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The Past as Prologue: This Time It Really Is Different

Two and one-half years into a severe cyclical downturn, clear evidence of a turnaround in the U.S. securities industry is still largely absent, although some hopeful signs have appeared. Wall Street's recovery will depend on a rebound in both business investment spending and a restoration in investor confidence, both of which surged to atypical and unsustainable levels in the 1990's boom before sliding to uncommonly depressed levels in the current slump. Any realistic appraisal of prospects must first recognize that the forces driving last year's relatively mild U.S. recession, like the boom that preceded it and the recovery that has followed it are not typical of post WWII business cycles. Thankfully, while "bubbles" have formed in the past, they remain rare. The current recovery does bear some similarities to the last expansion, the "jobless recovery" of the early 1990's, but glaring differences exist which have delayed, and likely will continue to delay a sustained recovery and to limit its strength when it does arrive.

Selected Economic Indicators During the Initial Stage of a Recovery[1]
(Average percentage change during the first four quarters of U.S. expansions)

	Current Expansion[2]	Last Expansion[3]	Previous Five Expansions
Real GDP	2.2	2.3	4.8
Private Consumption	3.1	2.5	4.7
Business Investment	-5.9	-2.0	4.4
Residential Construction	2.9	14.5	25.0
Corporate Profits	-2.5	12.3	26.7
Inflation (CPI-Urban)	1.6	2.9	5.2
Employment (Non-agricultural)	-1.0	-0.4	1.7
S&P 500 Index	-16.5	17.3	22.1
Federal Funds Rate	1.7	5.1	7.9
"Real" Federal Funds Rate	0.1	2.3	2.7

[1] Various sources were used in compiling this table, with calculations prepared by the NYS Division of the Budget and SIA Research. SIA Research provided estimates and forecasts for 2002.

[2] Current expansion began in Q1 2002 and includes actual figures for the first two quarters of this year, along with SIA estimates for Q3 2002 and forecasts for Q4 2002.

[3] 1990-91

The first obvious difference is that a ***relatively narrow base of activity is sustaining the current recovery***. The expansion is being supported almost solely by the growth of consumer spending and the housing sector. Growth in both these areas is expected to slow in the near term, given relatively high levels of debt in the household sector, slowing personal income growth and a lack of pent-up demand. For example, real consumer spending, which grew at an estimated 4.5% annualized rate in Q3 2002, was led by a jump in incentive-induced light vehicle sales and funded by an unprecedented $200 billion net withdrawal of equity in their homes.[4] Had this cash that was withdrawn from the liquidation of household equity found its way into other forms of investment, the increased leverage of already heavily indebted households would not have been so worrisome. Instead, it appears, in net terms, that it was used to sustain current consumption. This, in a sense, is "mortgaging the future" and is not seen as a sustainable trend.

The strength in consumer spending in Q3 2002 was concentrated almost solely in the months of July and August. The weakness in retail sales that was evident in September appears to have persisted in October, and the softness in commercial real estate market may be spreading to the residential sector. There is little job growth, hours worked remain weak after having declined in six consecutive quarters, wage gains have decelerated markedly and consumer confidence has declined in each of the past five months. In the current quarter, real consumer spending growth is expected to slow to 1.5%, while residential construction activity is forecast to fall by a like amount.

The next glaring difference between 2002 and previous recoveries is ***the absence of a rebound in corporate profitability***. While profit growth has resumed, it is expected to grow in nominal terms at only a 7%-8% annual rate. Demand for capital goods has yet to revive and absent "pricing power" and "top-line" revenue growth, profits in many industries have been sustained largely, if not solely, through cost cutting. While such a business strategy may sustain profitability and boost productivity in the short term for individual firms that aggressively pursue it, it tends to depress the prospects for the economy as a whole. This also highlights another significant difference: the absence of job growth as the recovery advances. Thus far, this recovery appears to be both "jobless" and "profitless".

The bleak outlook for financial markets also distinguishes the current expansion from earlier recoveries. The recent rally in equity prices from multi-year lows is viewed as more of a "technical" rather than a "fundamental" rebound by most analysts. Retail investor participation rates, reflected in both reduced customer account balances and activity levels and the absence of net inflows into equity mutual funds, are symptomatic of depressed investor sentiment. Although surveys indicate a slight improvement in investor sentiment in the past two months and the net flow into equity markets appears to be improving, there is still a long way to go. Net outflows from equity funds reached a record $52.6 billion in July before slowing to $2.9 billion in August. Preliminary estimates indicate net outflows continued in September.

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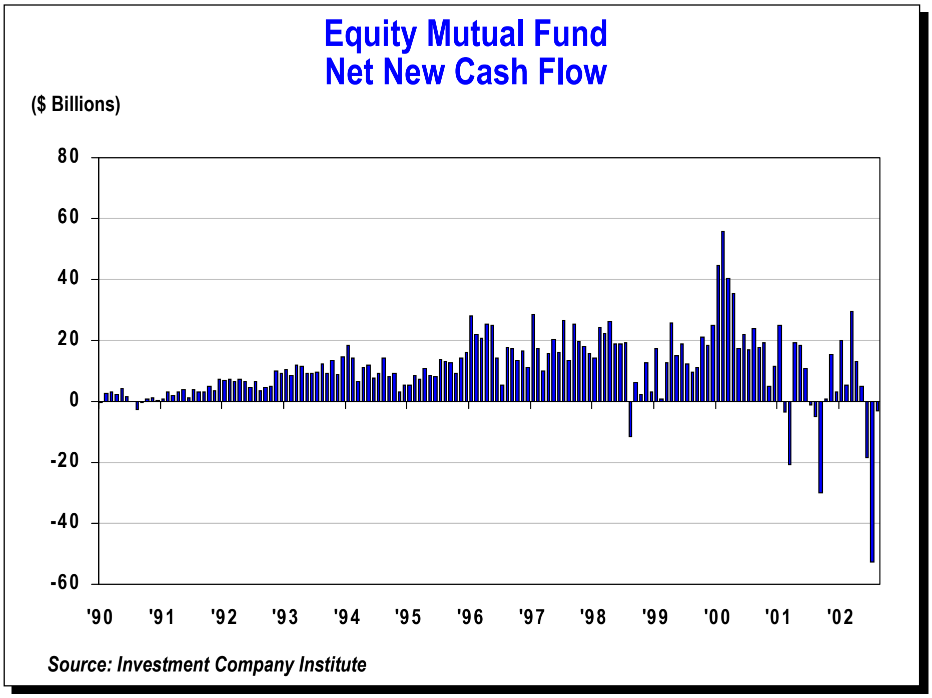
[4] Estimate provided by Goldman Sachs (Jan Haztius, Global Economic Research Paper #83, October 2002) based on the Federal Reserve's definition of "Mortgage Equity Withdrawal" which includes cash-out refinancing, home sales and home equity loans.



Any sustained rally in equity markets must be accompanied by: at least a partial restoration in public trust and confidence, which is believed to be at its lowest level in decades in response to corporate governance scandals; reduced uncertainty engendered by fear of another major terrorist attack and the possibility of war with Iraq; some renewal of faith in forecasts of a revival of corporate profit growth; more reasonable valuations in equity markets, which remain high by most measures, and; the absorption of the lagged impact (both real and psychological) of the substantial losses experienced by investors over the past two and one-half years.

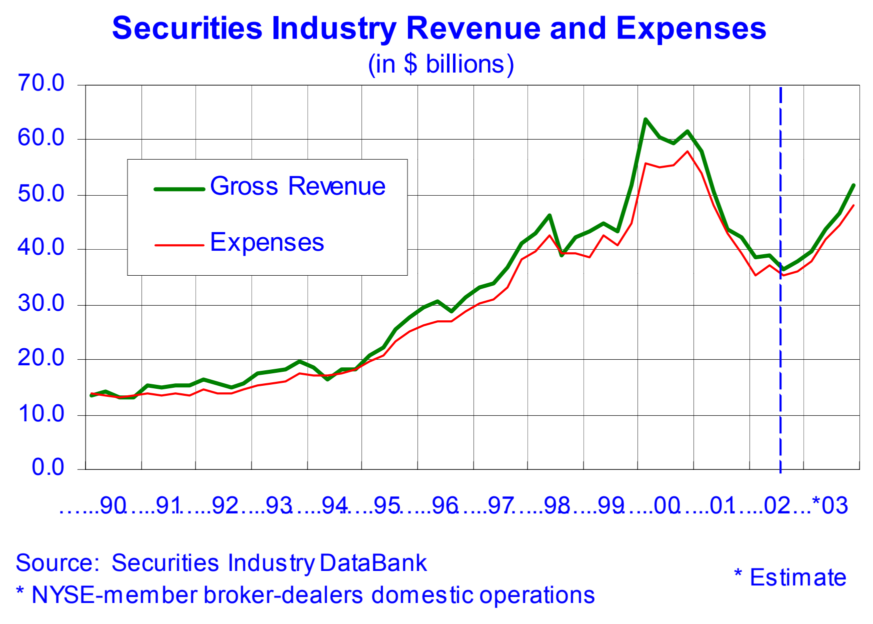
Amelioration of some of these factors is already underway. For example, implementation of the provisions of the Sarbanes-Oxley Act (including creation of the Public Company Accounting Oversight Board), changes in accounting practices now being considered by the Financial Accounting Standards Board and a resolution of problems associated with securities analysts and IPO allocation practices are moving forward. When completed these reforms will, it is hoped, substantially aid public trust and confidence and help revive individual investor interest in equity investing.

