SIA RESEARCH

REPORTS

Volume VI, No. 9 September 30, 2005

SECURITIES INDUSTRY UPDATE: WALL STREET DOESN'T TAKE A HOLIDAY

Frank A. Fernandez

SIA RESEARCH MANAGEMENT CONFERENCE: REFLECTIONS ON TWO YEARS SINCE THE GLOBAL SETTLEMENT

Kyle L Brandon

MONTHLY STATISTICAL REVIEW

Grace Toto

RESEARCH DEPARTMENT

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

Kyle L Brandon, Vice President and Director, Securities Research

Stephen L. Carlson, Vice President and Director, Surveys

Isabelle Delalex, *Vice President and Director, Industry Research*

Lenore Dittmar, Executive Asst.

Carmen Lopez, Research Asst.

Bella Mardakhaev, Research Assistant

Claire McKenna, Manager, Surveys

Grace Toto, Vice President and Director, Statistics

SECURITIES INDUSTRY ASSOCIATION – info@sia.com, http://www.sia.com

120 Broadway, 35th Floor, New York, NY 10271-0080 – 212-608-1500, fax 212-968-0703

1425 K Street, NW, Washington, DC 20005-3500 – 202-216-2000, fax 202-216-2119

Table of Contents

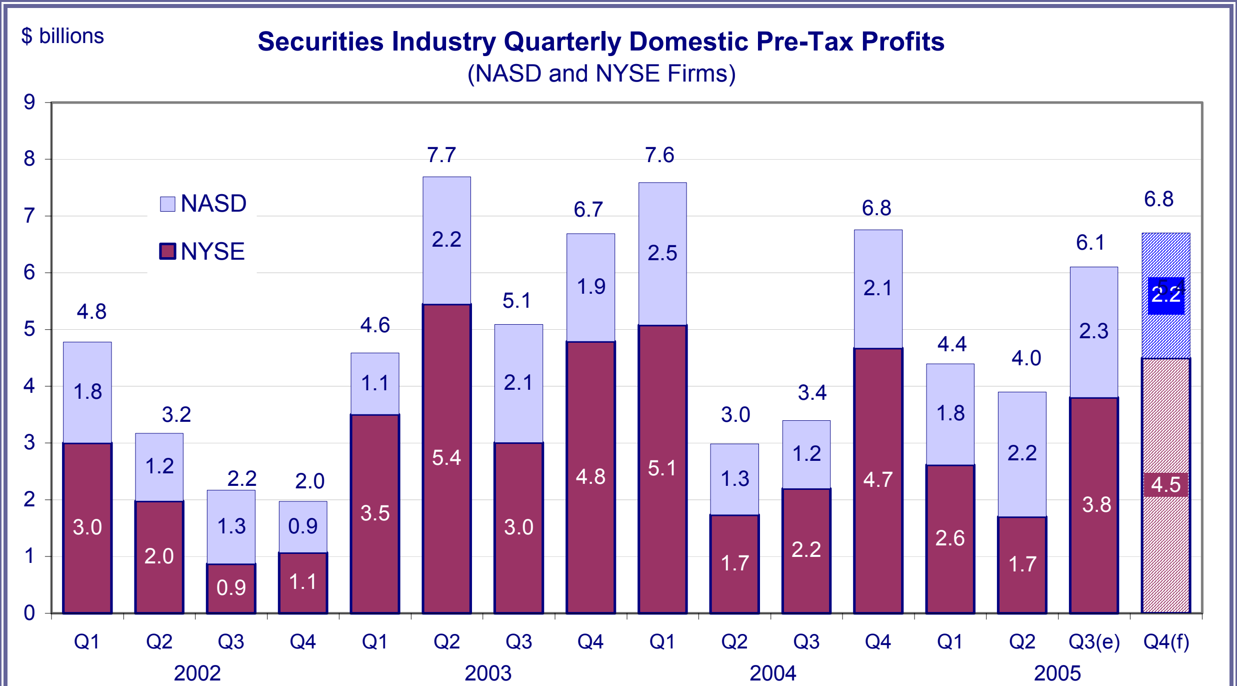
SECURITIES INDUSTRY UPDATE: WALL STREET DOESN'T TAKE A HOLIDAY

Summary

Following disappointing first-half profits, Wall Street apparently decided not to take a holiday this year. Primary markets surged and secondary capital market activity remained relatively strong through the normally slow summer season, which helped to produce strong third quarter results. For the first half of 2005, profits[1] for all U.S. securities firms doing a public business fell to $8.36 billion, well below the $10.57 billion earned in the first half of last year and the $10.15 billion recorded in the second half. Net revenues[2], which surged in the final quarter of 2004, fell 6.0% in 1Q'05 and 1.8% sequentially in 2Q'05. Net revenue growth resumed in June relative to May, continued to pick up across 3Q'05, and is expected to remain positive in 4Q'05. This recovery in net revenue growth in the second half appears to be sufficient to fully offset these first-half declines, and outpace the rise in non-interest expenses. As a result, full-year 2005 securities industry profits are forecast to reach $21.21 billion, 2.4% above the $20.72 billion earned in 2004, but still 11.8% below the $24.05 billion registered in 2003.

Second Quarter Results

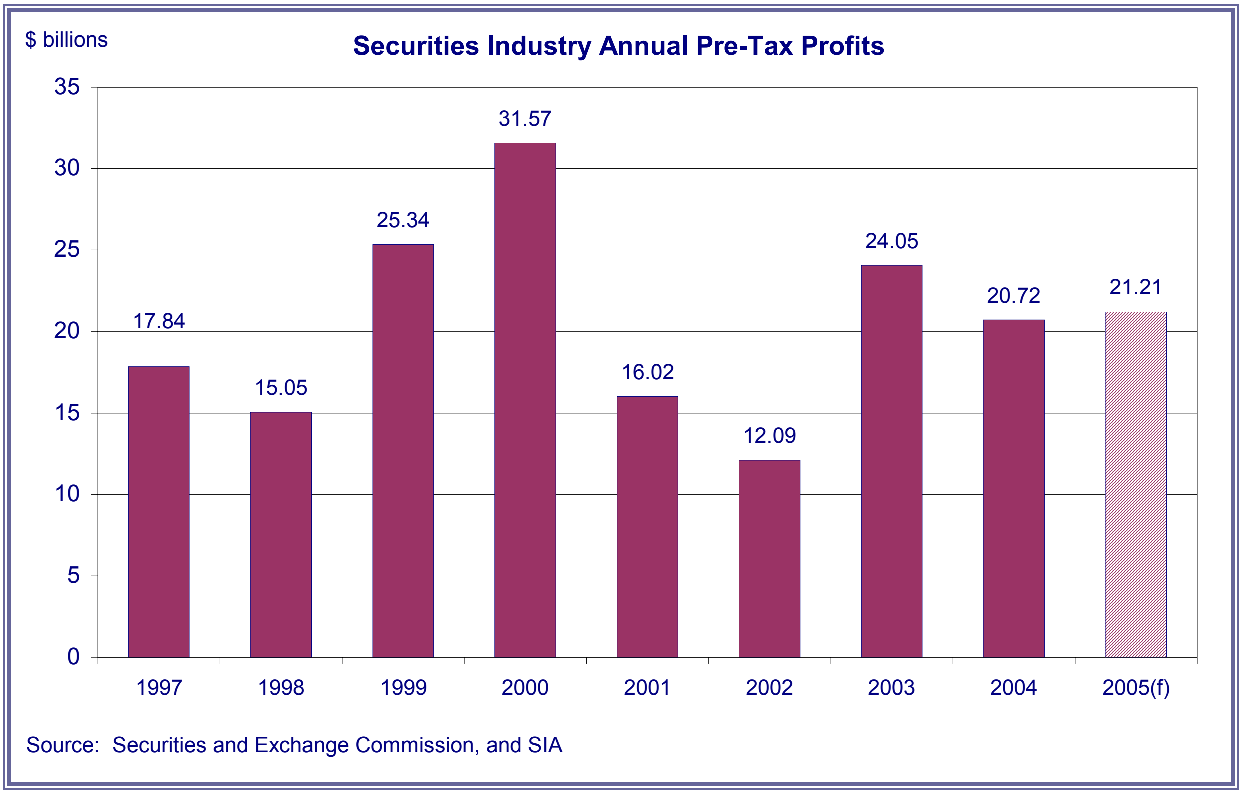
Second-quarter industry profits of $3.97 billion were in line with our July estimate of $3.8 billion, as net revenues of $44.39 billion were 1.8% below the results recorded in the immediately preceding quarter, but 5.2% above net revenues recorded in the same, year-earlier period. The decline in net revenues reflected the continued rapid rise in interest expenses and the slower growth in gross revenues.

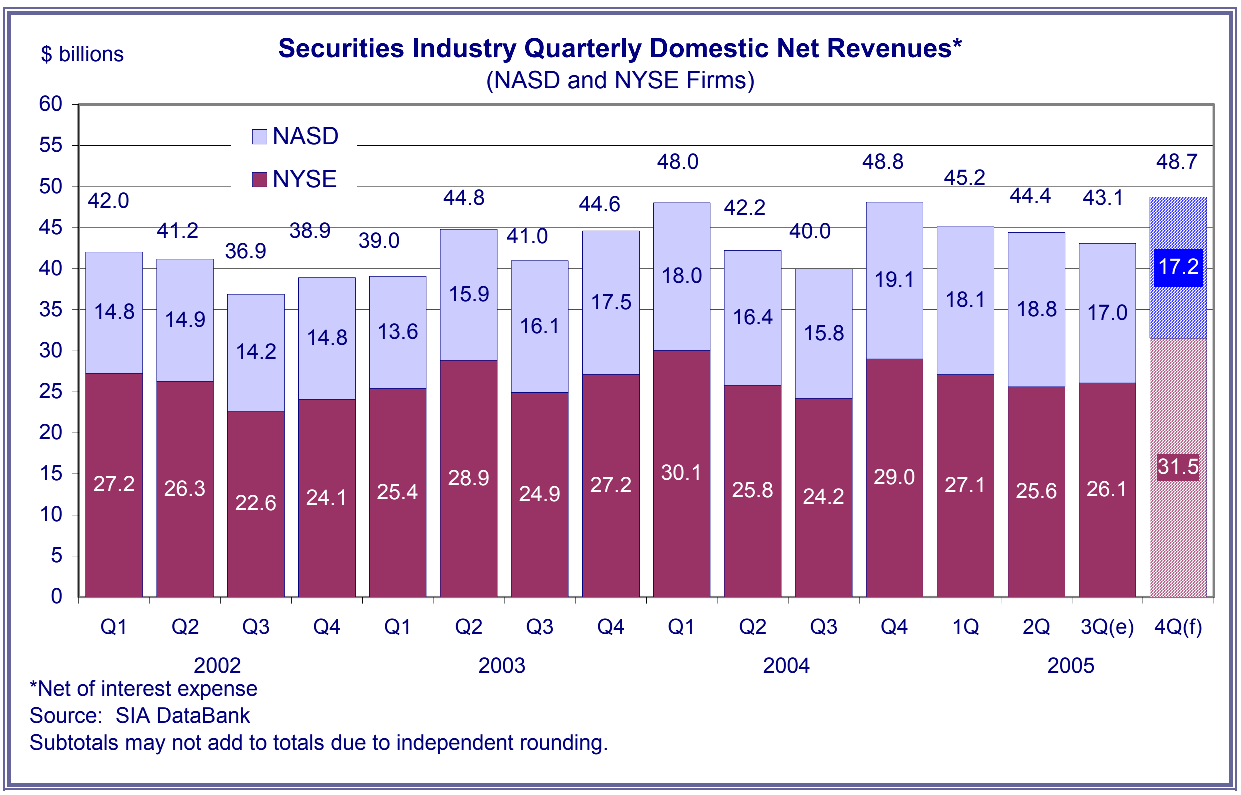


Source: SIA DataBank
Subtotals may not add to totals due to independent rounding.

