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EMPLOYMENT TRENDS IN THE SECURITIES INDUSTRY: WINNERS AND LOSERS AS EMPLOYMENT RECOVERS

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MONTHLY STATISTICAL REVIEW

Grace Toto

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EMPLOYMENT TRENDS IN THE SECURITIES INDUSTRY: WINNERS AND LOSERS AS EMPLOYMENT RECOVERS

Summary

Recently released and revised employment statistics for the U.S. securities industry provide evidence for various trends in industry employment, confirming some that had already been evident, and throwing light on new patterns.[1] The highlights:

— The slump in aggregate industry employment between 2001 and 2003 was deeper and longer than previously thought, and the jobs recovery to date has been shallower. The securities industry has recovered only one-third of the positions lost in the downturn, not the half that the preliminary data suggested. The increasing reliance on technology outsourcing is one factor that helps explain these figures.

— Although securities industry employment dropped between late 2001 and late 2003, there was during this time a strong bull market in 'corporate oversight' functions, including compliance, audit and legal functions. In a period marked by significant increases in the regulatory burden that securities firms face, these functions increased by an estimated 24%.

— Labor-intensive clerical and ancillary roles are continuing to decline, as a result of technology advances that raise productivity and improve competitiveness. Between late 2001 and late 2003, occupational categories such as receptionists, information clerks and secretaries all contracted at a rate at least twice that of the overall industry.

— While the number of securities sales agents, or ***Registered Representatives*** (RRs), has at best stabilized, following a large drop in numbers between 2001 and 2003, there has been significant growth in the number of ***Registered Investment Advisers*** (RIAs), as well in centralized customer service call centers. This suggests a bifurcation of the retail market between wealthier clients paying for a 'high-touch' investment advice service on a fee basis and less wealthy clients being serviced remotely, with RRs squeezed on both sides.

— Management and senior professionals were hit hardest by the industry downturn, declining in aggregate by an estimated 17.6% between 2001 and 2003. This reflected both the need to cut costs as profitability tumbled, and the management consolidation that followed a wave of mergers and acquisitions in the securities industry in the 1990s. The overall number of support and junior positions declined by an estimated 2.5%, or nearly six percentage points less than the overall industry figure.

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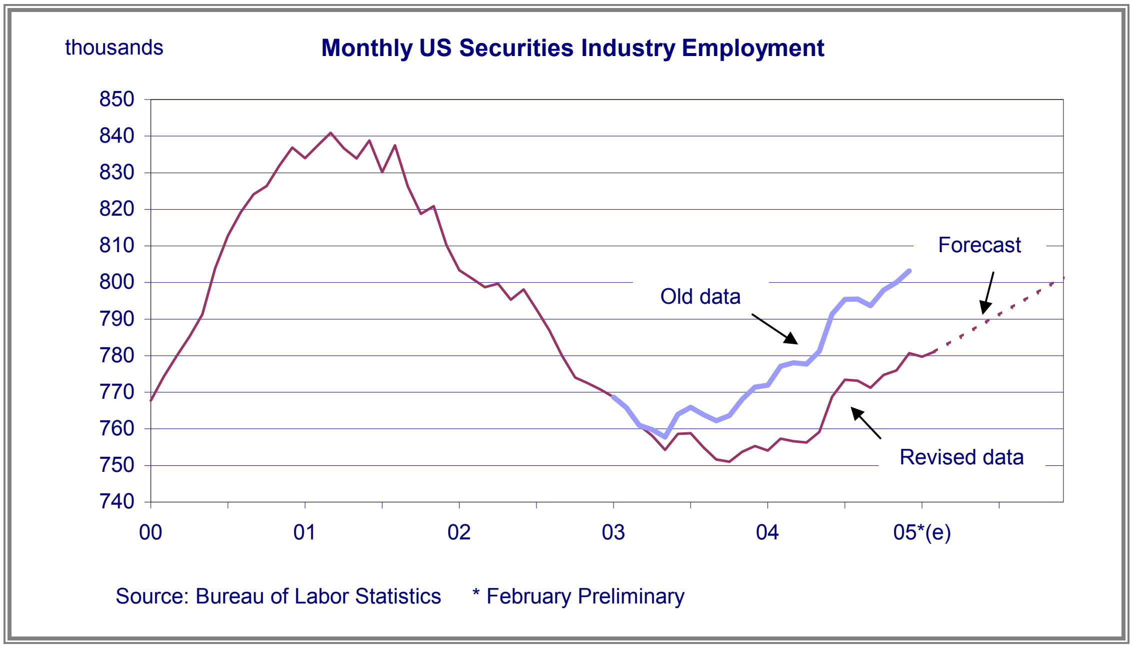
[1] This report draws on two recent Bureau of Labor Statistics releases: the Current Employment Statistics survey for aggregate industry employment levels (www.bls.gov/ces/home.htm) and the Occupational Employment Statistics survey for occupational estimates (www.bls.gov/oes/home.htm).

Overall Industry Employment Trends: Slower Growth than Previously Thought

The newly revised aggregate employment statistics for the U.S. securities industry significantly change our understanding of recent employment trends. The original data showed that the decline in industry employment from its March 2001 peak had bottomed out in May 2003 at 757,800 positions. It also indicated that, since that point, employment had increased by 6.0% to 803,200 jobs in December 2004.



The revised data shows that the employment slump in the industry was not only deeper and longer, but that the recovery since the low point has been shallower than originally thought. The new benchmarks show that the slump in employment continued until October 2003, reaching a low point of 751,000. This means that the industry lost 6,800 more positions than previously thought, with an overall decline in numbers of 10.7% from the employment peak.

Since the October 2003 low point, the industry has added only 30,100 jobs, or a gain of 4.0%, by December 2004 (3.0% on an annualized basis). This revised number means that rather than recovering over half of the jobs lost in the post-bubble slump, the industry has only recovered one-third of these positions.

Preliminary estimates as of February 2005 put total securities industry employment at 781,100. Going forward, we expect that the pace of employment creation is likely to continue at approximately the same pace as in the past 16 months of recovery, an annualized pace of 3.0 – 3.5%. This would bring total industry employment back past 800,000 by the end of 2005, which would also mark the recovery of more than half the jobs lost in the 2001-2003 slump.

	Original Data	Revised Data
Length of employment slump	25 months	30 months
Depth of employment slump (peak to trough)	-9.9%	-10.7%
Strength of employment recovery (trough to Dec 2004)	6.0%	4.0%

One factor that helps explain this relatively slow recovery in employment levels is the growing trend of technology outsourcing in the securities industry. As communications, information technology (IT) and data-processing systems become more complex, the costs to design new systems, maintain and upgrade them, and hire and train (as well as retain) the necessary staff have become prohibitive. As a result, in-house solutions are an increasingly expensive and inefficient approach for many broker-dealers. As a recent survey demonstrates, broker-dealers are increasingly outsourcing a wide range of functions to external specialist firms. Outsourcing shifts some previously fixed costs to a variable basis, reducing the need for management to forecast future volume or usage. In addition to the financial benefits, outsourcing is seen to have positive management benefits. The survey found that 81% of securities firm executives think that the benefits of outsourcing outweigh any potential loss of control issues, and that 40% of them consider that outsourcing actually increases their management control.[2] Outsourcing also extends to the use of consultants specializing in various fields, including regulatory compliance.

From an employment perspective, these functions, which are integral to operations within the securities industry, were previously undertaken in-house and are now increasingly being outsourced to specialist providers, thereby reducing employment in securities firms in certain positions. Because many of these outsourcing and consulting firms are not classified as part of the securities industry, the employment statistics analyzed here probably underestimate the total number of jobs generated by the industry.

Occupational Trends Update

A Bull Market in Compliance, Audit and Legal Functions

Recently released survey data shows that the occupational trends identified in our previous occupational analysis have continued.[3] The data used in our latest analysis covers a two-year period from November 2001 to November 2003, a period in which total employment in the industry dropped by 63,000 positions, to 753,700 from 820,900, or an 8.2 % decline.[4]

As with our earlier analysis, we have taken industry employment data and broken it down according to different occupations and seniority levels. Occupations have been grouped into four functional segments:

1. General and Operational: general management occupations and the compliance, audit and inspection roles that management requires to direct a firm's activities.
2. IT and Systems: management and operations for all IT and systems requirements.
3. Office and Administration: all administrative management and support occupations, ranging from human resource managers to executive secretaries and administrative assistants.
4. Sales and Trading / Brokerage: the 'front-office' personnel that are the public face of the securities industry, including personal financial advisers, securities sales agents, investment bankers and brokerage clerks.

[2] See www.nationalfinancial.com/pr_387911.shtml.

[3] Frank A. Fernandez and Rob Mills, "Structural and Cyclical Changes in Employment in the U.S. Securities Industry," *SIA Research Reports*, Vol. V, No. 12 (November 17, 2004), http://www.sia.com/research/pdf/RsrchRprtVol5-12.pdf.