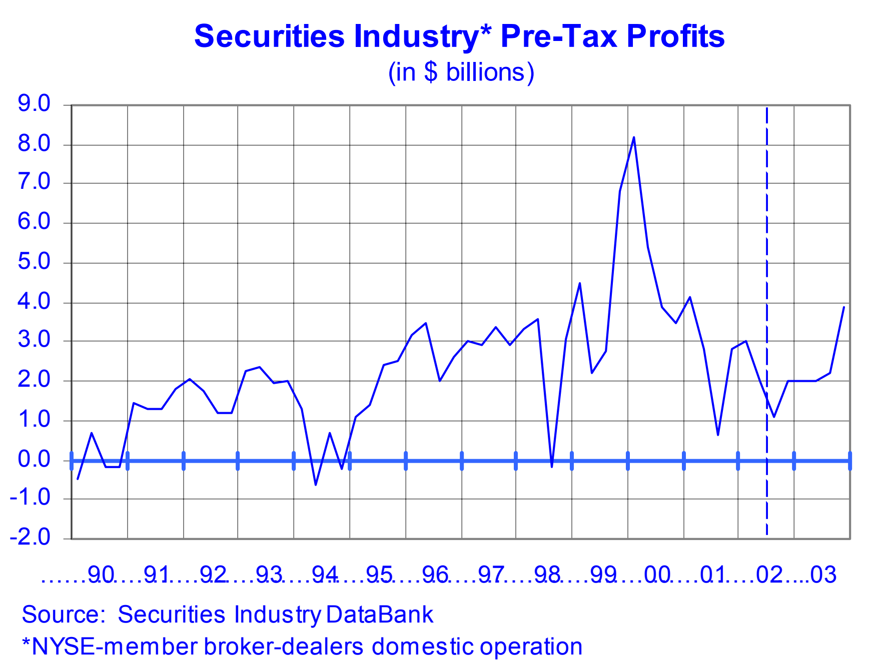
The interest rate environment also distinguishes this recovery. Thanks to low inflation and little if any signs of inflationary pressures, the Federal Reserve has been able to keep interest rates at historically low levels in both nominal and real terms. This, along with timely fiscal stimulus provided by last year's tax cuts, has helped to sustain the recovery. Currently, Fed Funds futures rates indicate that the majority of market participants don't anticipate a cut in rates in Q4 2002, but believe that there is a 90% chance of at least a 25 basis point cut in Q1 2003. Most analysts expect a 50 basis point cut in the Federal Funds rate if the economy shows signs of slumping again (the dreaded "double-dip" recession). Unfortunately, the impact of such a move would be more muted than cuts of comparable magnitude that occurred earlier in the current easing cycle. Indeed, some analysts believe further interest rate cuts could prove counter-productive, as risk aversion could rise with the perceived threat of another recession and awaken fears of a debt/deflation trap despite evidence to the contrary.

Securities Industry Outlook: Finding a Bottom

Unlike previous recoveries, financial markets' performance, and securities industry performance that is dependent upon it, is lagging rather than leading the upturn in the economy as a whole. As investor sentiment and equity prices have plunged from Q1 2000 levels, so too have securities industry gross revenues, which in Q3 2002 were down 43% from the record quarterly levels set two and one-half years earlier. Profitability, though dramatically reduced, has persisted as securities firms cut total expenses by 37% over the same period. Even so, industry profits fell in Q3 2002 to just $1.1 billion on domestic operations and $2.9 billion on global operations.

As cost cutting measures continue, with announcement of yet another round of layoffs as the current quarter opened, opportunities for further expense reductions become more limited, more painful and more harmful to the long term competitive position of those firms forced to take the deepest cuts. Quarterly compensation and benefit costs are expected to decline further in the current quarter, reflecting reduced headcount and sharp reductions in variable compensation. Total compensation for 2002 as a whole is expected to be nearly 12% below the peak level reach two years ago. This is despite double-digit growth in employee benefit costs, as industry employment, already down 7.8% from the peak in 2000, falls further this year and variable compensation, which dropped 14% last year, is cut another 32% in 2002.

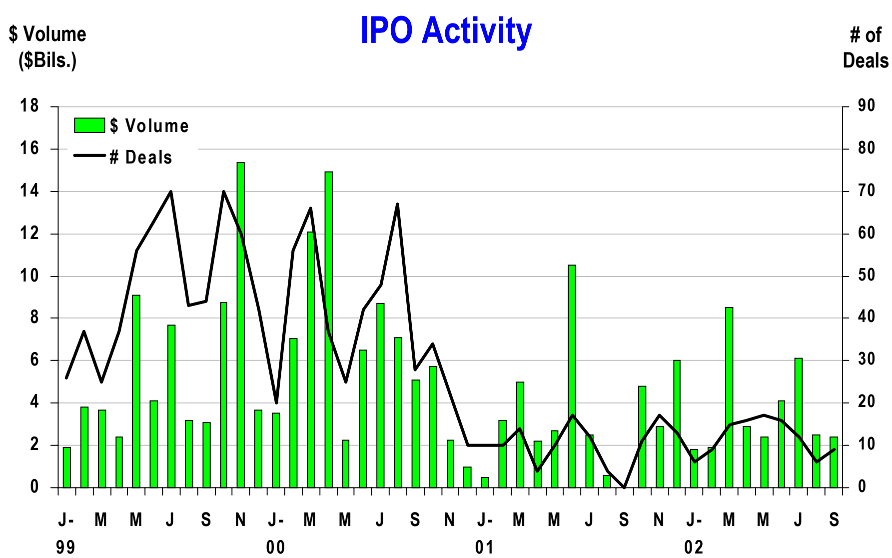




However, there are reasons to hope that the industry may be reaching the trough of the current cycle. The outlook for revenues appears to be improving somewhat as 2002 comes to a close and a gradual recovery in both gross and net income for the industry is expect to begin in Q4 2002, and continue across the course of 2003. Gross revenues are forecast to fall to $151.8 billion this year, 22.1% below last year and 38.1% less than the record year of 2000. In 2003, revenues are expected to retrace some of these declines, rebounding 20% from this year's results. A brief examination of the prospects for individual revenue lines is briefly set forth below.

Investment, and hence primary (capital) market activity, is unlikely to rebound until excess capacity in a number of industries has been absorbed and/or written down and growth in corporate profitability restored. ***Investment banking*** activity, which hit a four-year low in the quarter just ended, is unlikely to rebound until after equity market prices show signs of stabilizing and valuations appear more reasonable. Sustaining the technical rally in equity markets, which began in late September, will require both rising corporate earnings and a recovery in investor sentiment. However, surveys conducted by UBS/Paine Webber indicate that investor sentiment, despite some recent improvement, remains depressed "hovering near the levels hit following the 9/11 terrorist attacks."

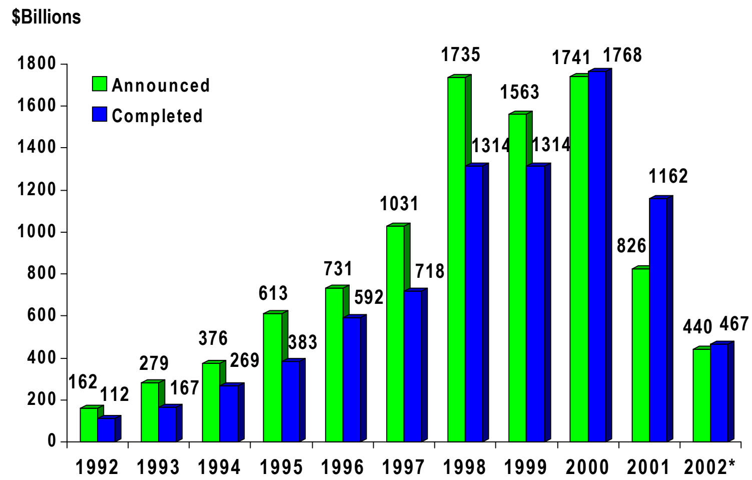
As a result, investment banking remains in the doldrums. The dollar value of equity issuance activity was down 24% during the first nine months of 2002 compared to the comparable period a year earlier, with ***IPOs down 23%***. The confirmed backlog of deals (IPOs, follow-ons and converts) for U.S. issuers offered little hope for immediate recovery as the fourth quarter opened, with only 79 deals in the pipeline slated to raise a meager $10.7 billion, only slightly more than half the amount pending at this time last year. On a more positive note, share buyback announcements accelerated as the year progressed, with a sharp increase, to $64.9 billion in Q3 2002, from $35.5 billion in Q2 2002. This has helped support the recent rally in equity prices.



Corporate debt underwriting, which had helped to sustain investment banking operations during the long slump in equity issuance activity, has been declining as the year progressed. High corporate debt burdens, substantially wider credit spreads and greater risk aversion on the part of investors in the face of corporate disclosure problems, rising defaults and downgrades are expect to restrain bond issuance activity further. This is particularly true in the absence of a revival of ***M&A activity***, which represents a significant portion of investment grade placements. Only $38 billion in global M&A deals were announced in September, an extremely depressed level. M&A activity, when it revives from cyclical lows will likely be led by forced divestitures by over leveraged firms without adequate access to financing.