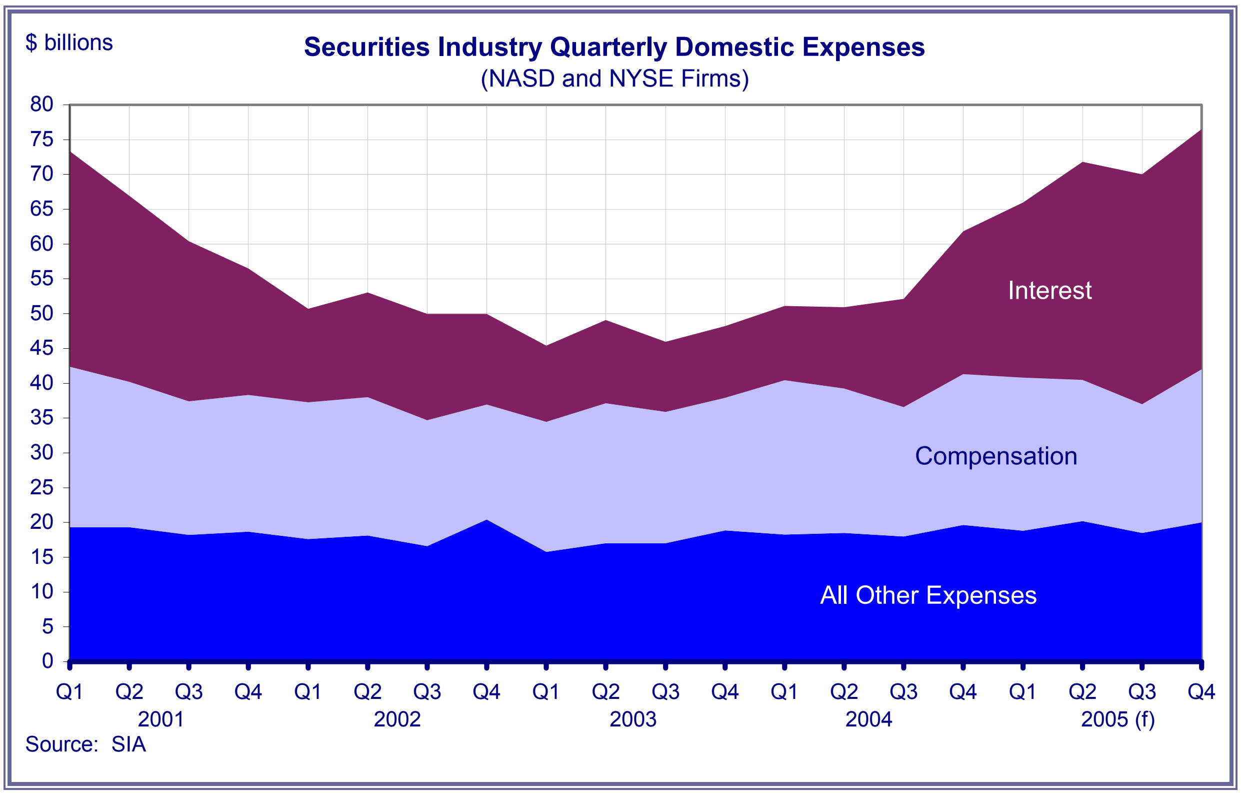
[1] Figures for profit are pre-tax net income of all 225 NYSE-reporting (who accounted for 70.4% of total industry revenues during 2Q'05) and 4,971 NASD-reporting firms (who accounted for the remainder of revenues) during 2Q'05.

[2] Gross (total) revenues net of interest expense.

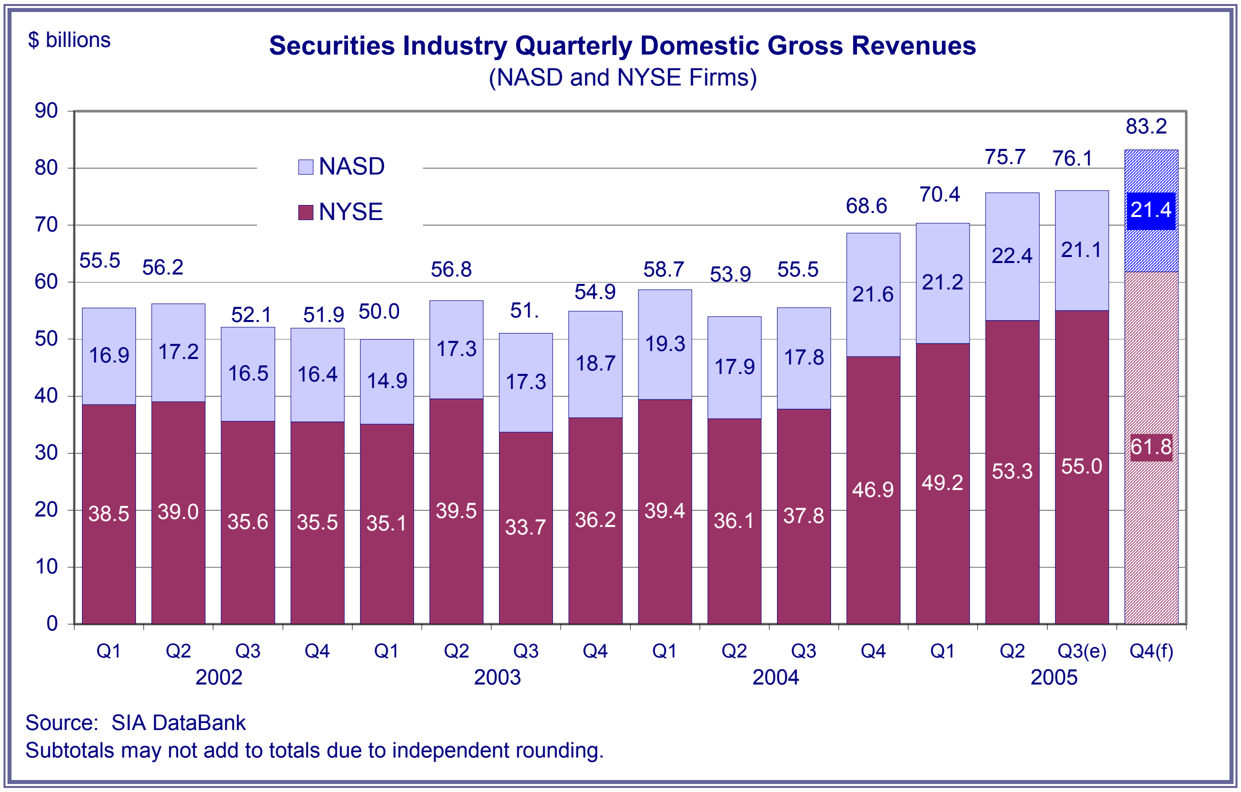

$ billions
Securities Industry Annual Pre-Tax Profits
35
30
25
20
15
10
5
0
17.84
15.05
25.34
31.57
16.02
12.09
24.05
20.72
21.21
1997
1998
1999
2000
2001
2002
2003
2004
2005(f)
Source: Securities and Exchange Commission, and SIA


$ billions
Securities Industry Quarterly Domestic Net Revenues*
(NASD and NYSE Firms)
NASD
NYSE
60
55
50
45
40
35
30
25
20
15
10
5
0
42.0
41.2
36.9
38.9
39.0
44.8
41.0
44.6
48.0
42.2
40.0
48.8
45.2
44.4
43.1
48.7
14.8
14.9
14.2
14.8
13.6
15.9
16.1
17.5
18.0
16.4
15.8
19.1
18.1
18.8
17.0
17.2
27.2
26.3
22.6
24.1
25.4
28.9
24.9
27.2
30.1
25.8
24.2
29.0
27.1
25.6
26.1
31.5
Q1
Q2
Q3
Q4
Q1
Q2
Q3
Q4
Q1
Q2
Q3
Q4
1Q
2Q
3Q(e)
4Q(f)
2002
2003
2004
2005
*Net of interest expense
Source: SIA DataBank
Subtotals may not add to totals due to independent rounding.

Total expenses in 2Q'05 reached $71.73 billion, 8.7% above the preceding quarter and 40.8% higher than during 2Q'04, driven by a dramatic increase in interest expense. Interest expense of $31.31 billion in 2Q'05 was 24.3% higher than in 1Q'05 and more than two-and-one-half times (up 167.1%) than in 2Q'04 as borrowing rates more than doubled over the same period. Compensation costs, which were held in check in 1Q'05 (up only 1.4% from the prior quarter and down fractionally, 0.8%, from 1Q'04, in line with seasonal patterns), fell in 2Q'05. Total compensation costs of $20.25 billion in 2Q'05, were 7.9% lower than in 1Q'05 and 2.3% below the same, year-earlier period. Total headcount was up 1.1% relative to 1Q'05, and 2.2% above employment levels a year earlier, almost solely due to growth in the number of non-income producing personnel. This was particularly true of smaller firms, as they are now absorbing the substantial increase in compliance-related costs somewhat later than their larger brethren. Expenses other than interest and compensation, which declined in 1Q'05, rebounded in 2Q'05. Non-interest, non-compensation expenses for all reporting firms in 2Q'05 were 7.2% higher than in 1Q'05, and 9.0% above levels in the same, year-earlier period.



Gross revenues in 2Q'05 were $75.70 billion, 40.4% above year-earlier results, but only 7.6% higher than in 1Q'05. Commission income and trading gains fell in both 1Q'05 and 2Q'05, but the growth of revenues from asset management operations proved to be surprisingly strong. Fees from asset management operations in 2Q'05 were up 6.7% relative to 1Q'05 and 13.1% above the same, year-earlier period. Revenue from the sale of mutual funds in 2Q'05 were up only 0.9% from 1Q'05, but 11.1% above 2Q'04. "Other revenue related to the securities business," surged in 2Q'05, up 21.4% relative to 1Q'05 and more than double (114.4% higher) the result for this catch-all line item in 2Q'04. Most of the growth in this line item reflects the impact of higher interest rates and is fully offset by commensurately higher interest expense. However, it also includes business lines such as prime brokerage activities, derivative and structured products, and corporate financial advisory work including mergers-and-acquisitions (M&A) and leveraged buyout (LBO) activity, which remained exceptionally strong in 2Q'05.