[4] The latest data from the annual *Occupational Employment Survey* from the Bureau of Labor Statistics is from November 2003. November 2004 data is due to be published in June 2005 (http://www.bls.gov/oes/).

One aspect that stands out in particular from the latest survey data is that during a period when employment levels were dropping, the set of occupational categories that might be labeled 'corporate oversight functions' have experienced a strong bull market. There are several categories in the survey data for roles that deal with corporate accounts and financial statements, legal and regulatory compliance, and internal controls. These roles are at various levels of seniority, and include: compliance officers; accountants and auditors; lawyers; paralegals and legal assistants; and, accounting and auditing clerks.

In the 24-month period from end-2001 to end-2003 in which the securities industry shed 8.2% of its workforce, we estimate that 8,800 new positions were added in these five categories. This took the total for these five 'corporate oversight' categories to 46,100 from 37,300, or a 24% increase. These positions went from accounting for 4.6% of all industry positions to 6.1% in those two years. That such non-income producing positions increased by an estimated 24% in a period when overall securities industry employment dropped by over 8% is an indication of increasingly high regulatory, compliance and reporting hurdles that broker-dealers face in their operations.

In the period between 2001 and 2003, more financial 'oversight' staff were added to payrolls than lawyers: compliance officers, lawyers, paralegals and legal assistants increased by just under 2% as a group, while accountants, auditors and accounting/auditing clerks are estimated to have increased by nearly 30%. This increase in financial staff stems from the increasing need to strengthen internal financial controls in the post-Enron era, particularly in the wake of the ***Sarbanes-Oxley Act*** of 2002.

Since 2003, *ad hoc* evidence from Securities Industry Association (SIA) member firms suggests that significantly more legal and compliance staff have been hired, not least in response to tougher self-regulatory organization (SRO) and U.S. Securities and Exchange Commission (SEC) regulatory standards and the provisions of agreements such as the 2003 Global Research Analyst Settlement and research analyst rules put into place by the SROs.[5] One example arising from the new research analyst rules is that most communications between research analysts and investment bankers require personnel-intensive chaperoning arrangements. While there is no current data on new regulatory, compliance and legal hires, we estimate that annual growth rates for staffing in these areas are in the order of 10% in 2004. Overall, we estimate that numbers of 'corporate oversight' positions exceeded 50,000 by end-2004, with the lion's share of that growth in legal and compliance staff.

Continuing Decline in Clerical Functions

As we highlighted in our November employment update, structural changes in the securities industry have had a significant impact on employment patterns in recent years.

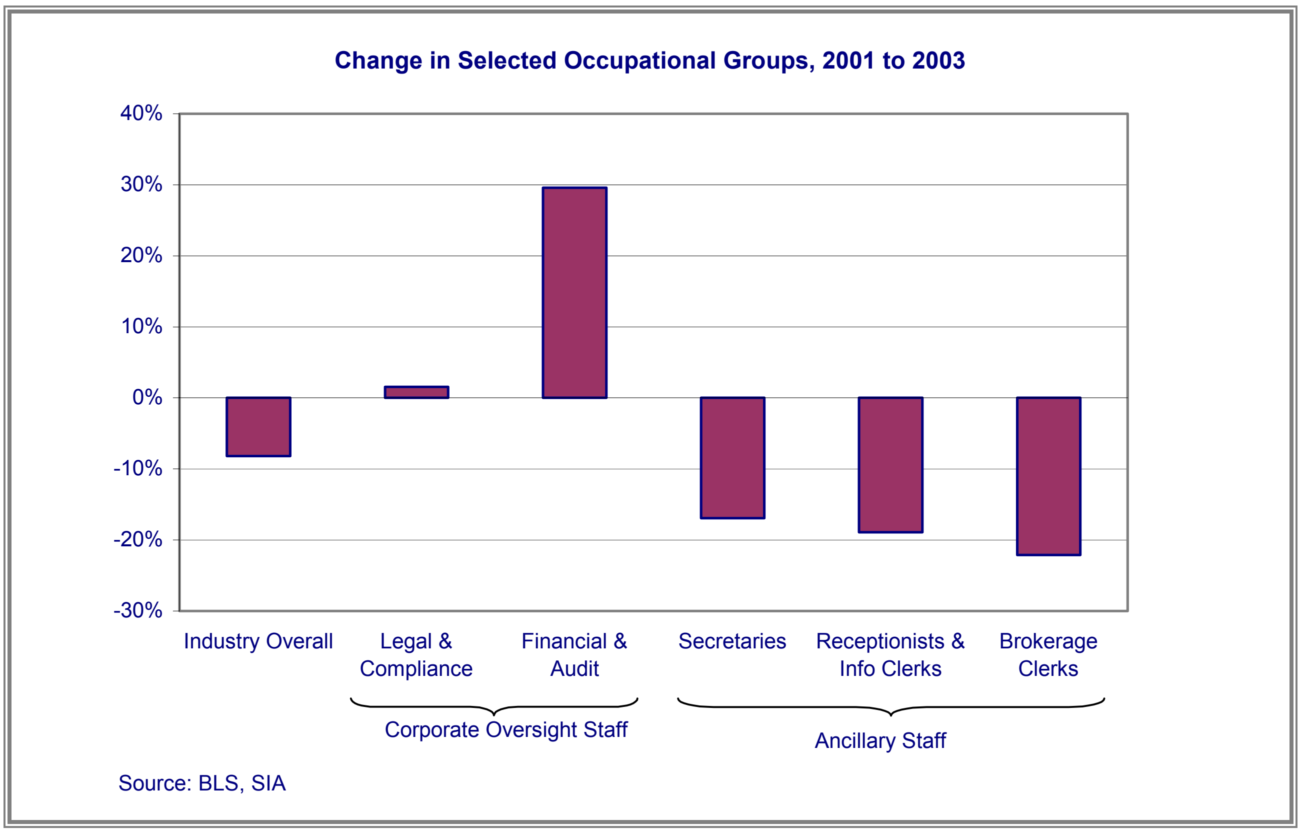
In the highly competitive and technology-dependent securities industry, firms that rapidly adopt new communications and IT processes can both gain a competitive edge and benefit from dramatic increases in operational efficiency and sharply lower unit costs. The effect has been to generate impressive rates of productivity growth and to reduce the number of positions in labor-intensive, low-technology jobs.

[5] For SEC settlement terms, see www.sec.gov/spotlight/globalsettlement.htm. For SRO rules, see, for example, Notices to Members 02-39 (July 2002), 03-44 (July 2003) and 04-18 (March 2004) at www.nasd.com.

The latest data confirms these ongoing trends in the industry. In the period between late 2001 and late 2003, when the industry as a whole shed 8.2% of the total workforce, certain categories saw employment slide at a much faster rate. We estimate that the number of secretaries declined by 16.9%; receptionists and information clerks declined by 18.9%; and, brokerage clerks declined by 22.1%.[6]

Going forward, we expect this trend to continue, albeit at a lower and declining rate. Technological advances will continue to ensure that more can be achieved with lower staffing levels across the industry, but the marginal increases in efficiency achieved will likely decline over time.

In summary, our latest occupational estimates indicate two distinct trends. On one hand, the greater regulatory burden means that securities industry firms are being obliged to take on more 'corporate oversight' staff. On the other hand, the ongoing drive for competitive advantage and greater efficiency has led to an inexorable decline in traditional ancillary occupations. Both trends are likely to continue.



6 Interestingly, the number of general office clerks was estimated to have increased by 15.1% over the same period. This may reflect the increased administrative workload imposed by greater regulatory burdens, for example, in the need for more rigorous internal controls, and could therefore be considered part of the increase in 'corporate oversight' staff described in the previous section.

RIAs Profit at Expense of RRs

The recent release of updated employment data also shows the continuing decline in the overall number of sales agents in the industry. 'Sales Agents', a category that includes RRs, have dropped in number to an estimated 152,000 in November 2003 from 192,000 in November 2001, a decline of 21.1% in just two years. This represents a drop of 12.9 percentage points more than the overall decline in industry employment over the same period. While this category is quite broad (it includes, for example, independent contractors, part-time RRs, new recruits and non-retail brokers, such as institutional salespeople), SIA's own data confirms this trend, indicating that between 2001 and 2003, the number of income-producing personnel employed by the New York Stock Exchange and NASD reporting broker-dealers declined by more than 10%.[7]

During the same period, however, there have been significant increases in the number of 'Personal Financial Advisers', a category that includes RIAs. From late-2001 to late-2003, this category increased by 9.2%, to an estimated 53,400 from 48,900. Some of this growth in RIAs may in fact be the corollary of the drop in the number of Series 7-only RRs. Anecdotal evidence suggests that higher compliance burdens at broker-dealers have led some RRs to leave their firm to pursue an independent career as an RIA.[8] In this sense, growth in RIAs has 'cannibalized' the stock of RRs.