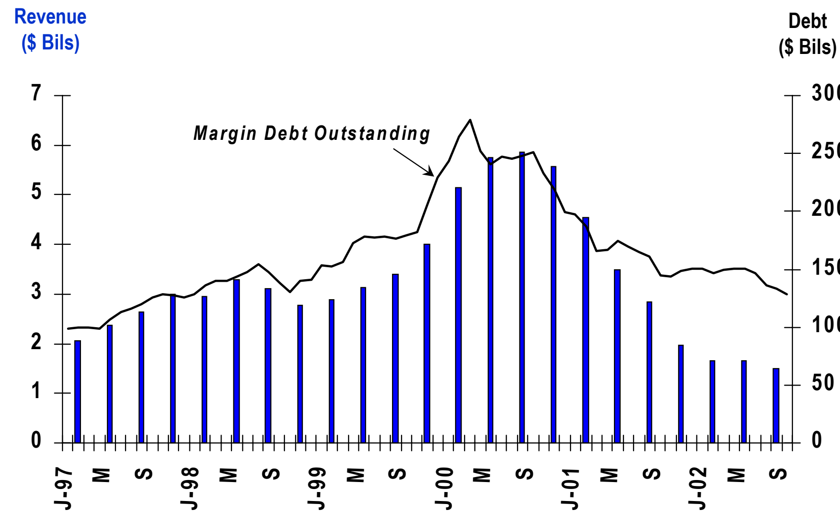
The decades long decline in fee and commission rates appears to have come to an end after decimalization forced a shift in pricing as spreads virtually disappeared earlier in the year. ***Commission and fee revenues*** going forward are expected to more closely mirror the growth in secondary trading volume, which has shown a slight up tick thus far in October. ***Asset management fees and mutual fund sales*** revenues which also set multiyear lows during Q3 2002, might also be finding a bottom as the recent rally in equity prices boosts asset values on which management fees are based and as net new inflows into equity funds resumes. However, any recovery in these sources of securities industry revenues remains contingent on a sustained recovery in equity prices.

U.S. M&A Activity



Source: Thomson Financial Securities Data

Quarterly Margin Interest Revenue vs. Monthly Margin Debt Outstanding



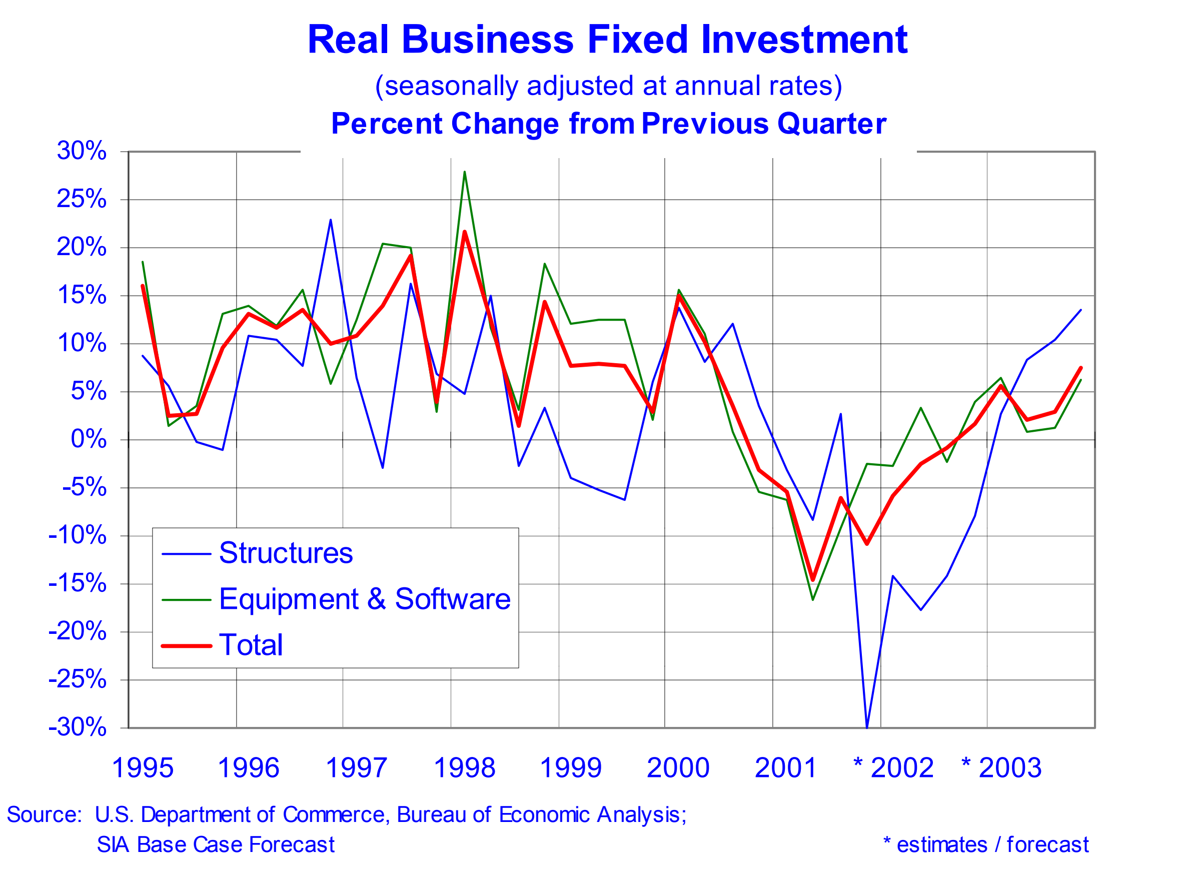
Similarly, ***net margin interest*** revenue, reduced both by narrower interest spreads and substantially reduced usage of margin by investors, fell in Q3 2002 to the lowest quarterly total in seven years. This revenue line item, like so many the industry depends upon, will rise in line with a recovery in investor confidence. As equity prices partial rebounded in October, margin utilization picked up. Finally, ***principal trading*** revenue plunged in Q3 2002, touching a fifteen-year quarterly low, which was set in the 1987 market crash. The limited rebound in equity prices thus far in Q4 2002 suggests that this item might well show some marginal improvement, albeit from extremely depressed levels.

An Alternative to the Consensus Economic Forecast

The usefulness of any outlook for the securities industry will depend heavily on the accuracy of the forecast for the U.S. economy that underlies it. Earlier this month the budget advisory boards of both New York City and New York State met separately to consider the prospects for the national, state and local economies, as well as for key sectors, most notably the securities industry, whose performance by and large determines regional prospects. Government and private sector economists, including the nation's top forecasters, came armed with complex economic models and composite indicators that have proved prescient in the past. In the course of the two meetings, a rather dismal picture was painted for regional government finances in the year ahead.

Although the U.S. economy emerged from a relatively mild recession last year, the local and regional economies have not, leaving the government officials confronting unpleasant choices to close yawning budget deficits. Growth in New York State is expected to be marginal at best this year, and a plodding, sub-par recovery, one lagging the rest of the nation, is anticipated in 2003. For New York City, the outlook is grimmer still. Gross City Product (GCP) a measure of economic output for the five boroughs is expected to contract 2.3% this year after a 2.7% decline in 2001, before stagnating in 2003.

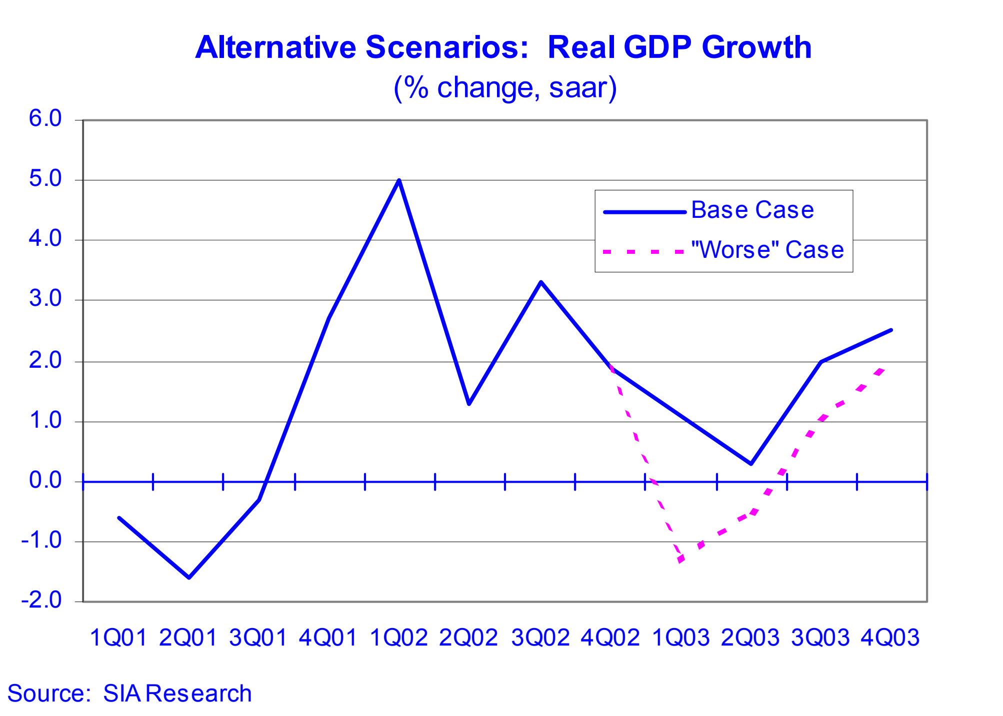
The median or consensus U.S. forecast that emerged from these meetings ***remains relatively optimistic***. Growth in Q3 2002 is estimated at 3.5%, forecast to be 2.2% in the current quarter, and slightly above 3% in 2003. While the group, on average, felt that the probability of renewed recession had risen significantly since their last review, most felt that consumer spending and the housing sector, despite being overextended, could continue to provide the impetus for growth until business investment revived. The consensus view was that ***capital spending might be poised for a recovery***. This encouragement comes from an increase in one of the principal components of business fixed investment – spending on equipment and software – which rose 3.3% and annual rate in Q2 2002, the first quarterly gain in this indicator since Q3 2000. An upturn in spending on structures and positive growth in overall business fixed investment is expected next year.



