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RESEARCH MANAGEMENT ISSUES: HOW ARE THE RULES WORKING?

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SECURITIES INDUSTRY AND ECONOMIC UPDATE

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RESEARCH MANAGEMENT ISSUES: HOW ARE THE RULES WORKING?

Summary

The rules and regulations governing research analysts and research management have undergone many changes since 2002.[1] One of the milestones in the evaluation of some of these changes is the December 2005 report by the staffs of the New York Stock Exchange (NYSE) and NASD (together, the self-regulatory organizations, or SROs) to the U.S. Securities and Exchange Commission (SEC) on the effectiveness of their new rules (Joint Report).[2] While the Joint Report was generally well received and supported by the securities industry, a few topics remain unresolved or are still of immediate concern to the industry. This report discusses those areas, as well as some of the other concerns raised by research managers.

Joint Report

The Securities Industry Association welcomed the release of the Joint Report and the work the NASD and NYSE have done to coordinate their efforts and eliminate inconsistencies between their two rule sets. However, there are still areas in which the industry believes there is room for improvement, including areas in which the NASD and NYSE still need to harmonize their requirements.

Restrictions on Publishing Research Reports and Public Appearances (Quiet Periods)

The Joint Report reviews the current SRO rules that establish a "quiet period" during which a member may not publish or otherwise distribute a research report, nor may a member's research analyst make a public appearance. Such quiet periods apply both after a public offering of securities and before and after the expiration, waiver or termination of a lock-up agreement. The length of the quiet period depends on whether the offering is an initial public offering (IPO) or a secondary offering and whether the member firm acted as a manager or a co-manager.[3] Current rules allow for an exception in the case of "significant news or a significant event on the subject company" during the quiet period. SRO staff has interpreted this to mean only "news or events that have a material impact on, or cause a material change to, a company's operation, earnings or financial condition."[4]

SIA commented by letter to the SROs on the topic of quiet periods,[5] stressing that such quiet periods tend to restrict the flow of information to investors – surely the opposite of what was intended. The SROs seem to have taken these comments into consideration. The SRO staffs recommended shortening the quiet period after IPOs for managers and co-managers to 25 days

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1 For a summary of the new rules and regulations, see K. Brandon, "Update on Research Analyst Related Issues," *Research Reports*, Vol. 6, No. 5, May 27, 2005, p. 3 (www.sia.com/research/pdf/RsrchRprtVol6-5.pdf).

2 Staff of the NYSE and the NASD, "Joint Report by NASD and the NYSE on the Operation and Effectiveness of the Research Analyst Conflict of Interest Rules," December 2005 (www.nasd.com/web/groups/rules_regs/documents/rules_regs/nasdw_015803.pdf) ("Joint Report").

3 The quiet period for a manager or co-manager of an IPO is 40 days following the date of the offering and 25 days for an underwriter or dealer. The quiet period for a secondary offering is 10 days and applies only to a manager or co-manager (Joint Report, p. 33).

4 Ibid.

5 SIA Comments Re: the issue of research analyst objectivity and NASD Rule 2711 and NYSE Rule 472, as well as the SEC Regulation AC, August 4, 2005, pp. 4-6 (www.sia.com/2005_comment_letters/7505.pdf).

(the same as for underwriters and dealers) and eliminating the quiet periods after secondary offerings. The SROs cite similar findings as the SIA, in particular that Reg AC,[6] which requires a certification that any such recommendation or price target be genuinely held, should be sufficient to address concerns in this area.

Further, NASD staff recommends the elimination of the quiet periods around the expiration, waiver or termination of a lock-up agreement, provided that members include an additional statement as part of their SEC Reg AC certification – or, alternatively, a separate certification – to having a bona fide reason for issuing research 15 days before and after a lock-up expiration.[7] The NYSE staff, however, recommends maintaining the quiet period, but shortening it to five days from 15 days.[8] The NYSE staff states that, while Reg AC may have dealt with the need for longer quiet periods around an IPO, there is still concern that a member may issue "booster shot" reports designed to raise the price of a stock just before locked-up shares become freely saleable by a company or its major shareholders.

As for exceptions to quiet periods, again the two SROs are at odds. While SIA points out that the SEC considers earnings announcements presumptively material, the SROs stated in their March 2004 Joint Guidance that they "would not regard an announcement about earnings to fall within the exception."[9] In the Joint Report, the NYSE recommends including the announcement of earnings as an exception to the quiet period, consistent with SEC requirements for the filing of Forms 8-K. The NASD takes the opposite view, stating, "earnings announcements are not causal occurrences." However, the NASD points out that this issue mainly comes up when an earnings announcement occurs within 15 days of the expiration, waiver or termination of a lock-up agreement, and they believe there should be no suchn quiet period.[10] Research managers believe that the perverse outcome of the quiet period restrictions is that less information, rather than better information, gets to investors. They strongly recommend lifting all quiet periods, as they believe that Reg AC, among other conflict of interest rules, is more than enough deterrent to publication of "booster shot" reports.

Registration and Qualification Requirements

Current rules mandate that research analysts must take the Series 86 and 87 examinations. The industry suggested that since there is now an examination specifically for analysts, it should no longer be necessary for analysts to have to take the Series 7 examination, which covers many subjects that are "not germane to an analyst's job."[11] The SIA recommended that relevant portions of the Series 7 be incorporated into the Series 86/87, and the Series 7 examination

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[6] SEC Regulation Analyst Certification, known as Reg AC, [Release Nos. 33-8193; 34-47384; File No. S7-30-02] requires (1) clear and prominent certifications in research reports by the research analyst that the views expressed in the report accurately reflect his or her personal views, and disclosure whether or not the analyst received compensation or other payments in connection with his or her specific recommendations or views and (2) periodic certifications by research analysts in connection with the analyst's public appearances (www.sec.gov/rules/final/33-8193.htm).

[7] Joint Report, pp. 34-35.

[8] In a letter to the SEC on another matter, SIA and The Bond Market Association draw attention to the divergent approaches taken by the two SROs using the example of the treatment of quiet periods in the Joint Report. See SIA Letter Regarding Notice of Filing of Proposed Rule Change and Amendment Nos. 1, 2, 3, 4, 5 and 6 Relating to the New York Stock Exchange's Business Combination with Archipelago Holdings, Inc., February 2, 2006 (www.sia.com/comment_letters/10056.pdf), p. 22, footnote 43.

[9] Op. Cit. 5, p. 5, footnote 5.

[10] Joint Report, p. 37. However, this does not address the quiet period surrounding IPOs and secondary issuances.

[11] Op. Cit. 5, p. 2, with specific examples of Series 7 examination areas that are not relevant to research analysts on p. 3.

requirement for analysts be dropped. The SRO staffs recommend consideration of this proposal and of the possibility of the substitution of a new Capital Market Professional Examination being developed by NASD, the NYSE and regulators in the United Kingdom for the Series 7 prerequisite, although there was no time frame attached to their consideration. Research managers were very supportive of dropping the Series 7 requirements, as they believe that the Series 86/87 is more than adequate.[12]

Issuer Retaliation

The securities industry has asked the SEC and the SROs to address issuer retaliation, either through the SROs' listing standards or otherwise.[13] In the Joint Report, the SROs responded that the NYSE did not think that their listing standards lent themselves as a solution to this problem. While the SROs did not offer any type of direct assistance, they will continue to monitor the situation and explore other ways to address the problem. One initiative they will watch closely is the impact of the CFA/NIRI "Best Practice Guidelines Governing Analyst/Corporate Issuer Relations."[14] Research directors agree that it is a tricky problem, one that might not be amenable to a regulatory solution. It can be subtle or blatant, but in most cases very difficult to prove. One suggestion was to add 'no retaliation' to existing CEO annual certifications made in accordance with *Sarbanes-Oxley*. [15]

Other Areas of Concern

Research managers are, of course, concerned about the outstanding regulatory issues such as those described above, but they also must figure out how to integrate myriad new rules and regulations into their business. New rules and regulations have completely changed the underlying business model for sell-side research as it has been severed from the investment banking business. Complying with rules and best practices concerning inherent conflicts of interest have led to many improvements in research, but they have also saddled departments that never mismanaged those conflicts with very challenging cost structures. Pending changes to the rules governing the bundling of research and execution services into one commission payment may further propel the evolution of the business model. While such rules and regulations touch nearly every aspect of their day-to-day operations, research managers have identified several other areas as currently on their radar screens.

Publishing Platforms – Disclosure Requirements

One of the outcomes of research regulation – in particular Reg AC and other disclosure regulations – has been major capital investment in publishing platforms. These publishing platforms aid in compliance with rules requiring: a wide variety of disclosures depending on

[12] Research directors have also pointed out that there are also issues with the Supervisory Analyst examinations. The NASD requires the Series 24, while the NYSE requires the Series 16 (which has difficult prerequisites and limited testing locations). It was suggested that the Series 24 should be sufficient.

[13] SIA Comments To The SEC On Proposal By The NYSE And Relating To Efforts Of The NYSE And The NASD To Harmonize Similar Rules Regarding Research Analysts And Separate Comments On Chairman Donaldson's Remarks On Issuer Retaliation, May 11, 2005 (www.sia.com/2005_comment_letters/6374.pdf).

[14] Joint Report, p. 43. In December 2004, a CFA Institute and National Investor Relations Institute (NIRI) joint task force released best practice guidelines governing the relationship between securities analysts and the companies they cover (www.cfainstitute.org/standards/pdf/BestPracticeGuidelinesfinal.pdf). In an October 2005 letter to its listed companies, the NYSE encouraged them to consider implementing the CFA/NIRI Best Practices, Joint Report p. 43, footnote 145.

[15] *The Public Company Accounting and Reform and Investor Protection Act of 2002*, P.L. 170-204 (107th Congress, 1st Session).

the nature of the research piece; review and approval by a supervisory analyst; and careful tracking of when and to whom the research is sent. The need for such sophisticated publishing platforms calls for a large up-front investment and ongoing operating costs, which are particularly burdensome to smaller firms. Even with the use of a first-class publishing platform, tracking the many compliance requirements for distributing research is such a huge task, which includes a high fixed-cost component, that some firms may find it impossible to justify research as an economically viable business line.

Another current disclosure-related topic is the use of internet-based disclosure. Research managers have suggested that giving analysts and their firms the option to make required disclosures in public appearances and research reports via website disclosures is an approach consistent with the trend towards web-based disclosure to investors.[16] In the case of public appearances, an analyst might reference a number of issuers in his or her remarks, and it can be very cumbersome for analysts to verbally recite extensive disclosures about every issuer covered. One alternative might be for the analyst to reference a website containing disclosures instead. In the case of research reports, which are overwhelmingly distributed in electronic format, a hyperlink to a website would eliminate the clutter and information overload that occurs when all of the disclosures appear in the report itself.[17] Research managers also suggested that it would be useful to review the utility of existing disclosures to investors. There are so many new required disclosures that it would be valuable to study which of them are actually read and considered useful by investors.

Research Distribution (and Redistribution)

An area of great concern to research directors, because it strikes at the heart of their business model, is the unauthorized redistribution of their research. One of the methods of distributing research to clients is through a third-party research distributor. A danger in this method of research distribution is that a recipient on the approved list may redistribute it to an unapproved recipient. Some research providers have noticed that their research, which is meant for the exclusive use of their clients, is often in the public domain within minutes of being sent to a research distributor.

Some sell-side firms are contemplating sending their research to distributors some time after it is sent directly to their clients. That approach is problematic, however, because some clients only receive their research via research distributors and would therefore be disadvantaged by this approach. Other research directors have accepted, for now, that the best they hope to accomplish is to keep a constant and close eye on who is receiving their research via distributors and clean up those lists regularly. The industry will continue to work on this issue in order to minimize, if not eliminate, the unauthorized distribution of research reports.

[16] Recent examples include (a) the "internet access equals delivery" standard for prospectus delivery included in the SEC's recently approved changes to securities offerings under the Securities Exchange Act of 1933 (www.sec.gov/rules/final/33-8591.pdf) and (b) endorsement by the NASD of internet disclosure as the chief vehicle for providing point-of-sale information to retail investors about mutual fund fees and potential conflicts of interest (www.nasd.com/web/idcplg?IdcService=SS_GET_PAGE&ssDocName=NASDW_013727).

[17] The SROs already have recognized that web-based disclosures are a practical solution to disclosure in the context of their compendium exception, which permits firms to make disclosures on a website for research reports covering six or more issuers.

Inconsistencies Among Regulators – Regulation by Examination

While the SROs appear to believe that their rules are consistent, the industry reports otherwise. Some rule sets are acknowledged as differing, such as the terms of the Global Settlement and SRO rules.[18] Other inconsistencies, such as those between the rules of different SROs, are downplayed by the SROs, although they are critical to firms that report to more than one SRO. Other differences appear between the national and regional offices of regulators, mainly during examinations when regional offices may interpret a rule somewhat differently than guidance received from the national office. Such differing interpretations can be particularly troublesome as they have the effect of creating regulation through examination, which leaves no opportunity for the kind of due process available during the normal course of rulemaking.