A similar pattern is apparent in 2004. While overall industry employment levels grew at an annualized rate of 3.3%, it appears that the number of RRs was, at best, stable. By contrast, the employment growth rate for RIAs exceeded that of the overall industry. One estimate is that, over the course of 2004, there was no growth in Series 7-only RRs, and a 20% increase in Series 66 RIAs.[9]

While it is still too early to make any definitive conclusions, it seems likely that a structural shift in customers' preferred advisory channels is underway. As we reported in a recent issue of *Securities Industry Trends*, SIA survey data indicates a steady increase in the share of gross retail brokerage production derived from fee-only accounts. We forecast that by the end of 2005, 35% of all retail production will be on a fee-only basis.[10] This suggests that customers are increasingly looking for, and being provided with, full-service or 'high-touch' relationships that incorporate tailored investment advice and financial planning. We do not forecast a return in Series 7-only securities sales agents to the levels seen in 2001 at any time in the near future.

Two other trends accompany this decline in securities sales agents. One is a concomitant drop in the number of brokerage clerks, who support sales agents' activities. Over and above the inevitable reduced demand for these positions as the total number of RRs drops, many retail brokerage branches have also focused on reducing the broker-to-brokerage clerk ratio, in an attempt to cut overhead costs. With fewer RRs and a higher broker-to-brokerage clerk ratio, the total number of brokerage clerks in the industry tumbled 22.1% between 2001 and 2003, to an estimated 56,200 from 72,200. Even more so than the Series 7 brokers themselves, brokerage

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[7] SIA Databank. Income-producing personnel at NYSE and NASD reporting firms declined to 185,500 at end-2003 from 206,300 at end-2001.

[8] One investment-advisory business recently estimated that 80% of its new RIA-only hires (i.e., those letting their Series 7 license lapse) were Series 7 RRs leaving broker-dealers, and only 20% were from competitor RIA firms. See *Registered Rep.* magazine (February 2005) www.registeredrep.com/mag/finance_why_reps_getting/index.html.

[9] Cerulli Associates, as quoted in *Registered Rep.* magazine (February 2005), op. cit.

[10] SIA *Securities Industry Trends*, Vol. XXXI, No. 1 (February 28, 2005), http://www.sia.com/research/html/securities_industrytrends.html.

clerks are an occupational category with very limited future upside. The other trend is the rapid rise in the customer call center. As broker-dealers increasingly chase the lucrative high net worth customer segment, centralized customer service representative teams deal with many customers with lower account balances. Between 2001 and 2003, we estimate that customer service representatives increased to 37,200 from 34,700, an increase of 7.1%.

In summary, there is, on one hand, a drive to provide an integrated and high-touch service for high net worth individuals, reflected in the rapid rise in the number of RIAs. On the other hand, the need to contain costs has meant that lower net worth customers are increasingly serviced via centralized call centers. In the middle, and being squeezed on both sides, is the traditional Series 7-only broker. While this occupational group still has an important role to play in selling products and handling transactions, it is one likely to continue to be squeezed over time.

Trends in Seniority: Management Disproportionately Hit by Downturn

The recently released occupational survey data confirms important changes in the relative numbers of posts at various levels of seniority in the industry. As with our last update, we have allocated each occupational group to one of three seniority levels: 'Management', 'Mid-Level / Professional' and 'Support / Junior'. In the two years between end-2001 and end-2003, management positions have disproportionately suffered from employment cuts. While overall employment declined by 8.2%, the number of senior or management positions declined in aggregate by an estimated 17.6%, with some particularly hard hit. Management positions in Sales and Trading, including marketing managers, financial managers and managers of sales workers, declined by an estimated 28.4% in the two-year period. General and operational managers, including CEOs and senior general management positions, declined by an estimated 18.1%.

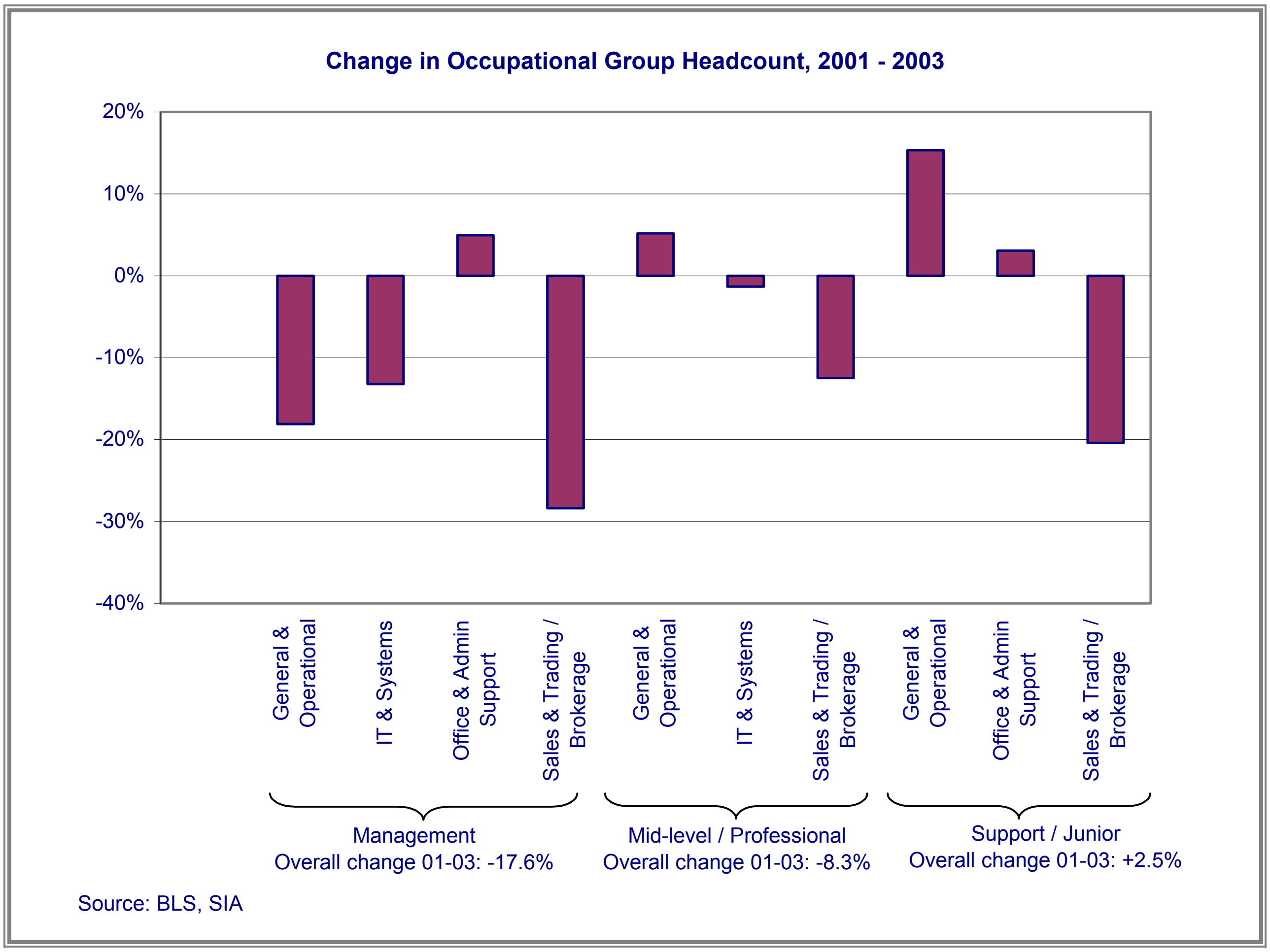
These declines in management positions are driven by three principal factors. First, it reflects the significant drop in the industry's retail sales force between 2001 and 2003, as described in the previous section. With fewer producers in the trenches, there was less demand for executives to manage sales and marketing efforts. Second, the securities industry continues to consolidate. The long bull market of the 1990s that culminated in 2000 saw a large wave of mergers and acquisitions, with many smaller and regional firms snapped up by the larger 'bulge-bracket' firms looking to fill in regional gaps in their franchise, or acquired by 'super-regional' firms looking to expand their footprint. Post-acquisition consolidation resulted in the senior management of many firms leaving as the head office of the acquiring firm took over their management responsibilities. Third, industry profits tumbled in 2001 and 2002, following the record profits recorded in 2000.[11] With pre-tax net income down 49.3% in 2001 and then 24.5% in 2002, securities firms were left with both underutilized capacity and a very expensive senior staff cost base. Cutting back on senior and management positions helped remove a significant element of total compensation expense, paving the way for a return to profitability in 2003.

