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UPDATE ON RESEARCH MANAGEMENT ISSUES: SIA RESEARCH MANAGEMENT CONFERENCE

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MONTHLY STATISTICAL REVIEW

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UPDATE ON RESEARCH MANAGEMENT ISSUES: SIA RESEARCH MANAGEMENT CONFERENCE

On October 4, the Securities Industry Association hosted its annual Research Management Conference in New York.[1] This conference has become a forum for updating research directors, compliance, legal and other securities industry participants on developments both in the business of providing ***sell-side***[2] and ***third-party*** research, and its regulation and supervision. Since the research-analyst conflicts of interest settlement in 2003 (Global Settlement), the 12 firms involved in the settlement (Settlement Firms) and numberous other firms have been striving to comply with the terms of the settlement, and other new rules promulgated by the Securities and Exchange Commission (SEC) and ***self-regulatory organizations*** (***SROs***).[3]

The conference brought together senior research analysts, directors of research, and legal and compliance officials, as well as members of the regulatory community and securities lawyers from both within the industry and in private practice. Issues examined included: the viability of the current research business model; the role of independent research firms; employment, compensation and personal trading; private litigation; disclosure; and, professional conduct and ethics. This research piece summarizes the major topics covered by each discussion panel. SIA would like to thank all of the participants in the panel discussions, the speakers, and the attendees for making this year's conference such a success.

Analytical Issues: The Future of Research Methods

Research Content – There was general agreement among the panelists that research as a business is striving to become more value-added by providing more specialized products. Each client has his or her own needs – there is no one-size-fits-all research model. One panelist commented, "You are who you work for." There are many new product niches, such as channel checking, providing expert industry insights, behavioral and market research, intelligence and high-tech voice stress analysis, but in the end most panelists agreed that fundamental equity research still matters.

"Fundamental research answers questions," according to one panelist. Another described it as "clearing the fog of U.S. Generally Accepted Accounting Principles (GAAP)." In addition to providing analysis of company data, most agreed that being required to provide buy, sell or hold recommendations focuses the analyst and prevents fence-sitting. While non-traditional information gathering is an important part of the overall mosaic of information available to make investment decisions, investment research must capture and analyze data and lead to an investment recommendation.

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[1] A description of the conference and copies of selected presentations may be found on SIA's Web site at www.sia.com/research04 and www.sia.com/research04/html/presentations.html, respectively.

[2] Terms in ***bold blue italics*** are defined in the glossary at the end of this piece.

[3] A summary of actions involving the Global Research Management Settlement may be found on the SEC Web site at www.sec.gov/spotlight/globalsettlement.htm; NASD Web site at www.nasd.com/global_settlement.asp; and, on the NYSE Web site at www.nyse.com/regulation/p1020656068597.html?displayPage=%2Fregulation%2F1022221392702.html. Additional information on research analyst issues may also be found on SIA's Web site at www.sia.com/analyst_integrity/.

It was pointed out, however, that the buy side is changing rapidly. Some types of clients do not want or need stock picking or price targets from research analysts – they want specialized information that they cannot get themselves and will pay for expertise that they do not have. The panelists also discussed where to draw the line between retail and institutional clients in regard to providing research reports. The panelists agreed that great care should be taken in deciding what research is appropriate for which clients. One panelist pointed out that the research analyst should write what they believe to be the correct analysis and that it was up to the retail sales person or financial adviser to provide the appropriate research in terms of suitability to each client.

The panelists also discussed the issue of whether analysts should be required to issue a certain ratio of buy, sell and hold recommendations. The general reaction was that recommendations should not be required in fixed percentages. As one research director pointed out, however, if recommendations are not well spread out among buy, sell and hold recommendations, then there is a management problem. Either analysts are not doing their job in that they cannot discriminate between the companies they cover or the ratings scheme is not working properly.

Research Distribution – The panelists agreed that the practice of distributing research freely and widely to everyone and anyone has demeaned the value of research. Research is not news, and the more immediate and widespread the distribution, the less valuable it is. Research needs scarcity value if it is to find a viable business model. Property rights – and using the proper technology to protect property rights – will be a key issue going forward.

Following up on that, it was noted that the industry needs clarity with regulators to make sure that research providers have the right to restrict access to those clients who pay for research and not run afoul of regulatory requirements concerning equal access. The industry needs to work with regulators to provide guidance, because in order to price research one must be allowed to limit its distribution. Research is devalued when it is too widely available. There must be an industrywide effort to limit the distribution of paid research to paying customers only.

The conversation then turned to media policies. One panelist commented that each firm must develop its own media policy, but from the paying client's point of view, paid product should never be available in the media. The only exception noted was that a new research provider might make paid research available to the media while building a brand name. Another panelist remarked that while appearances in the media to make general market or industry-expert comments are acceptable, in general media should have a very limited role in disseminating research. "Research should go to investors who pay for it," not to the media, said one panelist.

Conflicts of Interest – There are inherent conflicts in research-analyst relationships, namely those with in-house investment banking, issuing companies, and share-holding investors. The panelists reviewed the current state of managing those conflicts. One research director commented that he spends a large amount of time fending off issuers who have been downgraded by his analysts. He stressed that research supervisors must be vigilant. They must have good conflict-management processes and procedures in place and they must reinforce good analyst behavior. Further, regulators need to work with public companies to help them accept the changes in research-analyst regulation. Investors who hold shares also react negatively when an analyst downgrades one of their holdings – they, too, must get used to the new environment.

Another research director remarked that clients ask for research-analyst honesty, but complain about negative opinions. Analysts also face the difficulty of being frozen out by management of companies they downgrade. Looking on the bright side, in such situations analysts must be more resourceful to get information and may actually do their best work under such adverse conditions. Another panelist agreed that access to management is overrated as an aid to good research – analysts do not need it.

Conflicts exist – the problems were disclosure and misrepresentation, commented another panelist. Independent research providers who do not earn any income from issuing companies clearly have no such conflicts. One panelist observed that education of all parties involved is important and suggested that a neutral party, an ombudsman, might provide a useful role for analysts who have run into conflict problems but have no one to whom they can complain or from whom they can seek confidential advice.

Hard Dollars – The panel briefly discussed the possible future banning of ***soft-dollar*** payments for research. One panelist commented that he believed 75 percent of independent research providers would not survive in a ***hard-dollar*** environment, but predicted that the ***safe harbor*** protecting the use of commissions to pay for research will not be abolished. What is needed is more transparency regarding soft dollars so that research provision becomes an open market that can be fixed by market forces. He also stressed that sell-side research should be treated in the same manner as third-party research. The panelists all agreed that research has an economic value that can be established as we move to more transparency and pricing rationality. One panelist also added that through soft dollars, investors establish their own judgment on the value of research and that the research providers are price takers.

Compensation – How to assess analysts' performance for compensation purposes has become more complicated as firms are more limited as to what factors they may take into account and are required, in the case of firms that are parties to the Global Settlement, to include in the performance of stock recommendations. This is difficult because such performance is not necessarily measurable in the period covered by the compensation assessment. The panelists generally agreed that feedback from clients was perhaps the single most important factor in determining compensation. Other metrics were used, but in the end "clients vote on value." Because of the Global Settlement requirement to track analysts' stock-picking performance, some are turning to third-party tracking services.

Looking Around the Corner: The Future of Research Regulation

Current SRO Issues – In general, the panelists commented that firms are getting more comfortable with new requirements as evidenced by the dwindling number of questions received by SROs. Current outstanding issues are more specific, such as defining research reports and research analysts, as well as details of the emerging qualification requirements. There was discussion of interpretive guidance given to one firm by the SROs concerning model-generated reports that are completely objective with no analyst input. In this case, the report is considered a research report, although the people involved in producing it are not considered research analysts. Although the guidance was given specifically to one firm's research product, SRO representatives indicated that the general concept is that if the product is completely objective with no individual able to change it, then the people involved are not research analysts.

Another difficult issue is registration requirements as they apply to global firms. Research products have mixed inputs – how do you define "associated person" internationally? Some firms have as many research personnel outside the U.S. as inside, U.S. broker-dealers and non-U.S. broker-dealers, research with in-house and third-party input, etc. Internationally, disclosure requirements are sometimes contradictory – what is required disclosure in one jurisdiction may be forbidden in another jurisdiction. Firms are looking for guidance on these types of issues.

In a discussion of current examinations, one SRO described several current issues: (1) definitions of ratings; (2) trading against recommendations; (3) conditional language in disclosures/contradictory disclosures/small firms that mistakenly believe that they are exempt from disclosure requirements; (4) firms not putting ratings in buy/sell/hold buckets; and, (5) technical glitches.

Global Settlement – The Global Settlement is very unusual in that it did not go through the usual rule-making process of proposals and comment periods. Everyone is challenged to catch up with the 12 Settlement Firms. There is some confusion as to whether the settlement terms apply to only the Settlement Firms. The answer is that the settlement terms are relevant to all firms as best practice, in addition to the trend of states and asset management firms looking for firms to comply. While some settlement terms (*e.g.*, providing third-party research free to customers over a five-year period) are not understood to be universally applicable, it was widely agreed that the heart of the Global Settlement – the complete separation of research and investment banking – applies to any firm that holds itself out as being voluntarily compliant with the terms of the Global Settlement.

Communications and chaperoning under the Global Settlement are challenging. All communications between research and investment banking are prohibited, except those that are specifically allowed. Allowed communications must be chaperoned, which can be onerous if one considers the volume of communications. One panelist commented that they have already had over 2,500 chaperoned conversations. Regulators are working on further guidelines on communications and interpretations of settlement terms to help firms deal with the many new requirements.