Third Quarter Results

Market conditions improved in the third quarter. Normally a seasonally weak period of the year, this third quarter proved to be anything but. Commission and fee income in 3Q'05 slipped only slightly relative to 2Q'05 levels, and remained well above revenues recorded in 3Q'04, as both institutional and retail trading volume showed surprising strength. NYSE share trading volume in 3Q'05 was 15.5% above levels in the same, year-earlier period, while NASDAQ volume was up 4.3%. Institutional interest focused more on fixed income and commodity markets, while retail investors showed renewed interest in equities (largely focused on non-U.S. equities), and it appears that average commissions and fees actually rose, halting, at least temporarily, a long-term secular decline in margins from secondary market activities.

Primary markets, normally dormant in late summer, remained active well into mid-August, led by equity underwriting, both domestic and international. Corporate debt issuance of $726.9 billion, while 6.4% below 2Q'05 levels, was 9.5% above the pace of underwriting seen in 3Q'04, led by a 17.8% increased in placement of asset-backed debt. Total equity underwriting surged in 3Q'05, reaching $56.7 billion, 37.0% above 2Q'05 and 30.4% above placements in the same, year-earlier period. Gains from proprietary trading remained near first half levels, boosted by volatility in commodities markets, as oil and gas prices spiked, and a general repricing of non-fuel commodities continued.

Asset management operations showed continued modest growth, as stronger flows into global equity funds helped offset declining interest in U.S. equity mutual funds. Revenue growth remained exceptionally strong in 3Q'05 in prime brokerage, M&A advisory operations, and at commodities and derivatives desks. The value of announced U.S. mergers and acquisitions in 3Q'05 was 28.5% higher than in the same, year-earlier period, while announced global deals jumped 56.9% above 3Q'04 levels. The value of completed deals and the realization of fees during 3Q'05 are believed to have risen even more sharply relative to the same, year-earlier period.

We estimate U.S. securities industry profits reached $6.1 billion in 3Q'05, and expect even stronger results in the fourth quarter. The forecast for 4Q'05 of $6.75 billion would match results in 4Q'04 and raise pre-tax net income for the second half of the year to $12.85 billion. This result, if obtained, would more than offset the weak first half 2005 results. For the year as a whole, securities industry profits are forecast to reach $21.21 billion, 2.4% above the $20.72 billion earned in 2004, but still 11.8% below profits of $24.05 billion registered in 2003.

Once results become available for securities firms reporting on a calendar quarter ending September 30, we will provide more detailed estimates of industry results for 3Q'05 and a revised forecast for 4Q'05 and full year 2006.

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

TOTAL NYSE AND NASD INCOME STATEMENT

$ Millions	QUARTERLY 2004 Q1	Q2	Q3	Q4	2005 Q1	Q2	Q3(e)	Q4(f)	% chg. 2Q05 v. 1Q05	2Q04	ANNUAL 2004	2005 (f)	% chg. 05 v. 04
REVENUE:													
Commissions	**13,154.6**	**11,479.2**	**10,371.0**	**12,136.2**	**11,606.3**	**11,126.7**	**10,800.0**	**12,300.0**	**-4.1%**	**-3.1%**	**47,140.9**	**45,833.0**	**-2.8%**
- Commissions - Listed Equity on an Exchange	5,372.3	4,553.1	4,105.3	4,878.2	4,704.5	4,499.4	4,000.0	5,000.0	-4.4%	-1.2%	18,908.9	18,203.9	-3.7%
- Commissions - Listed Equity OTC	871.0	728.7	617.7	855.5	816.2	747.8	650.0	800.0	-8.4%	2.6%	3,072.9	3,014.0	-1.9%
- Commissions - Listed Options	611.9	424.6	370.5	555.3	433.5	424.0	450.0	500.0	-2.2%	-0.1%	1,962.3	1,807.5	-7.9%
- Commissions - All Other	6,299.2	5,772.8	5,277.4	5,847.2	5,652.1	5,455.4	5,700.0	6,000.0	-3.5%	-5.5%	23,196.6	22,807.6	-1.7%
Trading Gain (Loss)	**7,667.0**	**4,655.5**	**4,085.3**	**7,093.4**	**5,963.1**	**5,051.2**	**3,550.0**	**5,500.0**	**-15.3%**	**8.5%**	**23,501.2**	**20,064.3**	**-14.6%**
- Gain from Debt Trading	4,960.0	3,156.5	5,079.4	4,237.3	4,596.3	3,150.2	2,500.0	3,800.0	-31.5%	-0.2%	17,433.3	14,046.5	-19.4%
- Gain from All Other Trading	2,707.0	1,499.1	-994.2	2,856.0	1,366.8	1,901.0	1,050.0	1,700.0	39.1%	26.8%	6,067.9	6,017.8	-0.8%
Investment Account Gain (Loss)	**751.4**	**221.2**	**387.0**	**1,309.9**	**339.3**	**815.5**	**600.0**	**700.0**	**140.4%**	**268.7%**	**2,669.4**	**2,454.8**	**-8.0%**
- Realized Gain	984.9	-566.0	540.9	557.9	578.2	384.5	500.0	600.0	-33.5%	NM	1,517.7	2,062.6	35.9%
- Unrealized Gain	-530.1	726.4	-148.2	445.5	-302.0	102.3	100.0	100.0	NM	-85.9%	493.5	0.3	-99.9%
Underwriting Revenue	**5,159.7**	**4,452.1**	**4,213.6**	**5,298.6**	**4,622.0**	**4,699.6**	**4,200.0**	**4,400.0**	**1.7%**	**5.6%**	**19,124.1**	**17,921.6**	**-6.3%**
Margin Interest	**1,337.3**	**1,480.9**	**1,722.8**	**2,409.1**	**2,696.9**	**3,060.5**	**3,200.0**	**3,600.0**	**13.5%**	**106.7%**	**6,950.1**	**12,557.3**	**80.7%**
Mutual Fund Sale Revenue	**5,024.9**	**4,543.1**	**4,327.6**	**4,760.3**	**5,002.0**	**5,047.1**	**5,450.0**	**5,800.0**	**0.9%**	**11.1%**	**18,655.8**	**21,299.0**	**14.2%**
Fees, Asset Management	**5,042.1**	**5,115.1**	**5,118.7**	**5,571.5**	**5,423.7**	**5,785.3**	**5,750.0**	**5,900.0**	**6.7%**	**13.1%**	**20,847.4**	**22,859.0**	**9.6%**
Research Revenue	**59.4**	**53.5**	**54.7**	**43.6**	**34.6**	**46.8**	**55.0**	**55.0**	**35.1%**	**-12.6%**	**211.2**	**191.4**	**-9.4%**
Commodities Revenue	**382.8**	**708.6**	**669.8**	**-274.8**	**1,240.6**	**-183.2**	**950.0**	**1,200.0**	**-114.8%**	**-125.9%**	**1,486.4**	**3,207.3**	**115.8%**
Other Revenue Related to the Securities Business	**13,695.7**	**14,280.5**	**17,312.8**	**22,331.1**	**25,219.9**	**30,620.9**	**32,045.0**	**33,745.0**	**21.4%**	**114.4%**	**67,620.1**	**121,630.8**	**79.9%**
Other Revenue	**6,402.8**	**6,938.4**	**7,248.6**	**7,907.9**	**8,226.2**	**9,627.8**	**9,500.0**	**10,000.0**	**17.0%**	**38.8%**	**28,497.7**	**37,354.1**	**31.1%**
TOTAL REVENUE	**58,677.7**	**53,928.2**	**55,511.8**	**68,586.7**	**70,374.4**	**75,698.2**	**76,100.0**	**83,200.0**	7.6%	40.4%	**236,704.4**	**305,372.6**	**29.0%**
Net Revenue	48,017.2	42,208.4	39,978.9	48,086.3	45,190.6	44,390.4	43,100.0	48,750.0	-1.8%	5.2%	178,290.9	**181,431.0**	**1.8%**
EXPENSES:													
Total Compensation	**22,158.4**	**20,727.1**	**18,597.7**	**21,681.8**	**21,979.7**	**20,251.1**	**18,500.0**	**22,000.0**	-7.9%	-2.3%	**83,165.0**	**82,730.8**	-0.5%
- Registered Representative Compensation	7,906.7	7,614.1	6,914.0	7,808.6	8,139.1	7,664.1	7,000.0	8,000.0	-5.8%	0.7%	30,243.4	30,803.2	1.9%
- Clerical Employee Compensation	10,035.8	9,101.6	7,948.7	9,400.2	9,812.9	8,602.9	8,000.0	9,300.0	-12.3%	-5.5%	36,486.2	35,715.8	-2.1%
- Voting Officer Compensation	902.2	840.7	764.5	1,102.0	846.6	790.0	700.0	1,000.0	-6.7%	-6.0%	3,609.3	3,336.6	-7.6%
- Other Employee Compensation (FOCUS IIA Only)	3,313.5	3,170.7	2,970.5	3,371.0	3,181.1	3,194.1	2,800.0	3,700.0	0.4%	0.7%	12,825.8	12,875.3	0.4%
Total Floor Costs	**4,319.2**	**4,223.1**	**3,951.1**	**4,255.9**	**4,307.7**	**4,449.7**	**4,000.0**	**4,400.0**	3.3%	5.4%	**16,749.3**	**17,157.4**	2.4%
- Floor Brokerage Paid to Brokers	373.2	386.2	383.2	328.6	353.7	383.3	400.0	400.0	8.4%	-0.8%	1,471.2	1,537.0	4.5%
- Commissions & Clearance Paid to Other Brokers	995.5	915.8	827.1	933.5	976.8	994.0	900.0	1,000.0	1.8%	8.5%	3,672.0	3,870.8	5.4%
- Clearance Paid to Non-Brokers	287.7	299.9	313.3	342.8	347.5	376.0	300.0	400.0	8.2%	25.4%	1,243.8	1,423.5	14.4%
- Commissions Paid to Broker-Dealers (FOCUS IIA Only)	2,662.7	2,621.2	2,427.5	2,650.9	2,629.7	2,696.4	2,400.0	2,600.0	2.5%	2.9%	10,362.3	10,326.1	-0.3%
Communications Expense	**1,065.1**	**1,145.7**	**1,177.9**	**1,285.2**	**1,217.2**	**1,255.5**	**1,250.0**	**1,300.0**	3.1%	9.6%	4,673.8	5,022.6	7.5%
Occupancy & Equipment Costs	**1,552.4**	**1,567.0**	**1,621.2**	**1,733.3**	**1,563.9**	**1,586.7**	**1,675.0**	**1,800.0**	1.5%	1.3%	6,473.9	6,625.7	2.3%
Promotional Costs	**572.0**	**569.8**	**540.0**	**658.4**	**583.5**	**603.3**	**550.0**	**550.0**	3.4%	5.9%	2,340.2	2,286.7	-2.3%
Interest Expense	**10,660.5**	**11,719.7**	**15,532.8**	**20,500.4**	**25,183.8**	**31,307.8**	**33,000.0**	**34,450.0**	24.3%	**167.1%**	58,413.4	123,941.6	**112.2%**
Losses from Error Accounts & Bad Debts	**87.6**	**84.3**	**59.8**	**101.8**	**90.9**	**95.3**	**87.5**	**87.5**	4.9%	13.0%	333.4	361.2	8.3%
Data Processing Costs	**817.6**	**789.4**	**771.1**	**848.7**	**830.9**	**862.7**	**750.0**	**775.0**	3.8%	9.3%	3,226.9	3,218.6	-0.3%
Regulatory Fees & Expenses	**330.7**	**377.5**	**340.6**	**409.1**	**325.5**	**391.1**	**300.0**	**300.0**	**20.1%**	3.6%	**1,457.9**	**1,316.6**	-9.7%
Non-Recurring Charges	**107.3**	**176.7**	**187.4**	**209.3**	**38.5**	**89.0**	**100.0**	**100.0**	**131.0%**	**-49.6%**	**680.7**	**327.5**	**-51.9%**
Other Expenses	**9,422.0**	**9,563.2**	**9,337.8**	**10,148.0**	**9,859.9**	**10,836.7**	**9,787.5**	**10,687.5**	9.9%	13.3%	38,471.1	41,171.6	7.0%
TOTAL EXPENSES	**51,092.8**	**50,943.6**	**52,117.5**	**61,831.8**	**65,981.7**	**71,728.7**	**70,000.0**	**76,450.0**	8.7%	40.8%	**215,985.7**	**284,160.4**	**31.6%**
PRE-TAX NET INCOME	**7,584.9**	**2,984.6**	**3,394.3**	**6,754.9**	**4,392.7**	**3,969.5**	**6,100.0**	**6,750.0**	-9.6%	33.0%	**20,718.7**	**21,212.2**	2.4%