Further down the ranks, mid-level or professional positions declined as a category by an estimated 8.3% between 2001 and 2003, approximately the same as the overall industry decline. Half of securities industry positions are in this category (compared to 14% in the management

[11] Frank A. Fernandez, "The Year in Review / The Year Ahead: Securities Industry 2004 Performance and 2005 Outlook," *SIA Research Reports*, Vol. VI, No. 1 (January 25, 2005), http://www.sia.com/research/pdf/RsrchRprtVol6-1.pdf.

category and 37% in support or junior positions). The fortunes of different occupational groups within this category diverge over the course of the two-year timeframe. As we noted above, the ranks of sales agents were thinned by 21.1%, resulting in an overall decline of 12.5% in mid-level professional positions in sales, trading and investment banking activities. However, mid-level and professional positions increased by 5.2%, driven by the big jump in the oversight and compliance side of the business that we described above.

Support and junior positions were least hard hit by the overall shrinking of the industry between 2001 and 2003. Overall number of positions at this level only declined by an estimated 2.5%, or nearly six percentage points less than the overall industry figure. Big drops in the number of brokerage clerks, as described above, were offset by increases in junior accounting and auditing clerks and other office clerk positions.



Other Trends

In our previous analysis of employment data releases, several other insights emerged.[12] While the data either remains broadly unchanged or is not yet updated for these analyses, it is worth reiterating some of the conclusions. We will return to update these themes when new data becomes available.

— **Industry demographics are changing rapidly**. Between 2001 and 2003, the representation of women in different age categories improved, with a more even distribution across age groups. For example, by 2003 there were almost as many women in the 45-54 age group, as a percentage of total women in the industry, as there were in the 25-34 age group.

— **There has been progress in gender composition** of certain key occupations in the industry. SIA data shows that women have been making inroads in certain key professional and managerial positions traditionally dominated by men. For example, the percentage of women at the Managing Director level has risen to 19% from 14% between 2001 and 2003. The percentage of female investment bankers has increased to 17% from 15%.[13] Overall, there has been a jump in overall female representation in management/professional positions to 35.0% from 25.8% in just two years.[14] At the same time, there is increasing male representation in office and staff occupations, making for a more gender-balanced workplace.

— **Wage data indicates diverging patterns**. On one hand, despite the large decreases in the Sales and Trading / Brokerage segment of the workforce that we saw above, average wages for those remaining increased significantly across all levels of seniority between 2001 and 2003. This suggests that the core, client-oriented functions performed by this 'front-office' segment are still an intrinsic and valuable part of the industry, and command compensation to match. On the other hand, other occupational categories have shown only minimal average salary gains, in many cases despite increases in overall staffing levels. Examples include junior audit and management support positions, telemarketers and administrative support. This suggests that these roles have only limited pricing power in the market. While the industry has needed to hire for these extra positions, the minimal growth in salary levels suggests that there is plenty of supply to meet the increased demand. In other words, these are not positions that command a salary premium.

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[12] *SIA Research Reports*, Vol. V, No. 12 (November 17, 2004, op. cit.

[13] SIA *2003 Report on Diversity Strategy, Development and Demographics*. http://www.sia.com/hrdiversity/pdf/FinalSurveyReport2003.pdf

[14] SIA *Report on Management and Professional Earnings 2004*.

Estimated Change in Industry Personnel, by Occupational Groups and Seniority Levels 2001-2003

	General & Operational	% increase 01 - 03	IT & Systems	% increase 01 - 03	Office & Admin Support	% increase 01 - 03	Sales & Trading / Brokerage Management	% increase 01 - 03	Sub-total % increase 01 - 03
Management	CEOs	-31.1%	Computer & IT Managers	-13.2%	Administrative Services Managers	-8.1%	Marketing & Sales Managers	-0.9%	
	General & Ops Managers	-14.7%			Human Resources Managers	-7.8%	Financial Managers	-36.5%	
	Other	-11.9%			Managers of Administrative Workers	11.0%	Managers of Sales Workers	-19.9%	
		-18.1%		**-13.2%**		**4.9%**		**-28.4%**	**-17.6%**
Mid-level / Professional	Compliance Officers	3.1%	Computer Programmers	-49.0%			Financial Analysts	-2.8%	
	Management Analysts	28.9%	Software Engineers	56.9%			Personal Financial Advisors	9.2%	
	Accountants & Auditors	37.2%	Computer Support Specialists	-6.6%			Market Research Analysts	34.1%	
	Financial Examiners	-22.3%	Other systems analysts	6.2%			Securities Sales Agents	-21.1%	
	Lawyers	6.8%					Other sales	-25.7%	
	Other	-7.9%					Other analysts	57.1%	
		5.2%		**-1.3%**				**-12.5%**	**-8.3%**
Support / Junior	Paralegals & Legal Assistants	-11.2%			Customer Service Reps	7.1%	Cashiers	-22.2%	
	Accounting & Auditing Clerks	22.7%			Receptionists & Information Clerks	-18.9%	Brokerage Clerks	-22.1%	
	Other operational support	3.2%			Executive Secretaries & Administrative Assistants	2.0%	Telemarketers	6.6%	
					Secretaries	-16.9%			
					Office Clerks, General	15.1%			
					Other	3.4%			
		15.3%				**3.1%**		**-20.4%**	**-2.5%**
TOTAL		**0.2%**		**-2.9%**		**3.3%**		**-16.0%**	

Nov 2001 total	**816,633**
Nov 2003 total	**753,700**

Source: BLS, SIA. Data combines Current Employment Statistics totals with Occupational Employment Statistics occupational splits

Glossary

***Registered Representative* (*RR*)**. An individual who, having passed the Series 7 and Series 63 examinations, is licensed to handle accounts or orders for the sale and purchase of securities and related products to and from the general public. Registered representatives are regulated by the NASD, and must participate in continuing education programs to retain a valid license. RRs must be affiliated with a broker-dealer, and are normally paid by commission on the products they sell and transactions they execute. In general, registered representatives are not permitted to offer investment advice. However, they are currently allowed to offer advice that is 'incidental' to their business, if no special compensation is received for that service.

Registered Investment Adviser (***RIA***). Holder of a Series 66 license under the provisions of the Investment Adviser Act of 1940, and regulated by their state and/or the SEC depending on the volume of assets held under management. They can offer advice on securities investments, undertake personal financial planning and manage their clients' funds on a fiduciary basis, and may be compensated on a fee-only basis. They may also hold a Series 7 and Series 63 license, and offer products on a commission basis to some clients. They may work for a broker-dealer or independently.

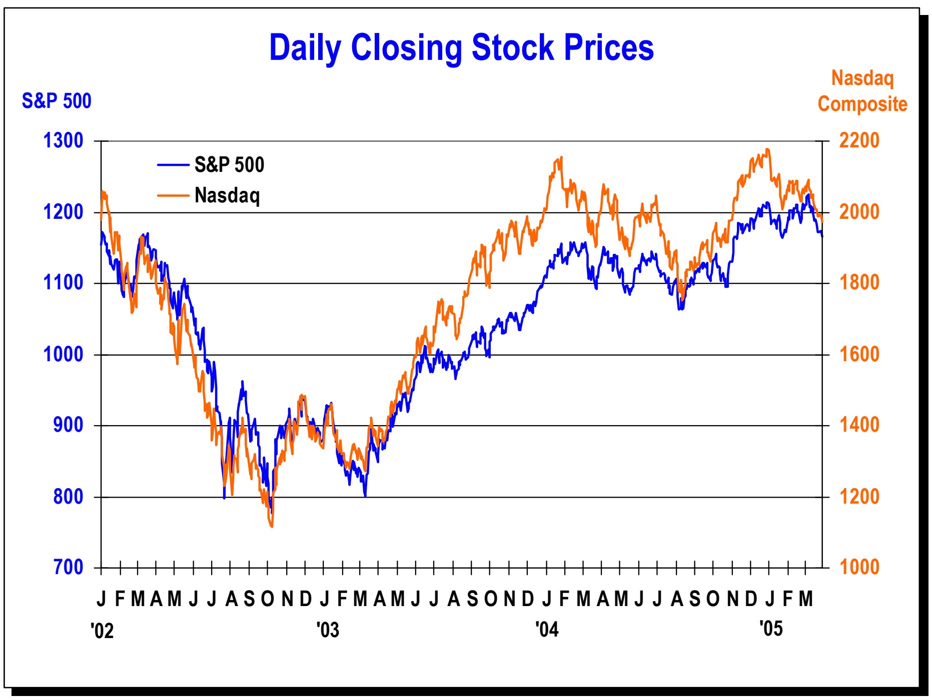
Sarbanes-Oxley Act. *The Public Company Accounting Reform and Investor Protection Act of 2002*, commonly referred to as the Sarbanes-Oxley Act after the co-sponsors of the legislation, was enacted with the goal of promoting good corporate behavior and restoring investor confidence via a broad series of requirements concerning corporate governance, financial record-keeping, public reporting and the independent oversight of the auditors of public companies. Of particular note to this research piece is Section 404, which holds a company's management, namely the Chief Executive Officers and Chief Financial Officers, responsible for establishing and maintaining adequate internal controls over financial reporting for the company and attesting to the effectiveness of such controls in annual reports. The company's outside auditors must audit the internal controls and the annual report must also include the outside auditors' attestation to management's assessment of the effectiveness of internal controls.

MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

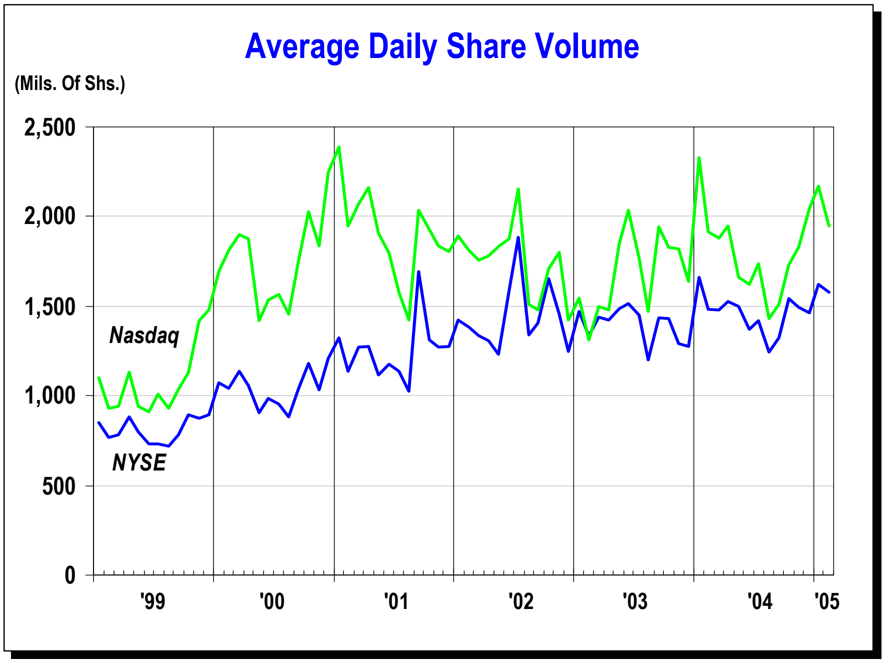
Stock Prices – Market performance was mixed in February. A string of strong corporate earnings reports and a flurry of mergers and acquisitions (M&A) deals helped spark a rise in blue-chip stocks. For the month, the Dow Jones Industrial Average advanced 2.6% to close at 10,766.23, while the Standard and Poor's (S&P) 500 Index rose 1.9% to 1,203.60. Meanwhile, the Nasdaq Composite Index edged down 0.5% in February to finish at 2,051.72, hurt by a slump in the biotechnology sector.

Each of these three major indices headed south in March, however, amid growing concerns that spiking oil prices and rising interest rates will crimp corporate profits and slow the pace of economic growth. With March's losses through March 29, the DJIA is now down 3.5% since the start of the year, the S&P 500 is off 3.8%, and the Nasdaq Composite is down 9.3%.



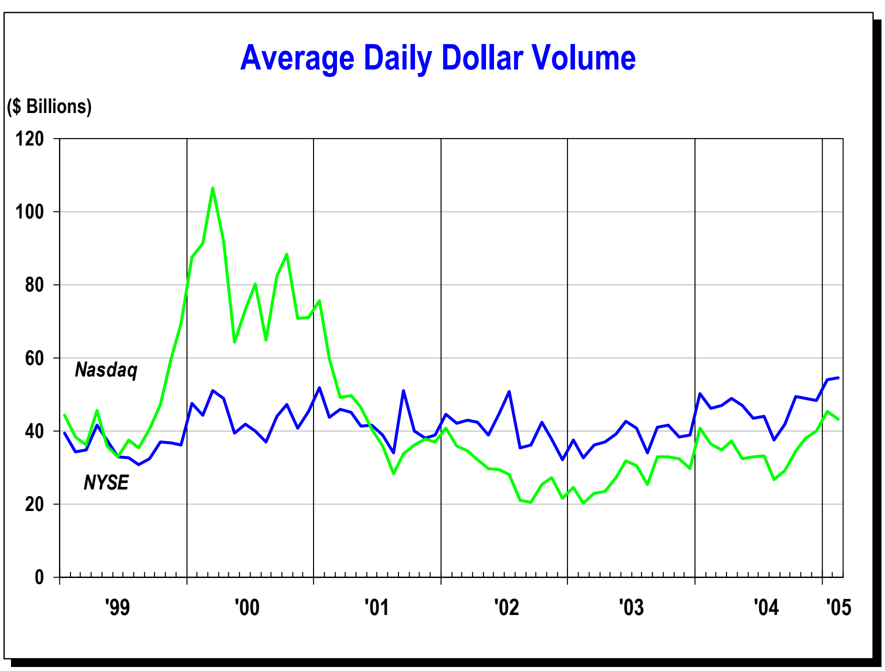
Share Volume – Trading activity slowed on the major U.S. equity markets in February. Average daily share volume on the New York Stock Exchange eased 2.5% to 1.58 billion in February from 1.62 billion the prior month. That brought the year-to-date average to 1.60 billion daily, up 9.8% from 2004's average daily pace of 1.46 billion.

On Nasdaq, average daily share volume fell 10.2% in February to 1.95 billion from January's strong level of 2.17 billion. Year-to-date, Nasdaq volume has averaged 2.06 billion shares daily, a 14.6% increase over last year's 1.80 billion daily average.

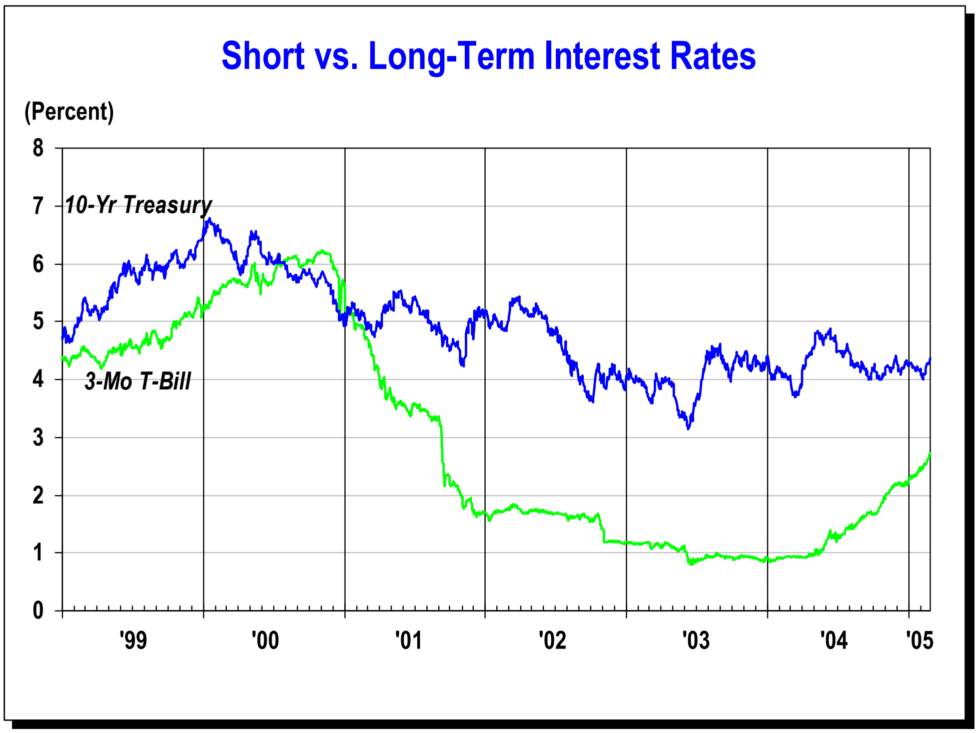


Dollar Volume – The value of trading in NYSE stocks increased marginally in February, as a rise in NYSE stock prices outweighed the decline in trading activity. NYSE average daily dollar volume increased 0.7% from January's level to $54.5 billion. Through the first two months of 2004, NYSE dollar volume averaged $54.3 billion, up 11.8% from $46.1 billion daily last year.

Nasdaq dollar volume slid 5.1% in February to $43.2 billion daily from $45.5 billion in January. Even so, the value of trading in Nasdaq stocks year-to-date is running 28.3% ahead of last year's pace, averaging $44.4 billion daily versus $34.6 billion daily in 2004.