Surprisingly, only two of the more than two dozen forecasters presenting their views considered a "naïve" scenario that incorporated a war with Iraq, although virtually all conceded that the uncertainty generated by the threat of war and another terrorist attack was already affecting business and consumer behavior and exerting a drag on economic growth. One old maxim of strategic planning is to hope for the best and plan for the worst. ***The "worst case" would be for both war and another successful major terrorist attack*** early in 2003. While the threat of war appears to have receded, or at least to have been postponed, somewhat in recent weeks as the Bush Administration demonstrates greater diplomatic efforts in the face of rising opposition at home and abroad, the probability of an invasion of Iraq remains extremely high.

If military action does occur, the ***"naïve" war scenario*** considered for forecasting purposes presumes U.S. ground troops would enter Iraq in late January-early February 2003, following massive aerial assaults. It is presumed that the engagement would not be protracted, but the effects would be similar to the Gulf War a dozen years earlier. Oil prices would be expected to "spike" at $45 per barrel and gradually recede to more normal levels across the course of the year. Military action, while it could boost activity in selected sectors, would be expected to reduce overall activity. Real GDP growth would be between 0.8% and 1.4% lower than would be expected in the absence of war, with most of the depressing effects concentrated in the first half of next year. The risk of recession is real in this scenario, particularly if the engagement is protracted or if secondary and tertiary effects are more severe or prolonged than assumed in this "naïve" scenario.

Recently, senior U.S. intelligence officials have warned that the threat of major terrorist attacks is currently as high or higher than it was in the summer of 2001, hardly a comforting assessment. Accordingly, the securities industry has invested substantial time, energy and expense in business continuity planning and disaster recovery procedures to be as prepared as possible for such an "eventuality". While the impact of such a broad range of amorphous threats currently confronting our nation cannot be properly assessed, an assault of comparable magnitude to the tragedy of last September 11th would likely depress investor and consumer sentiment and disrupt economic activity sufficiently to at least temporarily forestall the recovery in the economy and in U.S. asset values. With that said, preparations to forestall and mitigate any potential attack continue, while we hope and pray for the best.



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BENCHMARKS
The Key to Knowing Where You Stand Relative to Your Peers and Competitors

Benchmarks are an essential ingredient in any ongoing business improvement process. They permit executives to know how their firm compares to its competitors and to its peer group. Firms within our industry regularly use a wide range of benchmarks to get a "fix" on their position in the competitive landscape.

For centuries, mariners have used "Dead Reckoning" (an unfortunate phrase) as a means to determine their ship's relative position, relying on identifiable landmarks to keep them from running aground. Although it is not called dead reckoning, SIA provides its members with many identifiable "landmarks," or benchmarks, through the many **industry surveys** it conducts and through its other industry research, such as the ***Securities Industry Databank***, the ***Securities Industry Fact Book***, the ***Securities Industry Financial Results***, and the ***Foreign Activity Report***. These and other research reports are highlighted at the end of this article. All of these benchmarks give our member firms perspective on how they compare.

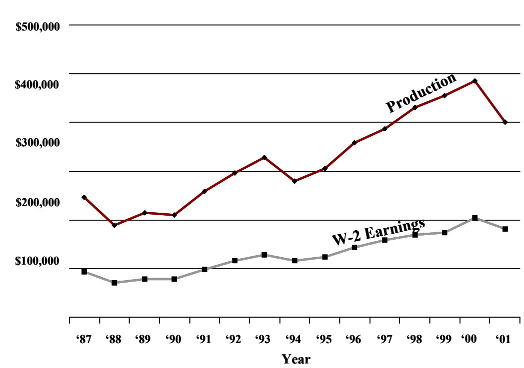
On a continuing basis, SIA provides the securities industry with a wide array of industry-specific benchmarks that firms can use to "fix" their own position relative to the industry shoreline. While there are many benchmarks, this material focuses on those derived from the various surveys SIA conducts. The areas broadly covered by these surveys include: Retail and Institutional Business Activity, Operations, Human Resources Management, Technology, and Proprietary Studies. The benchmarks are developed through numerous industry-specific surveys designed to measure important attributes that are of value to our member firms.

The following material describes the major Survey Reports published by SIA's Research Department and highlights the many benchmarks they provide to industry firms.

Retail and Institutional Business Activity:

SIA's annual *Report on Production & Earnings of RRs* provides firms in the securities industry with solid data on average and median RR production, RR earnings, Branch Manager earnings, average and median branch size, first-year RR production, earnings for Trainees and first-year RRs, ticket size, payout rates, RR turnover and tenure with their firm and within the industry. The annual report also contains firm-by-firm comparisons for several key indices. These data allow firms to benchmark the productivity of their own sales force against a range of other traditional broker dealers. This report focuses exclusively on traditional broker dealers and provides data for "seasoned" Registered Representatives.

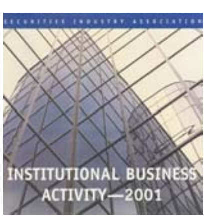
Average RR Production & Earnings 1987 - 2001

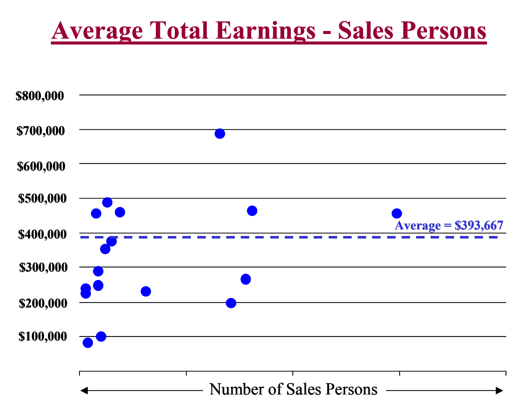


The *Report on Asset Management Accounts* is published every other year and focuses exclusively on that class of accounts where clients can manage both their portfolio and cash together. These accounts, sometimes referred to as "cash management accounts," can also provide clients with check writing privileges, debit and credit card programs, and billpay and other features. The report contains an array of metrics that firms can use to benchmark their own AMA programs. The range of data in the report includes topics such as: average commissions earned; total AMA-related revenue; average number of AMA accounts; opening and maintenance balances; annual and item-specific fees; cost basis reporting on statements; risk management procedures; marketing; and operations information. In total, firms included in the latest survey employed 184,000 individuals as of December 31, 2001 and had AMA assets under management of more than $288 billion (based on the number of accounts and average account asset value).

The Report on Prices Charged Retail Clients is published every three years and contains numerous metrics on what firms charge their retail clients. This study contains retail pricing information on commission charges for stocks and options; discounting (i.e., the most common percentage discount, average discount and maximum discount allowed); set-up and maintenance fees for retirement accounts; fees for legal transfers, returned checks, postage and handling, safekeeping, reorganization, etc. In addition, this 130-page report provides data on topics such as: interest charged on Margin Accounts, Wrap Accounts, Asset Management Accounts, and contains numerous summary tables as well as extensive data arrays, which present non-identifying, firm-by-firm data.

The only comprehensive report on institutional business, the annual *Report on Institutional Business Activity* presents detailed information on topics, such as: production and earnings of Institutional Sales People and Institutional Traders; ticket size; payout rates and exchanges used for listed stock. The report also presents detailed data on firm revenue and expenses, operating profit margins, clearing arrangements, and Internet Business Strategy. In addition, this report also includes substantial data on average monthly trades, average monthly cancels/corrects, reasons for cancels/corrects, electronic trading, customer relationship management programs, best execution, and key issues facing institutional firms.