Source: SIA Databank

SIA RESEARCH MANAGEMENT CONFERENCE: REFLECTIONS ON TWO YEARS SINCE THE GLOBAL SETTLEMENT

Summary

The Securities Industry Association held its annual research management conference in New York on September 27.[1] Speakers and panelists covered a wide range of research management issues, evaluating the changes wrought by the global research settlement and self-regulatory organization (SRO) rules regulating the provision of sell-side research.[2] There was no disagreement that there have been radical shifts in how research departments are set up, managed and funded. There was also broad agreement that research, done well, is a value-added product in great demand by clients. The discussions revolved around how to produce and distribute that product under a new set of prescriptive rules and interpretations, and how to structure a viable research business. The conference was divided into four separate, though somewhat overlapping panels: (1) Practical Issues: Compensation, Communications, Conduct; (2) Analytical Issues: Research Methods; (3) Research Regulation: Reflections on Two Years and Where We Are Going; and, (4) Research Director Challenges: New Business Models. This piece will highlight some of the topics raised and discussed, as well as try to point to likely future developments.

Practical Issues: Compensation, Communications, Conduct

Rules and regulations regarding communications between research and investment banking personnel are among the most fundamental changes imposed. They changed the way business was done and how business units are funded. Panelists discussed such areas as when restrictions on communications kick-in (when the analyst begins drafting a report or when deciding to draft a report), how such personnel can work together under certain conditions (joint due diligence or fact-checking) and whether the restrictions have led to analysts having less insight into the companies they cover. Participants generally agreed that there are fewer conversations between analysts and covered companies.

One of the most actively discussed current issues is the problem of retaliation against research analysts for publishing negative opinions of companies. Retaliation reportedly has taken the form of corporate management not returning those analysts' phone calls; not answering their questions; not meeting with their clients; not doing business with the financial institutions employing them; publicly criticizing those analysts to their management; and, threatening litigation. This is not a new topic, but one that regulators have been struggling with for some time. According to panelists, neither the U.S. Securities and Exchange Commission (SEC) nor the SROs have the proper weapons to deal with this issue. While the very largest firms may be able to protect their analysts, the rest of the firms are still looking for some sort of method for dealing with it. This issue was raised in an SIA letter to the SEC regarding, among other topics, the issue of retaliation, urging the Commission and SROs to take up the issue.[3] One panelist

[1] See www.sia.com/research05/ for program details.

[2] For summaries of the new rules and regulations, please see Brandon, Kyle L, "Update in Research Analyst Related Issues," *SIA Research Reports*, Vol. VI, No. 5, May 27, 2005 (www.sia.com/research/pdf/RsrchRprtVol6-5.pdf).

[3] See www.sia.com/2005_comment_letters/6374.pdf.

mentioned a joint project between the National Research Exchange and the American Arbitration Association as a possible solution.

Another example of the practical issues raised by panelists was confusion over the definition of a research report arising from inconsistencies in the definitions contained in the SRO rules, Regulation Analyst Certification (Reg AC)[4] and the global settlement. For firms that operate globally, inconsistent and sometimes contradictory regulations in different jurisdictions are an additional layer of complexity for management trying to produce and distribute research under one global brand name.

In addition to compliance matters, the new rules and regulations have separated investment banking revenues from research. That means that funding for research departments comes almost exclusively from commissions, which have been falling. One panelist estimated that research lost half of its funding with the loss of investment banking revenues at the same time that commission revenue fell by 30%. That magnitude of a drop in funding has led to cuts in staffing, a sharp decline in compensation levels, and added pressure to increase outsourcing and otherwise cut costs in any way possible. At the same time the number of supervisory and regulatory requirements have soared, along with the costs of complying with them. This has meant that departments are squeezed to the point where the industry has lost many of its best people, and those who have stayed – who broke no rules – are frustrated and afraid to speak for fear of breaking new rules. The public policy intention may have been to level the playing field for information, but the outcome may be less and lower quality research.

Analytical Issues: Research Methods

This panel began by focussing on client needs and how research products were changing to meet new market needs. Research providers, both sell-side and independent, face many choices about the types of products and services to market, as well as the breadth and depth of coverage. There are few institutions that are willing and able to provide everything to everybody. One panelist emphasized the evolution of the client as the principal determinant of changes in the provision of research products and services. Where in the past, institutional long-only clients dominated, the rise of hedge funds – or more broadly alternative investments – has led to demand for different types of products and services. Retail investors present yet another set of needs. This more diverse range of client needs presents opportunities and challenges for many types of research providers. The reality of each client's unique needs and approaches starkly contrasts with the regulators' one-size-fits-all requirements.

The panelists agreed that there is a far greater variety of research products and services available today. The challenge is getting it into the hands of investors who want it; responding to their diverse needs in a timely, fully compliant, and cost-effective manner. The question of whether research providers are innovating to create new markets or are playing 'catch-up' was also discussed, with the conclusion that both forces have an impact. Overall, the panel concluded that it is a creative time for research analysts, with great challenges posed by the investigative work needed to provide value-adding products and services.

[4] See www.sec.gov/rules/final/33-8193.htm.

Panelists also agreed that there appears to be a decline in the coverage of smaller stocks (those with market capitalization lower than $1 billion), which has a negative impact on capital formation. This was described as the 'information effect': just having research coverage of a company increases the liquidity of its stock, lowers the risk of owning the stock and thereby lowers the cost of capital and increases capital formation. One answer to this apparent market failure is the launch of research exchanges that intermediate between companies that are lacking coverage but are willing to pay for it, and those who are interested in receiving that research. It is a new model, but one that has garnered much interest.[5]

The panel also discussed the issue of 'made-to-order' research tailored to meet client requests.[6] While one panelist's business model was 100% made-to-order, others ranged from providing very little to 40% bespoke research. Firms differed as to whether such research was specifically paid for by the requesting client, or included as part of an overall service package. One panelist provided research by explicitly priced contracts, others considered it part of the overall research package, and yet another panelist priced the work while allowing the client to pay for it with commissions.

Research Regulation: Reflections on Two Years and Where We Are Going

Some of the greatest frustrations raised by sell-side firms relating to the global settlement and SRO research analyst-related rules are that they are overly prescriptive and not entirely consistent with each other and other existing rules. Although regulators pointed out that the SRO rules and settlement terms are largely in harmony, the firms had some specific examples:

> **Internal communications** – The global settlement has an exception allowing communications between research and equity capital markets personnel, while the SRO rules do not;
>
> **Meetings** – The global settlement requires fair and balanced presentations at chaperoned meetings when 10 or more clients are present, while the SRO rules have no numerical standard, so the rules apply to all client meetings; and,
>
> **Approach** – The global settlement prohibits everything but what is specifically allowed, while the SRO rules allow everything except what is specifically prohibited.

On the whole, the new rules and regulations were criticized as having the unintended consequence of limiting the information available to investors by making analysts ever more 'gun shy', and by constraining their communications with investors and investment bankers. Rules restricting communications around lock up periods and issuer retaliation were cited as two issues which serve to restrict the flow of information. Even the New York Attorney General has stated that he supports the SEC stepping back and evaluating the impact of the global settlement. The global settlement, and its interpretation, is important to more than the ten settling firms, as the terms have tended to be adopted as best practice and in some jurisdictions, required best practice.

---

[5] See Karen Richardson, Peter A. McKay, and Serena Ng, "Desperately Seeking Research: Two Matchmakers Plan Services To Pair Firms in Need of Coverage With Independent Stock Analysts," *The Wall Street Journal*, September 19, 2005, p. C1.

[6] Made-to-order research should not be confused with issuer-sponsored research. The former is written at the request of the user of the research product, while the latter is requested, and paid for, by the company seeking coverage. Neither is to be confused with traditional subscription based research.

The regulators' panel discussed the state of rules as they stand and how they will be evaluated. It is a crucial point in time for the regulators as the SROs will be reporting their findings to the SEC on how their research rules are working by the end of the year and the global settlement compliance monitors will be reporting their evaluations to the SEC by the end of October. The regulators have an open mind and will respond to the reports and input from the industry appropriately. They agree that it is a good time to pause and evaluate a period of very rapid and significant changes, beginning with the original research analyst scandal in late 2001, through the global settlement, Sarbanes Oxley, Reg AC, the SRO rules and interpretations.