The SROs are not adopting the Global Settlement terms in their entirety, so there are some differences between requirements on settlement firms and those that apply to all SRO-member firms. The SROs will wait and see how things develop. The SEC is also currently waiting to see how the rules work with no new rules currently pending.

Issuer Retaliation – There is some concern about retaliation by issuers. In the UK, the Financial Services Authority has looked at the issue, saying that they would not issue rules but pointed out that issuer retaliation could violate rules on "fair practice." An SRO commented that they were not sure what is currently going on – it is an issue for the exchanges and their listed issuers to deal with. SIA recently released an educational piece for issuers describing what "research analysts and investment bankers can and cannot do in the post-settlement environment."[4]

Global Market – The panel discussed issues of the global nature of the production and distribution of research. There have been many regulatory changes in the U.S., and it is challenging to adopt U.S. best practices offshore while non-U.S. regulators are catching up. There are task forces currently working on how to marry U.S. and non-U.S. rules. Some jurisdictions are willing to adopt language that works in the U.S., and some are not. An example of an important dif-

4 "Equity Research Settlement – Important Information For Companies" may be found at www.sia.com/analyst_integrity/pdf/AnalystsSettlement.pdf.

ference is that in Japan new rules dealing with conflicts of interest in analyst research extend explicitly to fixed income, while U.S. rules currently apply only to equity.

Litigation Issues: Evolution of Private Claims

Fraud on the Market – The panelists discussed various aspects of the current state of private claims concerning analyst issues. In the post-Global Settlement world, claims allege that misleading research-analyst reports, due to conflicts of interest, artificially inflated stock prices. The Federal District courts are struggling – previously, such "fraud on the market" claims typically dealt with issuers' fraudulent financial reporting, but the current claims allege analyst opinions cause stock prices to rise. The question remains whether an opinion can cause fraud on the market. Thus far, some cases have been dismissed, while others have not. One case now before the U.S. Supreme Court, *Dura Pharmaceuticals, Inc. v. Broudo*, while not directly involving claims of misleading research, could have a bearing on this issue.

Causation – One panelist presented an overview of causation, which lies at the heart of the theory of fraud on the market, and the current *Dura Pharmaceuticals* case. Prior to the ***Securities and Exchange Act of 1934*** (***1934 Act***), causation was covered by common law – the action must cause the damage. The 1934 Act seemed to adopt that principle by limiting recovery to "actual damages." A two-part test was applied to prove causation: one needed to prove that the activities in violation of the law (1) caused one to invest and (2) caused the loss. The two-part test prevented the courts from being used as an insurance policy for the initial public offering (IPO) market. The high hurdle set in proving fraud on the market and loss causation held until recently, when certain circuit courts began lowering the hurdle to a showing that "the purchase price was inflated" and that the analyst's action "touches on" the price being inflated.

Types of Actions – The current rise in research liability cases can be sorted into five buckets of civil exposure, according to the presentation of one panelist:

Bucket one is "mega class actions" alleging that securities were purchased at inflated prices due to analysts' opinions. These cases concern multi-billion-dollar bankruptcies in which issuers are insolvent, their auditors are insolvent, and creditors are striving to use such actions to go after the remaining deep pockets. An example is WorldCom. The expansion of "fraud on the market" to cover opinions of analysts from the previous cases of factual misrepresentation by issuers is a "quantum leap." The panelist commented that to presume that all the purchasers over a 39-month period relied only on one analyst's opinion, ignoring WorldCom's fraud, other analysts' opinions (35 other analysts wrote 500 research opinions with buy recommendations), and the overall telecom market bubble was "particularly dubious."

Bucket two contains class actions brought by those who purchased shares before analysts' opinions were issued, but held them through the class period. So far the federal courts have not been sympathetic, although some states have been.

Bucket three holds individual lawsuits brought by institutional investors in state courts. State courts have more relaxed pleading requirements than federal court, with punitive damages possible, but defendants are generally successful in removing such cases to federal court because the issuers are in bankruptcy in federal court.

Bucket four contains arbitration cases brought by customers of broker-dealers, of which there are tens of thousands.

Bucket five covers quite the opposite subject of defamation suits by issuers concerning misleadingly critical research.

Practical Issues for Research: Compensation, Communications, Conduct

Assessment and Compensation – The Global Settlement contains both restrictions and requirements as to what may be considered when deciding research-analyst compensation. As for restrictions, investment banking may have no input and investment-banking revenues or results may not be considered in research-analyst compensation decisions. On the requirements side, a "significant portion" of compensation for research analysts must be based on quantifiable measures of quality and accuracy, such as clients' evaluations, rankings in independent surveys, actual stock performance vs. recommendations, and benchmarking against other firms or indices. Overall firm revenue may be taken into account, but such considerations must be explicitly disclosed in research reports. Several intangible factors may also be factored into decisions.

The SRO research-analyst rules are similar to the Global Settlement. Firms may also use additional factors that they traditionally take into account in research-analyst compensation, which seem to be acceptable to the SROs. For SRO-member firms, research-analyst compensation recommendations must be made and the process documented by research management, and then sent to a compensation committee for approval. The Global Settlement further requires that the Board of Directors of the parent or holding company have a compensation committee that ensures that the compensation process for awarding research-analyst compensation is consistent with the terms of the Global Settlement. Documentation of both the assessment standards and evidence of how research management used those standards to arrive at compensation decisions is vital to satisfying the various requirements.

One research director remarked that he used to look at the "value" produced by the research analyst from all sources and then adjust for behavioral issues, but now assessment is primarily behaviorally based – a process which takes more time, resources and documentation for compliance.

Personal Trading – The Global Settlement does not cover personal trading, but the SROs have significant personal trading rules and restrictions. Most notably, a research analyst may not own pre-IPO shares, trade during black-out periods (30 days prior to and five days after publishing a report or changing a rating/price target), or trade against a current recommendation. Restrictions extend to the research analyst's family and supervisors. Legal/compliance pre-approval is required for trading by all personnel with influence over the substance of research reports, such as research managers, supervisory analysts, and members of committees that have influence. There are several exceptions to these restrictions such as financial hardship, purchase prior to initiating coverage, and investment funds. One research manager remarked that his firm no longer allows analysts to trade in shares of companies they cover – from a risk management point of view, it is just not worth the trouble of the necessary monitoring.

Public Appearances – The Global Settlement does not directly address public appearances, but there are extensive SRO rules and regulations. "Public appearance" is defined very broadly and can even apply to discussions with existing clients in one's own office if the number of attendees is 15 or more. Careful record-keeping of specific required information, as well as making and recording the method of making required disclosures, are the key to compliance with these rules. The need for approval of disclosures and appearances does limit the number of appearances and therefore the amount of information available. One panelist commented that the pros and cons of making public appearances have shifted; there is now less incentive to appear in public eye – an unintended consequence of increased regulation.

Communications – According to the terms of the Global Settlement, communications between research and investment banking are limited to specific permitted communications, which are broken down into deal-related communications, such as: ***vetting***, ***commitment committees***, due diligence (separately from investment bankers) and confirming adequacy of disclosures in the prospectus, valuation (though not structuring or pricing) and educating equity capital markets personnel and the sales force, and non-deal-related communications, such as discussions about market/industry conditions and legal and compliance issues and at widely attended conferences and regional/firm-wide meetings. All permitted communications must be chaperoned by appropriate legal/compliance personnel. Significant training of research analysts and investment bankers is necessary to adhere to the settlement rules, as not all of the restrictions are necessarily intuitive.

One panelist noted that communication with investment banking used to be very important. Now there are no emails and few phone calls. While this helps avoid improper communication, the resulting degradation of expertise in both research analysts and investment bankers is not helpful.

Communications with covered companies in light of research-analyst rules, in addition to SEC ***Regulation FD***, has slowed down considerably. There is currently little productive communication between research analysts and covered companies outside of quarterly conference calls.

Research analysts no longer participate in investment-banking solicitation, which is a significant reduction in potential conflicts. Clients – both investors and companies – do ask research analysts for their opinions, but research analysts may no longer give advice on investment-banking deals.

Analyst Registration – One panelist remarked that requiring research-analyst examinations is a positive step, both as a certification method for the industry and as a training tool for new analysts.

Fixed-Income Research Analysts – In May The Bond Market Association released "Guiding Principles to Promote the Integrity of Fixed Income Research (Guiding Principles)," which goes significantly further than SEC ***Regulation AC***, the only federal research regulation that applies to both equity and fixed-income research analysts (the Global Settlement covers only equity research analysts).[5] Key points of the Guiding Principles are: (1) it is a voluntary initiative and is principles-based, rather than rules-based; (2) it is globally applicable; (3) it used the SRO equity rules and Global Settlement terms as a starting point. Although modified to fit fixed income and in addition to the research-analyst/investment-banking conflicts, it addresses research analyst/sales and trading conflicts of interest; and, (4) it recognizes the difference among varying asset classes. In general, the Guiding Principles provide more flexibility to implement rules that are appropriate to each firm's size and structure.

Definitions are also very important. An important difference in definitions is that the Guiding Principles carve out from the definition of research reports materials prepared by sales and

[5] For a copy of the Guiding Principles, please see http://www.bondmarkets.com/.

trading that are not called "research reports" and that are prepared by people who are not identified as "research analysts." Under the equity rules there is no such carve out. One panelist discussed the concern that a fixed-income analyst who contributes to research put out by equity analysts could inadvertently become subject to the equity analyst rules.