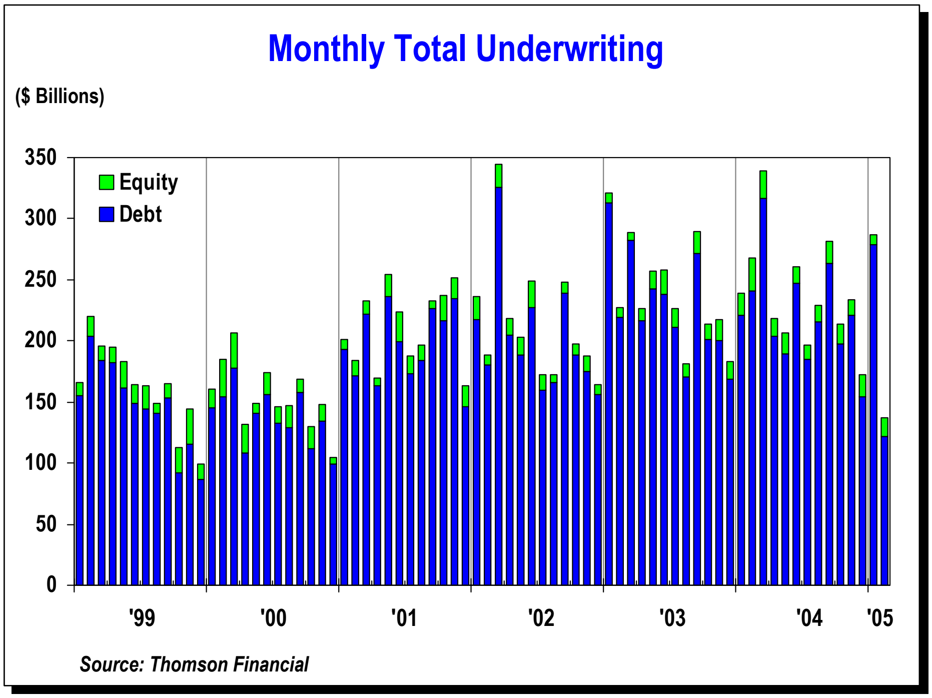


Interest Rates – As widely expected, the Federal Reserve increased the federal funds rate by a quarter point to 2.5% at the Federal Open Market Committee's February 2 meeting, the sixth such increase since last June. The Fed's restatement of its intent to continue raising rates at a "measured" pace elicited little reaction in the bond market. However, bonds rallied after a disappointing non-farm payroll report showed that just 146,000 jobs were created in January, significantly lower than the expected 200,000. Rising prices sent the 10-year Treasury yield to a four-month low of 4.00% on February 9 from 4.14% at the end of January. The market then reversed course, as concerns over creeping inflation helped drive the yield on 10-year Treasuries to a two-month high of 4.36% by month-end. At the shorter end of the curve, yields on three-month Treasury bills increased 24 basis points in February to close at 2.72% from 2.48% at the end of January.

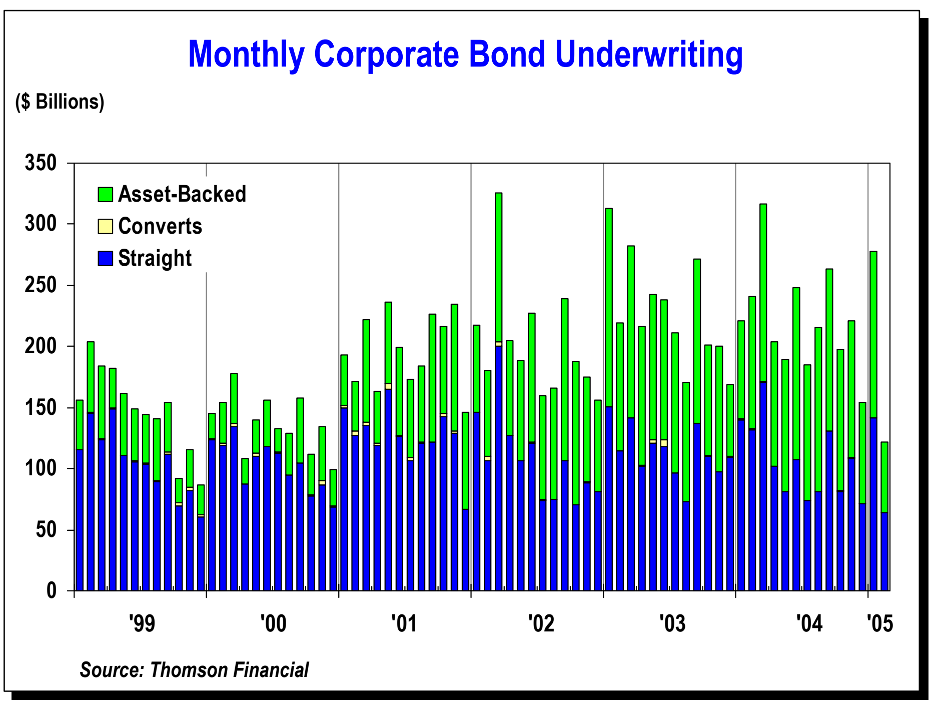


U.S. Underwriting Activity

Increased equity issuance was more than offset by declines in debt issuance, resulting in a steep drop in total underwriting activity in February. Total new issuance fell to $137.2 billion, 52.2% below January levels and the lowest monthly showing since December 2000. Underwriting activity so far this year is running 16.4% behind last year's pace, as issuance now stands at $424.2 billion year-to-date, compared with $507.5 billion in the first two months of 2004.



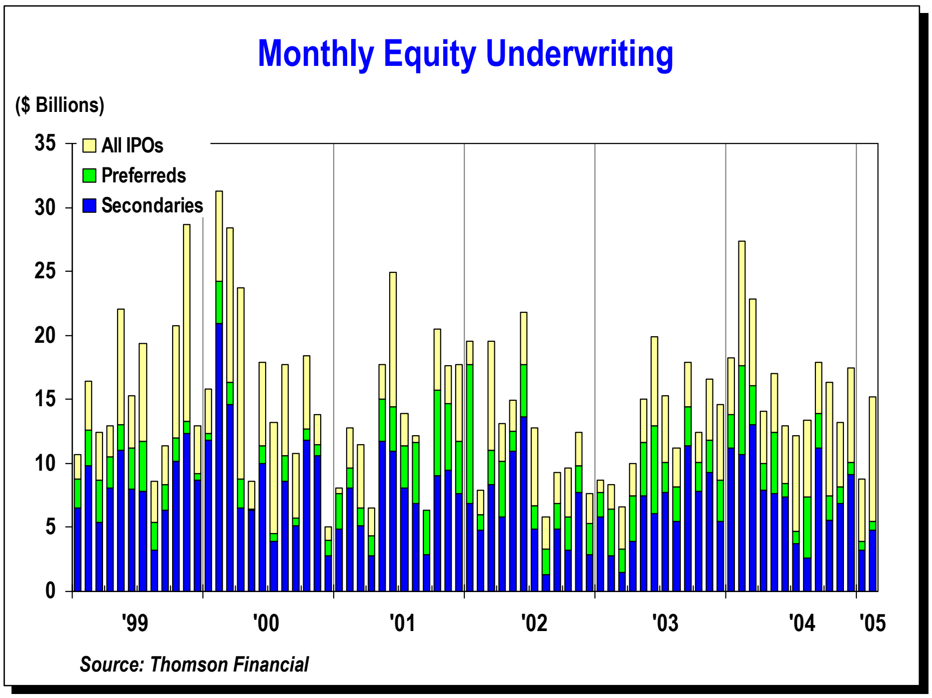
Corporate Bond Underwriting – After soaring 80.0% in January from weak December levels, total corporate debt underwriting activity slumped 56.2% in February to $122.0 billion. That marked its lowest level in more than four years. Through the first two months of 2005, corporate bond issuance totaled $400.3 billion, a 13.3% decline from $461.9 billion in last year's comparable period.



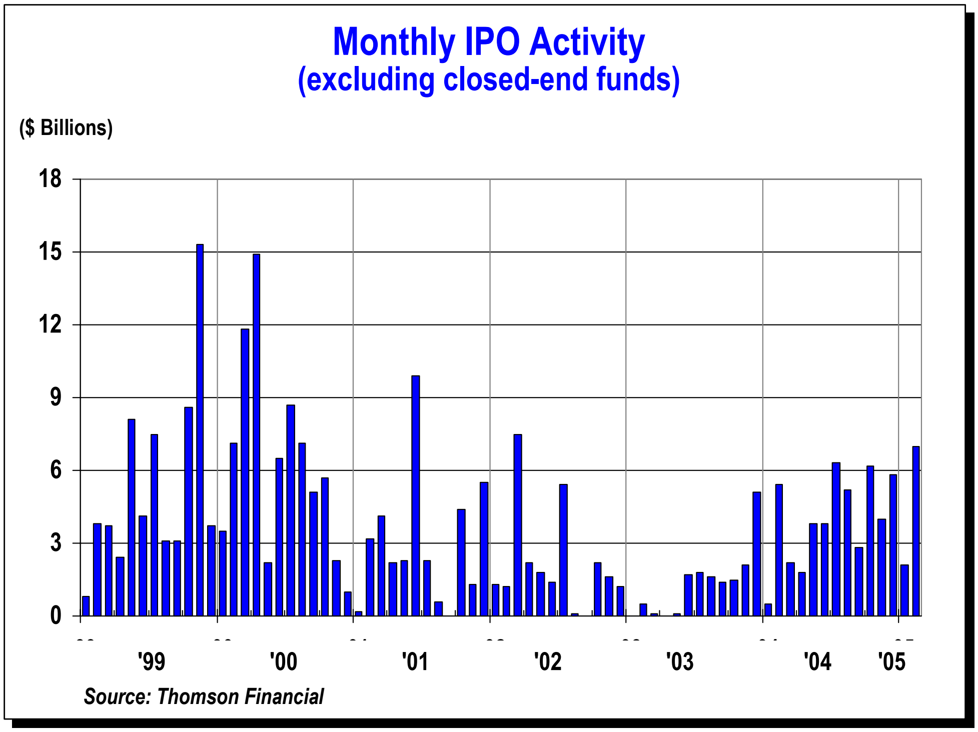
February witnessed a 57.5% plunge in asset-backed securities offerings to $57.9 billion from $136.3 billion in January. Although down steeply in February, the year-to-date total of $194.1 billion is up 3.1% from the amount raised during the same period last year.