One panelist pointed out that the tension between principles-based and rules-based approaches were not unique to the research-analyst issues. When regulators take a more principles-based approach, the industry asks for more guidance and when they take a rules-based approach, there are complaints that it is too 'one-size-fits-all'. Another issue is the difficulty caused by creating policy through enforcement, particularly in the area of rule harmonization. As the dominant capital market, U.S. regulation impacts many overseas markets, and as a result foreign regulators have demonstrated strong interest in harmonizing rules. Regulation through enforcements, however, is problematic, as it tends to be extremely specific and not easily generalized cross-border.

The panel briefly discussed the FSA's soon to be implemented ***soft dollar***[7] regulations and the SEC's soon to be released draft interpretations. The clearest point made is that the FSA rules mandate transparency and disclosure, not actual ***unbundling***. The rules also provide definitions of research and execution services and leave it to the firms to interpret how those definitions apply to their business practices. The FSA rules are a clear example of the principles-based approach to regulations. The expectation is that the new rules will split the evaluation of best execution from that of best research. There will be an impact on U.S. firms that do business with UK pension funds because they will need transparency on cost to meet the requirements of the new rule. The SEC draft interpretations have not yet been published, so there was no discussion of the impact that they may have, although the SEC did say they would be posted on the SEC website in the near future.

Research Director Challenges: New Business Models

The last panel discussion was set up by a brief presentation that brought together all the players and models competing in the business of research provision, which creates a diverse and crowded marketplace.[8] Panelists discussed the types of research valued by clients and the difference between 'value' and 'price' when it comes to devising a business model. The understandable desire by clients to pay the lowest possible commission rate accelerates downward pressure on already shrinking resources, which sometimes leads to customer dissatisfaction.

One panelist anticipates that in the future some capacity will leave the research business completely. The remaining capacity will be concentrated in the largest, full service financial institutions and high value-added research boutiques – but little or next-to-nothing in between

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

[8] A slide from that presentation entitled "New Business Models For Research" follows.

– giving a "barbell" shape to the industry's distribution of research providers. A panelist commented that firms cannot simply replace highly paid veterans with cheaper, less experienced analysts because the quality of coverage suffers. Therefore, consolidation is likely as firms try to lower costs while maintaining quality.

Another discussion centered on new products. Several panelists described their own firms' forays into new products that allow clients more and better access to research electronically. The panelists discussed the challenges of trying to segment research product so to control which clients get access to what types of research. All agreed that it is a difficult task and that nobody likes to cut off a client from receiving the best possible research, but giving away everything to everybody is untenable. Another panelist remarked that one of the more recent trends towards consolidation – cross asset class research departments – was more an attempt to lower headcount than an innovation in research coverage.

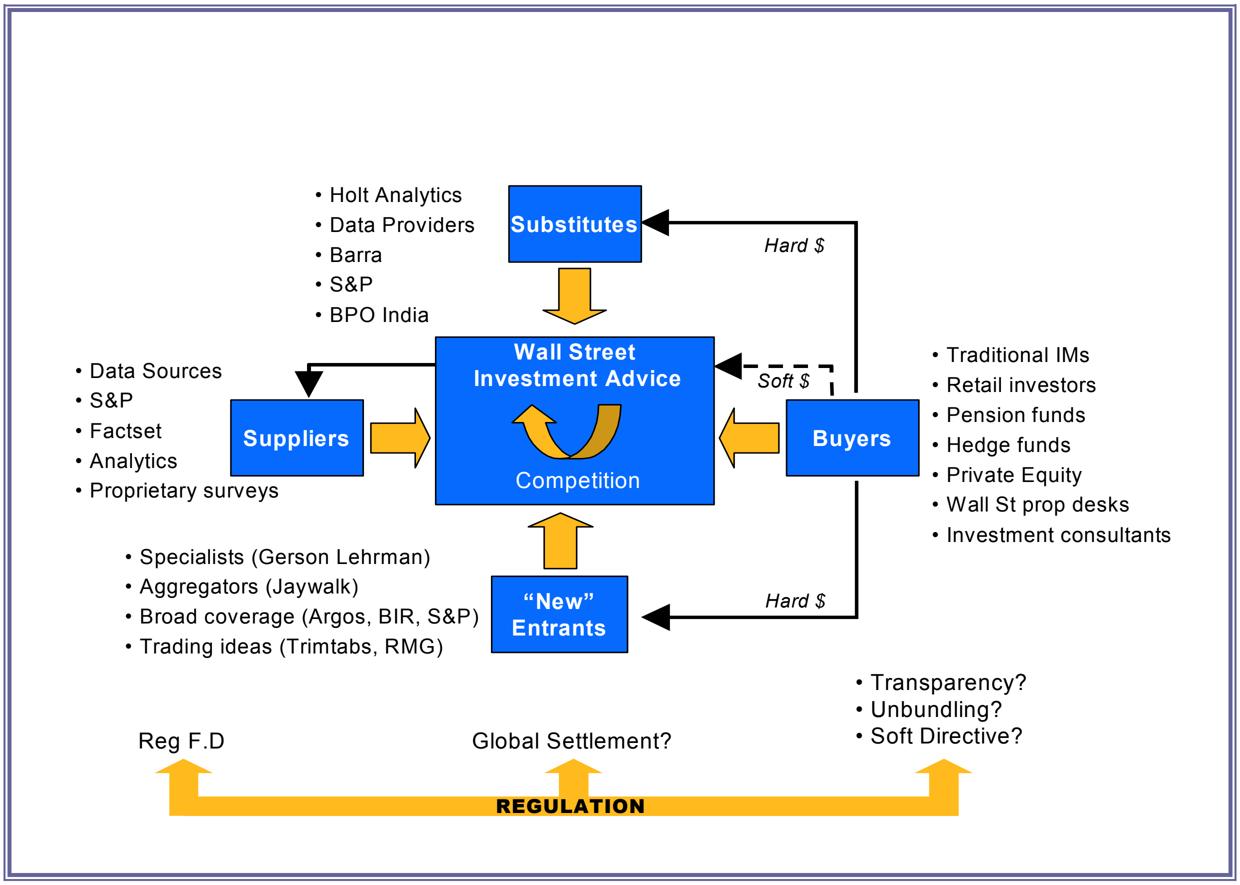
The panel also discussed the need for better transparency and analysis of the quality and accuracy of research. A virtual cottage industry has emerged in the ranking of analysts, and hedge funds, mutual funds and consultants actively monitor and rank research analyst performance. One panelist noted that there will be even more transparency and analysis of performance going forward as money managers are encouraged or required to disclose exactly how they spend commissions on research. The panel concluded that there is nothing more valuable than accurate research and that it should always command a premium.

The main takeaways from the conference are that: there is still a great deal unsettled in the post-global settlement world of research management, both in the spheres of compliance and business; regulators are open to discussions among themselves, the industry and users of research to improve the efficiency and efficacy of regulations; and, those in research are still extremely enthusiastic about what they do and the value they can bring to their clients.

Kyle L Brandon
Vice President and Director, Securities Research

Appendix

New Business Models For Research



Source: Presentation by Aron Miodownik, Chief Operating Officer, Research, Merrill Lynch & Co., Inc., at SIA Research Management Conference, New York, NY, September 27, 2005 (see www.sia.com/research05/html/presentations.html).

Glossary

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.

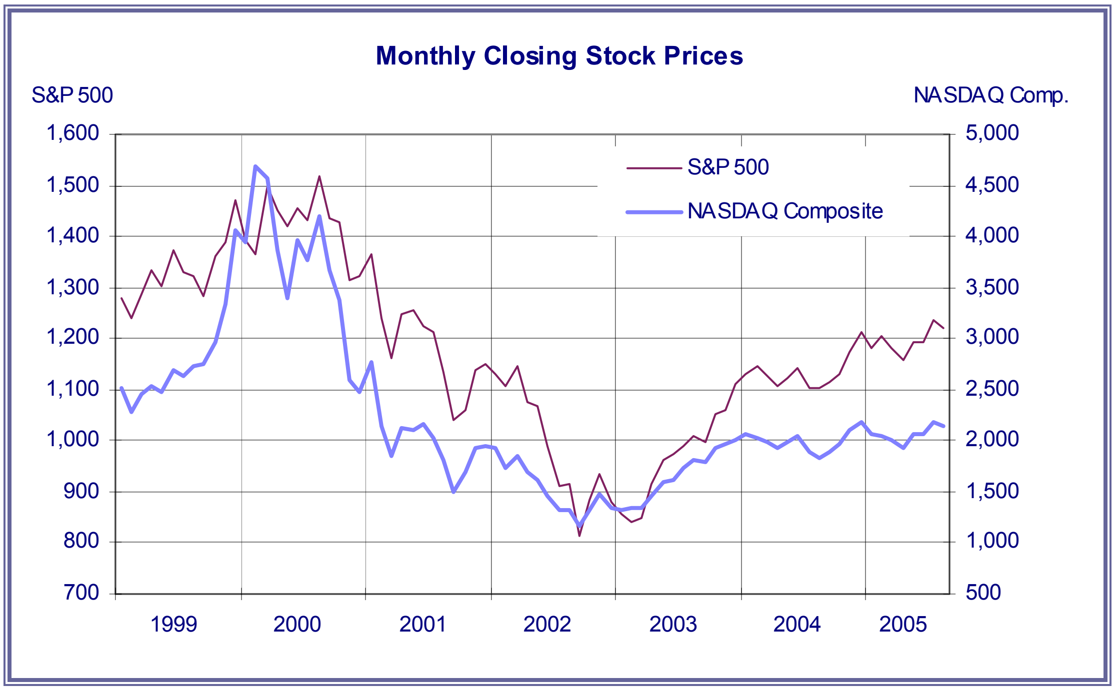
Unbundling refers to the separation of the payment for transaction execution from the payment for research, which have traditionally been bundled.

MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

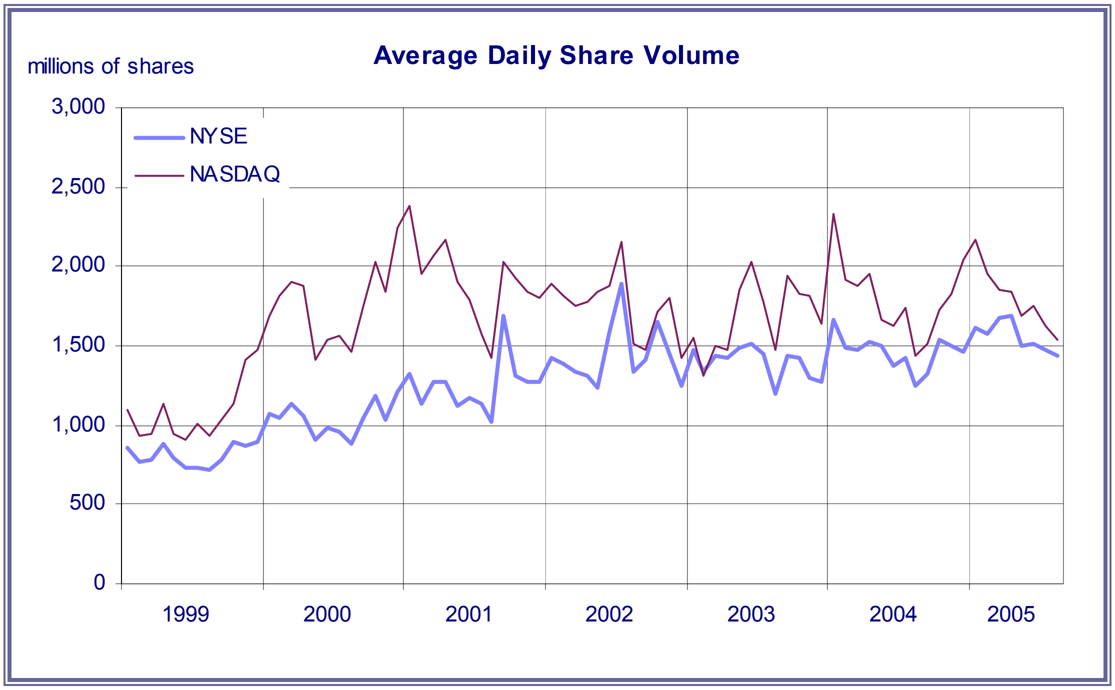
Stock Prices – After the S&P 500 and NASDAQ Composite Index reached new four-year highs in early August, stock prices slid over the course of the month. The pullback was fueled by a surge in crude oil prices to a record high of $70.85 a barrel in late August, and increased uncertainty about the outlook for economic growth in the wake of Hurricane Katrina's devastation in the Gulf region.

For the month of August, the S&P 500 Index fell 1.1% and both the NASDAQ Composite and Dow Jones Industrial Average dropped 1.5%. So far this year, the S&P 500 has managed to gain 0.7% through the end of August. Meanwhile, the NASDAQ Composite shed 1.1% and the DJIA lost 2.8%.



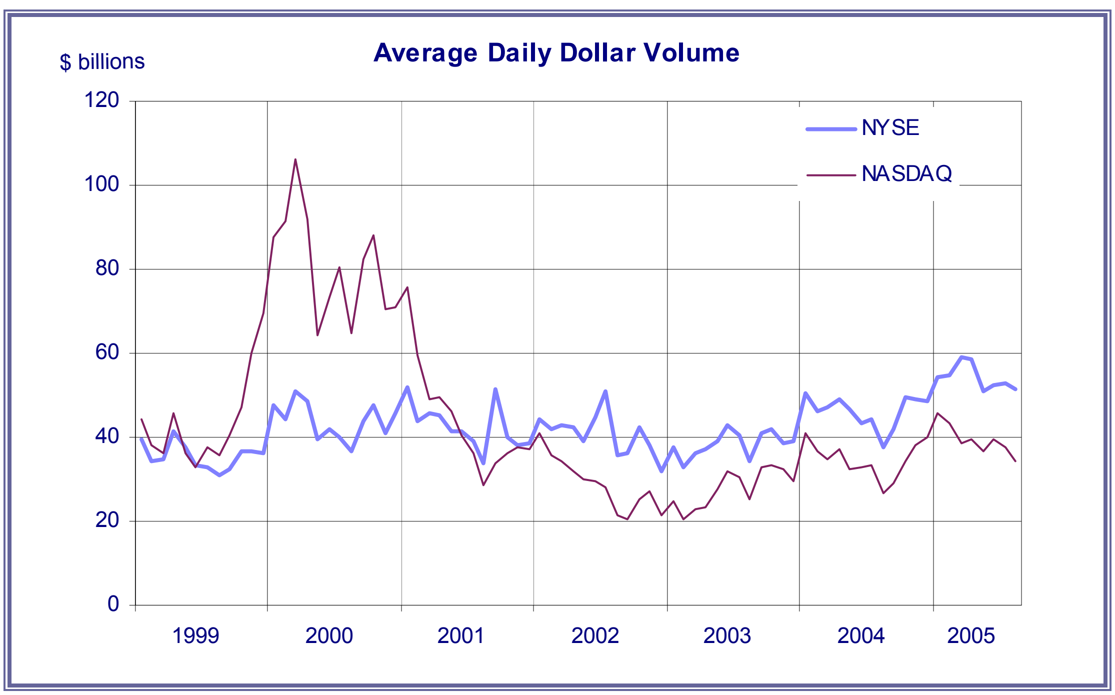
Share Volume – Trading activity on the major U.S. equity markets was relatively light in August, as typical during the late summer month. Average daily volume on the NYSE slipped 2.5% from July's level to a new 2005 monthly low of 1.44 billion in August. Year-to-date, however, the NYSE's average daily volume of 1.56 billion is 7.2% higher than year-ago levels.

NASDAQ average daily volume also sank to its lowest level of the year in August. It fell 5.1% from 1.62 billion in July to 1.54 billion. That dragged the year-to-date average to 1.79 billion, or 0.9% below the 1.81 billion seen in last year's comparable period.



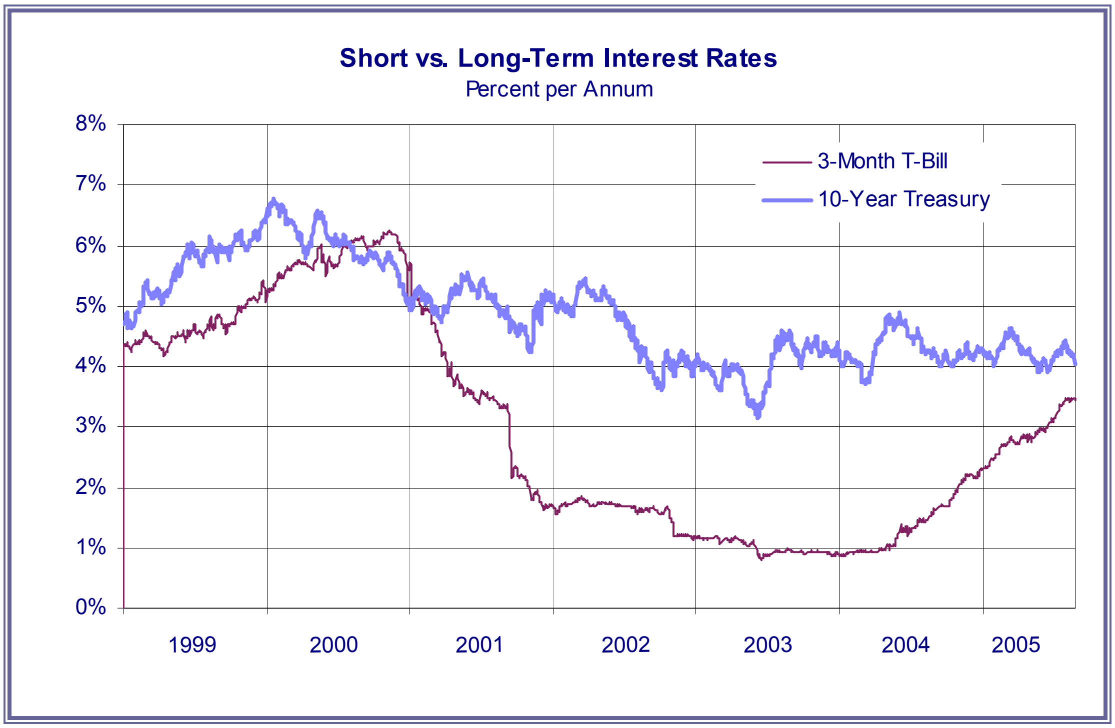
Dollar Volume – Lower share prices and volume in August led to an easing in the value of trading in both NYSE and NASDAQ stocks. Average daily dollar volume on the NYSE fell 3.4% in August to $51.3 billion from $53.1 billion in July. Even so, dollar volume year-to-date, at $54.3 billion, is up 19.1% from $45.6 billion in the comparable period last year.

The value of daily trading in NASDAQ stocks declined 9.8% in August to a new 2005 monthly low of $34.1 billion. Despite the monthly decline, year-to-date NASDAQ dollar volume of $39.2 billion remained 14.6% higher than the $34.2 billion a year ago.



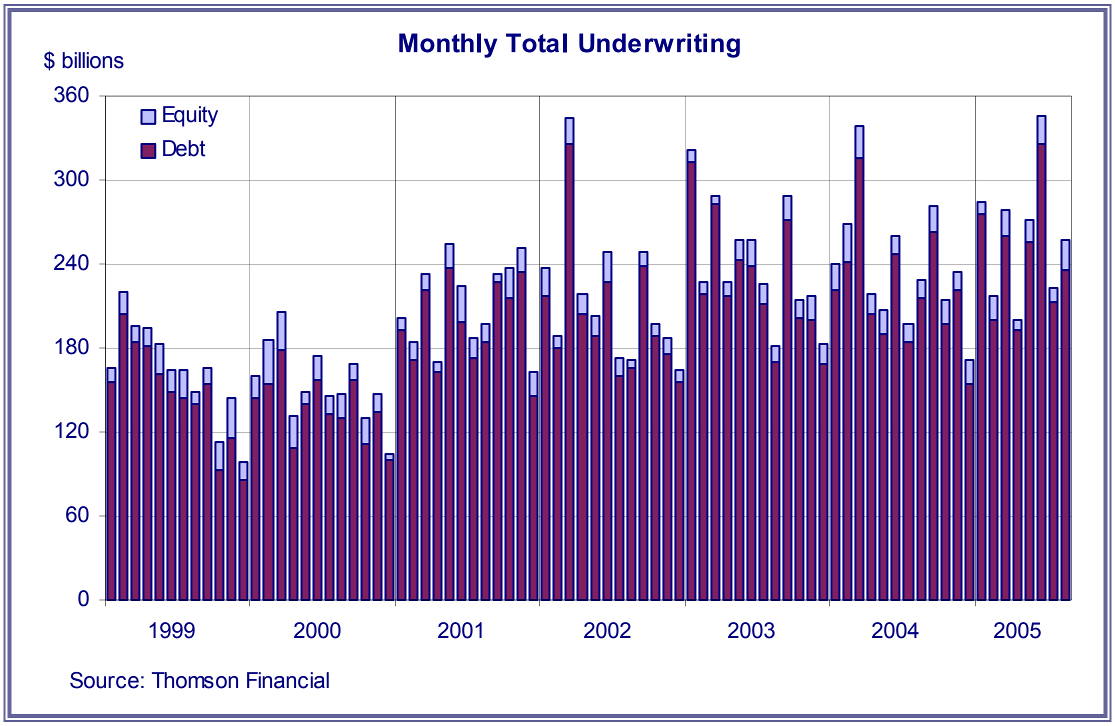
Interest Rates – Treasury yields climbed to a four-month high of 4.42% in the early part of August in reaction to a stronger-than-expected employment report, which showed that 207,000 payroll jobs were created in July. As widely expected, on August 9th the Federal Open Market Committee raised its federal funds target rate for the 10th consecutive time by a quarter-percentage point to 3.5%. The market then reversed course and long-term Treasury yields fell back in reaction to a downward revision to second quarter GDP growth, a lowered reading for inflation, and signs that higher fuel costs are taking their toll on consumers.