Research Director Challenges: New Business Model

Business Changes - The Global Settlement imposed regulatory and supervisory changes at the same time as a massive business contraction. Since late 2001-2002 research analysts and managers have had to reexamine what they do for a living. One panelist remarked that his firm came up with the tag line "we turn information into insight" which is as true now as it was before the Global Settlement. The Global Settlement was not the only recent change. Asset classes other than equities have grown in relative importance as they developed alternative investments as instruments – there is more fixed income, foreign exchange and derivatives business. There is also more discipline, better feedback from the sales force, more hedge fund business, improved technology, and revamped infrastructure – all leading to better product.

The economics of the research business not supported by investment-banking fees is a big change for many. While research departments may rely on overall firm revenue, they are now more closely allied with investors. However, at the same time that research must rely more on commissions, there has been a contraction in volume and ever-greater pressure on commission rates. Cutting costs is the only option – the research platform must be scaled to fit the business it is servicing. One panelist commented that research previously supported investment banking and enjoyed doing so. Since the Global Settlement, there is a need to retrain staff to concentrate on what is required and desired by investing clients. Those research analysts who remain in the business truly enjoy being analysts and picking stocks.

Conflicts of Interest – The panelists went on to discuss the types of conflicts and pressures exerted on research analysts. One research director reported that he receives periodic calls from various interested parties such as:

1. Corporates/issuers, who still do not understand what analysts do – they want cheerleaders. Such parties may exert covert pressure by giving analysts less access, which may be hard to prove but it does happen.

2. Financial sponsors, such as leveraged buyout shops, which have specific requests for who they would like to cover their companies.

3. Investors, who are unhappy to see sell ratings on shares they own or buy ratings on shares they are short. They may make implicit threats by questioning an analyst's integrity.

The research director also commented that his department tries to catalogue such complaints and attempts to find patterns or at least document the occurrences to be able to prevent the pressure from continuing.

One panelist stated that he believed there is less outside pressure than there used to be, while another was just as sure that it is worse. This director believes that the pressure is more inflamed and that freeze outs by company management is common. However, after published research states that "the analyst has not had access for 90 days," management's freeze usually thaws quickly. Another manager pointed out, however, that access is crucial to clients (if not to analysts) and not being able to provide access to management can be bad for business.

Managing these conflicts, however, sometimes leads to "tossing the baby out with the bathwater." One research director noted that in order to avoid conflicts, some good practices are ending. Research analysts used to represent the investors' interests by counterbalancing investment bankers in commitment committee meetings. Such dialogue with investment bankers is no longer permitted. Analysts were also important in the education of investors concerning deals – they may still answer incoming questions, but may not make outgoing calls. The extended quiet periods are also problematic. The reason for them is easy to understand, but it deprives investors of information, especially about smaller offerings. One panelist asked, "How does it serve investors to have less information?"

In many of the above areas and others, the fundamental role of the analyst in the financing process has not changed, but the method of participation is different. For example, meetings with investment bankers can take place under certain conditions, but they must be chaperoned. Also, analysts may perform due diligence on investment-banking clients, but it must be done separately from the investment bankers' due diligence.

Independent Research – The panel then moved on to discuss the impact of the Global Settlement's mandated spending on third-party research. One panelist discussed the added value that independent research brought to the buy side and that the Global Settlement mandate was aiding in its development. Independent research analysts compete to be the "best" – the definition of which is different for each client. The mandated spending level is not that large, $90 million, but it is helping grow and develop the marketplace. Of particular note is that nearly 60 percent of third-party analyst recommendations differ from sell-side recommendations. Soft dollars pay for much of the independent research – in fact for most of all research. There is a need for education about the use and benefits of paying for research with commission dollars.

Kyle L Brandon
Vice President and Director, Securities Research

Glossary[6]

Commitment Committees meet to discuss and decide on what transactions a firm will undertake. Research analysts may attend these meetings and even give their opinions, but not in the presence of investment bankers, so bankers must leave the room when analysts express their views.

Hard dollars refers to paying for research with cash rather than an allocation of brokerage commissions.

Regulation Analyst Certification (***Reg AC***), which went into effect in April 2003, requires that brokers, dealers, and certain persons associated with a broker or dealer include in research reports a certification by the analyst that the views expressed in the report accurately reflect his or her personal views, and disclose whether or not the analyst received compensation or other payments in connection with his or her specific recommendations or views. Broker-dealers would also be required to obtain periodic certifications by research analysts in connection with the analyst's public appearances. The SEC adopted Reg AC to promote the integrity of research reports and investor confidence in those reports.

Regulation Fair Disclosure (***Reg FD***), which went into effect in October 2000, is an issuer disclosure rule that addresses selective disclosure. Reg FD provides that when an issuer, or person acting on its behalf, discloses material nonpublic information to certain enumerated persons (in general, securities market professionals and holders of the issuer's securities who may well trade on the basis of the information), it must make public disclosure of that information. The timing of the required public disclosure depends on whether the selective disclosure was intentional or non-intentional; for an intentional selective disclosure, the issuer must make public disclosure simultaneously; for a non-intentional disclosure, the issuer must make public disclosure promptly. Under the regulation, the required public disclosure may be made by filing or furnishing a Form 8-K, or by another method or combination of methods that is reasonably designed to effect broad, non-exclusionary distribution of the information to the public.

Safe harbor refers to the "safe harbor" set forth in Section 28(e) of the *Securities Exchange Act of 1934*, which provides that a fiduciary would not be in breach of any fiduciary duty when causing accounts over which it exercises investment discretion to pay more than the lowest commission rate available if the fiduciary makes a good faith determination that the value of the brokerage and research services received are commensurate with that rate and otherwise satisfies the requirements of the safe harbor.

Securities and Exchange Act of 1934 (***1934 Act***). With this Act, Congress created the Securities and Exchange Commission (SEC). The 1934 Act empowers the SEC with broad authority over all aspects of the securities industry. This includes the power to register, regulate, and oversee brokerage firms, transfer agents, and clearing agencies as well as the nation's securities self-regulatory organizations (SROs). The various stock exchanges, such as the New York Stock Exchange and American Stock Exchange are SROs. The National Association of Securities Dealers (NASD), which operates the NASDAQ system, is also an SRO. The Act also identifies and prohibits certain types of conduct in the markets and provides the Commission with disciplinary powers over regulated entities and persons associated with them. The Act also empowers the SEC to require periodic reporting of information by companies with publicly traded securities.

Self-Regulating Organizations (SROs): An entity, such as the NASD or NYSE, responsible for regulating its members through the adoption and enforcement of rules and regulations governing the business conduct of its members.

Sell-side research is created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders.

Soft dollars, generally speaking, refers to an arrangement that involves an agreement or understanding by which a discretionary money manager receives research or other services from a broker-dealer in addition to transaction execution, and does so in exchange for the brokerage commissions from transactions from discretionary clients' accounts.

Third-party research is created by a third party, but provided by the broker-dealer.

Vetting refers to the discussion of the merits of a transaction or a potential candidate for a transaction.

[6] Definitions are drawn from the SEC, SIA, and other sources.

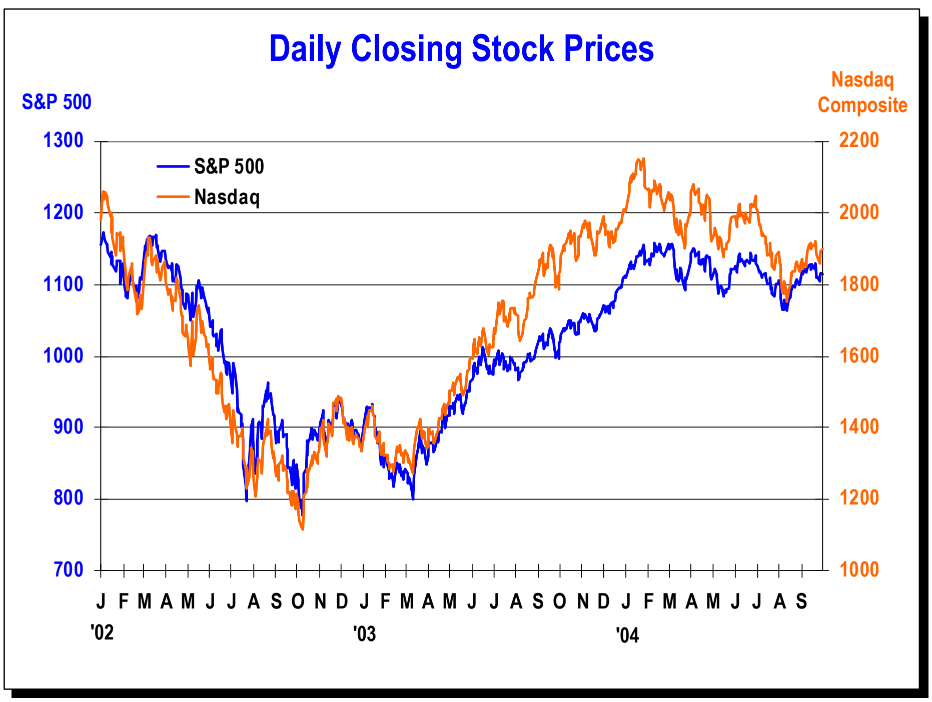
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

