weakest trading volume of the year, so only time will tell if it was just another dead-cat bounce or the start of a sustainable advance. For the full month of August, the Dow Jones Industrial Average (DJIA) and S&P 500 posted slim gains of 0.3% and 0.2%, respectively, but the Nasdaq Composite Index (Nasdaq) lost 2.6%. The Nasdaq is now down 8.2% year-to-date, the DJIA is off 2.7%, and the S&P 500 is down 0.7%.

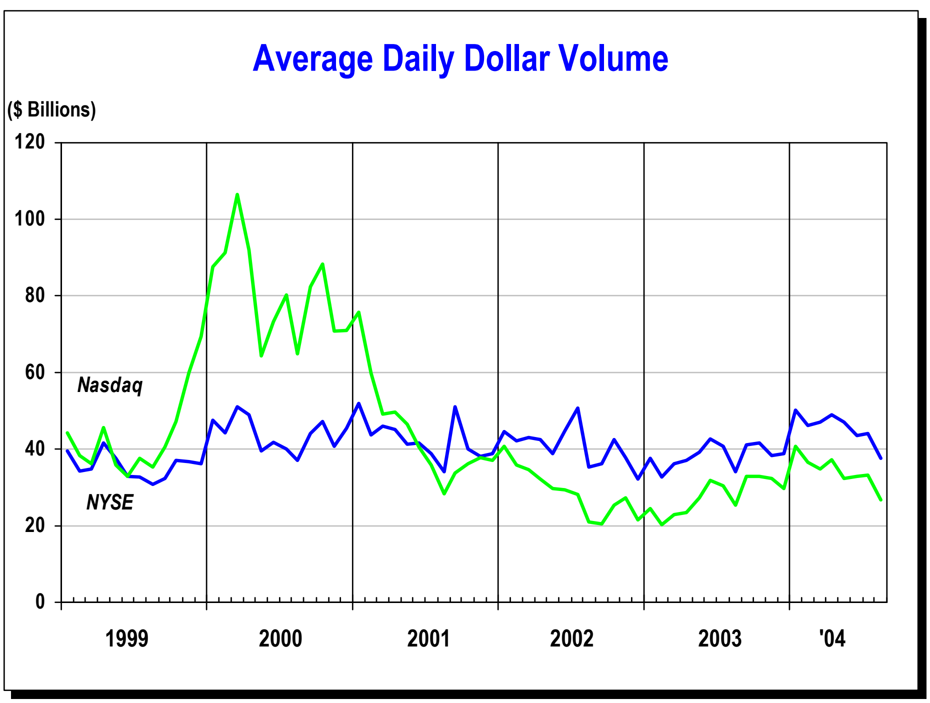


Share Volume – Trading activity on both the New York Stock Exchange (NYSE) and Nasdaq markets was extremely light in August, as traders took time off for summer vacations or sat back during the Republican Convention. NYSE volume declined 12.3% from July's level to a daily average of 1.24 million shares daily, its slowest pace in a year. Meanwhile, average daily volume on Nasdaq sank 17.5% to a 1 ½ year low of 1.43 million shares.

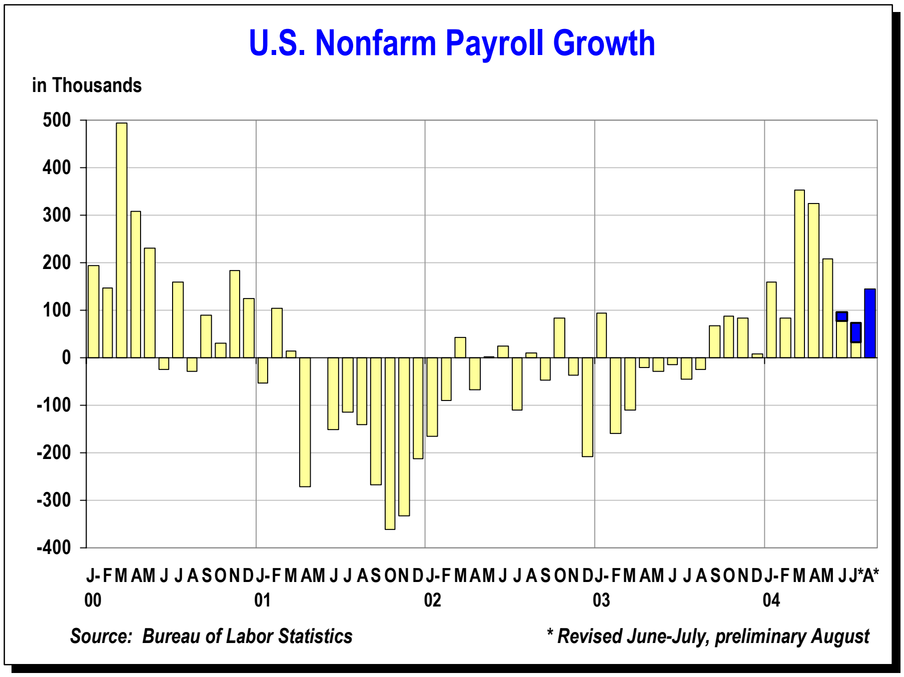
Despite the August slowdown, volumes on both exchanges year-to-date through August are running ahead of 2003's annual pace. NYSE average daily volume is up 4.2% to 1.46 billion shares from 2003's full-year average of 1.40 billion shares. Nasdaq average daily volume is up 7.5% year-to-date to 1.81 million shares from last year's pace of 1.69 billion.