New issuance of straight corporate debt stumbled 54.7% from January's level to $64.2 billion in February. That brought the year-to-date total to $206.0 billion, down 24.1% from the $271.5 billion raised in last year's comparable period.

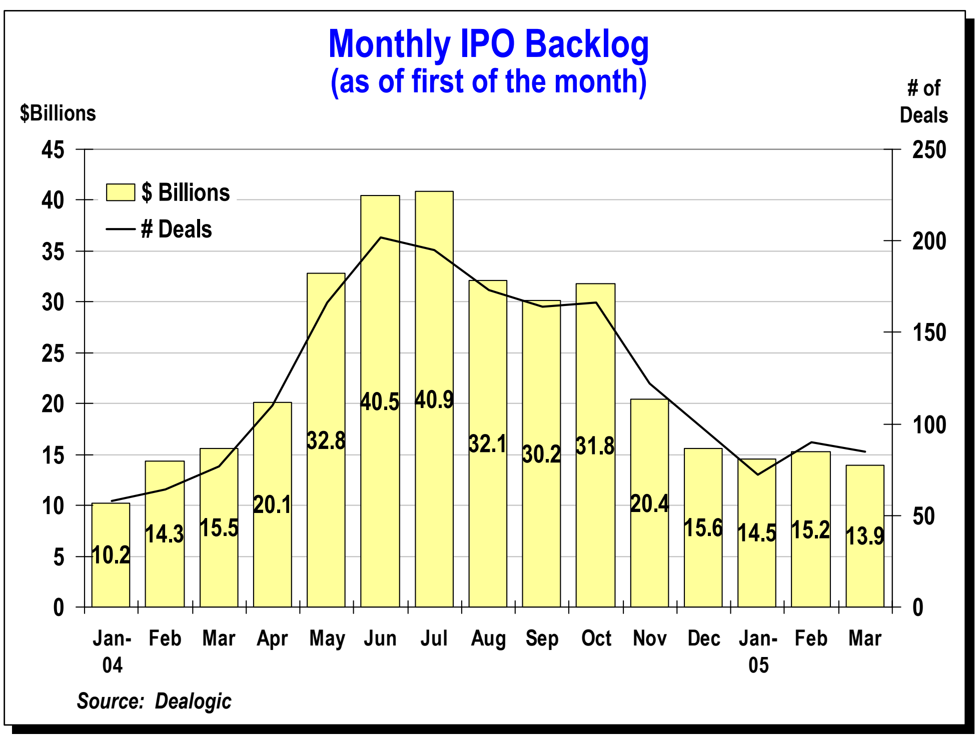
Equity Underwriting – Dollar proceeds from common and preferred stock offerings soared 73.6% in February to $15.1 billion from $8.7 billion in the previous month. Despite February's comeback, total equity underwriting year-to-date is running 47.6% below last year's levels, totaling $23.9 billion compared with $45.5 billion in the first two months of 2004.



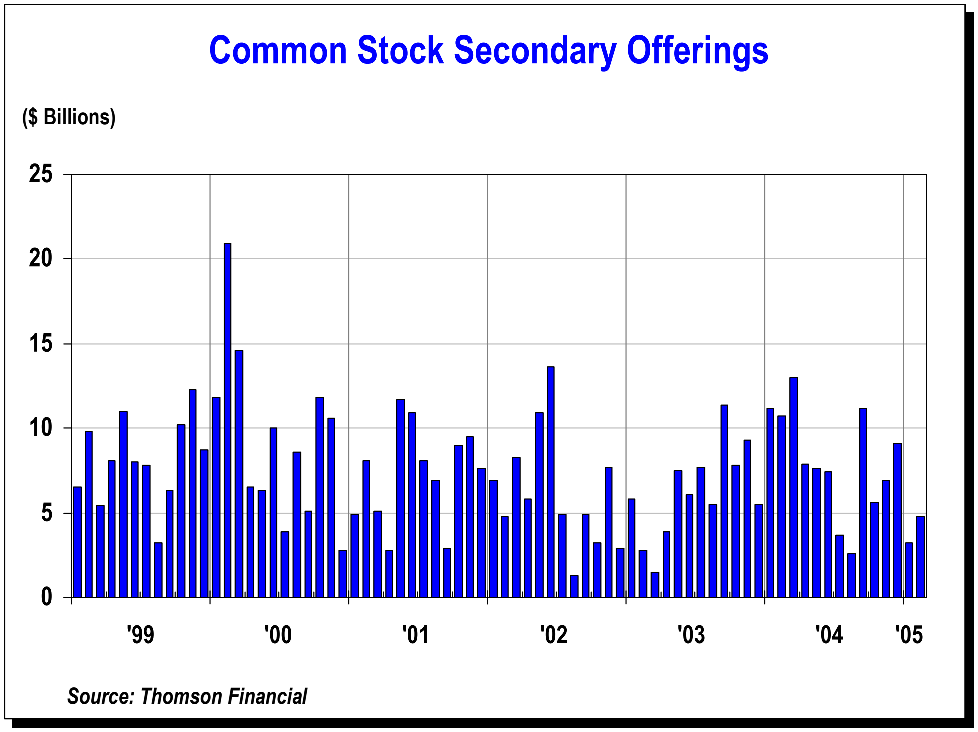
Initial Public Offerings (IPOs) – U.S. IPO activity increased sharply in February. Total IPO proceeds rose to $7.0 billion in February from $2.1 billion in January, the best monthly showing since March 2002. In the first two months of 2005, both deal and dollar volumes exceeded last year's results, as $9.1 billion was raised via 38 deals this year, compared with $6.0 billion on 25 deals in the same period a year ago.



The backlog of filed U.S. IPOs fell further to $13.9 billion in early March. Even though the IPO market has weakened recently amid difficult market conditions, IPO activity is expected to pick up once again in April.



Secondary offerings of common stock increased 50% from January's level to $4.8 billion in February. Despite this monthly increase, secondary common stock issuance year-to-date totaled $8.0 billion, a sharp 63.3% below the $21.8 billion issued in the comparable year-earlier period.



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
2004	1,278.4	5.5	1,372.3	2,656.2	169.6	33.2	202.7	72.8	47.9	96.7	2,859.0
2004											
Jan	139.4	1.4	80.3	221.1	15.6	2.6	18.2	4.4	0.5	11.2	239.2
Feb	132.2	0.7	108.1	240.9	20.5	6.9	27.4	9.8	5.4	10.7	268.2
Mar	170.5	0.6	145.2	316.2	19.8	3.1	22.8	6.7	2.2	13.0	339.1
Apr	101.6	0.3	101.9	203.9	12.0	2.1	14.1	4.1	1.8	7.9	218.0
May	81.4	0.1	108.1	189.6	12.2	4.8	17.0	4.6	3.8	7.6	206.6
June	107.0	0.0	140.6	247.6	11.8	1.0	12.9	4.5	3.8	7.4	260.5
July	74.2	0.0	110.7	184.9	11.2	1.0	12.2	7.5	6.3	3.7	197.1
Aug	81.0	0.0	134.7	215.7	8.6	4.8	13.4	6.0	5.2	2.6	229.1
Sept	130.5	0.6	132.1	263.2	15.2	2.7	17.9	4.0	2.8	11.2	281.1
Oct	81.0	1.1	115.6	197.7	14.4	1.9	16.3	8.8	6.2	5.6	214.0
Nov	108.7	0.4	111.7	220.9	11.8	1.3	13.1	5.0	4.0	6.9	234.0
Dec	70.9	0.3	83.5	154.6	16.5	1.0	17.5	7.4	5.8	9.1	172.1
2005											
Jan	141.8	0.2	136.3	278.3	8.1	0.7	8.7	4.9	2.1	3.2	287.0
Feb	64.2	0.0	57.9	122.0	14.5	0.7	15.1	9.7	7.0	4.8	137.2
YTD '04	271.5	2.0	188.3	461.9	36.1	9.5	45.5	14.2	6.0	21.8	507.5
YTD '05	206.0	0.2	194.1	400.3	22.5	1.3	23.9	14.5	9.1	8.0	424.2
% Change	-24.1%	-89.9%	3.1%	-13.3%	-37.5%	-85.9%	-47.6%	2.1%	52.4%	-63.3%	-16.4%