By month's end, 10-year Treasury yields fell to 4.02%, the lowest level since dipping below 4% at the end of June 2005. Meanwhile, short-term interest rates continued to rise. The latest hike in rates by the Fed helped push the yield on three-month T-bills up to 3.44% by August's close. As a result, the spread between three-month and 10-year Treasuries has now narrowed to 0.58%.

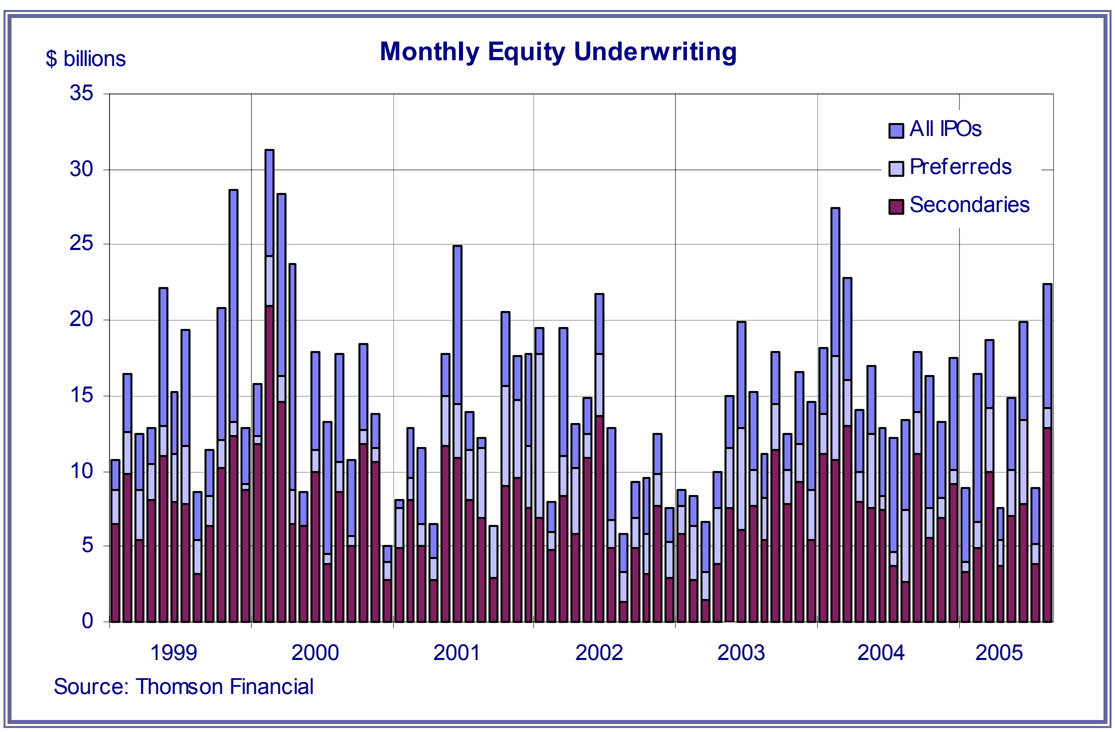


U.S. Underwriting Activity

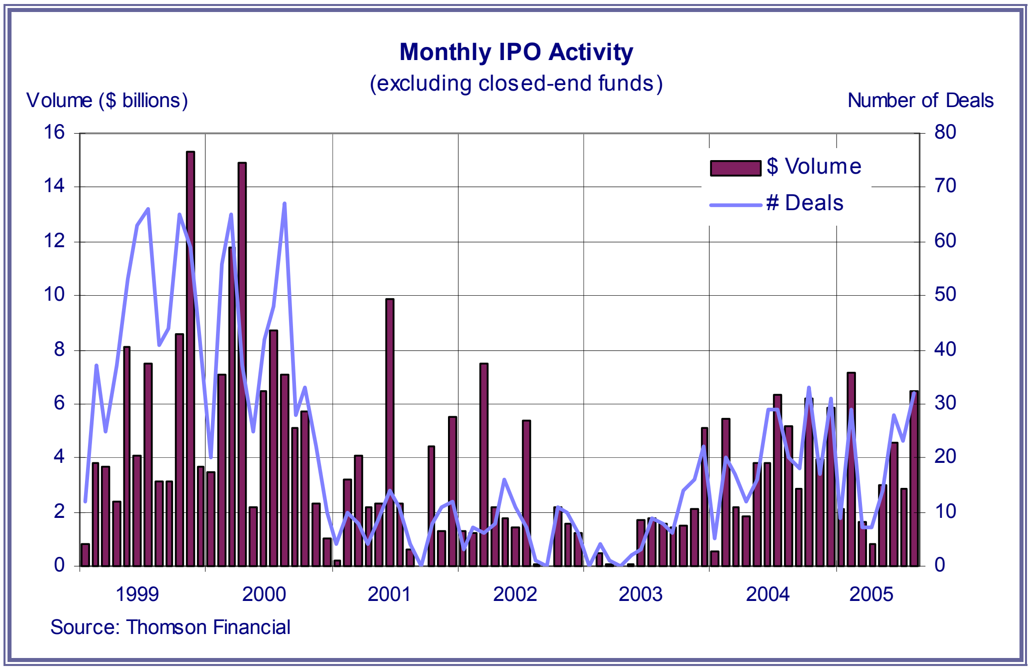
August turned out to be the best one on record in terms of new securities issuance. Overall debt and equity underwriting activity increased 16.0% from July's level to reach $257.8 billion, and exceeded the previous record of $229.1 billion set in August 2004 by 12.6%. That brought the year-to-date total to nearly $2.08 trillion, or 6.1% above year-earlier levels.



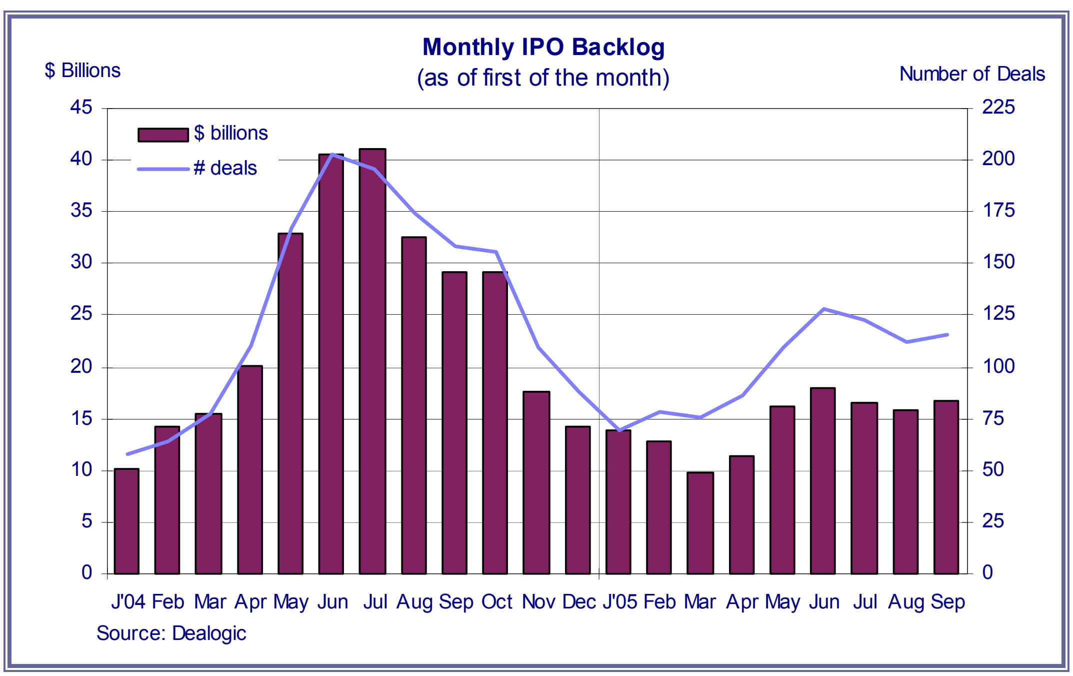
Equity Underwriting – Total equity issuance was surprisingly strong in August, as dollar proceeds surged to $22.4 billion, a 154.5% increase from $8.8 billion in July and the highest level in 17 months. Furthermore, it ranked as the best August on record in terms of dollar volume. Nevertheless, equity underwriting activity year-to-date, at $117.4 billion, is 14.8% below the $137.9 billion raised in the same period a year ago.



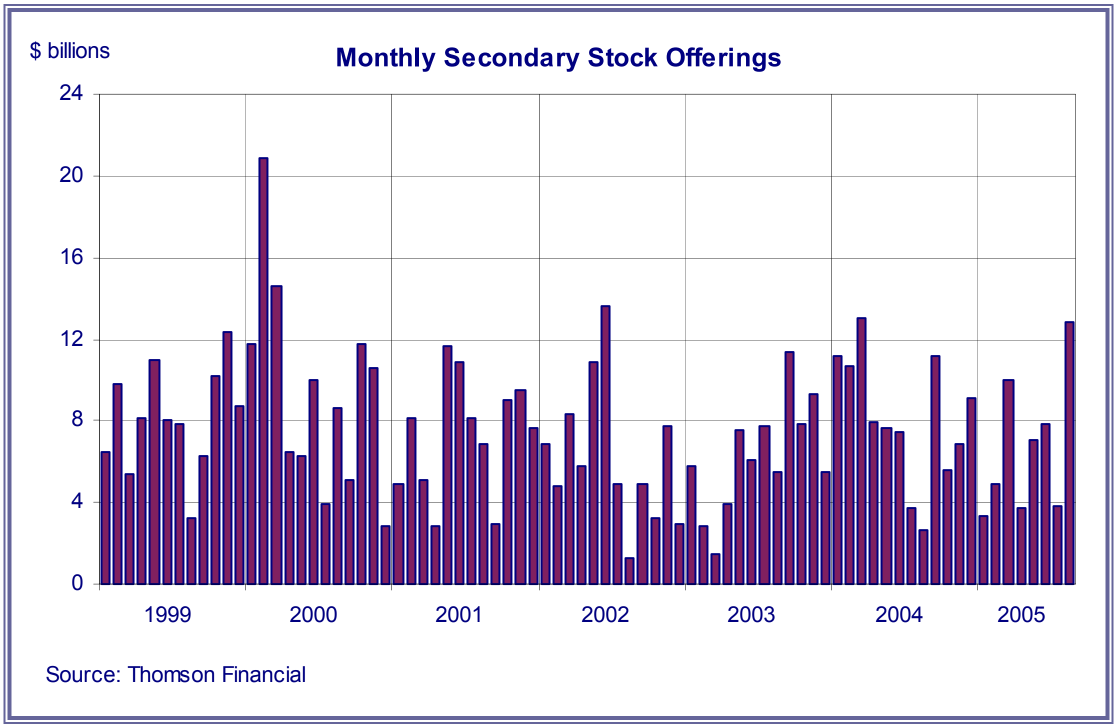
Initial Public Offerings (IPOs) – The IPO market sizzled in the first two weeks of August, as a 16% rise in NASDAQ stock prices from its 2005 low on April 28th to it 2005 high on August 2nd helped whet investors' appetites. Dollar proceeds from IPOs more than doubled from $2.9 billion in July to $6.5 billion in August. The hottest deal of the month was the 4 million-share offering from China's largest Internet search provider Baidu.com on August 5th, whose shares soared 354% in its first day of trading to $122.54 from an IPO price of $27.00. That represented the biggest first-day pop since the tech bubble burst more than five years ago. Through this year's first eight months, $28.6 billion was raised via IPOs, just 1.8% short of the $29.1 billion raised in the same period a year ago.