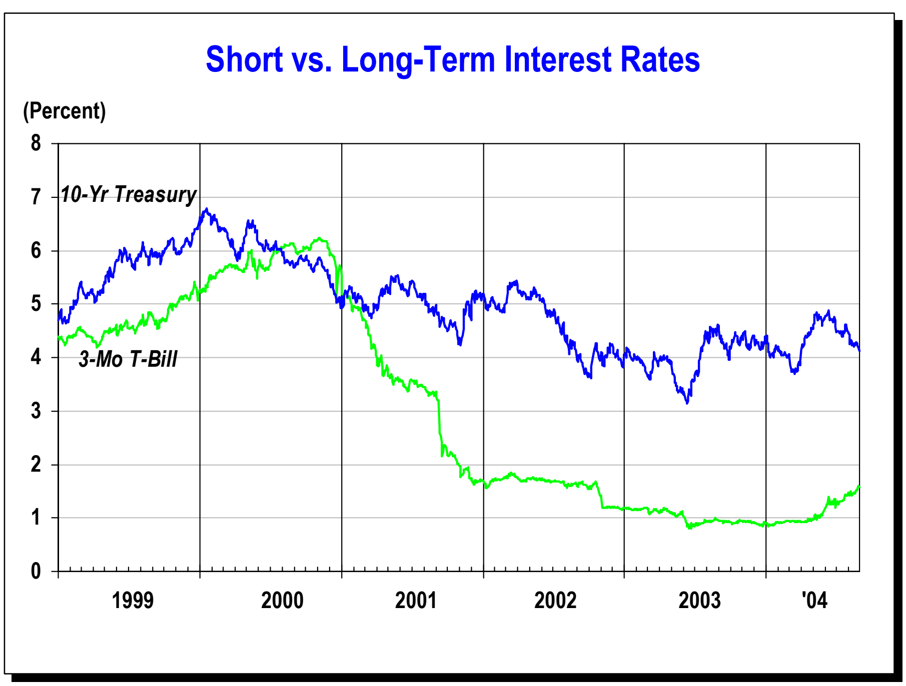
Dollar Volume – The average daily value of trading in NYSE and Nasdaq stocks also sank to new 2004 lows in August. NYSE average daily volume declined 14.5% from July's level to $37.7 billion daily in August, while Nasdaq average daily volume declined 19.6% to $26.7 billion daily. Even so, year-to-date NYSE average dollar volume of $45.6 billion remains 18.4% above 2003's annual pace. Nasdaq's average dollar volume of $34.2 billion through the first eight months of the year is 22.2% ahead of the $28.0 billion pace in all of 2003.



Interest Rates – Long-term bond yields continued on a downward path in August after a dismal July employment report showed a mere 32,000 non-farm payroll jobs were created, with job growth figures for May and June revised downward. The subsequent August jobs report released in early September showed an upward revision to June and July's data, and preliminary statistics indicated an increase of 144,000 jobs in August – see chart below.