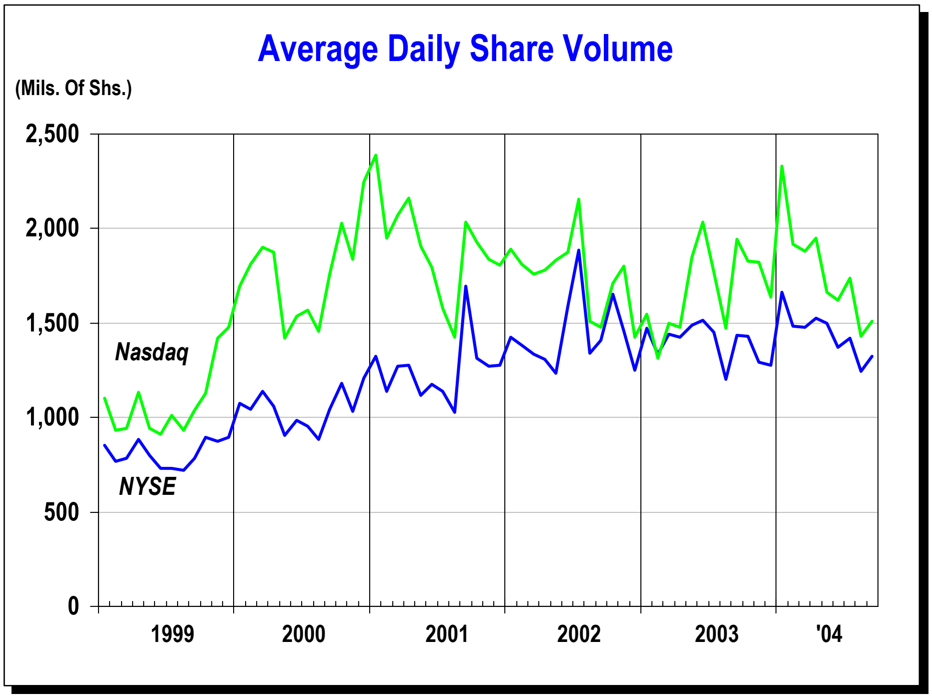
Stock Prices – The robust rally that began in mid-August petered out in late September amid generalized investor uncertainty, persistently rising oil prices, and a slew of corporate warnings about disappointing third-quarter earnings. The Dow Jones Industrial Average (DJIA) declined 0.9% in September to close at 10,080.27. The broader market managed to end the month in positive territory, as the S&P 500 moved up 0.9% to 1,114.58 and the Nasdaq Composite Index (Nasdaq) gained 3.2% to 1,896.84.

Still, all three major market barometers posted losses for the entire third quarter of 2004, the first such occurrence since 3Q'02. The tech-laden Nasdaq tumbled 7.4%, its worst quarterly performance since 3Q02. The DJIA and S&P 500 declined 3.4% and 2.3%, respectively, in 3Q'04, their largest percentage quarterly declines since 1Q03.

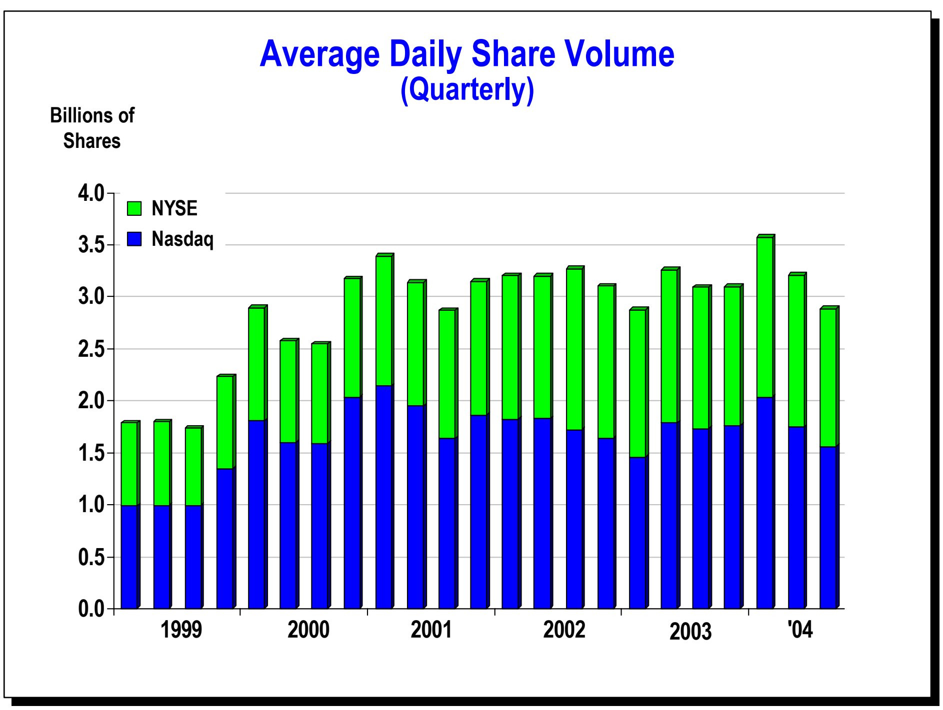
As a result, these indexes were flat to down for the year through September. The Nasdaq retreated 5.3%, the DJIA shed 3.6%, and the S&P 500 gained a scant 0.2%. Broader market indexes, such as the DJ Wilshire 5000 Index, also showed a small gain in September (1.6%) but remain in positive territory year-to-date (0.9%).



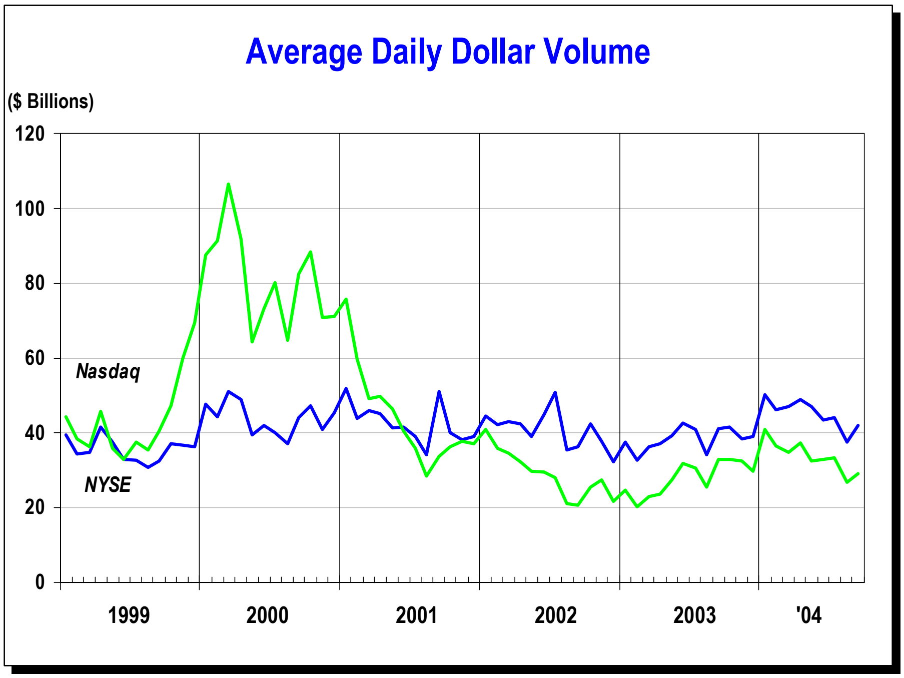
Share Volume – While volume on both the New York Stock Exchange (NYSE) and Nasdaq picked up in September after sinking to 2004 monthly lows in August, it remained relatively weak. Average daily volume on the NYSE increased 6.3% from August's depressed level to 1.32-billion shares in September, making it the second slowest month of the year. Still, due to heavy activity in 1Q'03, NYSE average daily volume through the first nine months of 2004, at 1.44-billion shares, is running 3.1% ahead of 2003's average daily pace.



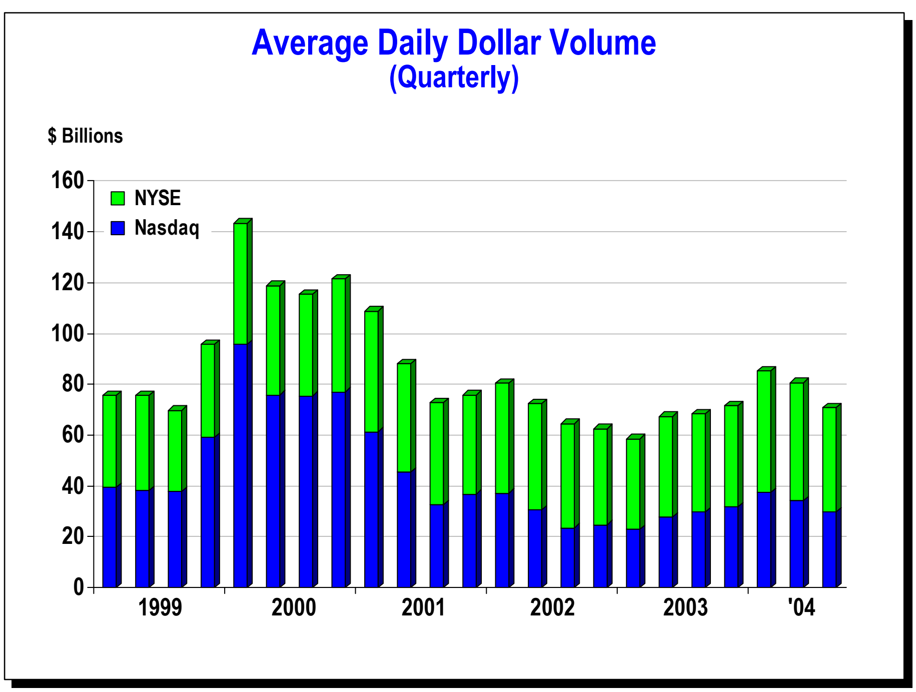
The trend in Nasdaq volume throughout the year has mirrored that on the NYSE. Near-record average daily volume of 2.04 billion shares daily in 1Q'04 was followed by two consecutive quarterly declines, as daily volume fell to an average of 1.56 billion shares in 3Q'04. That brought the year-to-date daily average to 1.78 billion shares, a 5.3% increase over last year's 1.69 billion shares and its best pace since the record 1.90 billion shares set in 2001.