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
2004	17.2	209.8	227.1	51.5	77.7	129.2	356.3	1.37	4.27	2.90
2004										
Jan	0.7	10.4	11.1	3.6	5.7	9.3	20.4	0.88	4.15	3.27
Feb	1.0	13.0	14.1	4.8	7.7	12.5	26.5	0.93	4.08	3.15
Mar	2.7	19.7	22.4	5.6	10.5	16.1	38.5	0.94	3.83	2.89
Apr	1.0	18.1	19.0	3.5	8.2	11.8	30.8	0.94	4.35	3.41
May	1.4	28.0	29.5	3.1	4.7	7.8	37.2	1.02	4.72	3.70
June	1.3	24.0	25.3	4.5	5.4	9.8	35.1	1.27	4.73	3.46
July	1.8	14.6	16.5	5.1	3.7	8.9	25.3	1.33	4.50	3.17
Aug	0.6	15.5	16.1	4.0	7.6	11.6	27.7	1.48	4.28	2.80
Sept	1.7	13.2	14.9	5.3	4.8	10.1	25.0	1.65	4.13	2.48
Oct	2.4	17.7	20.0	5.3	6.5	11.8	31.9	1.76	4.10	2.34
Nov	1.1	17.2	18.3	2.3	4.6	6.8	25.1	2.07	4.19	2.12
Dec	1.5	18.5	20.0	4.5	8.3	12.7	32.7	2.19	4.23	2.04
2005										
Jan	1.0	11.9	12.8	3.2	6.7	9.9	22.7	2.33	4.22	1.89
Feb	1.2	15.5	16.7	5.1	9.0	14.1	30.9	2.54	4.17	1.63
YTD '04	1.8	23.4	25.2	8.4	13.4	21.8	46.9	0.91	4.12	3.21
YTD '05	2.2	27.3	29.6	8.3	15.7	24.0	53.6	2.44	4.20	1.76
% Change	24.6%	16.9%	17.4%	-0.5%	17.2%	10.4%	14.2%	169.1%	1.9%	-45.2%

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
2004	10,783.01	1,211.92	7,250.06	2,175.44	1,456.7	65.6	1,801.3	46.1	34.6
2004									
Jan	10,488.07	1,131.13	6,551.63	2,066.15	1,663.1	83.5	2,331.7	50.3	40.9
Feb	10,583.92	1,144.94	6,692.37	2,029.82	1,481.2	75.6	1,917.2	46.3	36.5
Mar	10,357.70	1,126.21	6,599.06	1,994.22	1,477.5	77.3	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	49.9	1,431.0	37.7	26.7
Sept	10,080.27	1,114.58	6,570.25	1,896.84	1,322.2	52.7	1,510.7	41.8	29.1
Oct	10,027.47	1,130.20	6,692.71	1,974.99	1,543.5	61.3	1,730.7	49.5	34.5
Nov	10,428.02	1,173.82	7,005.72	2,096.81	1,494.4	68.5	1,827.6	49.0	38.0
Dec	10,783.01	1,211.92	7,250.06	2,175.44	1,463.3	63.3	2,042.2	48.4	39.9
2005									
Jan	10,489.94	1,181.27	7,089.83	2,062.41	1,618.4	62.5	2,172.3	54.1	45.5
Feb	10,766.23	1,203.60	7,321.23	2,051.72	1,578.2	62.7	1,950.2	54.5	43.2
YTD '04	10,583.92	1,144.94	6,692.37	2,029.82	1,574.5	79.7	2,129.7	48.4	38.7
YTD '05	10,766.23	1,203.60	7,321.23	2,051.72	1,598.8	62.6	2,064.1	54.3	44.4
% Change	1.7%	5.1%	9.4%	1.1%	1.5%	-21.4%	-3.1%	12.2%	14.7%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	MUTUAL FUND ASSETS					NET NEW CASH FLOW*					
	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	116.9	12.0	122.6	243.8	495.4	8.5	1.9	63.2	-5.4	68.2	73.6
1986	161.4	18.8	243.3	292.2	715.7	21.7	5.6	102.6	33.9	163.8	129.9
1987	180.5	24.2	248.4	316.1	769.2	19.0	4.0	6.8	10.2	40.0	29.8
1988	194.7	21.1	255.7	338.0	809.4	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	248.8	31.8	271.9	428.1	980.7	5.8	4.2	-1.2	64.1	72.8	8.8
1990	239.5	36.1	291.3	498.3	1,065.2	12.8	2.2	6.2	23.2	44.4	21.2
1991	404.7	52.2	393.8	542.5	1,393.2	39.4	8.0	58.9	5.5	111.8	106.3
1992	514.1	78.0	504.2	546.2	1,642.5	78.9	21.8	71.0	-16.3	155.4	171.7
1993	740.7	144.5	619.5	565.3	2,070.0	129.4	39.4	73.3	-14.1	228.0	242.1
1994	852.8	164.5	527.1	611.0	2,155.4	118.9	20.9	-64.6	8.8	84.1	75.2
1995	1,249.1	210.5	598.9	753.0	2,811.5	127.6	5.3	-10.5	89.4	211.8	122.4
1996	1,726.1	252.9	645.4	901.8	3,526.3	216.9	12.3	2.8	89.4	321.3	232.0
1997	2,368.0	317.1	724.2	1,058.9	4,468.2	227.1	16.5	28.4	102.1	374.1	272.0
1998	2,978.2	364.7	830.6	1,351.7	5,525.2	157.0	10.2	74.6	235.3	477.1	241.8
1999	4,041.9	383.2	808.1	1,613.1	6,846.3	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	3,962.0	346.3	811.1	1,845.2	6,964.7	309.4	-30.7	-49.8	159.6	388.6	228.9
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	152.3	32.6	31.0	-258.5	-42.6	215.8
2004	4,384.1	519.3	1,290.3	1,913.2	8,106.9	177.7	42.6	-10.6	-156.8	52.9	209.7
2004											
Jan	3,804.2	440.7	1,256.6	2,032.1	7,533.7	43.0	5.4	-0.3	-19.5	28.7	48.2
Feb	3,893.5	452.7	1,267.2	2,015.2	7,628.6	26.1	5.0	1.5	-20.8	11.8	32.6
Mar	3,885.1	455.7	1,277.7	2,006.8	7,625.4	15.5	4.8	7.5	-9.1	18.6	27.7
Apr	3,811.3	452.5	1,245.7	1,964.2	7,473.7	23.0	4.6	-7.8	-44.3	-24.5	19.8
May	3,855.0	457.1	1,223.3	1,974.6	7,510.0	0.4	2.3	-16.2	8.6	-4.9	-13.5
June	3,948.0	467.0	1,220.9	1,954.3	7,590.3	10.0	2.4	-7.5	-21.3	-16.4	4.9
July	3,796.9	462.4	1,229.2	1,953.6	7,442.2	9.4	3.0	-1.2	-2.0	9.2	11.2
Aug	3,804.1	469.9	1,253.4	1,944.5	7,471.8	1.2	2.6	4.2	-10.3	-2.3	8.0
Sept	3,916.5	479.0	1,263.9	1,903.6	7,563.0	10.3	3.0	2.8	-42.4	-26.3	16.1
Oct	3,994.1	487.4	1,277.8	1,891.4	7,650.7	7.2	3.5	3.6	-14.1	0.1	14.2
Nov	4,222.3	504.5	1,276.5	1,920.2	7,923.5	21.4	4.1	2.0	26.5	54.0	27.6
Dec	4,384.1	519.3	1,290.3	1,913.2	8,106.9	10.2	1.9	0.8	-8.1	4.9	13.0
2005											
Jan	4,289.7	516.9	1,301.9	1,889.0	7,997.5	8.7	5.3	4.8	-28.3	-9.4	18.9
YTD '04	3,804.2	440.7	1,256.6	2,032.1	7,533.7	43.0	5.4	-0.3	-19.5	28.7	48.2
YTD '05	4,289.7	516.9	1,301.9	1,889.0	7,997.5	8.7	5.3	4.8	-28.3	-9.4	18.9
% Change	12.8%	17.3%	3.6%	-7.0%	6.2%	-79.7%	-1.8%	NM	NM	-132.7%	-60.8%

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

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