Despite August's high level of completed IPO activity, the filed IPO backlog remains healthy. As of the first of September, there were 116 IPOs in the pipeline worth $16.8 billion.



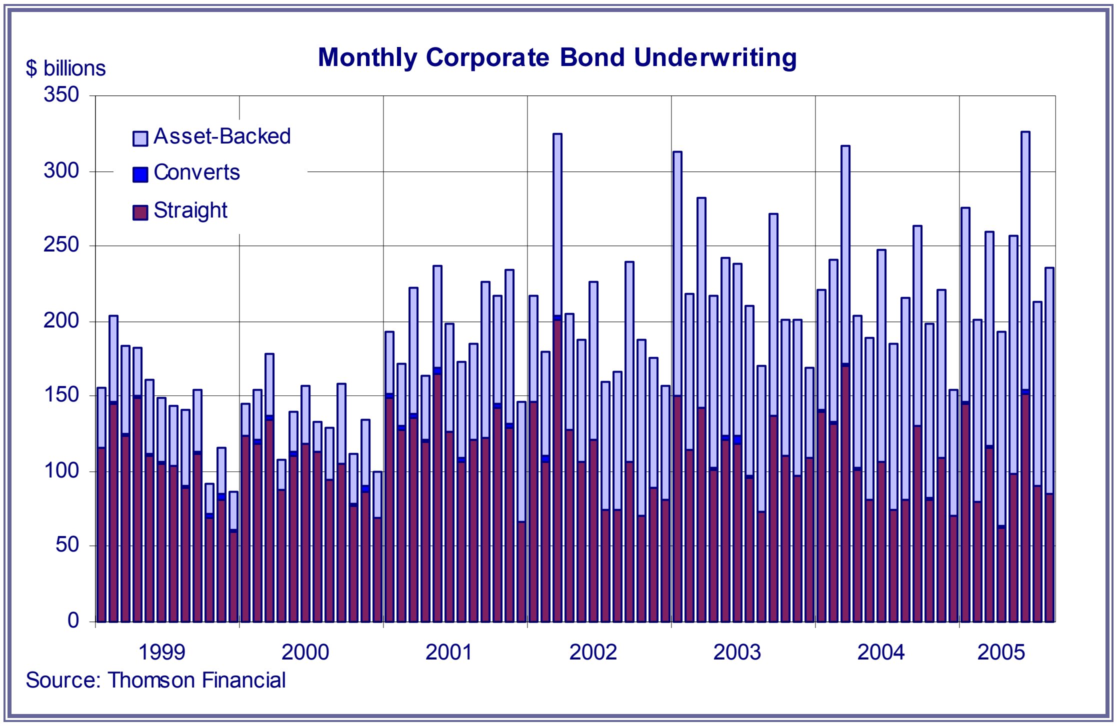
Common stock secondary offerings more than tripled in August to $12.9 billion from $3.9 billion the previous month. Despite August's surge, secondary stock issuance year-to-date, at $53.6 billion, is down 16.2% from $64.0 billion in last year's first eight months.



Corporate Bond Underwriting –Total debt underwriting rose 10.3% to $235.4 billion in August from $213.5 billion in July. That boosted the year-to-date total to roughly $1.96 trillion, up 7.6% from $1.82 trillion in the same period last year.

A surge in asset-backed bond offerings drove the August total higher, as issuance jumped 21.7% to $149.9 billion from $123.2 billion in July. During the first eight months of 2005, $1.12 trillion was raised in the asset-backed debt market, a 21.0% increase over last year's comparable period. The eight-month 2005 figure already exceeds the total amount raised in all of 2002, and this product is on track to top its 2004 annual record of $1.37 trillion.

Straight corporate debt offerings declined for the second consecutive month to $85.5 billion in August, down 5.2% from July's level. That dragged the year-to-date total to $831.1 billion, 6.3% below the $887.3 billion issued in the same period of 2004.



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	145.6	0.2	130.2	275.9	8.2	0.7	8.9	4.9	2.1	3.3	284.8
Feb	80.4	0.0	120.1	200.5	14.7	1.7	16.4	9.8	7.1	4.9	216.9
Mar	116.0	0.5	142.8	259.3	14.4	4.3	18.7	4.4	1.6	10.0	278.0
Apr	62.4	0.8	129.3	192.5	6.0	1.6	7.6	2.2	0.8	3.8	200.1
May	98.7	0.0	157.5	256.2	11.9	3.0	14.9	4.8	3.0	7.0	271.0
June	152.3	2.0	171.3	325.6	14.3	5.5	19.8	6.5	4.6	7.9	345.4
July	90.2	0.0	123.2	213.5	7.6	1.3	8.8	3.7	2.9	3.9	222.3
Aug	85.5	0.0	149.9	235.4	21.1	1.3	22.4	8.2	6.5	12.9	257.8
YTD '04	887.3	3.1	929.5	1,819.9	111.6	26.3	137.9	47.6	29.1	64.0	1,957.8
YTD '05	831.1	3.5	1,124.3	1,959.0	98.1	19.3	117.4	44.5	28.6	53.6	2,076.4
% Change	-6.3%	14.6%	21.0%	7.6%	-12.1%	-26.6%	-14.8%	-6.5%	-1.8%	-16.2%	6.1%

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
<u>2004</u>										
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
<u>2005</u>										
Jan	1.0	11.7	12.7	3.6	6.6	10.1	22.8	2.33	4.22	1.89
Feb	1.5	15.6	17.1	4.5	9.2	13.7	30.8	2.54	4.17	1.63
Mar	1.2	24.1	25.3	7.1	12.5	19.6	44.9	2.74	4.50	1.76
Apr	1.9	16.5	18.4	5.1	7.9	13.1	31.5	2.76	4.34	1.58
May	1.3	20.8	22.1	4.1	9.4	13.5	35.7	2.84	4.14	1.30
June	2.4	25.4	27.8	7.1	9.4	16.5	44.4	2.97	4.00	1.03
July	1.5	21.5	23.0	3.8	7.2	11.0	34.0	3.22	4.18	0.96
Aug	1.3	21.1	22.4	4.3	5.9	10.2	32.6	3.44	4.26	0.82
YTD '04	10.6	143.3	153.9	34.1	53.6	87.7	241.6	1.10	4.33	3.23
YTD '05	12.0	156.8	168.8	39.7	68.1	107.8	276.6	2.86	4.23	1.37
% Change	13.6%	9.4%	9.7%	16.3%	27.2%	22.9%	14.5%	159.8%	-2.4%	-57.6%

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
<u>2004</u>									
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
<u>2005</u>									
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
Mar	10,503.76	1,180.59	7,167.53	1,999.23	1,682.6	66.7	1,849.0	59.1	38.8
Apr	10,192.51	1,156.85	7,008.32	1,921.65	1,692.8	61.7	1,839.2	58.8	39.6
May	10,467.48	1,191.50	7,134.33	2,068.22	1,502.1	52.9	1,685.6	50.8	36.6
June	10,274.97	1,191.33	7,217.78	2,056.96	1,515.8	58.0	1,747.9	52.5	39.4
July	10,640.91	1,234.18	7,476.66	2,184.83	1,478.9	58.8	1,621.8	53.1	37.8
Aug	10,481.60	1,220.33	7,496.09	2,152.09	1,441.4	61.9	1,538.9	51.3	34.1
YTD '04	10,173.92	1,104.24	6,454.22	1,838.10	1,457.1	68.3	1,811.7	45.6	34.2
YTD '05	10,481.60	1,220.33	7,496.09	2,152.09	1,562.7	60.7	1,794.5	54.3	39.2
% Change	3.0%	10.5%	16.1%	17.1%	7.2%	-11.2%	-0.9%	19.1%	14.6%

	MUTUAL FUND ASSETS ($ Billions)					MUTUAL FUND NET NEW CASH FLOW* ($ Billions)					
	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
<u>2004</u>											
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	26.2	5.0	1.5	-20.9	11.8	32.7
Mar	3,885.1	455.7	1,277.7	2,006.8	7,625.4	15.6	4.8	7.5	-9.0	18.8	27.8
Apr	3,811.3	452.5	1,245.7	1,964.2	7,473.7	23.0	4.6	-7.8	-44.1	-24.3	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	-21.0	-16.1	4.9
July	3,798.5	461.6	1,231.7	1,950.7	7,442.6	9.4	3.0	-1.2	-2.1	9.1	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
<u>2005</u>											
Jan	4,289.2	516.7	1,302.0	1,892.9	8,000.8	10.0	5.3	4.6	-27.5	-7.6	19.9
Feb	4,416.8	529.9	1,304.6	1,875.6	8,126.9	22.2	4.4	2.6	-18.9	10.2	29.2
Mar	4,348.8	526.4	1,294.1	1,875.8	8,045.0	15.1	3.9	-1.3	-2.3	15.5	17.8
Apr	4,247.1	523.7	1,305.7	1,842.7	7,919.2	8.6	2.6	1.2	-35.4	-23.0	12.4
May	4,406.6	535.9	1,321.9	1,859.3	8,123.7	11.2	2.3	3.5	13.8	30.8	17.0
June	4,471.2	544.9	1,334.8	1,866.3	8,217.2	6.2	2.1	4.1	3.0	15.3	12.3
July	4,669.7	555.9	1,337.9	1,893.7	8,457.2	10.1	1.5	7.4	22.7	41.6	18.9
YTD '04	3,798.5	461.6	1,231.7	1,950.7	7,442.6	127.5	27.5	-23.9	-107.9	23.1	131.1
YTD '05	4,669.7	555.9	1,337.9	1,893.7	8,457.2	83.4	22.0	22.0	-44.6	82.9	127.4
% Change	22.9%	20.4%	8.6%	-2.9%	13.6%	-34.6%	-20.0%	NM	NM	258.1%	-2.8%

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

Securities Industry Association
120 Broadway, New York, NY 10271-0080
(212) 608-1500, Fax (212) 608-1604
info@sia.com, www.sia.com