Coordination With Foreign Regulators

Many research units provide research to clients based in more than one jurisdiction, and a growing number are also preparing research in more than one jurisdiction. Firms producing research on a global basis face a multiplicity of disclosure requirements and publication restrictions in the various markets in which they operate, such as:

– thresholds of equity holdings that trigger disclosure[19];

– types of communications deemed research reports[20]; and

– quiet period rules.[21]

It would be extremely helpful to firms if the U.S. SROs would work with their non-U.S. counterparts to at least minimize conflicting regulations, and at best coordinate more uniform standards in the future.

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Vice President and Director, Securities Research

[18] Joint Report, Exhibit D provides a chart comparing SRO Rules and Global Settlement.

[19] In the U.S., a 1% equity position by the firm or its affiliates in the issuer must be disclosed in research reports available to investors. The European Union's Market Abuse Directive sets disclosure trigger at 5%.

[20] U.S. disclosure requirements apply to all written or electronic communications that include an analysis of equity securities and that provide information reasonably sufficient upon which to base an investment decision. Consequently, much sales literature is covered. In the United Kingdom the research rules only apply to research reports that are held out as impartial, and therefore sales material identified as such is not covered.

[21] Such rules differ by jurisdiction, with the U.S., IOSCO, the EU Forum Group recommendations, U.K., Australian, Japanese and Canadian regulations all taking different approaches. For example, Canada has similar restrictions to the U.S., except that it does not have any restrictions around lock-up agreements, while the EU Forum Group recommendations contain a quiet period by selling syndicate analysts immediately after an IPO has been priced, but no other restrictions.

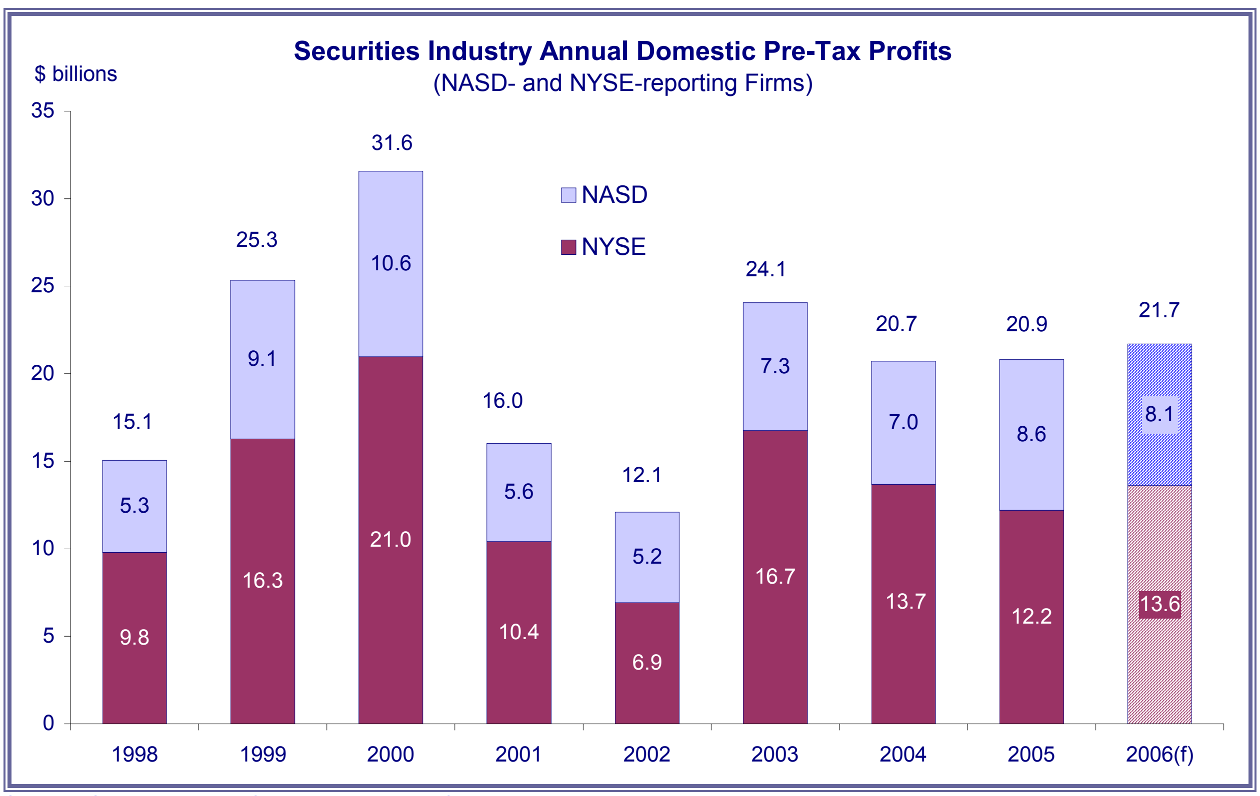
SECURITIES INDUSTRY AND ECONOMIC UPDATE

Introduction

As we do each year at this time, SIA Research presents new economic and industry forecasts to New York City (NYC) and New York State (NYS) officials and, in two separate meetings, discusses the main risks to their budget forecasts.[1] Our participation reflects the importance of the securities industry to NYC and NYS, which is long-standing and well-recognized. The industry has a profound impact on, and makes a disproportionate contribution to, personal income, tax revenues and overall economic growth of NYS and, to an even greater extent, NYC. A summary of our forecasts and comments follows.

Summary

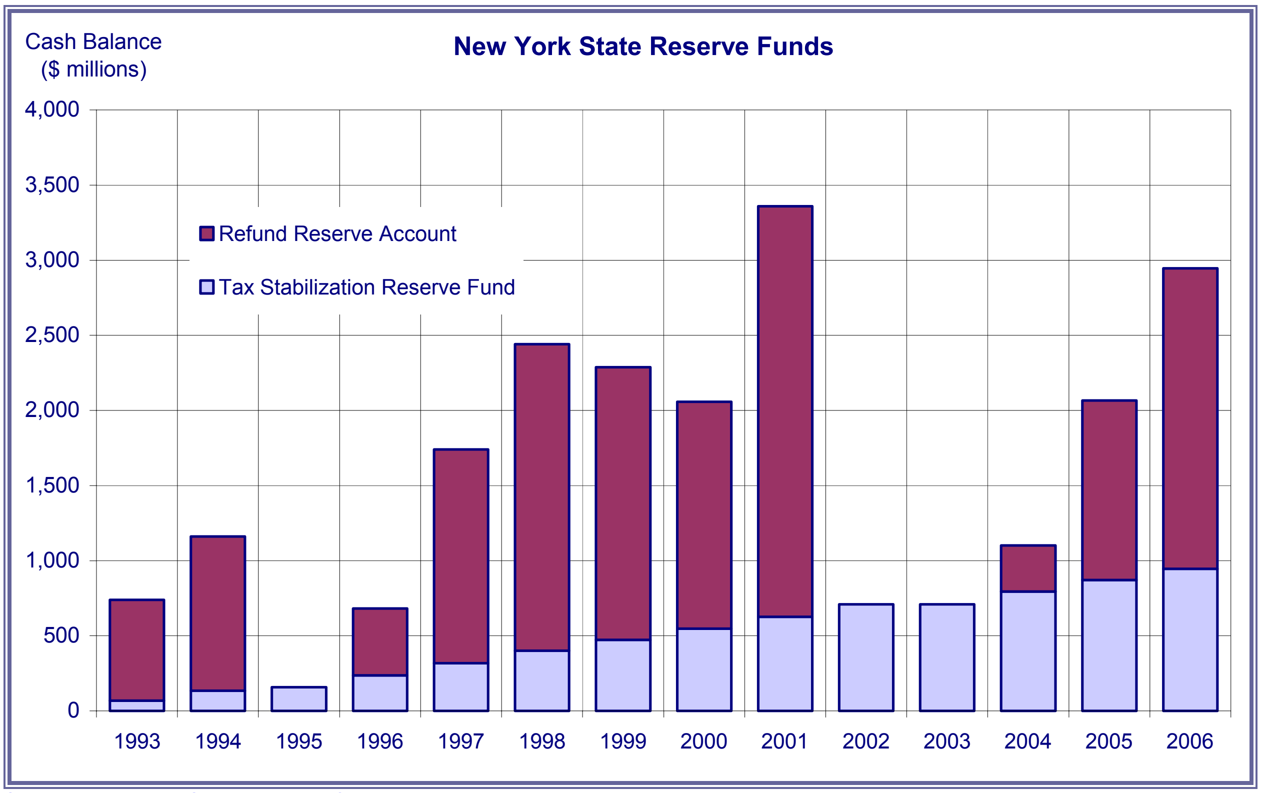
Over the past three years, the stock market, the securities industry and New York's economic and fiscal health have been recovering from a profound downturn in the two prior years. NYC's and NYS's substantial budget deficits have been closed and, in the current year, replaced by unexpected surpluses, thanks in no small part to Wall Street's continuing recovery. We anticipate further modest improvement in securities industry performance, but growth in profits, compensation and hiring is expected to be more subdued in the year ahead.



Source: SIA DataBank (4Q'05 estimate, 2006 forecast)
Subtotals may not add to totals due to independent rounding.

[1] The eleventh annual New York State Economic and Revenue Consensus Forecasting Conference held at the State Capitol in Albany on March 1, 2006 and the Economic Advisory Panel Meeting to be held at the offices of the New York City Office of Management and Budget in NYC on March 16, 2006.

We advised state officials to continue to pursue prudent, countercyclical fiscal policies and take a longer-term, multi-year budget planning horizon. During the recent downturn and recovery, reserve funds were drawn down, obviating the need for more tax increases or spending cuts to close deficits – procyclical actions that would have made the downturn even more pronounced. The temptation to use this "windfall" surplus to fund either tax cuts or greater state and local government spending is likely to be more compelling in this, an election year, but it should be resisted. Replenishing reserves, in preparation for the inevitable next downturn, should be afforded priority, given how highly variable are the main drivers of the recent surge in state and local tax revenues: personal income taxes on securities industry variable compensation and taxes tied to real estate turnover and valuations.

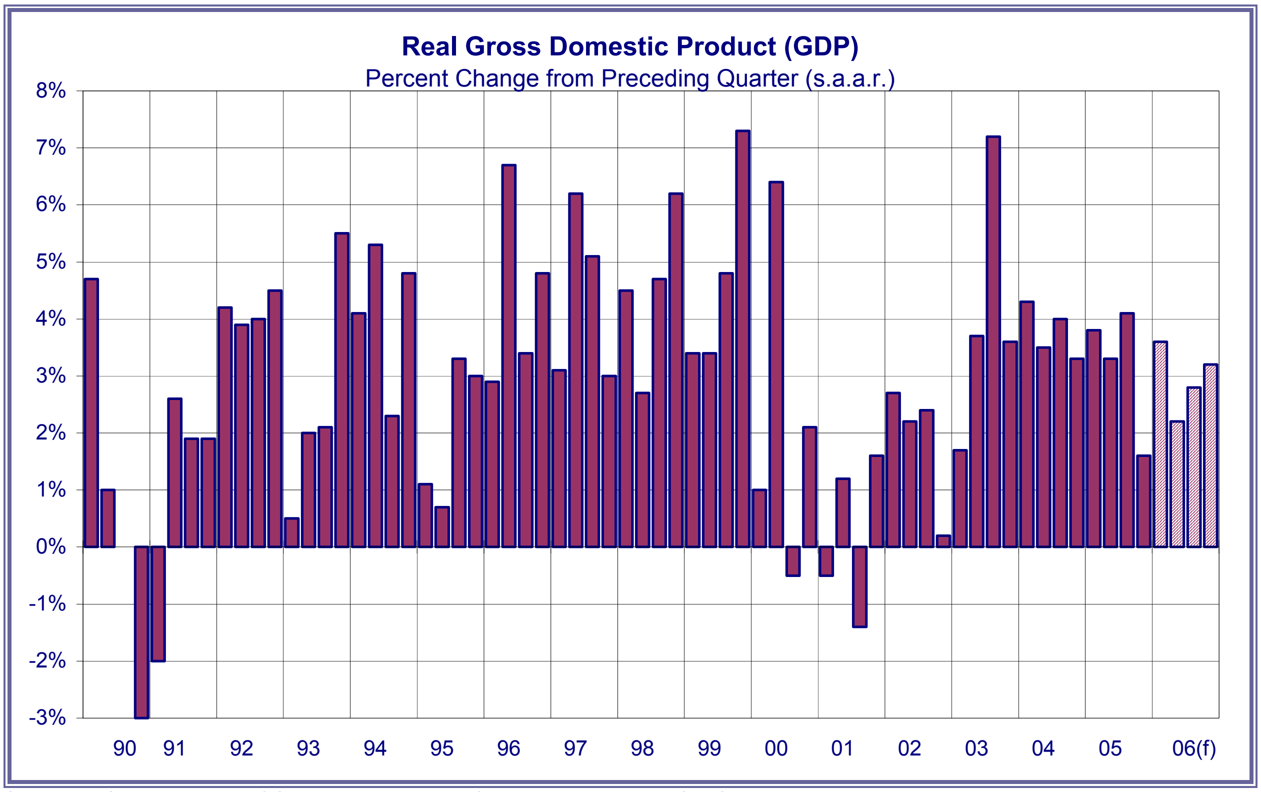


Source: New York State Division of the Budget
Dates are for the fiscal year ending March 31.