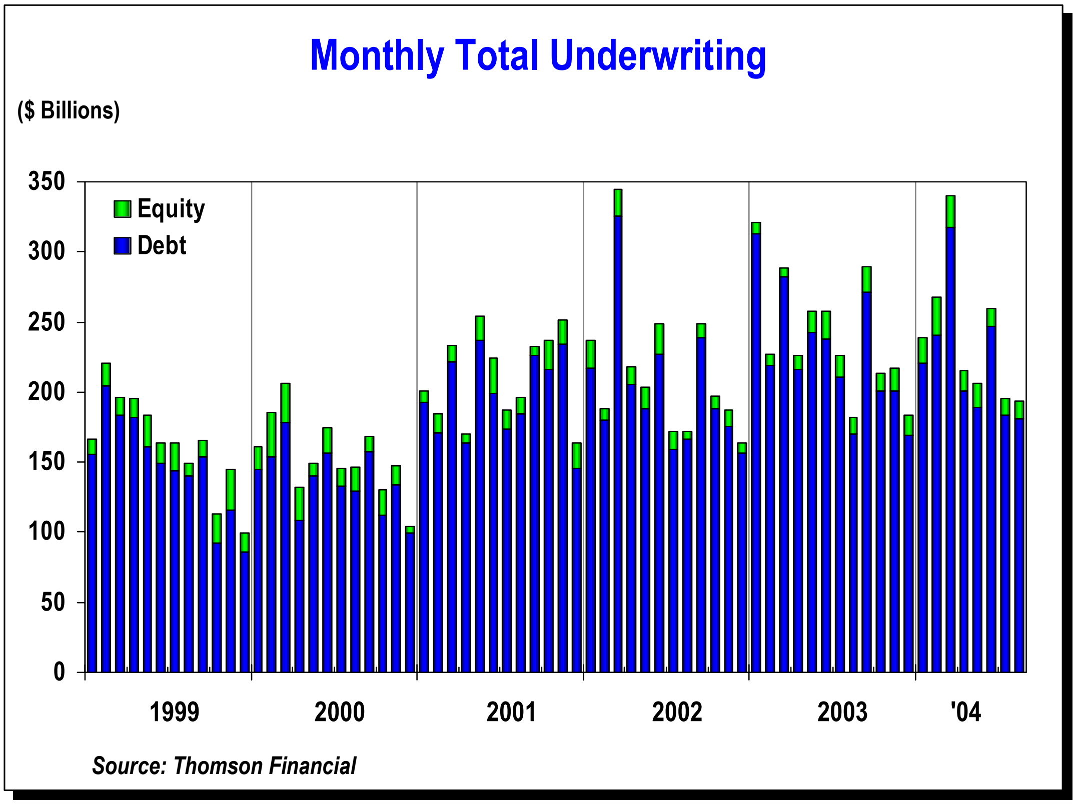


Yields on 10-year Treasuries fell from a two-year peak of 4.89% on June 14 to 4.13% by August's close. With the Federal Open Market Committee raising its target for the federal funds rate by 25 basis points to 1.5% at its August 10 meeting, yields on 3-month Treasury bills increased to 1.57% by August 31 from 1.42% at the end of July. As a result, the spread between 3-month T-bills and 10-year Treasuries narrowed to 256 bps at the end of August from 308 bps in July, the smallest gap since mid-2003.