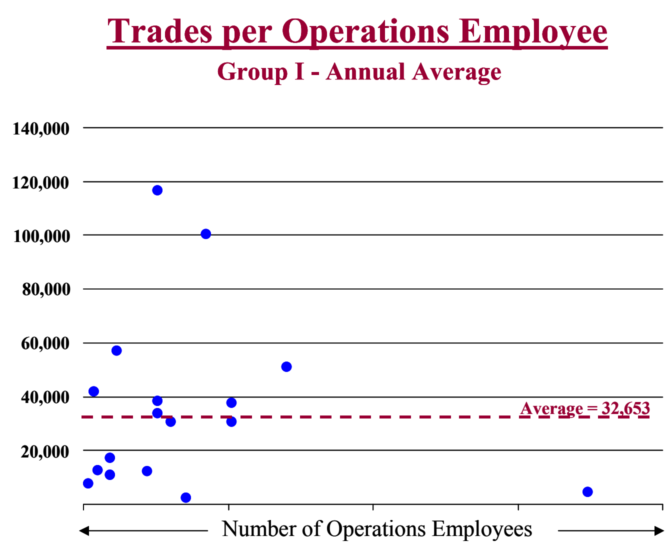




Operations:

The 2001 Report on Operations in the Securities Industry is the only comprehensive set of metrics about operations within the securities industry available. These data are based on input from 49 participating member firms, which employ more than 92,000 full-time individuals, represent over 50,000 Registered Representatives plus 14,000 Independent Contractors, operate more than 13,000 branch offices and handle more than twenty million trades each month. This study was developed in conjunction with SIA's Operations Committee and is part of SIA's effort to develop a comprehensive set of metrics related to operations. Nearly half of the participants in the 2001 report (49%) identified themselves as Full Service Brokerages; the second largest category, Introducing Firms, accounted for twenty percent of the total. Close to three-quarters of respondents reported data on domestic operations while the remaining 26.5% provided information on global activities. In addition, the report includes comprehensive data on various aspects of operations in the securities industry, including:

- ❖ Firm Information (e.g., type of firm, geographic scope, home office employees);
- ❖ Financial Information (i.e., sources of revenue, composition of retail commissions, and detailed expense-related data);
- ❖ Trading (i.e., the number and composition of trades, information on cancels/corrects, and Internet trading);
- ❖ Account Information (i.e., customer base statistics, electronic payment methods and fees, dividends, collection and disbursement methods, and householding);
- ❖ Fees and Charges;
- ❖ Information Technology (i.e., budget information, T+1 initiatives, and utilization of leading technologies);
- ❖ Management Policies & Practices (contains information on revenue creation measures, new products offered, and cost reduction);
- ❖ Miscellaneous Information.



Each section includes a variety of summary tables as well as extensive data arrays, which present non-identifying, firm-by-firm data.

Human Resources Management:

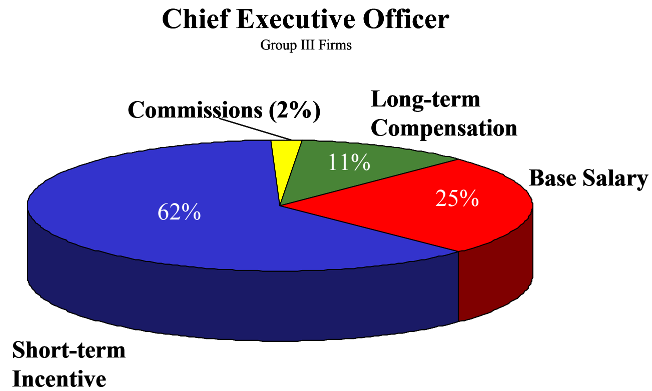
Each year, SIA published two comprehensive reports on compensation in the securities industry. One of those reports, *The Report on Management & Professional Earnings*, covers Exempt Employees and provides data on 166 positions. These positions are grouped into the following eleven functional categories: Accounting, Administration & Finance, Compliance,

Floor/Trading, Human Resources Management, Internal Audit, Legal, Miscellaneous, Operations, New Business Development, and Systems/Technology. Data for each position include current-year base salary (as of April 1st), prior-year base salary and prior-year bonus.

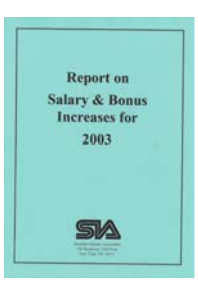
This comprehensive report provides summary tables in the Highlights section showing average salary and bonus information, as well as the number of firms reporting data and the number of positions included in each calculation. In addition, detailed firm-by-firm data are presented for each position. Summary statistics include the 10th, 25th, 75th, and 90th percentiles, the median, and the mean. Positions are grouped by employee location, i.e.: Based in the New York City Metropolitan Area and Based Outside the New York City Metropolitan Area. The Report on Management & Professional Earnings also includes measures of Employee Turnover and Workforce Gender Composition.

The second of SIA's annual reports on compensation, *The Report on Office Salaries in the Securities Industry*, presents comprehensive salary information for 92 non-exempt level positions within the securities industry. These positions are grouped within the following eleven categories: Accounting, Administration & Finance, Compliance, Floor/Trading, Human Resources Management, Internal Audit, Legal, Miscellaneous, Operations, New Business Development, and Systems/Technology. Data for each position include current-year weekly base salary (as of April 1st), prior-year base salary and prior-year bonus. Similar to the report on exempt employee compensation, this report includes summary tables in the Highlights section that show average salary and bonus information, as well as the number of firms reporting and the number of positions included in each calculation. In addition, detailed firm-by-firm data arrays are presented for each covered position. Summary statistics include the 10th, 25th, 75th, and 90th percentiles, the median, and the mean. Positions are grouped by employee location, i.e.: Based in the New York City Metropolitan Area and Based Outside the New York City Metropolitan Area. The report also presents data for positions in 36 individual Metropolitan areas and includes measures of Employee Turnover and Workforce Gender Composition.

Compensation of senior management at member firms is covered in SIA's *Report on Compensation of Top Management in Local and Regional firms*. This report provides detailed compensation data for fourteen of the most senior positions, including: CEO; COO; CFO; CIO; General Counsel; and the heads of Fixed Income, Public Finance, Research, Retail Sales, Institutional Sales, Marketing, Operations, Equity Capital Markets, and Investment Banking/Corporate Finance. This report provides detailed data on base salaries, short-term incentives, long-term incentives and other compensation. Information is presented on what incentives are offered, the criteria for determining the short-term incentive opportunity, how short-term incentives are paid and funded, and about target award ranges and performance measures. This executive compensation report also provides information on executive retirement plans, including Defined Benefit Plans, Defined Contribution Plans, and Supplemental Executive Retirement Plans. The report also covers information on executive perquisites. The report contains numerous summary tables, as well as extensive data arrays, which present firm-by-firm data in a confidential manner so member firms can benchmark their own situation against other industry counterparts.



Employee Benefits can serve as both an inducement to attract talented new employees and as an incentive for current employees to remain with a firm. From management's perspective, Employee Benefits also represent a significant expense, which has to be managed effectively to achieve the right balance. *The Report on Employee Benefits Practices* provides SIA member firms with a comprehensive set of data on employee benefits, which can be used to benchmark benefits programs to achieve a competitive balance. This report presents comprehensive information about employee benefits practices within the securities industry. The report covers information about Medical Insurance Plans – Indemnity Plans, Preferred Provider Plans, Point of Service Plans, and Health Maintenance Organizations. For each plan type, the report presents detailed information about premium cost, employee contributions, coverage, and eligibility, among other information. Also included is information on Dental Insurance Plans (Indemnity, PPO, POS, DMO), short- and long-term disability coverage, Group Life Insurance, Accidental Death and Dismemberment Coverage, Travel Accident Coverage, and Retirement Plans. Other topics covered in detail are Time-Off-With-Pay (including sick/personal days and vacation); Employee Assistance Programs; Flexible Benefits; Benefits Statements; and other miscellaneous practices.



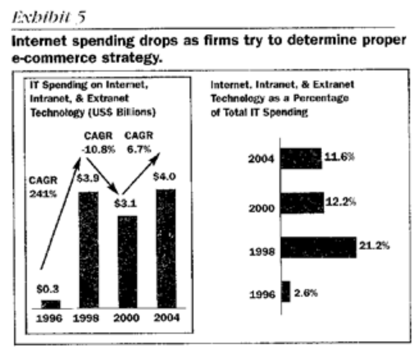
Every year, SIA conducts a special survey to help firms benchmark their proposed salary increase projections against other industry firms. *The Report on Salary & Bonus Increases* provides industry firms with a measure of how much the salary merit pool is projected to increase and how the bonus pool is expected to change in the coming year. The report presents data on anticipated salary increases for both exempt and non-exempt employees.

Results are available in late summer so member firms have this information available during their annual budgeting and planning process.

Technology Trends:

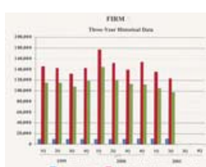
Technology Trends in the Securities Industry - 2001 takes an in-depth look at major technology initiatives in the North American securities industry. The analysis focuses on the industry's

changing IT priorities, their STP focus, their IT expenditures, their staffing levels and their infrastructure initiatives. This report also focuses on rebuilding the industry's core IT infrastructure, the Internet as a delivery channel for retail brokerages, integrating e-commerce at institutional brokerages, technology sourcing, and more. This analysis is undertaken jointly by the Securities Industry Association with the TowerGroup, in collaboration with SIA's Technology Management Committee. This report provides detailed data on technology spending and initiatives at north American securities firms.



Proprietary Studies:

Each quarter, SIA's Research Department conducts two proprietary studies, available only to the firms that participate in each. The first of these quarterly reports, *The National Firm RR Productivity Report*, prepared quarterly for eight national brokerage firms, provides current information about average RR production for the group as a whole, as well as firm specific averages for each participating firm. The report presents rankings for each participating firm and also provides data for the highest and lowest ranked firm, the median firm, and the firm ranked just above and below each participating firm. The data in this report is strictly confidential and all information is presented in a non-identifying format.