NYC officials face an even more daunting task, given their limited set of fiscal instruments; greater dependence upon highly volatile and cyclically sensitive sources of revenue, such as taxes on securities industry (in particular trading and investment banking) compensation; and, status as one of the nation's highest cost areas to do business. Officials would do well to redouble efforts to make NYC, in particular Lower Manhattan, a more hospitable place to work, and to offset competitive pressures to migrate.

The U.S. Economic Outlook

Real GDP growth slowed to 3.5% in 2005, after growing 4.2% in 2004. In 2006, we expect further deceleration to 2.7%, near the long-term average for the U.S. economy, while the consensus forecast is for growth of 3.4%, which is closer to capacity levels and last year's result. U.S. economic growth slowed in 4Q'05, up only 1.6% at seasonally adjusted annual rates (s.a.a.r.) from 3Q'05, before rebounding in 1Q'06. Consumer spending growth, which slumped to only 1.2% in 4Q'05, is expected to jump to 4.3% in the current quarter. Strong personal income and jobs growth contributed to the rebound. The warmest January on record, discounting after disappointing Christmas sales and a sharp increase in holiday gift certificates drew shoppers back into stores, and retail sales rose 2.9%. In February, weather continued to play a role in consumer spending, as major winter storms kept shoppers at home and retail sales fell 1.3%. Much of the volatility in this data series comes from motor vehicle sales. Retail sales excluding autos rose 2.1% in February from their level in December. Overall, for this quarter, falling residential construction and further widening of the current account deficit are being more than offset by stronger business investment, faster growth of government spending, continued inventory accumulation and the rebound in consumer spending.



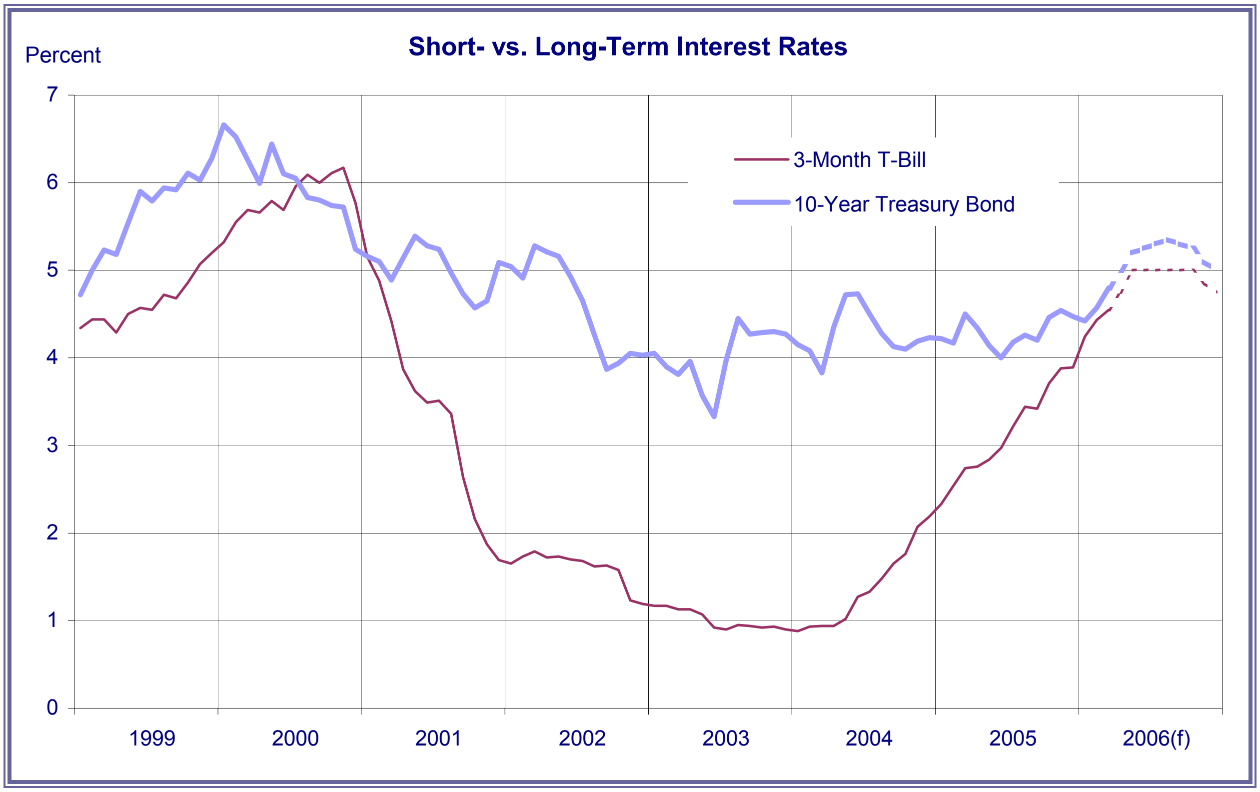
Source: U.S. Department of Commerce, Bureau of Economic Analysis; SIA forecasts

However, the deceleration in the growth of home prices and rising lending rates are contributing to a slowdown in both residential construction and the growth of household net worth. In response, consumers are relying less on mortgage equity withdrawals and credit cards to finance their spending, and overall levels of consumer borrowing may fall, which in turn is expected to slow consumer spending growth in 2Q'06 to 2.1%, roughly half the pace of expansion in the current quarter. Data recently released by the Federal Reserve shows the amount of revolving home-equity loans held by banks at the beginning of March 2006 was down from a peak reached last August and only 5% above year-earlier levels.

Interest rates are expected to move still higher as the Federal Reserve completes the current tightening cycle with one, if not two, more quarter-point increases in the Fed Funds rate at the next two Federal Open Market Committee (FOMC) meetings, on March 28 and May 10. If this comes to pass, the Fed Funds rate "will have steadfastly traversed a territory of 400 basis points in 16 equal steps over a two-year span."[2] The Federal Reserve is then expected to hold short-term interest rates steady in the second half of the year. How much higher short-term rates go and how long they stay there will depend, in part, on the Federal Reserve's view on the

[2] Mark Sniderman, "The Economy in Perspective," Federal Reserve Bank of Cleveland, *Economy Trends*, March 2006, p. 1.

evolution of productivity growth[3] and unit labor costs. Productivity fell 0.5% in 4Q'05 at s.a.a.r.[4] (the first decline since 1Q'01) but rose 2.7% on an average annual basis in 2005. In 2006, productivity growth is expected to slow further. Annual average unit labor costs[5] rose 3.3% in 4Q'05 and were up 2.6% in 2005 on an average annual basis. We expect these trends to continue in 2006, with productivity growth slowing and unit labor costs rising more rapidly.



Longer-term rates, belatedly, are rising as well, with the 10-year U.S. Treasury bond yield moving to a 20-month high of 4.80% during the second week of March, and finished the week slightly above the two-year U.S. Treasury note yield,[6] after falling below it for most of the previous month. Stronger than expected wage and jobs data, seen as an indicator of potential inflationary pressures, along with announcement of an end to quantitative easing by the Bank of Japan and the decision to increase interest rates by the European Central Bank helped lift the long end of the U.S. yield curve.

Inflation, although rising, remains relatively restrained, as sharp increases in energy prices have not been fully passed through to "core" prices, nor fully reflected in higher inflationary expectations (except over the very short term). The overall GDP deflator is expected to rise 3.3% in 2006, compared to 2.8% last year, while the "core" Personal Consumption Deflator (PCE excluding food and fuel prices) is expected to rise only 2.2% compared to 2.0% in 2005. Consistent with this view, the Federal Reserve sees the recent rise in retail prices as transitory. Recent projections by members of the FOMC[7] anticipate the core PCE deflator will rise 2% in

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3 Productivity is output per man hour worked in the private non-farm business sector.

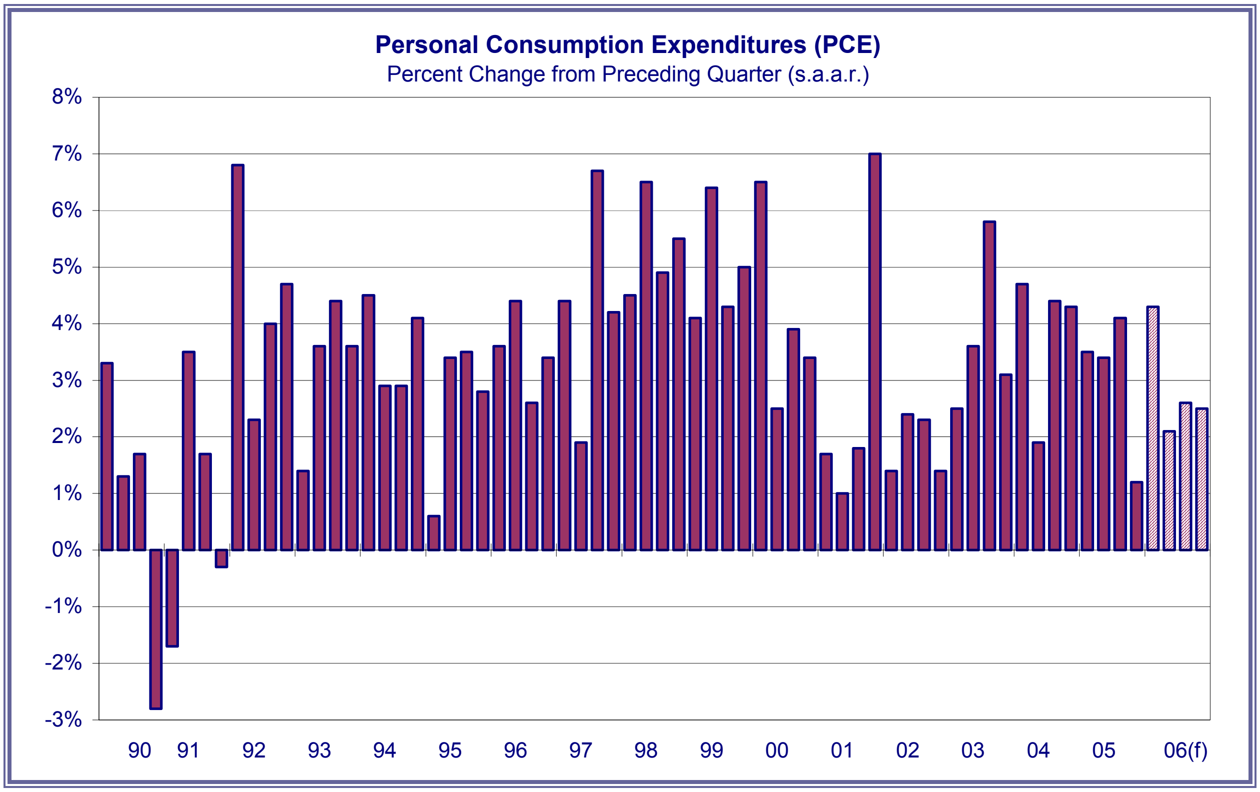
4 Compared to 3Q'05.

5 For the private non-farm business sector.

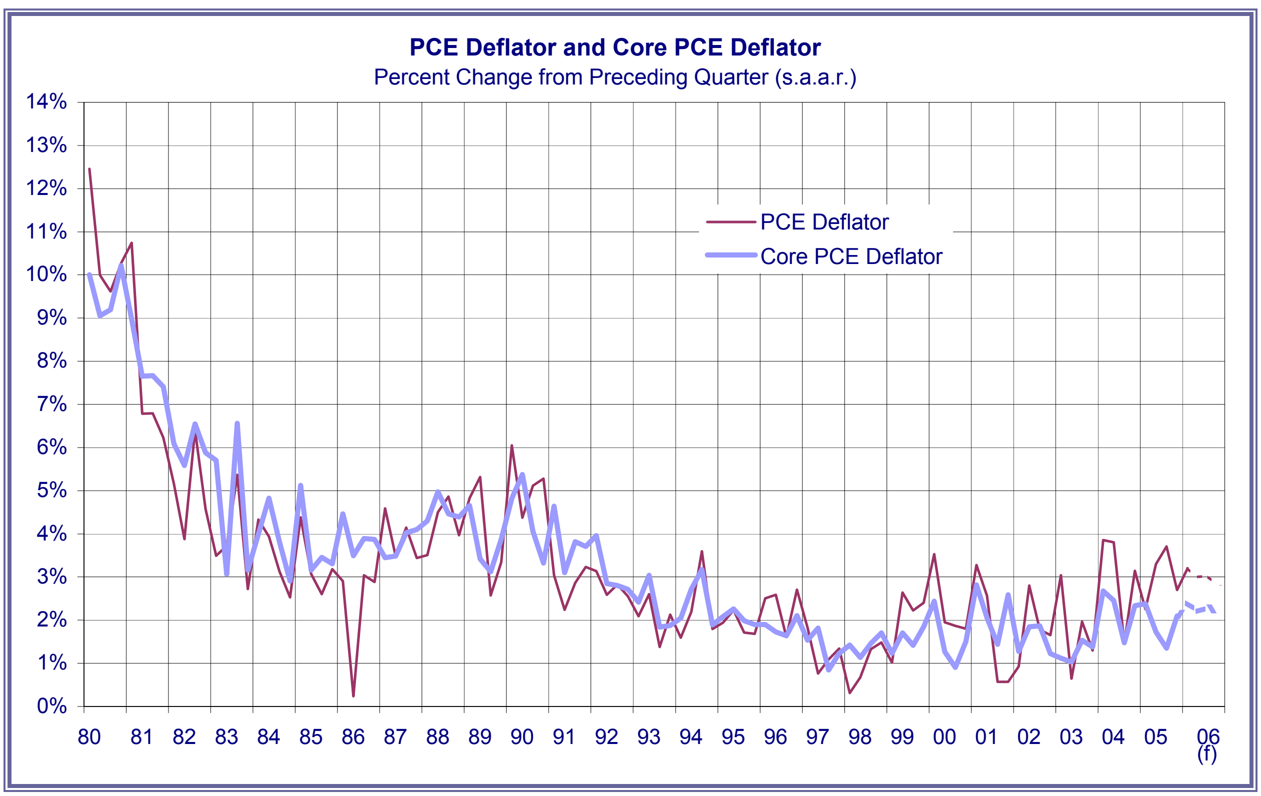
6 At the close on Friday, March 9, the 10-year UST yielded 4.77% and the two-year note 4.74%.