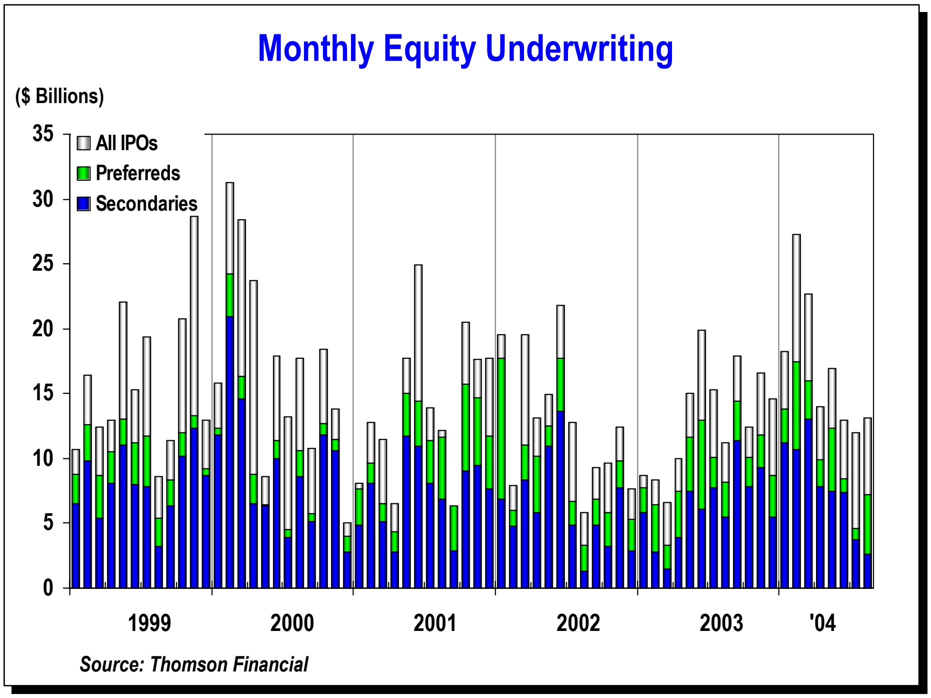


U.S. Underwriting Activity

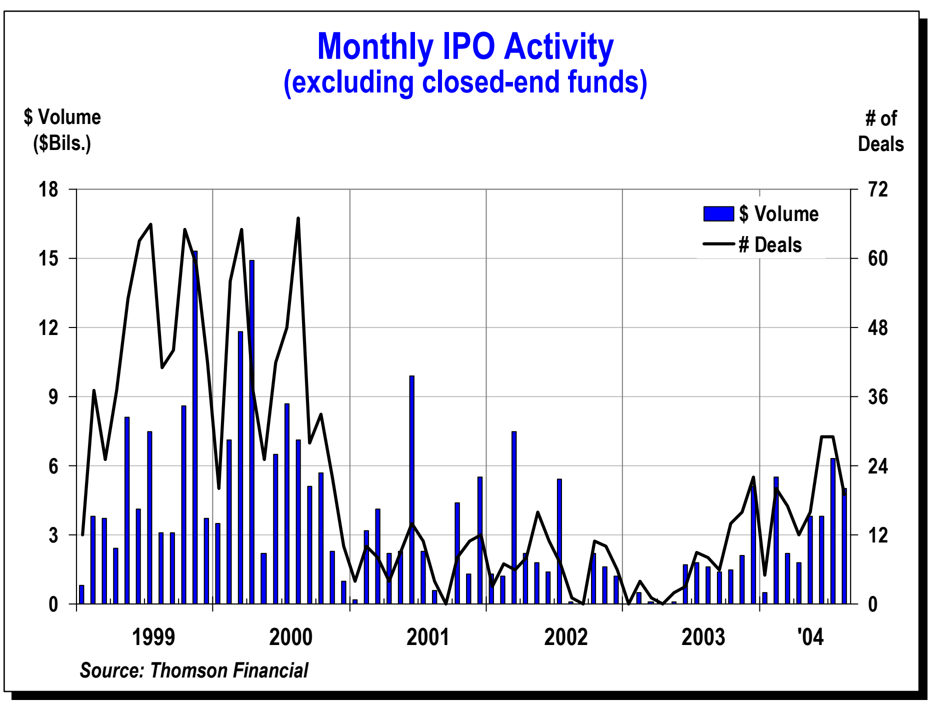
Total Underwriting – The U.S. primary market was extremely quiet this August as investment bankers, along with the rest of Wall Street, left town for vacations and ahead of the Republican Convention in New York. After sinking 25% to $195.5 billion in July, new issuance of stocks and bonds slipped to a new 2004 monthly low of $193.6 billion in August, as only 525 deals were done compared with the recent high of 1,133 deals in March, which raised $340.3 billion. The year-to-date total currently stands at $1.92 trillion, down 3.5% from $1.99 trillion in the same, year-earlier period.



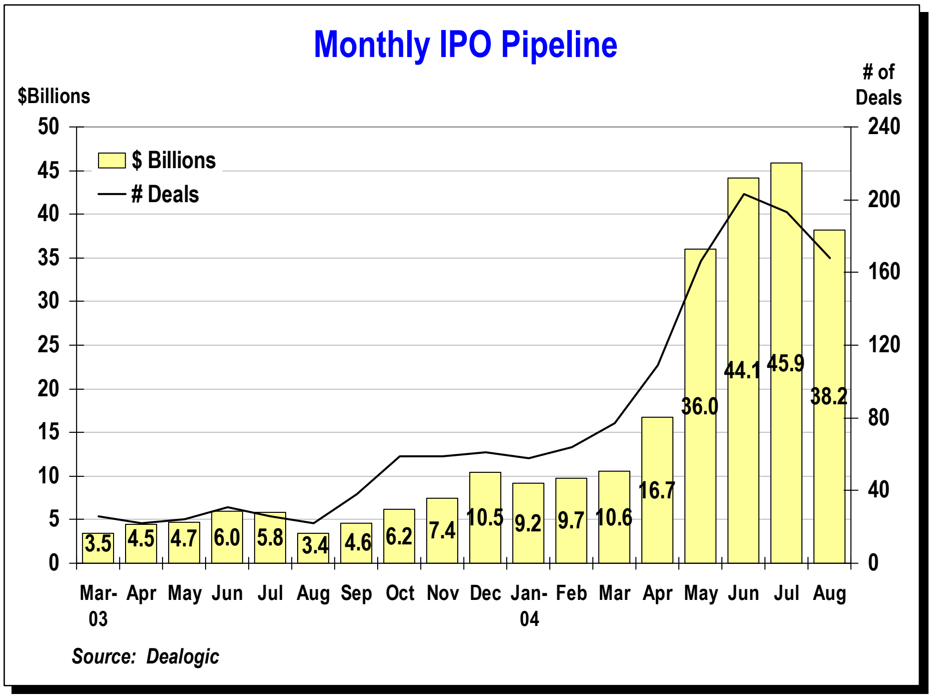
Equity Underwriting – Total equity issuance rebounded in August from lackluster July levels, yet remained well below the levels seen in the early part of the year. Common and preferred stock offerings raised $13.1 billion in August, up 9.0% from 2004's monthly low of $12.0 billion in July. The strong 1Q'04 showing drove the year-to-date total to $137.0 billion, a 44.3% increase over the $94.9 billion result in the same year-earlier period.