The second proprietary study is the quarterly *Regional Firms' Retail Sales Management Report*, which currently has eleven participating firms. This four-page report provides participants with a wide array of group-wide averages as well as individual firm rankings on RR productivity by product; RR turnover; branch, customer account, and balance sheet data, and considerably more. All data contained in this report are confidential and no information is presented that can be associated with individual participants.

To get more information about these surveys, and see a Table of Contents, a sample page, and a list of participating firms go to www.sia.com/surveys.

Stephen L. Carlson
Vice President and Director, Surveys

Research Publications

SECURITIES INDUSTRY DATABANK
Database of securities firms FOCUS Report income statements and balance sheets aggregated into 17 firm categories including: national full line firms, large investment banks, regionals, discounters, clearing firms, etc.

SECURITIES INDUSTRY FACT BOOK
Annual 115 page compendium covering several decades of data on global and domestic secondary and capital markets, investors, the securities industry, domestic economics such as: underwriting; private placements; M&A; industry revenue, costs, profits and employment; discounters; exchange trading and individual investor statistics, etc.

SECURITIES INDUSTRY FINANCIAL RESULTS
Quarterly and annual financial results of the securities industry including income statements, balance sheets, and employment data posted on SIA's web site quarterly.

SECURITIES INDUSTRY TRENDS
A bi-monthly manual on profitability, financial results, management issues and trends within the securities industry affected by markets, technology, regulation, tax law changes, economic developments, international financial trends, and other topics vital to securities firm management.

SELECTED INDUSTRY STATISTICS
SIA web-based monthly update on trends in U.S. corporate and municipal underwriting activity, interest rates, stock prices, market share and dollar volume, mutual fund assets and net new cash flow.

FOREIGN ACTIVITY REPORT
Quarterly reporting of purchases/sales of U.S. securities by foreigners and U.S. purchases/sales of foreign securities for all world markets and most major nations by both gross and net activity and broken down by specific security classes.

SURVEY DATA: EMPLOYEE COMPENSATION AND TURNOVER
Selected Trends on Exempt and Non-Exempt Employees 1997 – 2002

For more than fifteen years, the SIA has collected salary and bonus information on exempt and non-exempt securities industry employees in its reports on **Management and Professional Earnings and Office Salaries**. These statistics have been widely used by firms as a tool for configuring target compensation levels. As evidenced by report findings and the modifications made to the studies over time, the scope of various positions and their vitality to industry operations have evolved in the face of new business climates.

Looking at national average weekly salaries, average bonuses received, top ten average salaries (New York and Non-New York) and top ten average salary increases (New York and Non-New York) from 1997 – 2002[1], this special collection of selected trends provides data, arrayed in graphs and tables, on how compensation has varied over the past five years. Reviewing annual averages for specific positions, firms can use the data, in conjunction with internal firm information on profitability and revenues, to benchmark compensation costs relative to compensation-based expenses. Included in this article are the average annual rates of change for the positions covered in the report, illustrating the degree to which positions have increased or decreased since 1997. This information, arrayed for both 1997-2001 and 1997-2002 periods, demonstrates how compensation has been adversely affected for exempt and non-exempt employees, as a result of nose-dive market activity in 2002.

Report Summary

The **Report on Employee Compensation and Turnover** presents select trend information for 25 exempt and 19 non-exempt positions from 1997 to 2002. The positions included in the set were chosen because they exhibit relatively substantial response rates over time, and because they perform some of the securities industry's most ubiquitous functions. These positions fall into the following categories: Accounting, Administration & Finance, Compliance, Floor/Trading, Human Resources Management, Internal Audit, Legal, Miscellaneous, Operations, New Business Development, and Systems/Technology. Tables 2 and 3 contain listings of positions covered.

For both exempt and non-exempt employees, the report contains data on National Average Salaries, National Average Bonuses Received, Top Ten Average Salaries, and Top Ten Average Salary Increases. These data are representative of a different mix of firm participants for each year considered and some year-to-year variation is to be expected.[2] Also included in the selected trends is a segment new to this year's reports on **Office Salaries and Management and Professional Earnings** containing information on Employee Turnover and Workforce Gender Composition.

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[1] Although the studies have been in existence for many years prior, 1997 through 2002 reports exhibit the greatest consistency in positions included and therefore present the best basis for comparison.

[2] Listings of report participants for each year can be found in Appendices One and Two of the study.

To illustrate the type of information included in the report, the following abstract summarizes compensation information for Customer Service Representatives (both on the exempt and non-exempt levels) and then discusses average annual rates of growth and decline for two periods, 1997-2001 and 1997-2002, for positions included in the report.

Customer Service Representatives In The Securities Industry

Over the last two years, a jeopardized marketplace has succeeded in heightening investor awareness to the degree that firms have adopted alternative measures, beyond traditional competitive factors such as price, for attracting and retaining market share. To leverage increasing investor anxiety and a revised investor psychology, many firms have placed a higher premium on customer service. As evidenced by augmented compensation levels, 5-year trends included in the *Report on Employee Compensation and Turnover* indicate an increased value has been placed on Customer Service Representatives in the securities industry in recent years.

The study includes and defines three levels of Customer Service Representative as follows:

Customer Service Representative – Intermediate (Non-exempt)
Answers questions from RR's and Sales Assistants about administrative, procedural, operational, and trade information. Requires sufficient knowledge of all Operations areas to address the majority of RR's and Sales Assistants questions, obtaining answers to unusual questions through familiarity with operations departments. Notifies I.S. on system problems. May group similar questions to determine overall training needs of RR's and Sales Assistants. Provides options to standard procedures in special circumstances (i.e. Federal Expressing a check that has been delayed), can make independent monetary decisions for up to $250. Requires moderate depth and breadth of knowledge.

Customer Service Representative – Senior (Non-exempt)
Assist RR's and Sales Assistants by providing them with accurate and timely information, service, and assistance as it concerns research, processing, and resolution of issues requiring department specific technical knowledge (i.e., insurance transactions). Communicates with and instructs other departments within the company as necessary on departmental matters, such as procedures, systems, account status, problems, etc. Serves as liaison to third party vendors on procedural matters and changes. Requires extensive depth and breadth of knowledge.

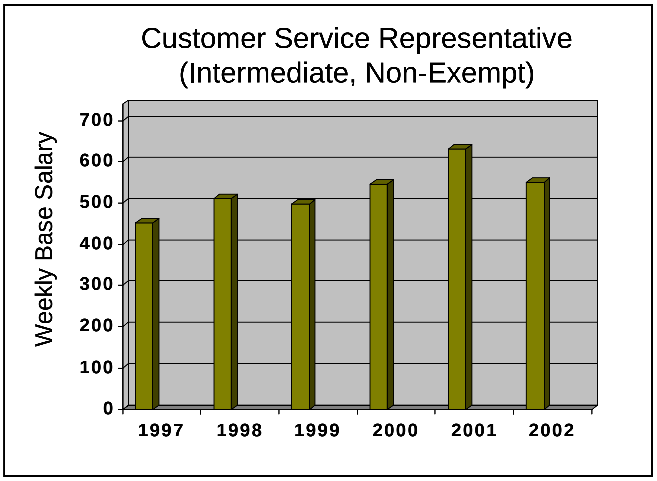
Customer Service Representative – Exempt
Responds to telephone inquiries regarding company products, financial services, and administrative procedures. Obtains customer information required to open or change an accounts, investigates and corrects errors in customer accounts, and enters information into computerized database. One or more years experience in a financial services setting.
(If Series 7 licensed, see Sales Assistant, Registered.)

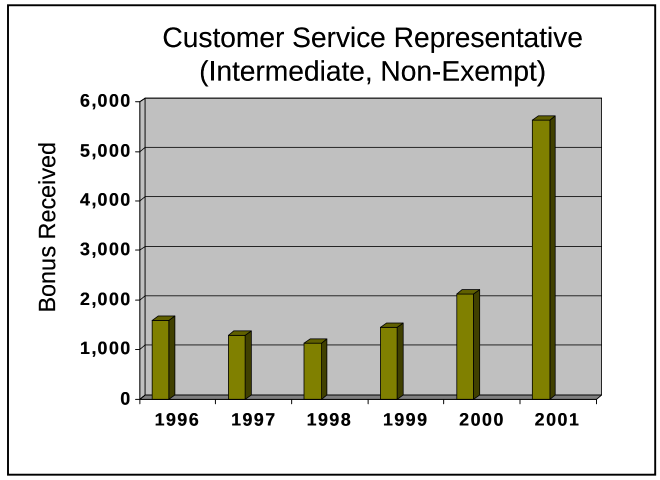
The following graphs show salary and bonus fluctuations over the last five years. Although budget cuts affected positions industry-wide in 2002 (see Tables 2 and 3), average base salaries for Senior-level Customer Service Representatives grew significantly at an annual average rate of 13.6% from 1997 to 2002, bringing 2002 average weekly base salary to a record $1,003. More characteristic of the industry as a whole, beginning in 1997, with an average weekly salary equal $452, weekly base salaries for Intermediate-level Customer Service Representatives rise steadily at a rate of 8.7% until 2001, at which point weekly compensation drops from $631 to $550 (2002). Although average base salary levels for Exempt Customer Service Representatives fluctuate more year-to-year, they appreciate considerably at a rate of 12.7% from 1997 to 2001 and then decline again in 2002.