7 Reported in the Federal Reserve's semiannual Monetary Policy Report to Congress.

2006 and 1¾% in 2007.[8] This latter figure is effectively the Fed's implicit inflation target, or a level "near the upper limit of a range consistent with price stability."[9]



Source: BEA, SIA forecast



Source: BEA; SIA forecasts

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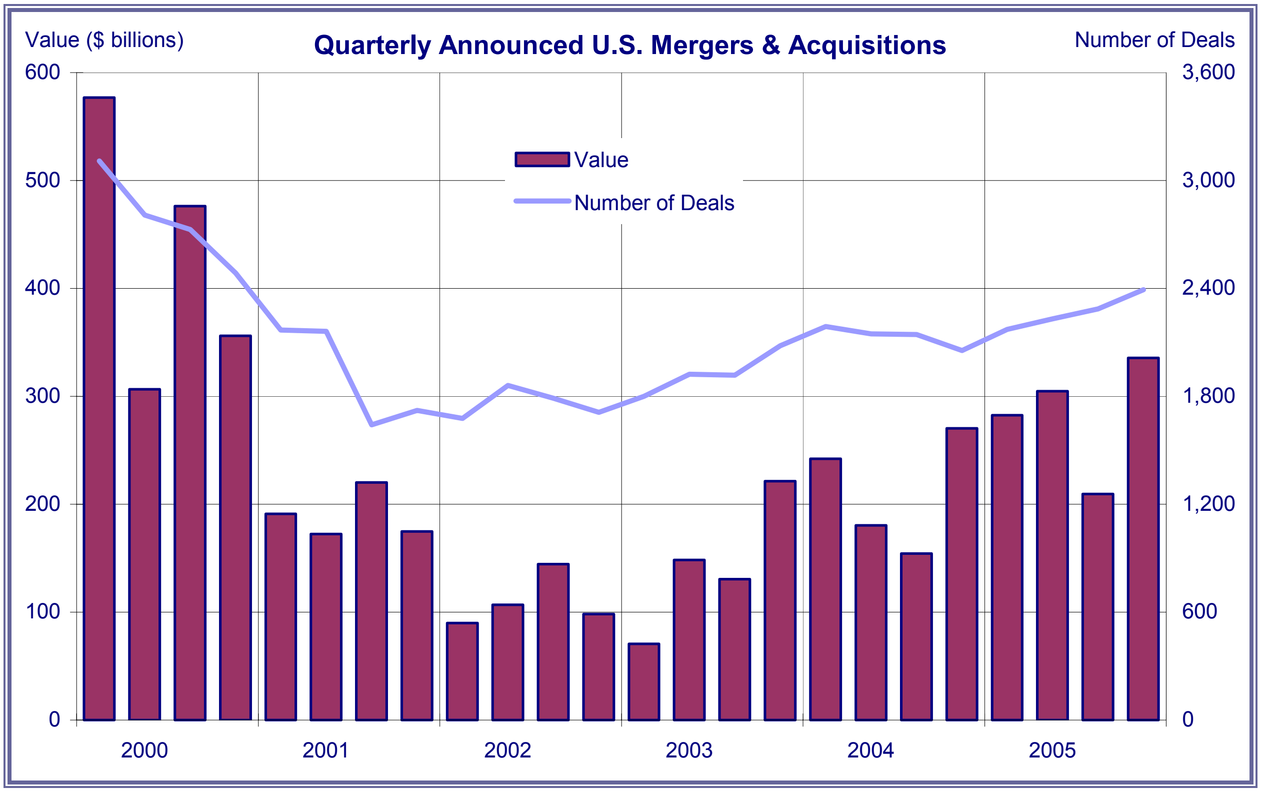
8 On a fourth-quarter to fourth-quarter basis.

9 Op. cit. 2, p. 2.

Securities Industry Outlook

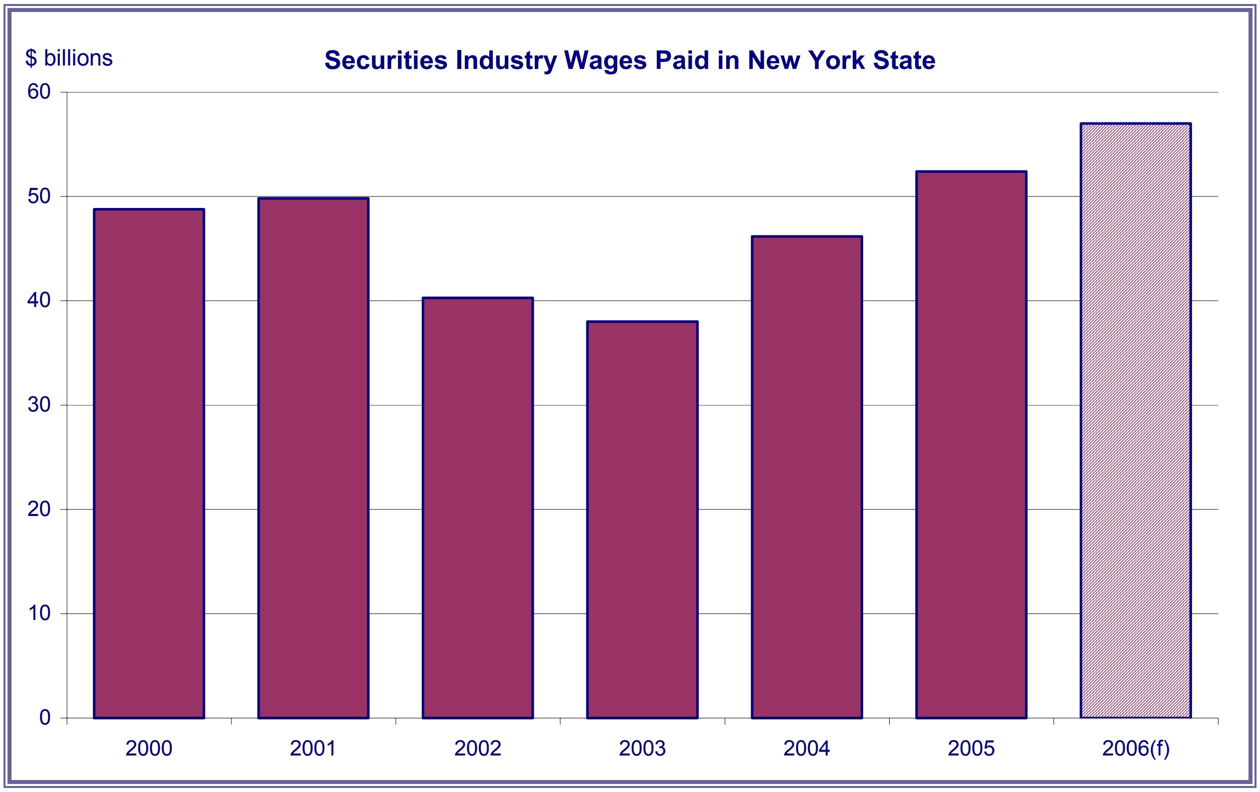
In 2006, the U.S. domestic securities industry should extend for a fourth year its recovery from the downturn of 2001-2002. Growth of net revenues (revenues net of interest expense), which increased 5.7% in 2005, should show similar expansion this year. While many "traditional" business lines (such as commission and fee income and mutual fund sales and asset management fees) are increasingly becoming commoditized, other, higher-margin business lines, such as corporate financial advisory (in particular mergers and acquisition and private equity business), which are highly concentrated in NYC, are growing rapidly, fueling overall industry revenue growth. In 2006, this pattern should continue.



Source: Thomson Financial

Variable compensation paid by the securities industry is highly volatile, but over the past five years it has made up 46% of total variable compensation in NYS.[10] Total compensation of securities industry workers in NYS increased an estimated 13% in calendar year 2005 and is forecast to rise 9% in calendar 2006, a substantially faster pace than total wages in other industries in NYS. Variable compensation is estimated to have shown still faster growth, particularly for employees of NYC-based firms. Compensation also increased as a share of total net industry revenues, something not likely to prove sustainable. In 2006, we expect growth of variable compensation to slow and expand in line with revenues. Fortunately, the most highly compensated, high-margin businesses which are leading industry growth are concentrated in New York and, as a result, the increase in securities industry jobs and compensation paid to securities industry workers in the region will continue to outpace growth elsewhere in the nation.

[10] New York State Economic Report, New York State Assembly, Ways and Means Committee Staff, February 2006, p. 69.



Source: NYS Division of the Budget

The NYS and NYC Economic Outlook

The New York State economy is expected to continue to show modest expansion, but job growth overall lags the recovery in output. In addition, growth of jobs and income in upstate and western NYS trail both the pace of recovery seen in previous economic expansions, as well as the expansion of the NYC economy. Overall, we expect private sector job growth in NYS to be between 1.0% and 1.5% in 2006, with slightly faster growth in NYC.

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

Real GDP: Percent Change from Preceding Period

at seasonally adjusted annual rates (s.a.a.r.)

						2003		2004				2005				2006 (f)			
	2002	2003	2004	2005	06(f)	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
GDP	1.6	2.7	4.2	3.5	2.7	7.2	3.6	4.3	3.5	4.0	3.3	3.8	3.3	4.1	1.6	3.6	2.2	2.8	3.2
Personal Consumption Expenditures (PCE)	2.7	2.9	3.9	3.6	2.9	5.8	3.1	4.7	1.9	4.4	4.3	3.5	3.4	4.1	1.2	4.3	2.1	2.6	2.5
—Durables	7.1	6.6	6.0	4.5	2.4	19.8	-0.3	4.4	0.4	10.8	5.5	2.6	7.9	9.3	-16.6	5.3	1.7	2.8	1.7
—Nondurables	2.5	3.2	4.7	4.4	3.4	8.3	3.1	6.6	2.6	3.9	5.5	5.3	3.6	3.5	5.1	3.8	2.0	2.5	2.7
—Services	1.9	2.0	3.0	2.9	2.7	2.0	3.8	3.8	1.8	3.4	3.6	2.8	2.3	3.3	3.0	2.8	2.3	2.8	2.7
Business Investment	-9.2	1.3	9.4	8.7	6.8	11.2	4.4	7.9	13.5	11.8	10.4	5.7	8.8	8.5	5.4	7.4	6.4	6.3	5.9
—Structures	-17.1	-4.2	2.2	2.0	2.3	-0.1	1.3	-3.5	8.8	1.4	4.7	-2.0	2.7	2.2	3.3	1.5	3.5	5.0	5.0
—Equipment and Software	-6.2	3.2	11.9	11.0	7.4	15.4	5.5	12.0	15.2	15.5	12.4	8.3	10.9	10.6	6.2	8.0	7.0	6.5	6.0
Housing	4.8	8.4	10.3	7.1	0.7	21.9	11.5	5.2	17.8	2.6	1.6	9.5	10.8	7.3	2.6	-1.0	-5.0	-1.0	0.0
Exports	-2.3	1.8	8.4	7.0	6.0	11.5	19.1	5.0	6.9	5.5	7.1	7.5	10.7	2.5	5.7	7.0	6.0	5.0	7.0
Imports	3.4	4.6	10.7	6.4	6.6	4.1	16.5	12.0	14.5	4.7	11.3	7.4	-0.3	2.4	12.8	9.0	5.0	4.5	4.0
Government	4.4	2.8	2.2	1.8	2.5	0.5	0.5	3.3	2.3	1.8	0.9	1.9	2.5	2.9	-0.7	4.0	2.5	2.8	3.2
—Federal	7.0	6.9	5.2	2.3	3.5	-2.0	3.1	10.7	3.2	3.6	-0.6	2.4	2.4	7.4	-2.6	7.5	2.5	3.2	3.6
—State and Local	3.1	0.6	0.4	1.5	2.2	2.0	-0.9	-0.7	1.8	0.8	1.8	1.6	2.6	0.2	0.4	2.0	2.5	2.5	3.0
Inflation (percent change from preceding period, s.a.a.r.)																			
—GDP deflator	1.7	2.0	2.6	2.8	3.3	1.8	1.9	3.6	3.9	1.5	2.7	3.1	2.6	3.3	3.3	3.6	3.3	3.1	2.8
—PCE deflator	1.4	1.9	2.6	2.8	3.3	2.0	1.3	3.9	3.8	1.5	3.1	2.3	3.3	3.7	2.7	3.2	3.0	3.0	2.8
—PCE (excl. food & fuel) deflator	1.8	1.3	2.0	2.0	2.2	1.5	1.4	2.7	2.5	1.5	2.3	2.4	1.7	1.4	2.1	2.4	2.7	2.3	2.0
Other Indicators (billions of chained [2000] dollars)																			
Real change in Private Inventories	12.5	15.5	52.0	18.4	0.0	9.3	29.0	41.9	65.6	50.4	50.1	58.2	-1.7	-13.3	30.4	30.4	0.0	0.0	0.0
Net Exports	-471.3	-521.4	-601.3	-633.3	-682.7	-516.2	-530.2	-563.0	-601.7	-606.5	-634.1	-645.4	-614.2	-617.5	-656.2	-676.3	-681.6	-687.7	-685.3