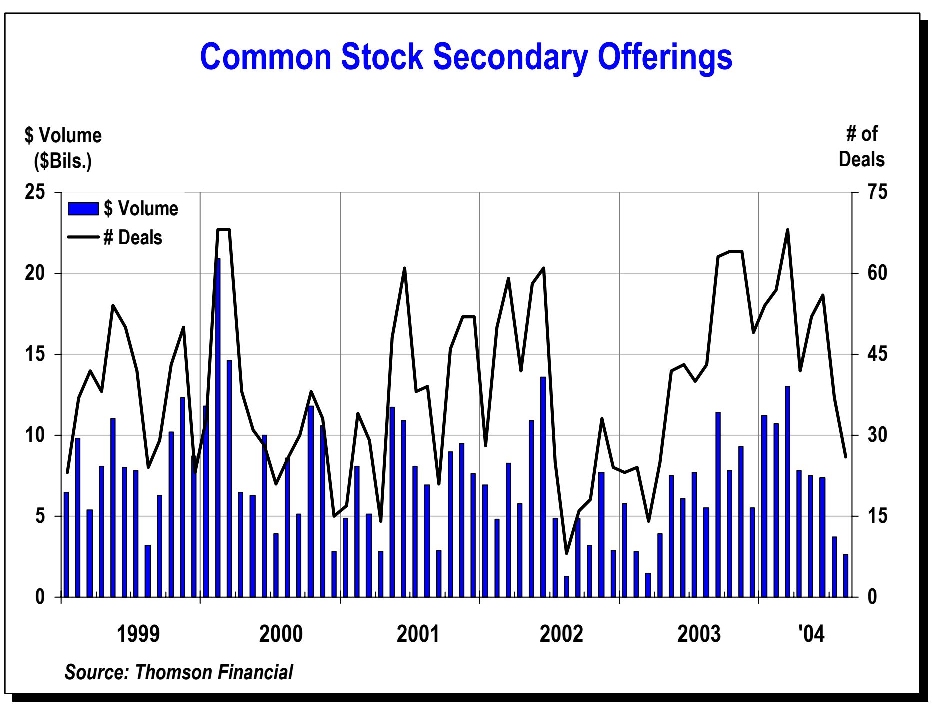
Initial Public Offerings (IPOs) – IPO dollar volume slid 19.7% from July's level to $5.0 billion in August, and deal volume fell to 19 from 29 in both June and July. Most of the deals that came to market in August were priced below their initial target ranges, including the much-anticipated Google IPO. Google's offering raised $1.67 billion (well below the $3.6 billion originally expected) and accounted for one-third of total IPO proceeds last month. Year-to-date, $28.9 billion was raised via IPOs, a five-fold increase over the $5.8 billion raised in last year's comparable period. The year-to-date total already exceeds the $15.9 billion raised in all of 2003 and the 2002 total of $25.8 billion.



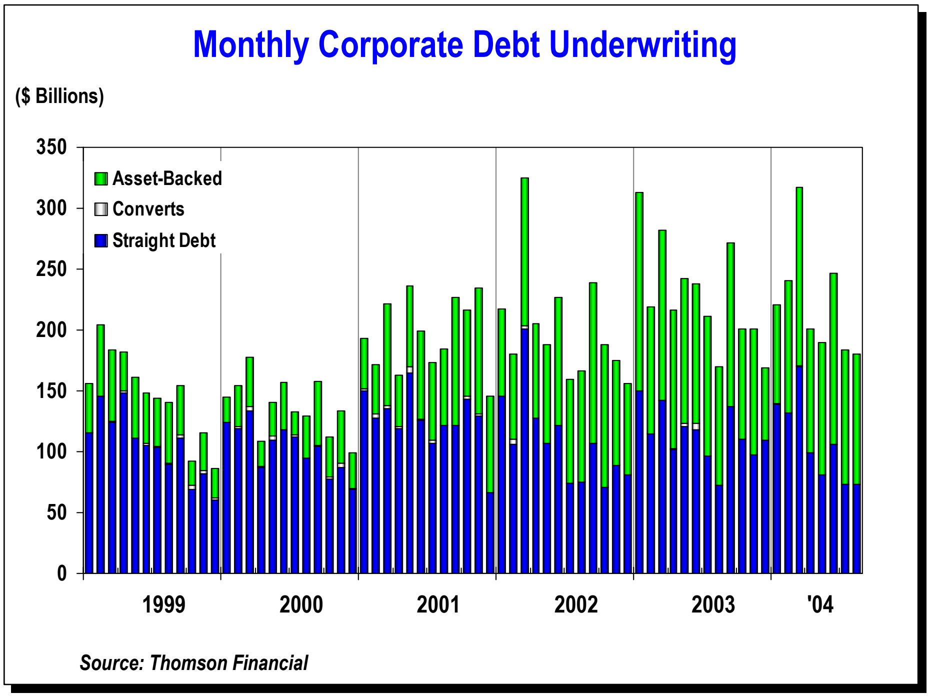
Looking forward, the IPO market's summer slowdown will likely continue into the fall. Several IPOs were withdrawn in August given the lack of investor interest, reducing the IPO pipeline to 168 deals worth $38.2 billion. Market participants expect issuance to remain sporadic until November, given the uncertainty associated with the upcoming presidential election.