Bonus activity is a good indicator of firm appreciation for employee contributions. While just over half of the non-exempt positions included in the study experienced a decline in bonus compensation in 2001, bonuses received by Non-exempt Customer Service Representatives increase drastically between 2000 and 2001, averaging $5,628 at the Intermediate level and $6,302 at the Senior level in 2001. For Exempt-level reps, bonuses increased at an annual average rate of 5.2% over the payout years, although they fluctuated drastically in between.

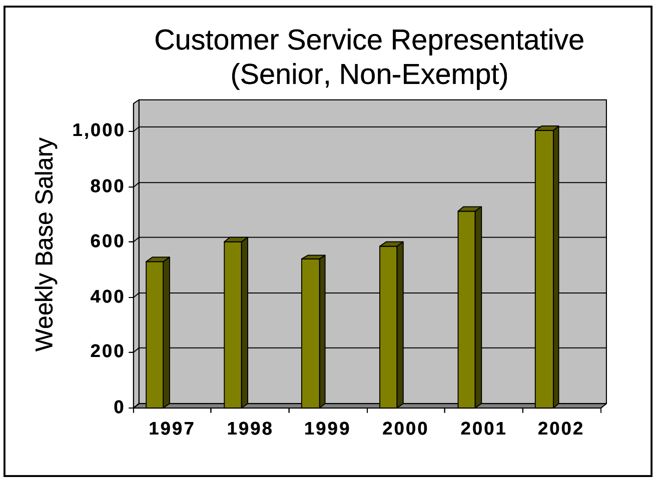
On the whole, salary and bonus growth rates for the customer service positions covered in the report greatly outpace the majority of other industry positions over the last five years, suggesting that the value added by investing in customer service components continues to be worth the relative increase in compensation expense incurred by firms.

Table 1

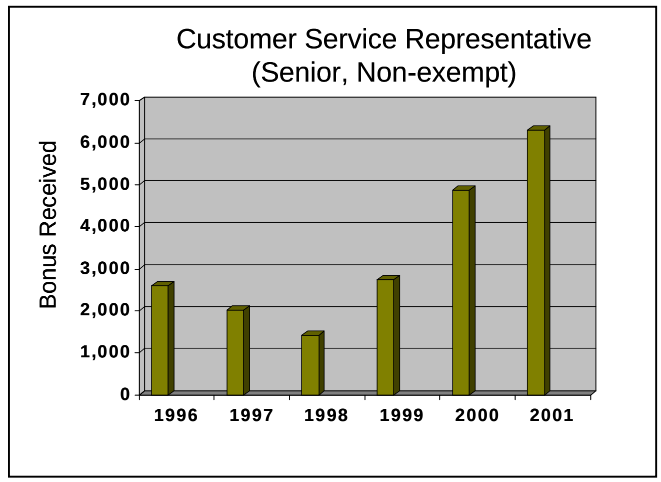


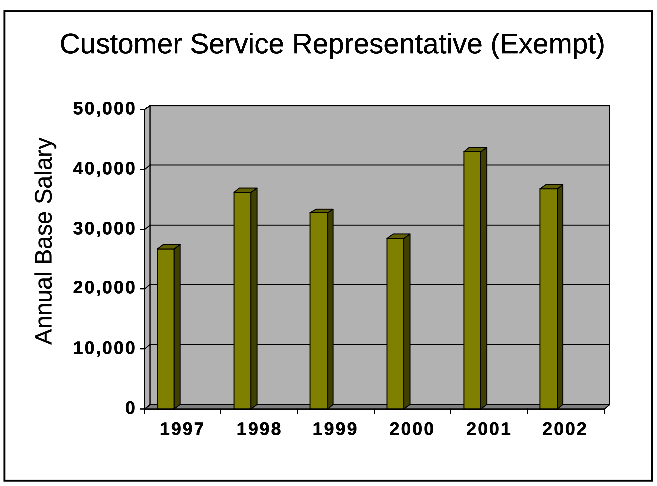


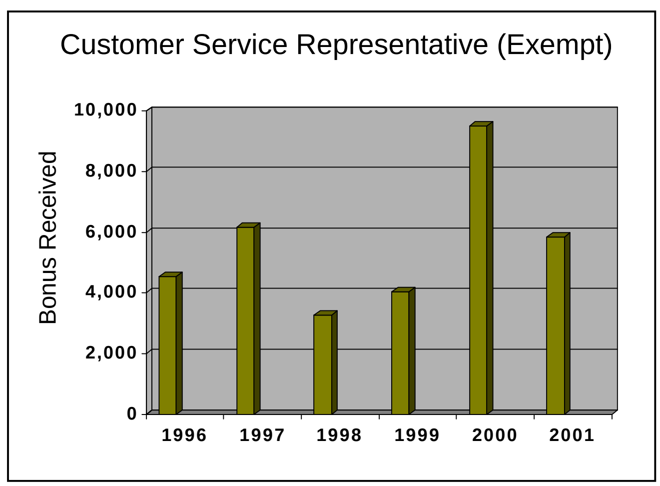
Please note: 13 firms reported 106 incumbents receiving bonuses in 2001. Responses from one firm account for nearly half of total responses.



Please note: 16 firms reported 168 incumbents for this position in 2002. Responses from one firm account for nearly half of total responses.







Average Annual Rates Of Change

Tables 2 and 3 include annual rates of change for all exempt and non-exempt positions included in the trends report. Each table surveys growth for the 1997-2001 period and for the 1997-2002 period.

In an analysis of both tables, it appears exempt employees were the hardest hit by dwindling compensation packages in 2002, with 17 of the 25 positions surveyed depressing the annual average rate of change over the period inclusive of 2002. A decline in rates during this period for non-exempt employees was less severe if not still evident (roughly 40% of positions declined over the period 1997-2002 versus 1997-2001).

Reviewing the 1997-2002 period, average annual rates of change show Branch Operations Supervisor (Intermediate), Floor Brokers (Regional), and Customer Service Representative reaped the greatest rewards in year-to-year increases for exempt-level employees. For non-exempt employees, Customer Service Representative (Senior), Cashiering Clerk, and ACATS/TOA (Transfer of Assets) Representative experienced the highest compounded increase rates. Non-exempt positions in the accounting category look as if they are suffering minor average annual declines, although this is not the case for exempt Accountant (Intermediate and Senior) and Controller. On the exempt level, Chief Administrative Officer and Research Analyst (Intermediate) experience negative rates of change for both periods considered.

Table 2

NATIONAL BASE SALARIES FOR NON-EXEMPT EMPLOYEES

Annual Average Rates of Change

POSITION TITLE	RATE OF INCREASE/DECLINE	
	1997 - 2001	*1997 - 2002*
Accounting Clerk	-1.0%	-2.0%
Accounting Clerk (Senior)	<-0.5%	-0.5%
Accounts Payable, Clerk	-1.0%	1.4%
Mail Clerk	2.9%	4.8%
Secretary	2.3%	2.3%
Executive Secretary	2.6%	2.5%
Secretary to CEO or Senior Partner	2.7%	2.1%
ACATS/TOA (Transfer of Assets) Rep	7.5%	7.0%
ACATS/TOA (Transfer of Assets) Rep (Senior)	5.4%	6.0%
Cashiering Clerk	2.4%	8.5%
Customer Service Representative (Intermediate)	8.7%	4.0%
Customer Service Representative (Senior)	7.6%	13.6%
Margin Clerk (Senior)	5.8%	6.4%
New Accounts Clerk	5.5%	5.9%
Institutional Sales Assistant (Non-Registered)	6.5%	4.6%
Institutional Sales Assistant (Registered)	7.1%	5.0%
Retail Sales Assistant (Non-Registered)	4.4%	4.7%
Retail Sales Assistant (Registered)	3.6%	3.0%
Computer Operator (Senior)	3.9%	3.9%

Table 3

NATIONAL SALARIES FOR EXEMPT EMPLOYEES

Annual Average Rates of Change

POSITION TITLE	RATE OF INCREASE/DECLINE 1997 - 2001	1997 - 2002
Accountant (Intermediate)	4.0%	3.0%
Accountant (Senior)	3.9%	2.6%
Controller	5.1%	1.7%
Chief Administrative Officer	-0.5%	-1.5%
Branch Operations Supervisor (Intermediate)	9.0%	8.9%
Branch Operations Supervisor (Senior)	<0.1%	3.9%
Compliance Examiner (Intermediate)	3.1%	5.0%
Compliance Examiner (Senior)	28.0%	3.7%
Floor Brokers (NYSE)	8.2%	4.8%
Floor Brokers (Regional)	8.2%	7.5%
Director of Human Resources	6.0%	5.3%
Internal Auditor (Intermediate)	4.2%	2.3%
Deputy General Counsel	1.8%	5.4%
Customer Service Representative	12.7%	6.7%
Stock Loan Manager (Senior)	1.6%	3.0%
Operations Supervisor	2.3%	4.3%
Syndicate Manager	-1.0%	0.8%
Corporate Finance Associate (Senior)	18.0%	3.2%
Public Finance Associate (Senior)	14.5%	3.1%
Portfolio Manager (Intermediate)	8.3%	2.3%
Portfolio Manager (Senior)	19.5%	1.7%
Research Analyst (Intermediate)	-1.5%	-1.5%
Research Analyst (Senior)	4.4%	0.3%
Programmer (Senior)	2.7%	2.9%
Programmer Analyst (Senior)	8.5%	5.0%

Exempt and Non-Exempt Employee Turnover - 2002

Non-exempt employees had a higher turnover rate (26.2%) in 2002 than the exempt employee population surveyed (18.1%). Both levels of employment indicated the principal reason for separation was "Another Job," although staff reductions also played a significant role in employee termination. Data in this section of the report is segmented into three firm-size groups and is arrayed in a confidential manner for all firms reporting.