Source: BEA and SIA forecast

Securities Industry Income Statement
($ billions)

Annual	2000	2001	2002	2003	2004	2005(e)	2006(f)
NASD-member Firms							
Pre-Tax Profits	10.6	5.6	5.2	7.3	7.0	8.6	8.1
Gross Revenue	85.9	78.4	67.1	68.2	76.5	90.8	98.5
Total Expenses	75.3	72.8	61.9	60.9	69.5	82.2	90.4
Interest Expense	16.7	17.2	8.3	5.1	7.3	15.3	20.3
Total Compensation	23.0	22.1	21.0	22.6	25.3	27.9	29.4
- Base Compensation	15.6	15.2	16.3	15.9	18.0	20.2	21.1
- Variable Compensation	7.4	6.9	4.7	6.7	7.3	7.8	8.2
Revenue Net of Interest Expense	69.2	61.2	58.8	63.1	69.2	75.4	78.2
NYSE-member Firms							
Pre-Tax Profits	21.0	10.4	6.9	16.7	13.7	12.2	13.6
Gross Revenue	245.2	194.8	148.7	144.5	160.2	231.6	272.3
Total Expenses	224.2	184.4	141.8	127.8	146.5	219.4	258.7
Interest Expense	110.5	81.6	48.4	38.2	51.1	119.2	151.8
Total Compensation	69.0	60.6	53.1	54.1	57.9	61.3	65.5
- Base Compensation	46.8	41.6	40.8	39.1	41.3	42.7	45.1
- Variable Compensation	22.2	19.0	12.3	15.0	16.5	18.6	20.4
Revenue Net of Interest Expense	134.7	113.2	100.2	106.3	109.1	112.4	120.5
TOTAL Firms							
Pre-Tax Profits	31.6	16.0	12.1	24.1	20.7	20.9	21.7
Gross Revenue	331.1	273.2	215.7	212.7	236.7	322.4	370.8
Total Expenses	299.5	257.2	203.6	188.7	216.0	301.6	349.1
Interest Expense	127.2	98.8	56.7	43.3	58.4	134.5	172.1
Total Compensation	92.0	82.7	74.1	76.7	83.2	89.2	94.9
- Base Compensation	62.4	56.8	57.1	55.0	59.4	62.9	66.2
- Variable Compensation	29.6	25.9	17.0	21.7	23.8	26.3	28.6
Revenue Net of Interest Expense	203.9	174.3	159.0	169.5	178.3	187.9	198.8

Quarterly	1Q04	2Q04	3Q04	4Q04	1Q05	2Q05	3Q05	4Q05(e)	1Q06(f)	2Q06(f)	3Q06(f)	4Q06(f)
NASD-member Firms												
Pre-Tax Profits	2.5	1.3	1.2	2.1	1.8	2.2	2.2	2.4	1.8	2.1	2.3	2.0
Gross Revenue	19.3	17.9	17.8	21.6	21.2	22.4	23.4	23.9	24.3	24.6	24.7	24.9
Total Expenses	16.7	16.6	16.6	19.6	19.4	20.1	21.2	21.5	22.5	22.5	22.5	23.0
Interest Expense	1.3	1.5	2.0	2.6	3.1	3.6	4.0	4.6	4.9	5.2	5.2	5.0
Total Compensation	6.4	6.1	5.8	7.0	6.9	6.8	7.1	7.2	7.6	7.1	7.0	7.6
- Base Compensation	4.7	4.6	4.1	4.6	4.7	4.9	5.2	5.3	5.5	5.1	5.1	5.5
- Variable Compensation	1.7	1.5	1.7	2.4	2.2	1.8	1.8	1.9	2.1	2.0	2.0	2.1
Revenue Net of Interest Expense	18.0	16.4	15.8	19.1	18.1	18.8	19.3	19.3	19.4	19.4	19.5	19.9
NYSE-member Firms												
Pre-Tax Profits	5.1	1.7	2.2	4.7	2.6	1.7	2.8	5.1	1.6	2.9	3.4	5.8
Gross Revenue	39.4	36.1	37.8	46.9	49.2	53.3	61.1	68.0	68.1	68.0	67.3	68.9
Total Expenses	34.3	34.3	35.6	42.3	46.6	51.6	58.3	62.9	66.5	65.1	64.0	63.2
Interest Expense	9.4	10.2	13.5	17.9	22.1	27.7	33.1	36.3	37.4	38.5	38.5	37.4
Total Compensation	15.7	14.6	12.8	14.7	15.1	13.5	15.8	16.9	18.4	15.5	15.7	15.9
- Base Compensation	10.0	9.9	10.1	11.3	10.3	9.9	10.8	11.8	12.9	10.5	10.5	11.1
- Variable Compensation	5.7	4.7	2.7	3.4	4.8	3.6	5.1	5.1	5.5	5.0	5.2	4.8
Revenue Net of Interest Expense	30.1	25.8	24.2	29.0	27.1	25.6	28.0	31.7	30.7	29.5	28.8	31.6
TOTAL Firms												
Pre-Tax Profits	7.6	3.0	3.4	6.8	4.4	4.0	5.0	7.5	3.4	5.0	5.6	7.7
Gross Revenue	58.7	53.9	55.5	68.6	70.4	75.7	84.5	91.9	92.4	92.6	92.0	93.9
Total Expenses	51.1	50.9	52.1	61.8	66.0	71.7	79.5	84.4	89.0	87.6	86.4	86.1
Interest Expense	10.7	11.7	15.5	20.5	25.2	31.3	37.1	40.9	42.3	43.7	43.7	42.4
Total Compensation	22.2	20.7	18.6	21.7	22.0	20.3	22.9	24.1	26.0	22.6	22.7	23.5
- Base Compensation	14.7	14.5	14.2	16.0	15.0	14.8	16.0	17.1	18.4	15.7	15.6	16.6
- Variable Compensation	7.5	6.2	4.4	5.7	7.0	5.5	6.9	7.0	7.6	7.0	7.2	6.9
Revenue Net of Interest Expense	48.0	42.2	40.0	48.1	45.2	44.4	47.4	50.9	50.1	48.9	48.3	51.5

(e) = estimate
(f) = forecast

Source: SIA DataBank and forecasts

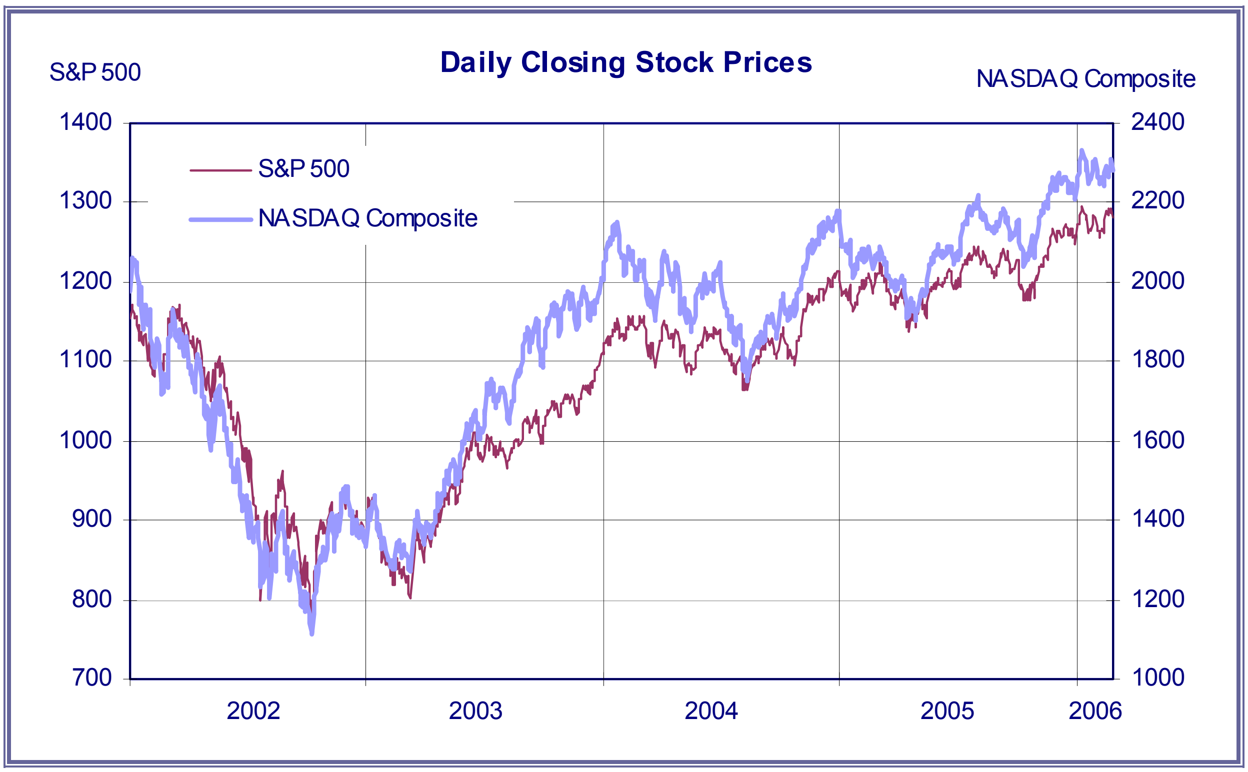
Subtotals may not add to totals due to independent rounding.

MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

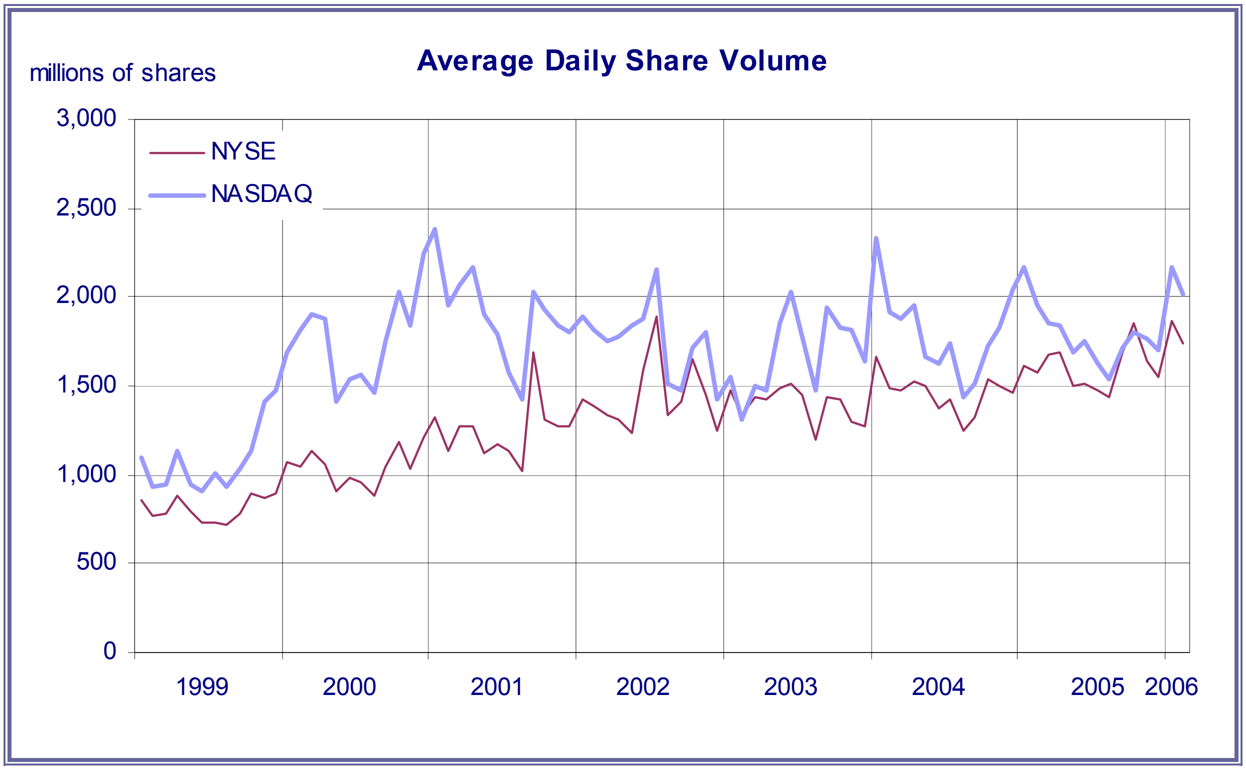
Stock Prices – U.S. stock market performance was mixed in February. The Dow Jones Industrial Average, after closing above the 11,000 mark for the first time since June 2001 on January 9th, fell back below that level and under-performed its peers until February 14th. On that day, the major indices jumped 1% on news that retail sales in January were much stronger than expected, and crude oil prices dropped to under $60 a barrel for the first time this year. Stock prices fluctuated throughout the remainder of the month in reaction to mixed earnings reports and conflicting economic signals.