Common stock secondary issuance declined for the fifth consecutive month. Since peaking at $13.0 billion in March, secondary offerings have fallen steadily to $2.6 billion in August, the lowest level since March 2003. Despite this steady decline, the year-to-date total of $63.9 billion remains 56.5% above the $40.8 billion raised in the same period a year ago.



Corporate Bond Underwriting – Overall corporate bond issuance edged down to $180.5 billion in August, setting a new 2004 monthly low. Through the first eight months of 2004, corporate bond underwriting activity totaled $1.78 trillion, down 5.9% from $1.89 trillion a year ago. New offerings of both straight debt and asset-backed securities are tracking roughly 5% below last year's levels.



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	Secondaries	**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
2002	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
2003	1,370.7	10.6	1,352.3	2,733.6	118.5	37.8	156.3	43.7	15.9	74.8	2,889.9
2003											
Jan	150.3	0.0	162.5	312.7	6.8	1.9	8.8	1.0	0.0	5.8	321.5
Feb	114.7	0.0	104.1	218.8	4.7	3.6	8.3	1.9	0.5	2.8	227.1
Mar	141.9	0.1	140.2	282.3	4.8	1.8	6.5	3.3	0.1	1.5	288.8
Apr	101.5	1.3	113.6	216.5	6.4	3.6	10.0	2.5	0.0	3.9	226.5
May	120.7	3.0	118.7	242.4	10.9	4.1	15.0	3.4	0.1	7.5	257.4
June	118.0	5.1	114.7	237.9	13.1	6.8	19.9	7.0	1.7	6.1	257.8
July	96.4	0.4	114.0	210.8	12.9	2.4	15.3	5.2	1.8	7.7	226.1
Aug	72.7	0.0	97.5	170.3	8.4	2.7	11.1	3.0	1.6	5.5	181.4
Sept	137.4	0.0	133.9	271.3	14.9	3.0	17.9	3.5	1.4	11.4	289.2
Oct	110.5	0.1	90.6	201.2	10.2	2.3	12.4	2.3	1.5	7.8	213.6
Nov	97.4	0.0	103.1	200.6	14.0	2.5	16.6	4.8	2.1	9.3	217.1
Dec	109.1	0.6	59.3	169.0	11.3	3.2	14.5	5.9	5.1	5.5	183.5
2004											
Jan	138.5	1.4	80.9	220.9	15.6	2.6	18.2	4.4	0.5	11.2	239.0
Feb	131.8	0.3	108.1	240.2	20.5	6.8	27.3	9.8	5.5	10.7	267.5
Mar	170.0	0.6	146.9	317.5	19.8	3.0	22.7	6.7	2.2	13.0	340.3
Apr	99.2	0.3	101.3	200.8	12.0	2.1	14.1	4.1	1.8	7.8	214.9
May	81.2	0.1	108.1	189.4	12.1	4.8	16.9	4.6	3.8	7.5	206.3
June	105.9	0.0	140.8	246.7	11.8	1.0	12.8	4.5	3.8	7.4	259.5
July	73.2	0.0	110.3	183.5	11.1	0.9	12.0	7.4	6.3	3.7	195.5
Aug	73.4	0.0	107.1	180.5	8.5	4.6	13.1	5.9	5.0	2.6	193.6
Sept											
Oct											
Nov											
Dec											
YTD '03	916.3	9.9	965.4	1,891.6	68.0	26.9	94.9	27.2	5.8	40.8	1,986.5
YTD '04	873.2	2.7	903.5	1,779.5	111.3	25.7	137.0	47.5	28.9	63.9	1,916.5
% Change	-4.7%	-72.4%	-6.4%	-5.9%	63.6%	-4.5%	44.3%	74.4%	394.4%	56.5%	-3.5%