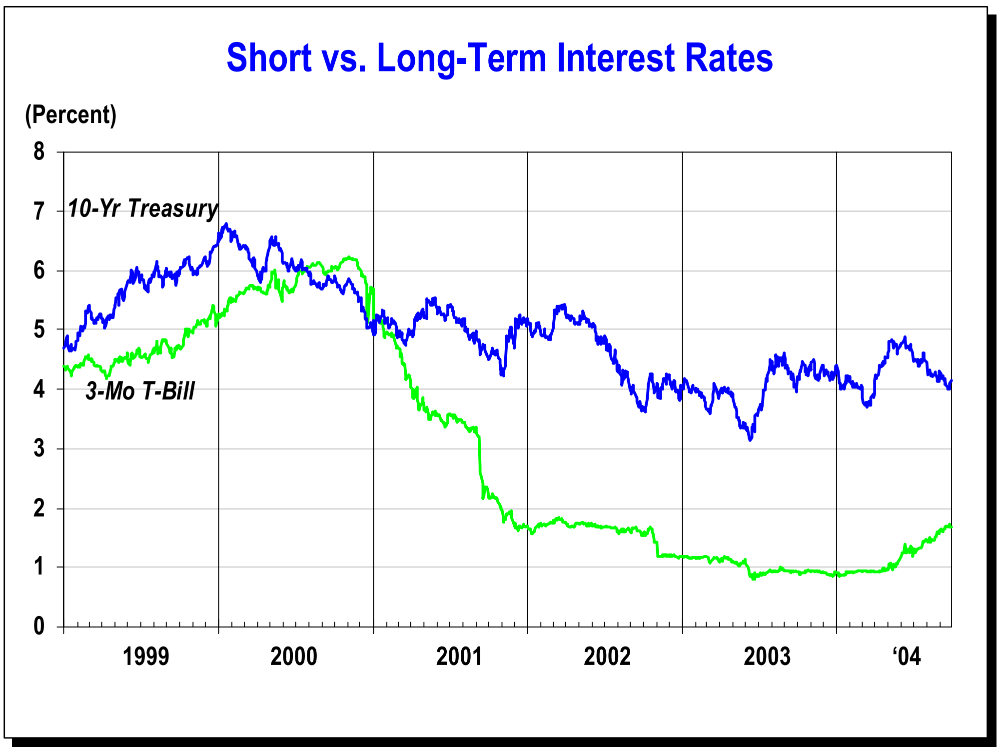
Dollar Volume – Both the NYSE and Nasdaq also experienced steady quarterly declines in dollar volume this year. The average daily value of trading in NYSE stocks, which peaked in January at $50.3 billion, sank to an eight-month low of $37.7 billion in August before rebounding 10.9% in September to $41.8 billion. Boosted by the strong first quarter showing, NYSE average daily dollar volume year-to-date of $45.1 billion daily stands 17.3% above 2003's level and is 2.7% higher than the $43.9 billion daily record set in 2000.



Nasdaq average daily dollar volume increased 9.0% in September to $29.1 billion from a 12-month low of $26.7 billion in August. Through the first nine months of 2004, Nasdaq daily dollar volume averaged $33.7 billion, up 20.2% from last year's $28.0 billion annual average, but still 58.3% below the 2000 record of $80.9 billion.

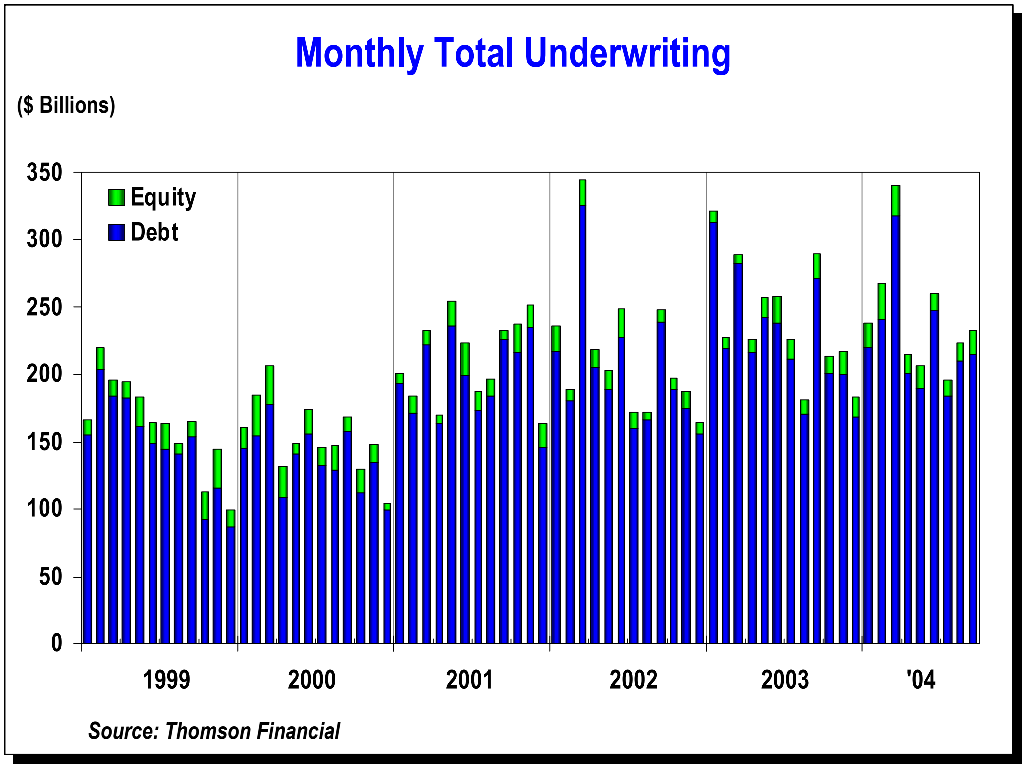


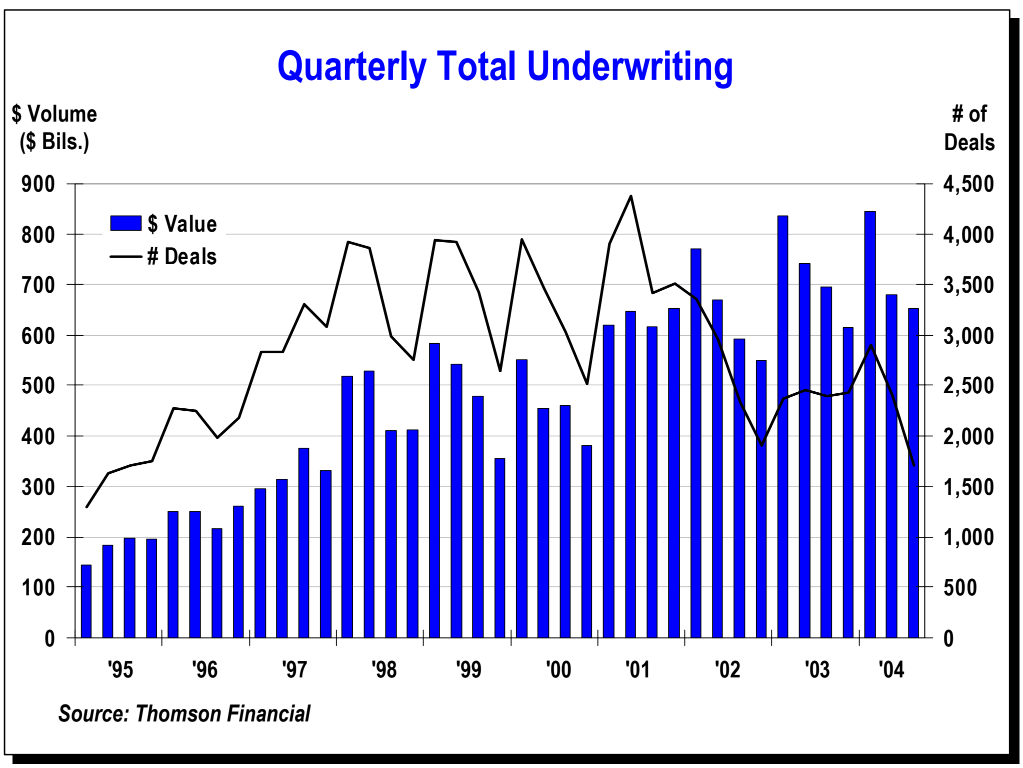
Interest Rates – The bond market experienced a surprising 3Q'04 rally despite the Federal Reserve Board's three quarter-point increases in the benchmark federal funds rate in June, August and September. On September 21, the Federal Reserve raised the key federal funds rate to 1.75% and noted the economy has regained some traction. Investors, however, are speculating that surging energy prices may hamper consumer spending and slow the pace of economic growth. Good inflation figures and the belief that slower growth will temper the Fed's actions caused the 10-year Treasury yield to drop back to a six-month low of 4.0% on September 22 after climbing to 4.89% in mid-June. Yields ended September at 4.14%, down from 4.27% at the start of the year. Short-term interest rates moved steadily higher throughout the year, with 3-month Treasury yields climbing to 1.68% at September's close from 0.93% at year-end 2003.