For the month overall, the DJIA gained 1.2% to close at 10,993.41, and the S&P 500 rose less than 0.1% to 1,280.66. Meanwhile, the technology-focused NASDAQ Composite Index slipped 1.1% in February to finish at 2,281.39. Nonetheless, all three major market gauges remained in positive territory for the year-to-date, with the DJIA and S&P 500 both advancing 2.6%, and the NASDAQ Composite increasing 3.4%.



Share Volume – Trading activity on the major U.S. equity markets subsided in February from January's robust pace yet remained strong. After rebounding 20% in January from weak December levels, average daily share volume on the New York Stock Exchange fell 7.0% to 1.74 billion in February. NASDAQ volume followed a similar pattern, falling 7.4% in February to 2.01 billion following a 27% surge to 2.17 billion in January.

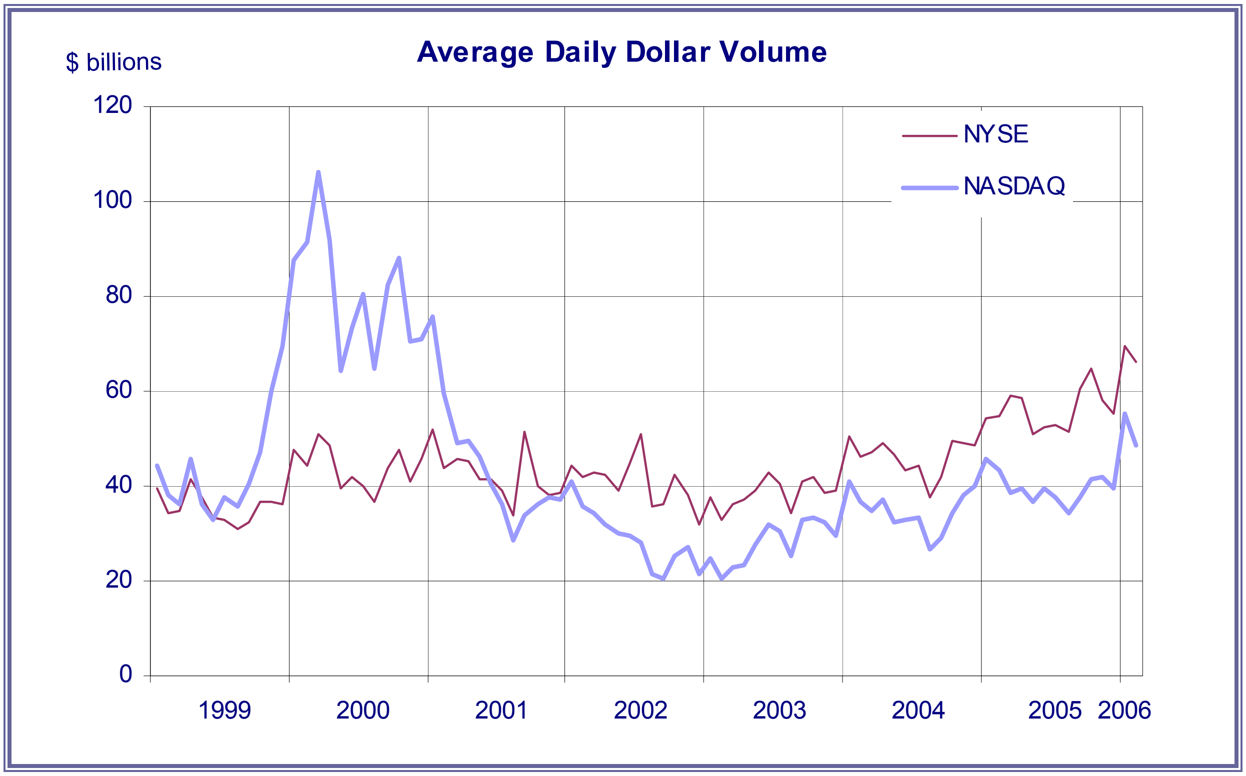
Although down in February, share volume through the first two months of 2006 remained above levels reached in the same period last year. Year-to-date NYSE average daily share volume was up 12.8% to 1.80 billion from 1.60 billion in the same year-earlier period. On NASDAQ, average daily volume increased 1.5% to 2.09 billion from 2.06 billion last year.

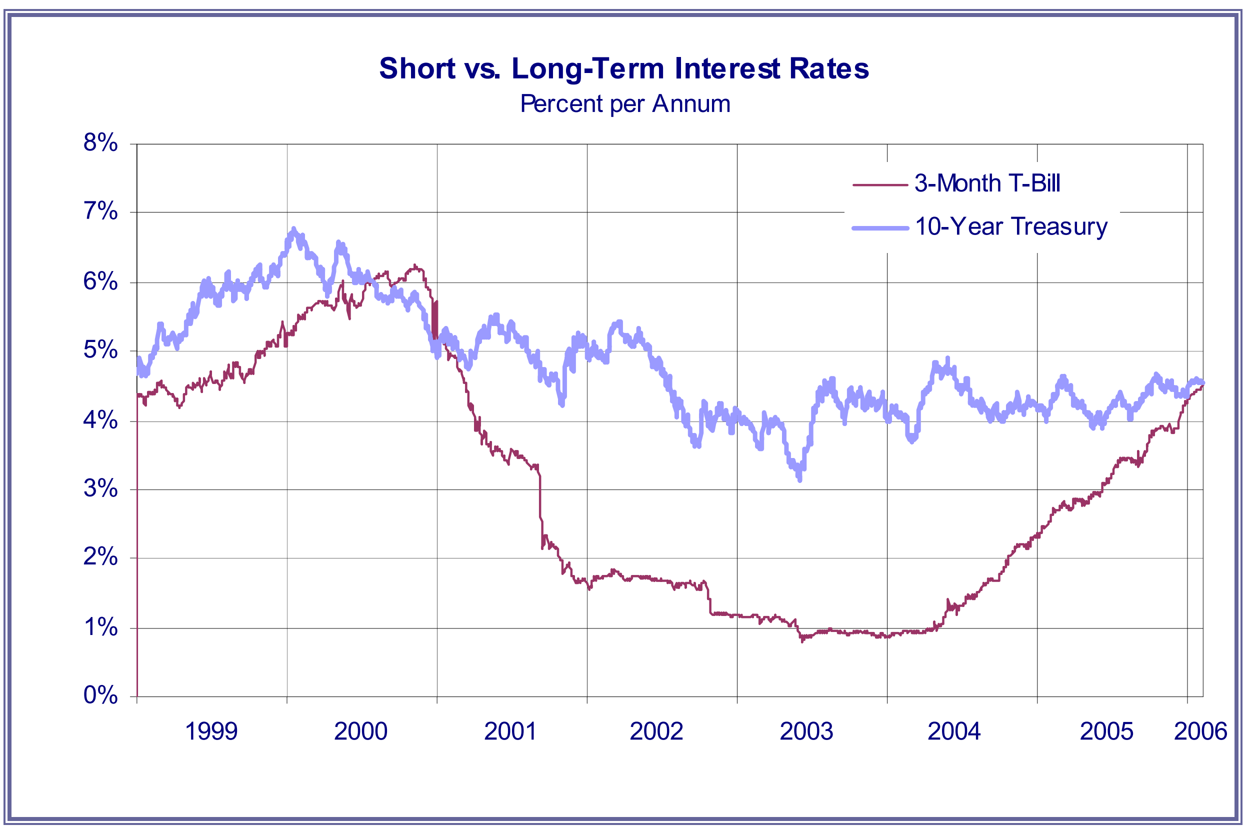


Dollar Volume – Curtailed trading activity and lower stock prices in February lowered the value of trading on both the NYSE and NASDAQ. NYSE average daily dollar volume declined 4.9% from a record $69.4 billion in January to $66.0 billion in February, the second best monthly showing ever. That brought the year-to-date average to $67.7 billion, 24.8% above the $54.3 billion in the first two months of 2005.

NASDAQ average daily dollar volume slid 11.3% in February to $48.8 billon from a five-year high of $55.0 billion in January. Even so, the value of trading in NASDAQ stocks year-to-date is running 17.1% ahead of last year's pace, averaging $52.0 billion daily versus $44.4 billion in 2005.

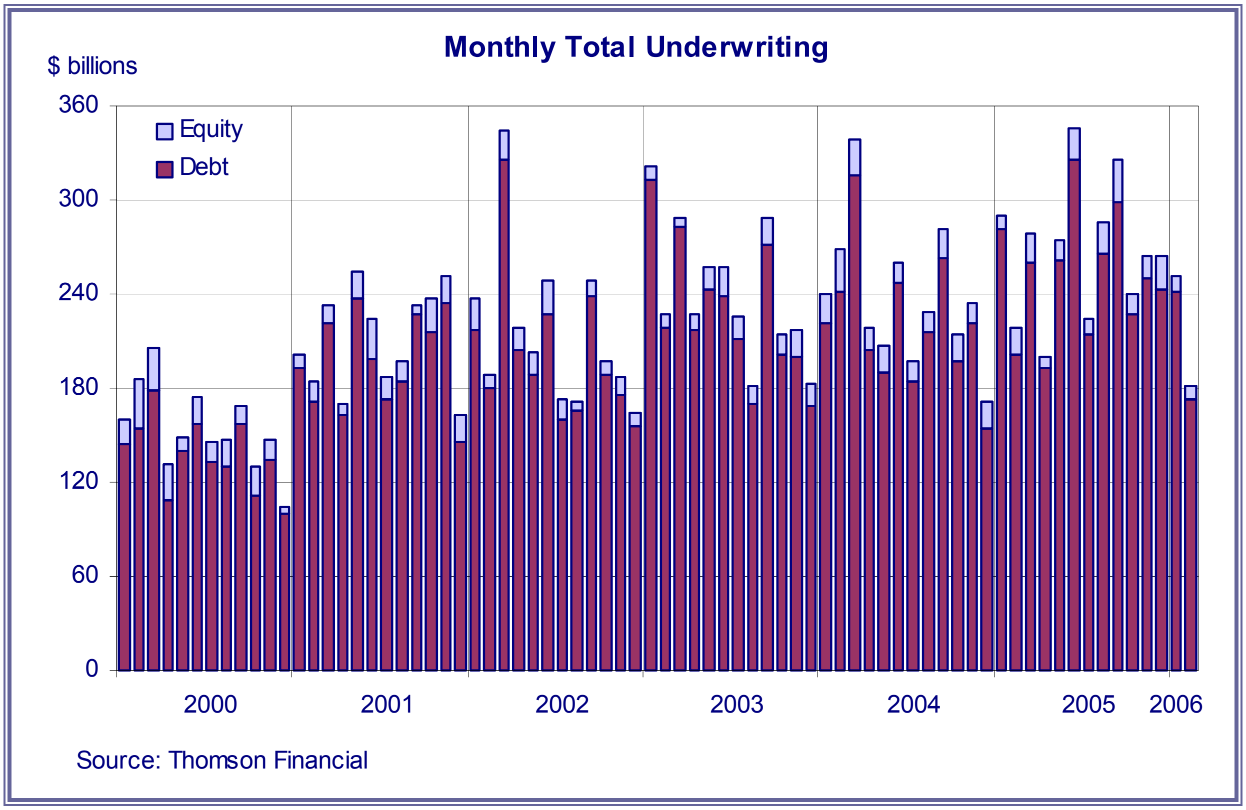
Interest Rates – The bond market struggled in February amid conflicting signs of the economy's health and the growing likelihood that the Federal Reserve will raise the Fed Funds rate to 4.75% from 4.50% in late March and again to 5% in May. In his first Congressional testimony on February 15, new Federal Reserve Chairman Ben Bernanke commented that further rate hikes may be necessary as the risk of higher inflation persists, and that future monetary policy moves will depend on incoming economic data. The yield on the 10-year Treasury, which ended January at 4.53%, climbed to a three-month high of 4.62% in mid-February before falling back to 4.55% by month-end. Meanwhile, the yield on three-month T-bills climbed to a near five-year high of 4.51% at February's close, up from 4.37% the previous month. The yield spread between three-month and 10-year Treasuries has now narrowed to just 4 basis points, compared with 164 basis points a year ago.