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

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
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
2003	21.1	215.8	236.9	54.7	87.7	142.4	379.3	1.01	4.02	3.00
<u>2003</u>										
Jan	1.4	16.8	18.2	4.4	4.3	8.8	27.0	1.17	4.05	2.88
Feb	1.8	15.6	17.4	5.1	7.6	12.8	30.2	1.17	3.90	2.73
Mar	2.0	16.4	18.4	4.2	5.5	9.7	28.1	1.13	3.81	2.68
Apr	1.6	18.4	20.1	4.6	10.2	14.8	34.9	1.13	3.96	2.83
May	3.0	20.3	23.3	5.5	7.1	12.6	35.8	1.07	3.57	2.50
June	2.1	22.6	24.7	6.6	17.1	23.7	48.4	0.92	3.33	2.41
July	2.2	18.5	20.6	6.5	6.1	12.6	33.3	0.90	3.98	3.08
Aug	1.1	17.6	18.7	3.9	3.4	7.2	25.9	0.95	4.45	3.50
Sept	1.4	17.6	18.9	3.6	3.2	6.8	25.7	0.94	4.27	3.33
Oct	1.6	16.7	18.4	3.8	12.2	16.0	34.3	0.92	4.29	3.37
Nov	1.3	16.2	17.5	4.1	4.2	8.3	25.8	0.93	4.30	3.37
Dec	1.7	19.1	20.7	2.3	6.8	9.1	29.8	0.90	4.27	3.37
<u>2004</u>										
Jan	0.7	11.5	12.3	3.6	5.6	9.2	21.4	0.88	4.15	3.27
Feb	1.1	12.1	13.2	5.6	7.7	13.3	26.5	0.93	4.08	3.15
Mar	2.6	20.1	22.7	4.8	10.2	15.0	37.7	0.94	3.83	2.89
Apr	1.0	18.0	18.9	3.6	8.1	11.7	30.7	0.94	4.35	3.41
May	1.4	28.0	29.4	3.0	4.7	7.7	37.1	1.02	4.72	3.70
June	1.3	24.0	25.3	4.7	5.4	10.1	35.4	1.27	4.73	3.46
July	1.8	14.7	16.5	4.9	3.7	8.7	25.1	1.33	4.50	3.17
Aug	0.6	13.6	14.3	4.0	7.3	11.3	25.6	1.48	4.28	2.80
Sept										
Oct										
Nov										
Dec										
YTD '03	15.1	146.2	161.3	40.9	61.3	102.2	263.6	1.06	3.88	2.83
YTD '04	10.5	142.0	152.5	34.2	52.7	86.9	239.4	1.10	4.33	3.23
% Change	-30.2%	-2.9%	-5.5%	-16.3%	-14.1%	-15.0%	-9.2%	4.1%	11.6%	14.3%

Sources: Thomson Financial; 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	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
2003	10,453.92	1,111.92	6,440.30	2,003.37	1,398.4	67.1	1,685.5	38.5	28.0
<u>2003</u>									
Jan	8,053.81	855.70	4,868.68	1,320.91	1,474.7	62.9	1,547.6	37.5	24.7
Feb	7,891.08	841.15	4,716.07	1,337.52	1,336.4	53.6	1,311.4	32.8	20.4
Mar	7,992.13	848.18	4,730.21	1,341.17	1,439.3	64.7	1,499.9	36.3	23.0
Apr	8,480.09	916.92	5,131.56	1,464.31	1,422.7	54.7	1,478.2	37.1	23.5
May	8,850.26	963.59	5,435.37	1,595.91	1,488.6	69.6	1,847.9	39.2	27.4
June	8,985.44	974.50	5505.17	1,622.80	1,516.3	79.5	2,032.2	42.7	32.0
July	9,233.80	990.31	5,558.99	1,735.02	1,451.1	67.4	1,771.7	40.7	30.5
Aug	9,415.82	1,008.01	5,660.16	1,810.45	1,200.3	57.7	1,470.8	34.1	25.3
Sept	9,275.06	995.97	5,644.03	1,786.94	1,436.7	83.9	1,943.2	41.1	33.0
Oct	9,801.12	1,050.71	5,959.01	1,932.21	1,430.0	68.6	1,827.1	41.7	33.1
Nov	9,782.46	1,058.20	6,073.02	1,960.26	1,293.3	71.7	1,821.0	38.5	32.4
Dec	10,453.92	1,111.92	6,440.30	2,003.37	1,275.7	70.4	1,637.0	38.9	29.7
<u>2004</u>									
Jan	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	79.8	2,331.7	50.3	40.9
Feb	10,583.92	1,144.94	6,692.37	2,029.82	1,481.2	75.5	1,917.2	46.3	36.5
Mar	10,357.70	1,126.21	6,599.06	1,994.22	1,477.5	76.7	1,880.6	47.1	34.9
Apr	10,225.57	1,107.30	6,439.42	1,920.15	1,524.7	78.3	1,950.8	49.0	37.3
May	10,188.45	1,120.68	6,484.72	1,986.74	1,500.0	72.1	1,663.6	46.9	32.3
June	10,435.48	1,140.84	6,602.99	2,047.79	1,371.4	57.4	1,623.3	43.5	32.9
July	10,139.71	1,101.72	6,403.15	1,887.36	1,418.1	54.1	1,734.8	44.1	33.2
Aug	10,173.92	1,104.24	6,454.22	1,838.10	1,243.5	49.5	1,431.0	37.7	26.7
Sept									
Oct									
Nov									
Dec									
YTD '03	9,415.82	1,008.01	5,660.16	1,810.45	1,417.4	63.9	1,624.6	37.6	25.9
YTD '04	10,173.92	1,104.24	6,454.22	1,838.10	1,457.1	67.7	1,811.7	45.6	34.2
% Change	8.1%	9.5%	14.0%	1.5%	2.8%	6.0%	11.5%	21.1%	31.9%