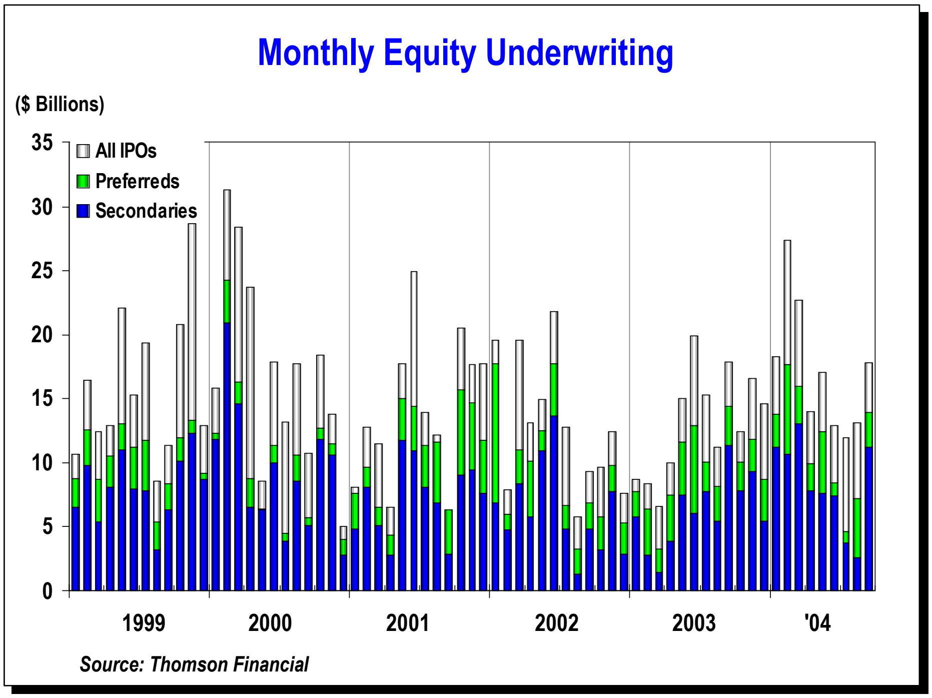
U.S. Underwriting Activity

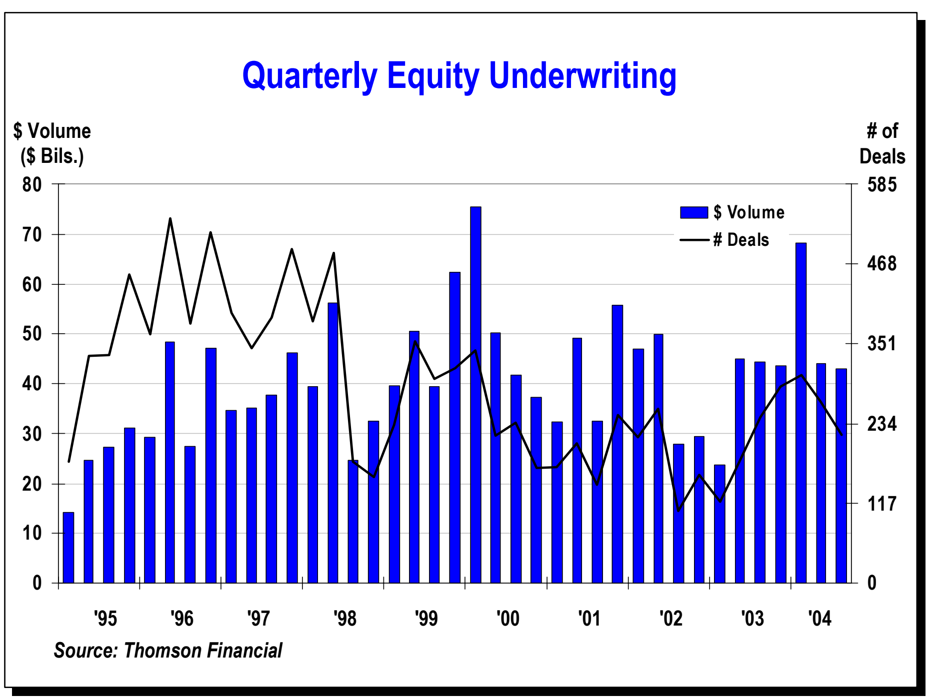
Total Underwriting – Overall debt and equity issuance slowed in 3Q'04. Despite increasing for the second straight month to $232.5 billion in September, third-quarter volume of $652.2 billion was 4.3% below 2Q'04 levels and 6.4% below results for the same period in 2003. New securities issuance through the first nine months of the year declined 4.2% to $2.18 trillion from $2.28 trillion in last year's comparable period.


Monthly Total Underwriting
($ Billions)
350
300
250
200
150
100
50
0
Equity
Debt
1999
2000
2001
2002
2003
'04
Source: Thomson Financial

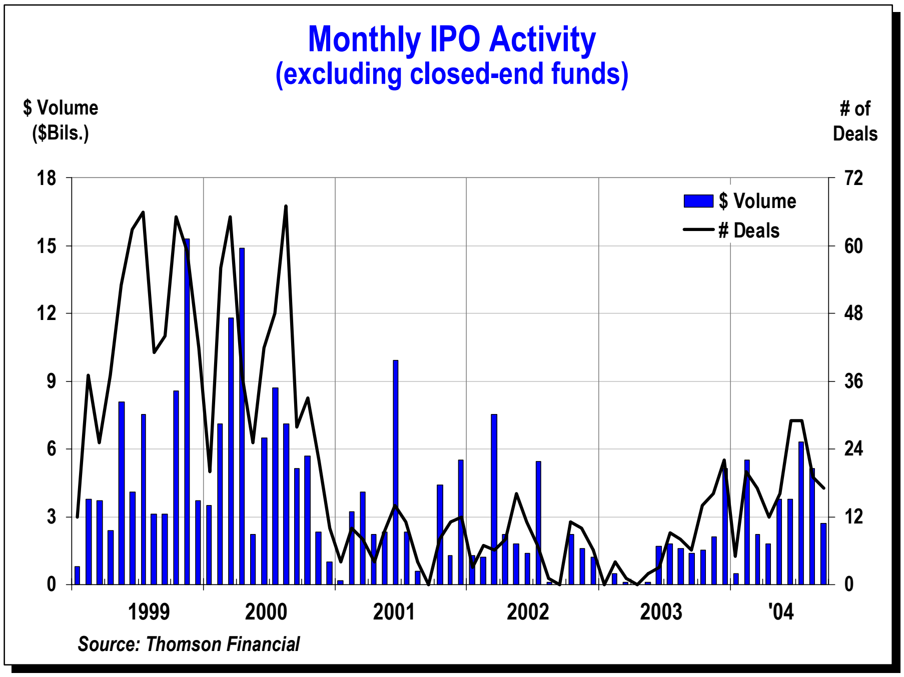

Quarterly Total Underwriting
$ Volume
($ Bils.)
of
Deals
900
800
700
600
500
400
300
200
100
0
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
$ Value
# Deals
'95
'96
'97
'98
'99
'00
'01
'02
'03
'04
Source: Thomson Financial

Equity Underwriting – Dollar proceeds from common and preferred stock offerings in 3Q'04 totaled $42.9 billion, down just 2.2% from the preceding quarter, and 3.2% below levels recorded in the same year-earlier period. Driven by strong first quarter volume, equity underwriting through the first nine months of 2004 totaled $155.0 billion, a sharp 37.4% increase over the $112.8 billion result in last year's comparable period and just shy of full-year 2003's total of $156.3 billion.