Average Daily Dollar Volume
$ billions
120
100
80
60
40
20
0
1999
2000
2001
2002
2003
2004
2005
2006
NYSE
NASDAQ


Short vs. Long-Term Interest Rates
Percent per Annum
8%
7%
6%
5%
4%
3%
2%
1%
0%
1999
2000
2001
2002
2003
2004
2005
2006
3-Month T-Bill
10-Year Treasury

U.S. Underwriting Activity

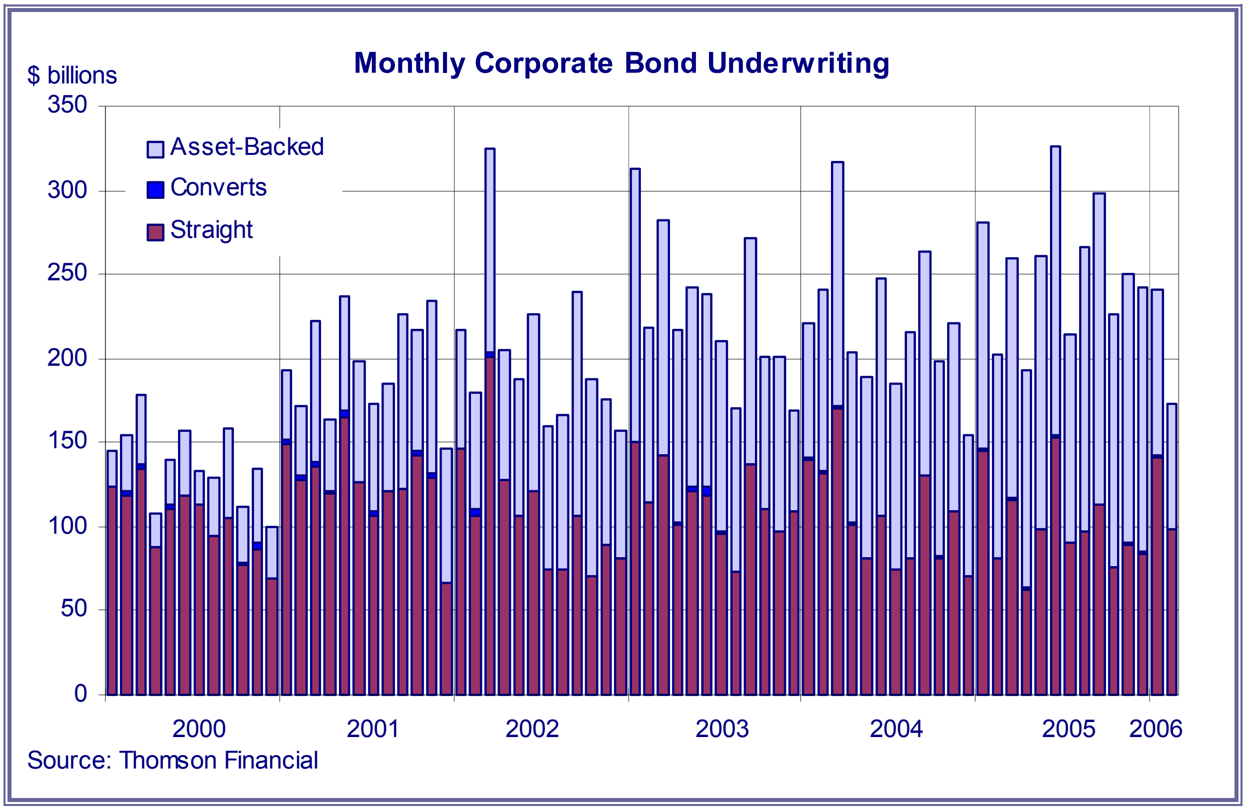
Both debt and equity issuance in the U.S. market declined in February, reflecting a rising interest rate environment and lackluster stock market performance. New securities issuance dropped 27.7% from January's level to $181.7 billion in February, making it the slowest month since December 2004. For the year-to-date, underwriting activity totaled $433.1 billion, down 14.8% from $508.3 billion in last year's comparable period.

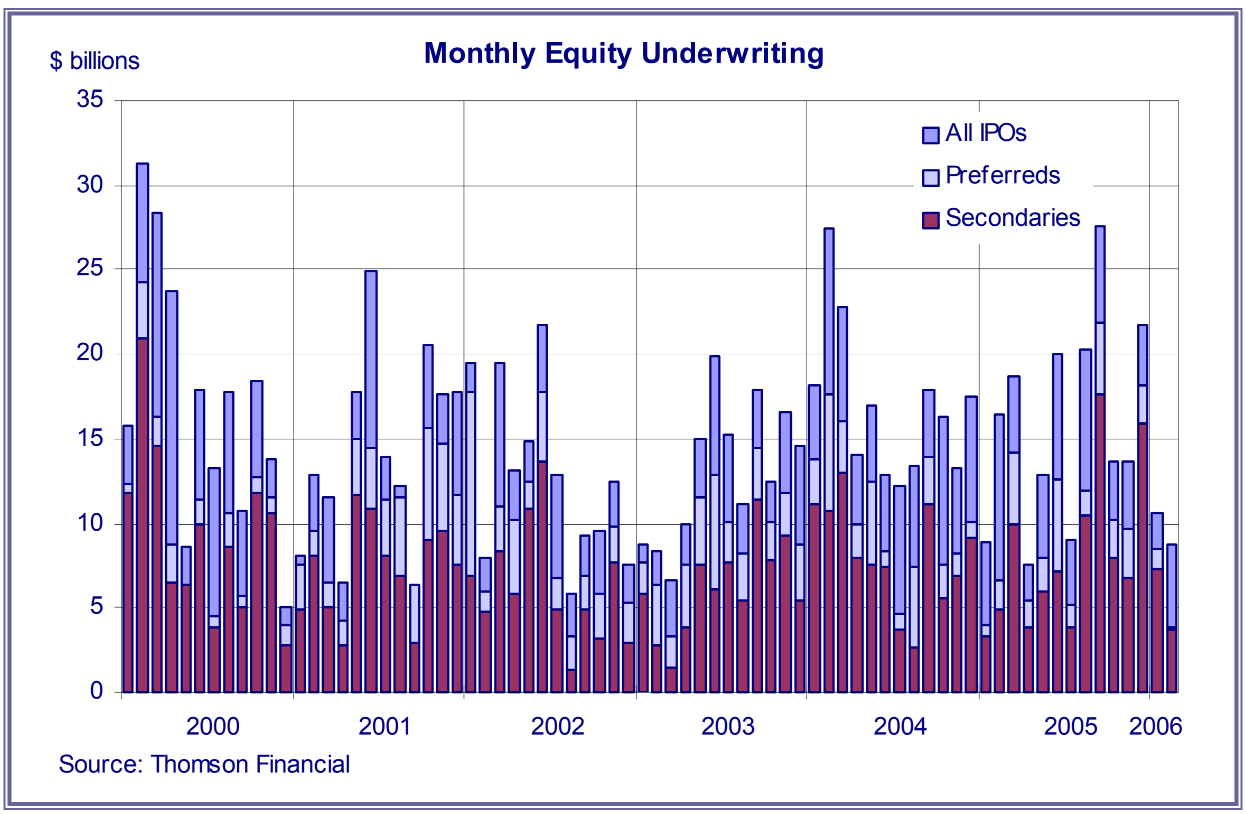


Corporate Bond Underwriting – Total corporate bond underwriting activity decreased 28.2% sequentially to $173.0 billion in February. That marked its third consecutive monthly decline and its lowest level since December 2004. Through the first two months of 2005, corporate bond issuance totaled $413.8 billion, 14.3% below the $483.0 billion issued during the same period last year.

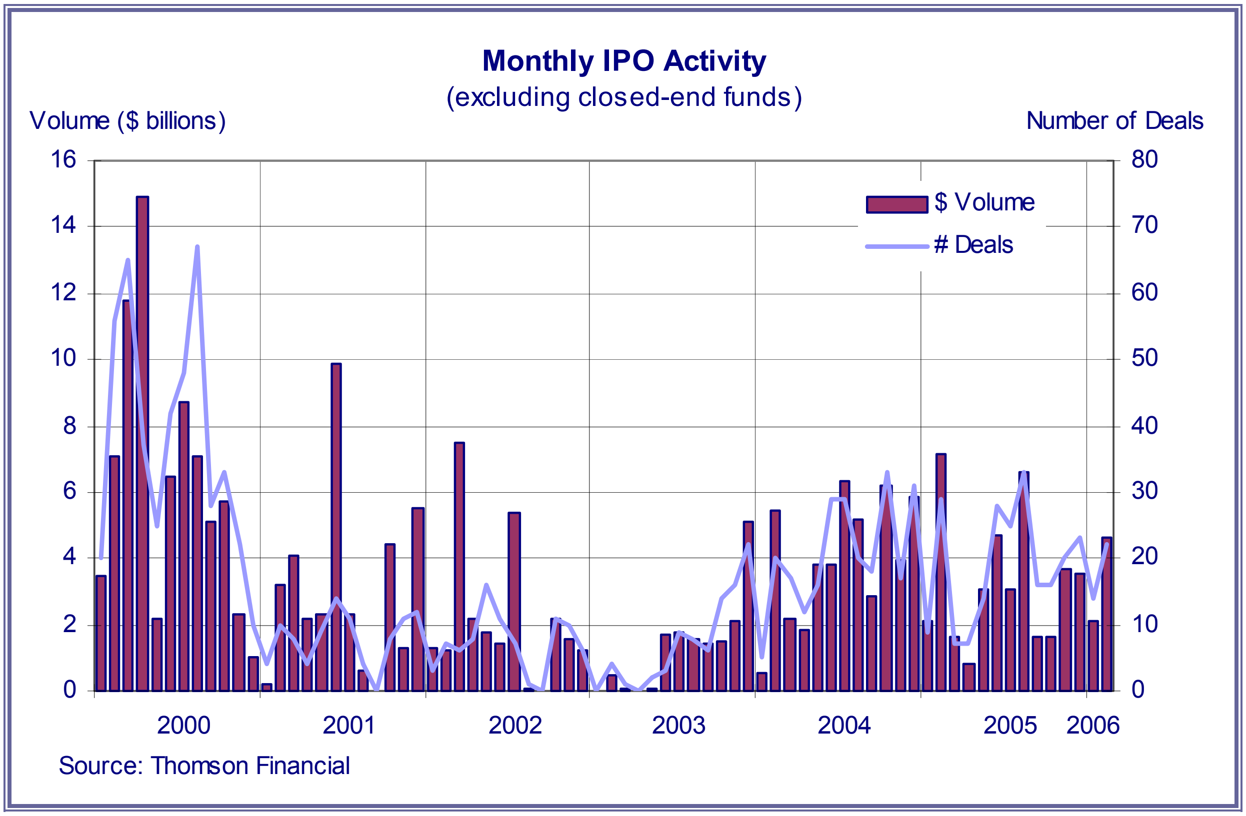
Asset-backed debt offerings declined 23.1% from January's level to $75.2 billion in February, and issuance year-to-date of $172.9 billion is 32.6% below the amount issued during last year's comparable period. Straight corporate debt underwriting sank 30.8% in February from the prior month, but activity year-to-date of $239.2 billion is still 5.8% above last year's results.

Equity Underwriting – Overall issuance of common and preferred stock declined 17.9% from $10.6 billion in January to a 10-month low of $8.7 billion in February. That dragged the year-to-date total down to $19.4 billion, 23.6% below the $25.3 billion raised in the same period a year ago.


Monthly Corporate Bond Underwriting
$ billions
350
300
250
200
150
100
50
0
Asset-Backed
Converts
Straight
2000
2001
2002
2003
2004
2005
2006
Source: Thomson Financial

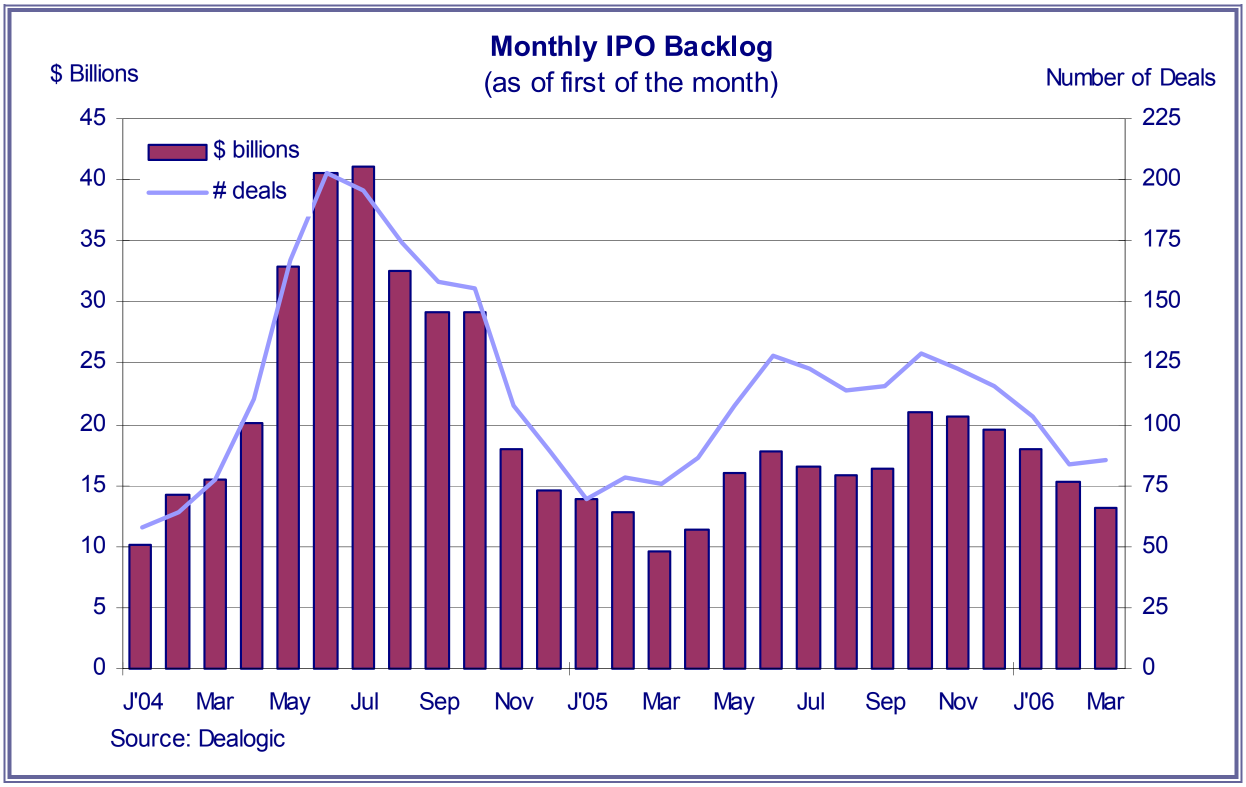

Monthly Equity Underwriting
$ billions
35
30
25
20
15
10
5
0
All IPOs
Preferreds
Secondaries
2000
2001
2002
2003
2004
2005
2006
Source: Thomson Financial