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
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3
2003	3,684.8	436.7	1,240.9	2,051.7	7,414.1
2003					
Jan	2,597.7	324.7	1,138.2	2,273.6	6,334.2
Feb	2,537.8	322.9	1,171.1	2,236.2	6,268.0
Mar	2,551.3	325.3	1,183.3	2,204.7	6,264.6
Apr	2,770.3	346.8	1,210.5	2,157.7	6,485.3
May	2,958.5	365.8	1,238.7	2,140.6	6,703.6
June	3,031.1	373.6	1,248.4	2,164.4	6,817.5
July	3,126.0	376.4	1,212.1	2,152.5	6,867.0
Aug	3,238.5	382.3	1,209.4	2,141.0	6,971.2
Sept	3,228.5	388.2	1,231.3	2,100.0	6,948.0
Oct	3,440.4	405.9	1,226.6	2,080.1	7,153.0
Nov	3,513.3	416.4	1,232.7	2,071.7	7,234.1
Dec	3,684.8	436.7	1,240.9	2,051.7	7,414.1
2004					
Jan	3,805.1	447.8	1,249.9	2,034.3	7,537.1
Feb	3,896.3	458.6	1,262.4	2,016.6	7,633.9
Mar	3,887.5	456.3	1,278.9	2,006.6	7,629.3
Apr	3,811.4	452.3	1,246.8	1,961.9	7,472.4
May	3,855.1	456.9	1,224.4	1,969.7	7,506.1
June	3,948.9	466.9	1,221.0	1,948.8	7,585.6
July	3,795.6	462.6	1,229.7	1,947.8	7,435.7
Aug					
Sept					
Oct					
Nov					
Dec					
YTD '03	3,126.0	376.4	1,212.1	2,152.5	6,867.0
YTD '04	3,795.6	462.6	1,229.7	1,947.8	7,435.7
% Change	21.4%	22.9%	1.5%	-9.5%	8.3%

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	31.9	9.5	87.7	375.6	504.8	129.2
2002	-27.7	8.6	140.3	-46.7	74.5	121.2
2003	151.4	33.3	31.3	-258.5	-42.5	216.1
2003						
Jan	-0.3	1.1	12.9	-1.1	12.6	13.7
Feb	-10.9	0.1	19.6	-39.5	-30.7	8.8
Mar	0.0	0.9	10.5	-32.3	-20.9	11.4
Apr	16.1	2.7	10.5	-53.8	-24.5	29.3
May	11.9	3.0	8.9	-18.3	5.6	23.8
June	18.6	3.9	5.1	22.3	49.9	27.7
July	21.4	3.5	-10.8	-12.9	1.2	14.1
Aug	23.4	3.3	-12.6	-20.3	-6.1	14.2
Sept	17.3	3.7	-5.9	-50.5	-35.3	15.1
Oct	25.3	4.1	-1.3	-22.1	6.0	28.1
Nov	14.9	3.0	-2.6	-7.6	7.8	15.3
Dec	14.2	3.6	-3.3	-22.6	-8.1	14.6
2004						
Jan	43.0	5.5	-0.3	-19.8	28.4	48.2
Feb	26.2	5.0	1.5	-21.0	11.8	32.8
Mar	16.0	4.8	7.8	-10.3	18.3	28.6
Apr	23.0	4.6	-7.8	-46.3	-26.6	19.8
May	0.4	2.3	-16.2	6.6	-7.0	-13.5
June	10.4	2.4	-7.6	-21.9	-16.6	5.2
July	9.5	3.0	-1.2	-2.4	8.8	11.2
Aug						
Sept						
Oct						
Nov						
Dec						
YTD '03	57.0	15.0	56.7	-135.6	-6.8	128.8
YTD '04	128.4	27.6	-23.8	-115.1	17.1	132.2
% Change	125.1%	83.7%	-142.0%	NM	NM	2.7%

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

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