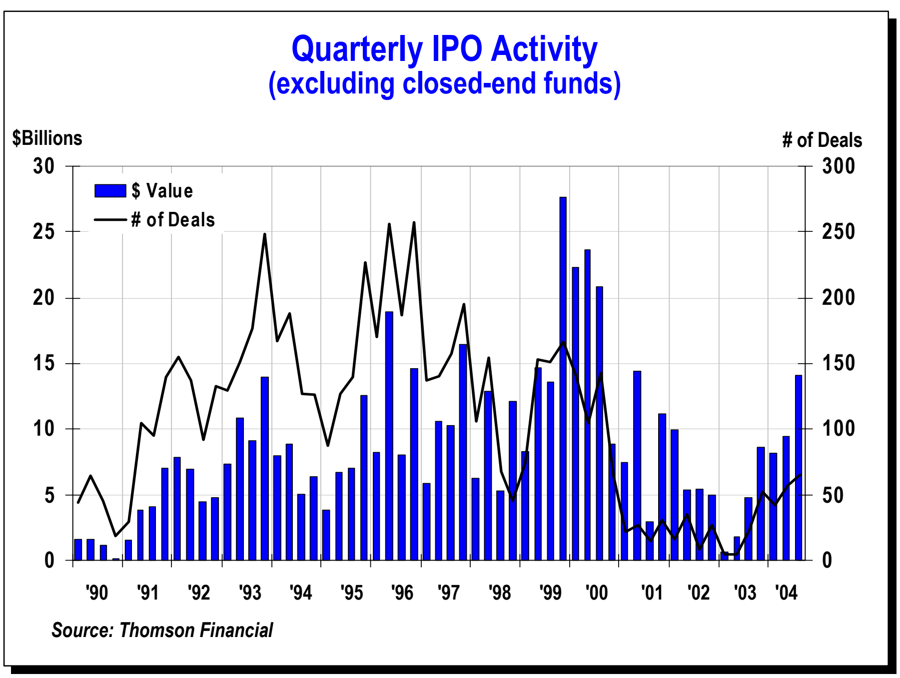




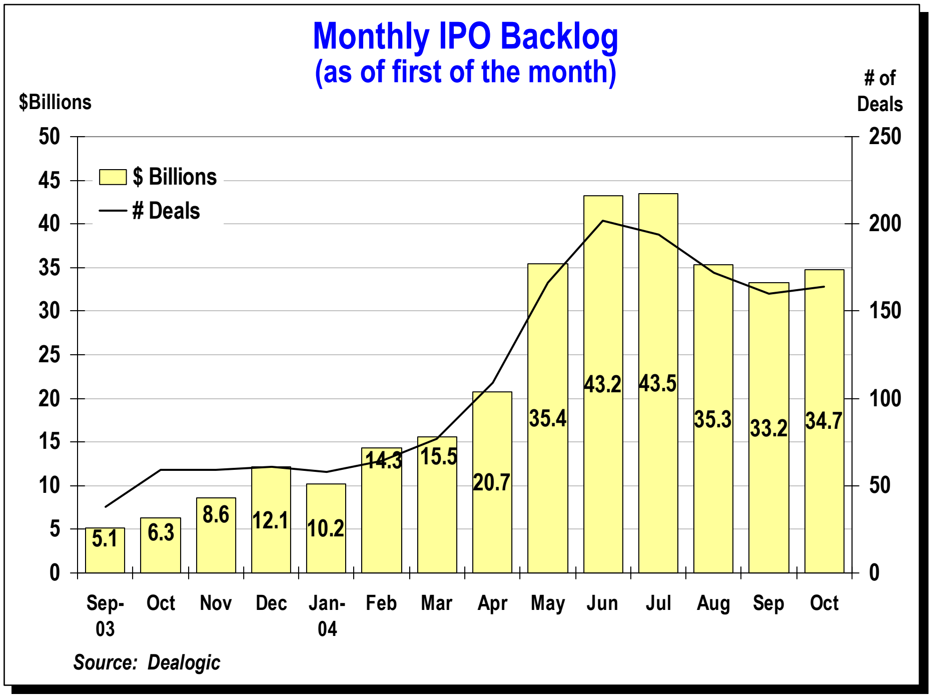
Initial Public Offerings (IPOs) – The IPO market witnessed progressive quarterly increases in volume so far this year. Although September IPO volume slowed to $2.7 billion from $5.1 billion in August, the third quarter tally of $14.1 billion was 50% above 2Q'04 results, 73% above 1Q'04 levels, and nearly triple the $4.8-billion total registered in the same period a year ago. Third quarter results also represented the highest quarterly IPO volume since 2Q'01, when $14.4 billion was raised.



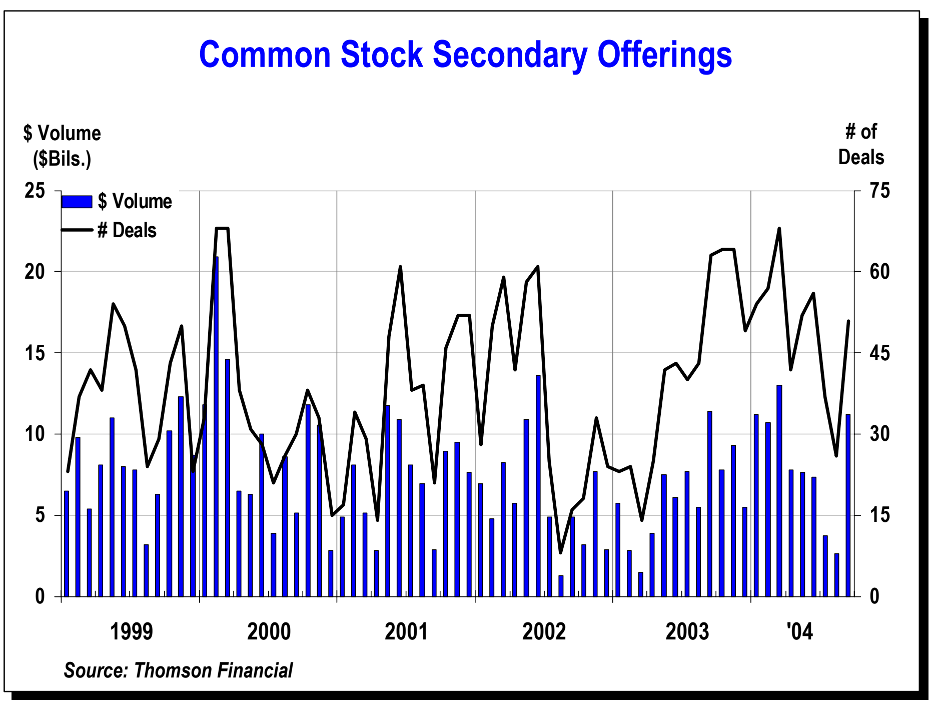
Through the first nine months of 2004, $31.7 billion was raised in this market, more than four times the $7.3 billion raised in last year's comparable period. The year-to-date total already exceeds the mere $15.9 billion raised in all of 2003 and the 2002 total of $25.8 billion. While the IPO market is on track to post its best annual results in four years, volume will fall far short of the record $75.8 billion set in 2000.



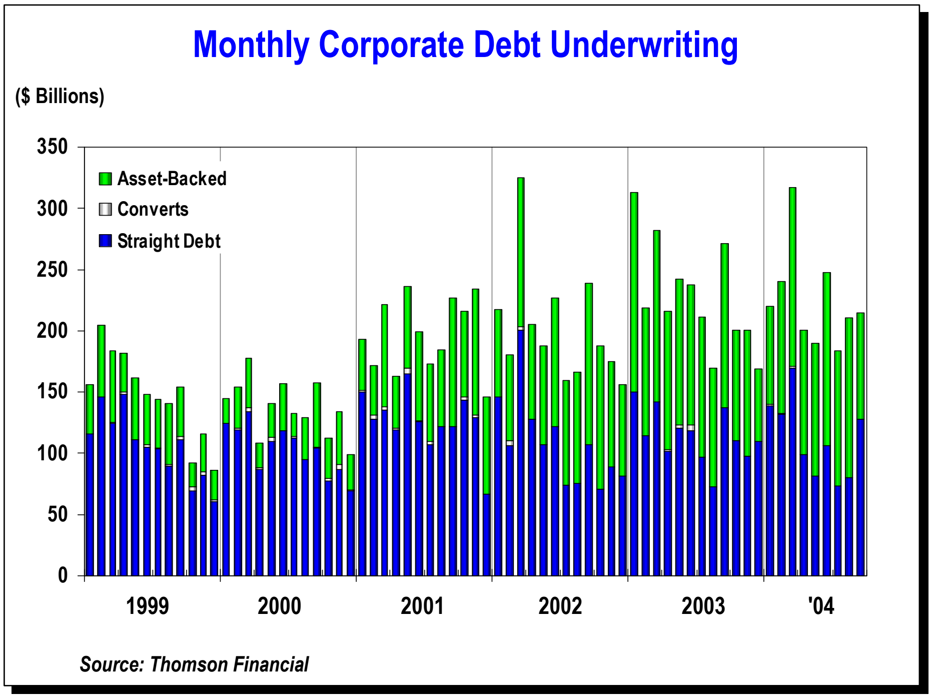
The short-term outlook for this market is cautious, however, as several IPO deals in September were withdrawn, postponed, or had to be priced below expectations in order to generate investor interest.

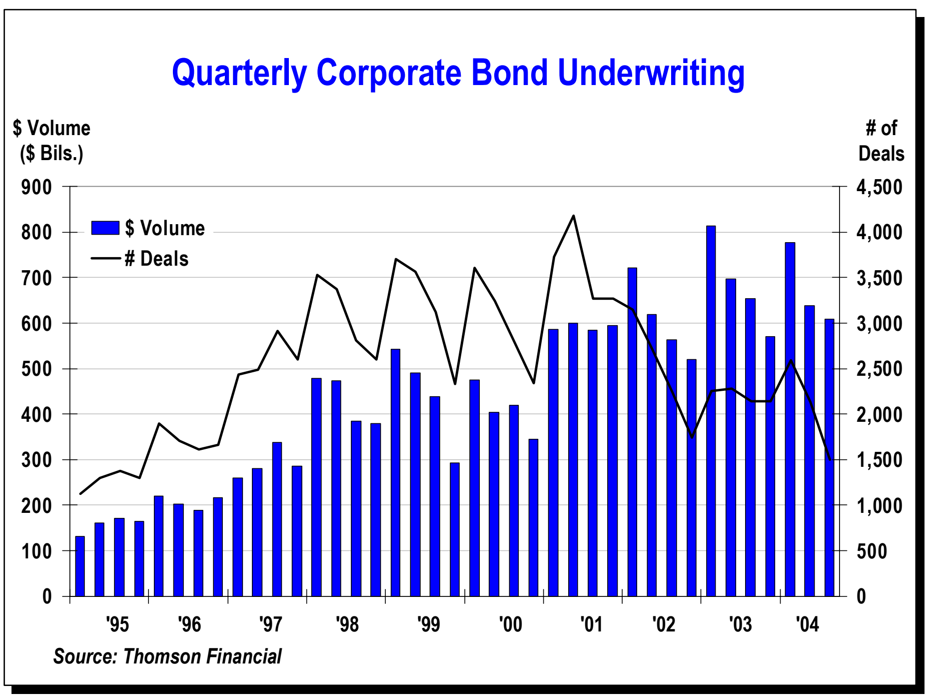


Secondary Offerings of Common Stock – Since peaking this year at $13.0 billion in March, common stock secondary issuance sank for five straight months to a 17-month low of $2.6 billion in August before rebounding sharply in September to $11.2 billion. That brought the third quarter total to $17.5 billion, down 23.3% from 2Q'04 levels and 28.9% below the amount raised in the comparable period last year. Despite the quarterly declines, issuance year to date, at $75.1 billion, is up 43.8% from $52.2 billion in the same year-earlier period and already surpasses 2003's full year total of $74.8 billion.