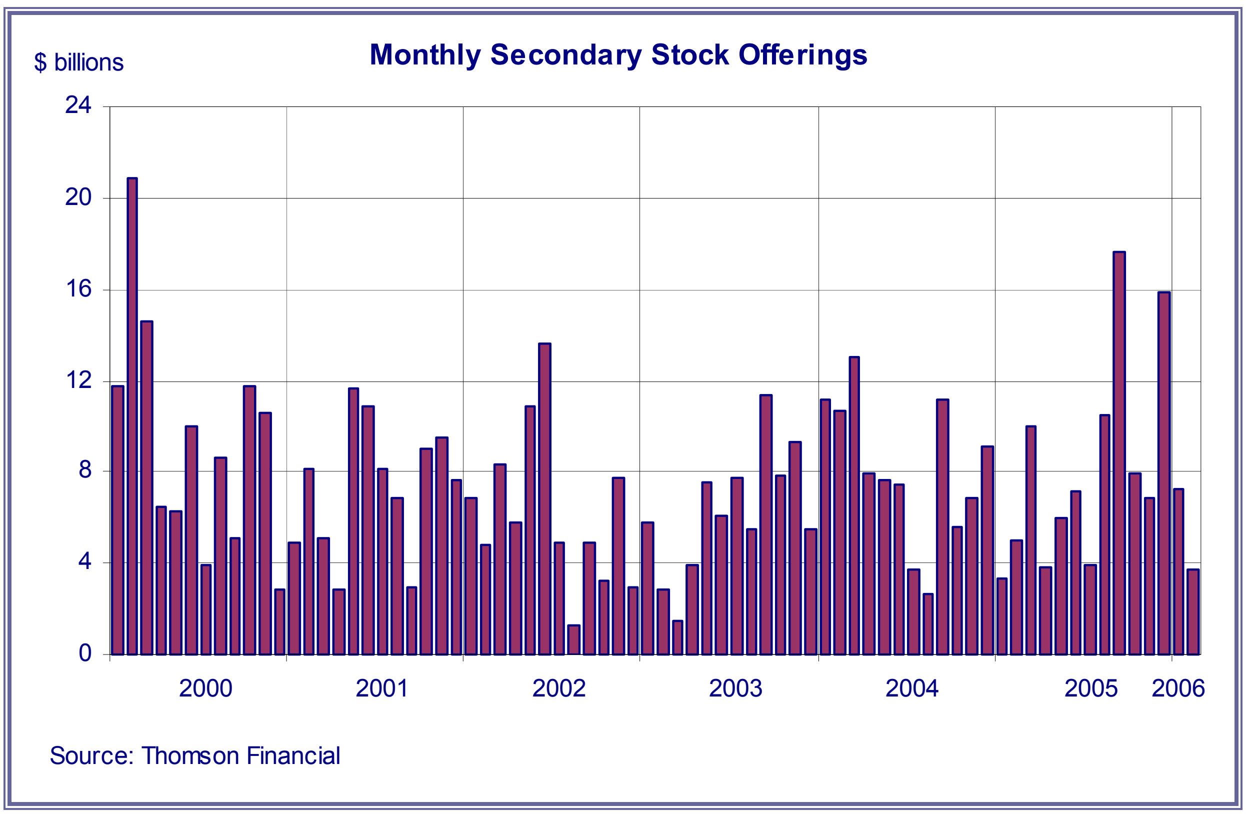
Initial Public Offerings (IPOs) – U.S. IPO activity increased sharply in February, more than doubling to $4.6 billion in February from $2.1 billion in January. That represented its best monthly showing in six months. Despite February's increase, IPO activity year-to-date is running 26.5% behind last year's level, totaling nearly $6.8 billion compared with $9.2 billion in the first two months of 2005.



The backlog of filed U.S. IPOs fell to $13.1 billion at the beginning of March from $15.3 billion the prior month, yet remains above the backlog of $9.6 billion in the same period last year. While activity is expected to slow in March, as it typically does, the strong aftermarket performance of this year's IPOs should lead to a more active IPO market going forward.

Secondary common stock issuance tumbled 48.6% from January's level to $3.7 billion in February. Even so, issuance year-to-date, at $11.0 billion, is 32.5% higher than the $8.3 billion issued in the same period last year.





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
2005	1,205.4	6.3	1,808.6	3,020.3	160.5	29.9	190.4	62.6	39.6	97.8	3,210.7
<u>2005</u>											
Jan	145.6	0.2	135.5	281.3	8.2	0.7	8.9	4.9	2.1	3.3	290.2
Feb	80.5	0.0	121.2	201.7	14.8	1.7	16.4	9.8	7.1	5.0	218.2
Mar	116.0	0.5	142.8	259.3	14.4	4.3	18.7	4.4	1.6	10.0	278.0
Apr	62.5	0.8	129.3	192.5	6.0	1.6	7.6	2.2	0.8	3.8	200.2
May	98.9	0.0	162.5	261.4	10.8	2.0	12.8	4.9	3.0	6.0	274.2
June	152.5	2.0	171.4	325.9	14.5	5.5	20.0	7.3	4.7	7.1	345.9
July	90.9	0.0	123.8	214.7	7.8	1.3	9.1	3.9	3.1	3.9	223.8
Aug	97.3	0.0	168.3	265.6	18.8	1.4	20.2	8.3	6.6	10.5	285.8
Sept	112.8	0.0	185.2	298.0	23.4	4.2	27.6	5.8	1.6	17.6	325.7
Oct	75.9	0.0	150.8	226.7	11.4	2.2	13.7	3.5	1.7	7.9	240.4
Nov	88.9	1.6	159.7	250.3	10.8	2.8	13.6	4.0	3.7	6.8	263.9
Dec	83.5	1.2	158.0	242.8	19.5	2.2	21.7	3.6	3.6	15.9	264.5
<u>2006</u>											
Jan	141.4	1.6	97.8	240.8	9.4	1.2	10.6	2.1	2.1	7.2	251.4
Feb	97.8	0.0	75.2	173.0	8.6	0.2	8.7	4.8	4.6	3.7	181.7
YTD '05	226.1	0.2	256.7	483.0	23.0	2.3	25.3	14.7	9.2	8.3	508.3
YTD '06	239.2	1.6	172.9	413.8	18.0	1.4	19.4	7.0	6.8	11.0	433.1
% Change	5.8%	712.8%	-32.6%	-14.3%	-21.8%	-40.9%	-23.6%	-52.5%	-26.5%	32.5%	-14.8%

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
2005	20.5	240.9	261.4	55.9	89.1	145.0	406.4	3.15	4.29	1.15
2005										
Jan	1.0	11.7	12.7	3.6	6.6	10.2	22.8	2.33	4.22	1.89
Feb	1.5	15.6	17.1	4.5	9.2	13.6	30.7	2.54	4.17	1.63
Mar	1.2	24.1	25.3	7.2	12.5	19.7	45.0	2.74	4.50	1.76
Apr	1.9	16.4	18.2	5.1	7.9	13.0	31.3	2.76	4.34	1.58
May	1.3	20.8	22.1	4.1	9.5	13.6	35.7	2.84	4.14	1.30
June	2.4	25.2	27.6	7.1	9.4	16.5	44.1	2.97	4.00	1.03
July	1.5	21.8	23.3	3.8	6.8	10.5	33.8	3.22	4.18	0.96
Aug	1.3	21.7	23.0	4.3	6.8	11.1	34.1	3.44	4.26	0.82
Sept	2.5	17.2	19.7	4.9	6.7	11.7	31.4	3.42	4.20	0.78
Oct	2.9	18.8	21.7	2.4	3.4	5.8	27.4	3.71	4.46	0.75
Nov	2.3	26.1	28.4	5.1	5.1	10.3	38.7	3.88	4.54	0.66
Dec	0.8	21.5	22.3	3.8	5.2	9.0	31.3	3.89	4.47	0.58
2006										
Jan	0.8	11.4	12.2	3.4	3.9	7.3	19.5	4.24	4.42	0.18
Feb	1.5	12.0	13.6	3.1	6.1	9.2	22.8	4.43	4.57	0.14
YTD '05	2.5	27.3	29.8	8.0	15.7	23.8	53.5	2.44	4.20	1.76
YTD '06	2.3	23.5	25.8	6.5	10.0	16.5	42.3	4.34	4.50	0.16
% Change	-5.5%	-14.0%	-13.3%	-19.5%	-36.2%	-30.6%	-21.0%	78.0%	7.2%	-90.9%

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	66.0	1,801.3	46.1	34.6
2005	10,717.50	1,248.29	7,753.95	2,205.32	1,602.2	63.5	1,778.5	56.1	39.5
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
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
Sept	10,568.70	1,228.81	7,632.98	2,151.69	1,683.0	70.5	1,716.5	60.6	37.5
Oct	10,440.07	1,207.01	7,433.12	2,120.30	1,846.7	72.7	1,796.3	64.6	41.7
Nov	10,805.87	1,249.48	7,645.28	2,232.82	1,641.7	64.6	1,768.3	58.3	41.9
Dec	10,717.50	1,248.29	7,753.95	2,205.32	1,553.5	69.6	1,704.4	55.2	39.6
2006									
Jan	10,864.86	1,280.08	8,106.55	2,305.82	1,867.6	81.4	2,170.7	69.4	55.0
Feb	10,993.41	1,280.66	8,060.61	2,281.39	1,737.0	77.4	2,014.0	66.0	48.8
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
YTD '06	10,993.41	1,280.66	8,060.61	2,281.39	1,804.0	79.5	2,094.3	67.7	52.0
% Change	2.1%	6.4%	10.1%	11.2%	12.8%	26.9%	1.5%	24.8%	17.1%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	Assets: Equity	Assets: Hybrid	Assets: Bond	Assets: Money Market	Assets: **TOTAL ASSETS**	Cash Flow: Equity	Cash Flow: Hybrid	Cash Flow: Bond	Cash Flow: Money Market	Cash Flow: **TOTAL**	Cash Flow: 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	4,384.0	519.3	1,290.4	1,913.2	8,106.9	177.9	42.7	-10.8	-156.6	53.2	209.8
2005	4,940.0	567.3	1,357.4	2,040.5	8,905.2	135.5	25.2	31.3	63.1	255.2	192.0
2005											
Jan	4,288.7	515.7	1,302.6	1,892.5	7,999.5	10.1	5.0	4.7	-27.5	-7.8	19.7
Feb	4,416.3	528.9	1,305.3	1,875.3	8,125.8	22.1	4.4	2.6	-19.3	9.8	29.1
Mar	4,349.6	525.4	1,295.7	1,875.7	8,046.4	15.3	3.9	-1.3	-2.2	15.7	17.9
Apr	4,246.8	522.6	1,306.8	1,841.3	7,917.6	8.5	2.6	1.2	-36.7	-24.4	12.3
May	4,407.3	534.7	1,323.4	1,858.4	8,123.7	11.8	2.2	4.0	14.5	32.5	18.0
June	4,472.1	543.9	1,336.4	1,865.4	8,217.7	6.3	2.0	4.1	3.0	15.4	12.4
July	4,670.3	554.6	1,339.4	1,883.9	8,448.3	9.9	1.4	7.4	13.9	32.5	18.6
Aug	4,678.6	557.5	1,360.6	1,922.9	8,519.7	6.4	1.8	7.4	32.5	48.0	15.5
Sept	4,759.5	560.8	1,356.3	1,912.6	8,589.2	7.8	1.3	3.8	-13.4	-0.4	13.0
Oct	4,664.3	552.0	1,344.7	1,936.5	8,497.5	6.5	0.9	0.6	21.2	29.2	8.0
Nov	4,863.6	562.7	1,349.2	1,991.1	8,766.6	21.0	0.5	-0.3	30.3	51.5	21.2
Dec	4,940.0	567.3	1,357.4	2,040.5	8,905.2	9.8	-0.8	-2.8	47.0	53.2	6.2
2006											
Jan	5,195.9	581.2	1,374.7	2,040.8	9,192.6	31.8	-0.1	8.1	-3.9	35.9	39.8
YTD '05	4,288.7	515.7	1,302.6	1,892.5	7,999.5	10.1	5.0	4.7	-27.5	-7.8	19.7
YTD '06	5,195.9	581.2	1,374.7	2,040.8	9,192.6	31.8	-0.1	8.1	-3.9	35.9	39.8
% Change	21.2%	12.7%	5.5%	7.8%	14.9%	214.6%	-102.2%	73.9%	NM	NM	101.7%

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

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