Corporate Bond Underwriting – Total corporate debt issuance witnessed a steady quarterly decline in 2004 from lofty first quarter levels, when issuers rushed to market to take advantage of near-record low interest rates to obtain cheap new financing and to refinance existing debt. Since surging to $777.9 billion in 1Q'04, activity slowed to $609.3 billion in 3Q'04. Through the first nine months of 2004, total corporate bond issuance stood at $2.0 trillion, 6.4% below the $2.2 trillion total in the same period a year ago.





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
<u>2003</u>											
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
<u>2004</u>											
Jan	138.5	1.4	80.3	220.2	15.6	2.6	18.2	4.4	0.5	11.2	238.4
Feb	131.8	0.7	108.1	240.5	20.5	6.9	27.4	9.8	5.5	10.7	267.9
Mar	170.0	0.6	146.6	317.2	19.8	3.0	22.7	6.7	2.2	13.0	339.9
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	12.2	4.8	16.9	4.6	3.8	7.6	206.4
June	106.0	0.0	141.4	247.4	11.8	1.0	12.8	4.5	3.8	7.4	260.3
July	73.2	0.0	110.8	184.0	11.1	0.9	12.0	7.4	6.3	3.7	196.0
Aug	80.1	0.0	130.5	210.5	8.6	4.6	13.2	5.9	5.1	2.6	223.7
Sept	127.3	0.6	86.9	214.8	15.0	2.7	17.7	3.9	2.7	11.2	232.5
Oct											
Nov											
Dec											
YTD '03	1,053.7	9.9	1,099.3	2,162.9	82.9	29.9	112.8	30.7	7.3	52.2	2,275.7
YTD '04	1,007.3	3.7	1,013.9	2,024.9	126.5	28.5	155.0	51.4	31.7	75.1	2,179.9
% Change	-4.4%	-63.0%	-7.8%	-6.4%	52.5%	-4.6%	37.4%	67.4%	335.2%	43.8%	-4.2%

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
2003										
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
2004										
Jan	0.7	10.5	11.2	3.6	5.6	9.2	20.4	0.88	4.15	3.27
Feb	1.0	12.9	14.0	4.7	7.7	12.4	26.4	0.93	4.08	3.15
Mar	2.7	20.5	23.2	5.6	10.2	15.7	38.9	0.94	3.83	2.89
Apr	1.0	18.1	19.0	3.6	8.2	11.7	30.8	0.94	4.35	3.41
May	1.4	27.8	29.3	3.1	4.7	7.8	37.0	1.02	4.72	3.70
June	1.3	24.2	25.5	4.7	5.4	10.1	35.5	1.27	4.73	3.46
July	1.8	14.5	16.3	4.9	3.7	8.6	25.0	1.33	4.50	3.17
Aug	0.6	15.9	16.6	3.9	7.6	11.5	28.0	1.48	4.28	2.80
Sept	1.7	12.0	13.7	5.3	4.6	9.9	23.6	1.65	4.13	2.48
Oct										
Nov										
Dec										
YTD '03	16.5	163.8	180.3	44.5	64.5	109.0	289.3	1.04	3.92	2.88
YTD '04	12.2	156.5	168.7	39.4	57.6	97.0	265.7	1.16	4.31	3.15
% Change	-25.8%	-4.5%	-6.4%	-11.5%	-10.8%	-11.1%	-8.2%	11.3%	9.8%	9.2%

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	10,080.27	1,114.58	6,570.25	1,896.84	1,322.2	50.5	1,510.7	41.8	29.1
Oct									
Nov									
Dec									
YTD '03	9,275.06	995.97	5,644.03	1,786.94	1,419.5	66.1	1,660.2	38.0	26.7
YTD '04	10,080.27	1,114.58	6,570.25	1,896.84	1,442.1	65.8	1,778.1	45.1	33.7
% Change	8.7%	11.9%	16.4%	6.2%	1.6%	-0.5%	7.1%	18.7%	25.9%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	Assets: Equity	Assets: Hybrid	Assets: Bond	Assets: Money Market	**TOTAL ASSETS**	Flow: Equity	Flow: Hybrid	Flow: Bond	Flow: Money Market	**TOTAL**	Total Long-Term Funds
1985	116.9	12.0	122.6	243.8	495.4	8.5	1.9	63.2	-5.4	68.2	73.6
1986	161.4	18.8	243.3	292.2	715.7	21.7	5.6	102.6	33.9	163.8	129.9
1987	180.5	24.2	248.4	316.1	769.2	19.0	4.0	6.8	10.2	40.0	29.8
1988	194.7	21.1	255.7	338.0	809.4	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	248.8	31.8	271.9	428.1	980.7	5.8	4.2	-1.2	64.1	72.8	8.8
1990	239.5	36.1	291.3	498.3	1,065.2	12.8	2.2	6.2	23.2	44.4	21.2
1991	404.7	52.2	393.8	542.5	1,393.2	39.4	8.0	58.9	5.5	111.8	106.3
1992	514.1	78.0	504.2	546.2	1,642.5	78.9	21.8	71.0	-16.3	155.4	171.7
1993	740.7	144.5	619.5	565.3	2,070.0	129.4	39.4	73.3	-14.1	228.0	242.1
1994	852.8	164.5	527.1	611.0	2,155.4	118.9	20.9	-64.6	8.8	84.1	75.2
1995	1,249.1	210.5	598.9	753.0	2,811.5	127.6	5.3	-10.5	89.4	211.8	122.4
1996	1,726.1	252.9	645.4	901.8	3,526.3	216.9	12.3	2.8	89.4	321.3	232.0
1997	2,368.0	317.1	724.2	1,058.9	4,468.2	227.1	16.5	28.4	102.1	374.1	272.0
1998	2,978.2	364.7	830.6	1,351.7	5,525.2	157.0	10.2	74.6	235.3	477.1	241.8
1999	4,041.9	383.2	808.1	1,613.1	6,846.3	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	3,962.0	346.3	811.1	1,845.2	6,964.7	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	3,418.2	346.3	925.1	2,285.3	6,975.0	31.9	9.5	87.7	375.6	504.8	129.2
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3	-27.7	8.6	140.3	-46.7	74.5	121.2
2003	3,684.8	436.7	1,240.9	2,051.7	7,414.1	151.4	33.3	31.3	-258.5	-42.5	216.1
2003											
Jan	2,597.7	324.7	1,138.2	2,273.6	6,334.2	-0.3	1.1	12.9	-1.1	12.6	13.7
Feb	2,537.8	322.9	1,171.1	2,236.2	6,268.0	-10.9	0.1	19.6	-39.5	-30.7	8.8
Mar	2,551.3	325.3	1,183.3	2,204.7	6,264.6	0.0	0.9	10.5	-32.3	-20.9	11.4
Apr	2,770.3	346.8	1,210.5	2,157.7	6,485.3	16.1	2.7	10.5	-53.8	-24.5	29.3
May	2,958.5	365.8	1,238.7	2,140.6	6,703.6	11.9	3.0	8.9	-18.3	5.6	23.8
June	3,031.1	373.6	1,248.4	2,164.4	6,817.5	18.6	3.9	5.1	22.3	49.9	27.7
July	3,126.0	376.4	1,212.1	2,152.5	6,867.0	21.5	3.4	-10.9	-12.9	1.1	14.0
Aug	3,238.5	382.3	1,209.4	2,141.0	6,971.2	23.6	3.3	-12.6	-20.2	-5.9	14.3
Sept	3,228.5	388.2	1,231.3	2,100.0	6,948.0	17.3	3.7	-5.9	-50.5	-35.3	15.1
Oct	3,440.4	405.9	1,226.6	2,080.1	7,153.0	25.3	4.1	-1.3	-22.1	6.0	28.1
Nov	3,513.3	416.4	1,232.7	2,071.7	7,234.1	14.9	3.0	-2.6	-7.6	7.8	15.3
Dec	3,684.8	436.7	1,240.9	2,051.7	7,414.1	14.2	3.6	-3.3	-22.6	-8.1	14.6
2004											
Jan	3,805.1	447.8	1,249.9	2,034.3	7,537.1	43.0	5.5	-0.3	-19.8	28.4	48.2
Feb	3,896.3	458.6	1,262.4	2,016.6	7,633.9	26.2	5.0	1.5	-21.0	11.8	32.8
Mar	3,887.5	456.3	1,278.9	2,006.6	7,629.3	16.0	4.8	7.8	-10.3	18.3	28.6
Apr	3,811.4	452.3	1,246.8	1,961.9	7,472.4	23.0	4.6	-7.8	-46.3	-26.6	19.8
May	3,855.1	456.9	1,224.4	1,969.7	7,506.1	0.4	2.3	-16.2	6.6	-7.0	-13.5
June	3,948.9	466.9	1,221.0	1,948.8	7,585.6	10.4	2.4	-7.6	-21.9	-16.6	5.2
July	3,797.3	462.3	1,230.0	1,947.1	7,436.7	9.4	3.0	-1.2	-3.2	8.0	11.2
Aug	3,802.8	469.5	1,253.2	1,935.6	7,461.1	1.1	2.6	4.2	-12.6	-4.7	7.9
Sept											
Oct											
Nov											
Dec											
YTD '03	3,238.5	382.3	1,209.4	2,141.0	6,971.2	80.6	18.3	44.1	-155.8	-12.7	143.1
YTD '04	3,802.8	469.5	1,253.2	1,935.6	7,461.1	129.4	30.2	-19.6	-128.5	11.5	140.1
% Change	17.4%	22.8%	3.6%	-9.6%	7.0%	60.5%	65.1%	-144.3%	NM	NM	-2.1%

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

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