Also Featured in the Report

This abstract is based on SIA's **Report on Employee Compensation and Turnover, *Selected Trends for Exempt and Non-exempt Employees – 1997-2002***. Other topics covered in the report include top ten average weekly and annual base salaries, and top ten average salary increases, and workforce gender composition. If you are interested in purchasing this report, please contact Erin Burke at (212) 720-0615, or send an email to eburke@sia.com or visit SIA's website at http://www.sia.com/surveys/.

Erin Burke
Research Consultant

Cost Savings through Efficiency Gains

The large turnout at the recent SIA STP Fall Conference and Table Top Exhibit in New York demonstrated that the STP initiative is alive and well.* However, the initiative is alive and well not *in spite* of tough market conditions, a sharpened focus on business continuity planning (BCP), and increasingly intense competition, but *because* of them.

First, poor market conditions necessitate the maximization of cost savings. It is widely held that the standardization and automation of the trade process and the reduction of manual intervention will enable firms to achieve **better results with fewer resources**, irrespective of whether you define resources as time, personnel, money, or otherwise. According to DTCC, for example, the settlement of unaffirmed trades can cause potential future exposures as well as shorter-term problems like reclaims. Reclaims are delivery transactions returned by the receiver to the deliverer, disrupting the smooth functioning of the trade cycle. Currently there are an estimated 10,000 reclaims out of 700,000 deliveries per day, a number that could drop precipitously in a streamlined, electronically coordinated and automated environment.

Second, the drive toward STP could actually dovetail well with BCP efforts within individual firms. A key component of both STP and BCP is the **accessibility of real-time information**. And, like the implementation of STP, the implementation of large-scale initiatives like BCP and anti-money laundering is by its nature a ***process* as opposed to a program with a definitive endpoint**. Moreover, the implementation of all of these initiatives involves cooperation among all levels of personnel internal to a firm, as well as external cooperation among different firms, utilities, and other market and government entities. All three of these initiatives will be crucial to the long-term viability of firms. Therefore, it may be a good idea to **appoint a liaison** to go between committees responsible for each of the three initiatives so that the different implementation schedules appear on the others' radar screens, and so that duplicative information-gathering and information-dissemination efforts can be avoided.

Finally, intense competition and razor-thin profit margins due to decimalization and other market factors clearly enhance the need to **distinguish oneself from competitors**. There is no question that efficient processing will be a parameter on which firms will compete, whether that parameter manifests itself in the **passing down of eventual cost savings** from streamlining to your clients, or in the **reliability and ease** with which your clients are able complete their business transactions.

If it is true that STP will be an integral part of the future of the securities industry, **how much will it cost** the industry in the next several years? And **which functions exactly** will it affect in the near-term? With regard to the former, TowerGroup estimates that the United States securities industry will spend more than **$7.4 billion** on STP through 2005, with U.S. broker-dealers projected to spend approximately **$5.1 billion** of that total.

With regard to the functional impact of STP, clearly whichever functions each individual firm chooses to target are the ones that will be affected. However, the goals set by those involved in coordinating industry STP efforts include making progress in five specific areas throughout 2003 and 2004. **First**, progress is to be made in automating trade information between market participants. One part of the plan in this area is to recommend a process for electronic allocations and notifications to be seamlessly processed through to settlement, ultimately facilitating an exception-based transaction process.

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* This article is based in part on presentations made at the SIA STP Fall Conference and Table Top Exhibit on October 2-3, 2002 at the Marriott Marquis in New York City. To view all of the presentations, see: http://www.sia.com/stpfall02/html/presentations.html. For general information on the activities of the SIA STP Steering Committee and Subcommittees, see http://www.sia.com/stp/index.html.

Second, a move will be made to replace the current confirm/affirm process with matching and links to settlement, which will facilitate the mitigation of settlement risk. **Third**, the matching of trades on trade date, as close as possible to execution, will help to mitigate market risk. **Fourth**, progress is to be made in incorporating these efficiencies across a wider range of products than is currently the case. **Fifth**, efforts will be made in the area of capacity in order to enable processing of institutional trade volumes that are likely to continue to grow.

These goals appear to be overwhelming until they are broken down into smaller, more manageable industry segments. In the following sections, we overview the probable direction of three of these segments, and what steps individuals operating within each one of these segments can take to move the entire industry closer to STP goals. We review: **1) DTCC**, representing the overarching post-trade infrastructure in the United States; **2) process, message and data standardization**, encouraging the common use of the communication devices underlying automated financial activity; and **3) electronic payments, corporate actions, and stock lending**, automating the procedures that grease the wheels of the markets.

DTCC

DTCC has begun revamping its trade reporting and capture systems, as well as its settlement systems. It is encouraging intra-day input of data from the various market participants. Intra-day input creates positive externalities that benefit the industry: it allows data to be received and redistributed by DTCC earlier; ensures that the data will be handled smoothly, even during times of unexpected peaks in volume; and even provides data in a manner timely enough so as to be useful in BCP endeavors. Intra-day input must also be embraced by participants before the NSCC moves their trade guarantee up to the trade date, a step that it is considering and that also would have been required had the industry shortened the settlement cycle to T+1.

The NYSE and Amex have already begun utilizing real-time messaging in the trade capture process with DTCC, and Nasdaq will begin sometime in the first half of 2003. DTCC plans to discontinue the availability of the very late data input time by the end of June 2003, the late time being midnight Eastern Standard Time.

In terms of trade reporting, DTCC has introduced trade output that is intra-day machine-readable. In this way a universal format has been established for all markets. NSCC's End-of-Day output is also scheduled for elimination by the end of June 2003.

In terms of settlement, DTCC is currently in the first phase of rewriting its Continuous Net Settlement (CNS) system. According to DTCC, NSCC usually guarantees the settlement of trades going through that system at midnight on T+1. A large number of trades are actually eligible to go through this system, including all equity and bond trades received from U.S. markets. The first phase of this CNS rewrite has to do with changes to the Consolidated Trade Summary and Balance Order Reports, scheduled for June 2003. The second phase of the rewrite, which has to do with changing CNS to allow for STP, is scheduled for January 2004.

DTCC is also working on the inventory management system portion of their settlement services. Part of the first phase of this process is allowing profiles to be created by asset class and transaction type. While participants will be able to authorize and exempt transactions, there will also be a new passive authorization option. In the second phase, participants will be able to "pre-define" the order in which transactions are presented for processing. This system will replace and surpass the capabilities of the current Institutional Delivery Authorization System (ANE).

With regard to fixed-income products, all processing and development will eventually take place in GSCC, with a single trade matching and comparison process called Real Time Trade Matching (RTTM). This system was implemented for government securities products in 2000; it will be implemented for mortgage-backed products in 2002, and for municipal and corporate products in 2003.

Standardization

In order for the industry to have the most streamlined and efficient processing system possible, participants must agree on common procedures, messaging, and data standards. The SIA/STP Codes of Practice and Standards (CoP) group is in charge of resolving thorny issues related to these agreements. Among the issues they tackle are: how to influence vendors and utilities to adopt a common messaging standard; how to determine which data standards such as CUSIP should be recommended for common use; and whether or not all depositories should offer settlement bridges.

There are four key areas within standardization that lead to STP. These are business practices, market practices, message standards, and conformance. The business practices area covers the transition process to trade matching utilities. The move away from T+1 has ensured that this transition period will likely last longer than originally thought. In 2003, OMGEO, GSTPA and SunGard will begin introducing their proprietary Institutional Matching Utilities to the U.S. market, and firms will be free to utilize any one of these services. Therefore, we expect to see a "bridging period" in which firms will be supporting their legacy systems simultaneously with the services of these Matching Utilities.

The market practice area focuses on creating "Globally Agreed Data Transmittal Market Practices" so as to minimize multiple interpretations of data. The types of messages that require common data standards run the gamut from order, allocation, and confirmation messages to status messages, or whether or not a trade has been matched or affirmed. Equity data standards were developed by the group and completed; the work on language for fixed-income data was begun a year and a half ago, and work on language for derivative data is soon to begin. Eventually, CoP plans to finalize and produce a dictionary of financial data terms, much like the SWIFT data dictionary, and distribute it nationally for review.

The third area within standardization is message standards. The goal of this working group is to evolve ISO 15022 to permit migration of the securities industry to a standardized use of XML, guaranteeing interoperability across the industry and with other industry sectors, particularly but not restricted to the financial industry. In order to achieve this goal, a centralized standards repository must be implemented. Even more importantly, the group plans to create a framework on how to actually establish widespread agreement on how the message standards are developed and implemented.

The fourth area within standardization has to do with conformance, which is the process of validating through metrics and reporting that participants, including matching utilities, adhere to the rules and required business practice timings of the overall STP Code of Practice. Conformance procedures will also be designed to enable firms to review these reporting and metrics to benchmark their individual performance against that of other firms who may be under agreement with other matching utilities. The group also plans to establish a set of common industry benchmarks.

Electronic Payments, Corporate Actions, and Stock Loans

Payments

The ability to pay electronically for financial services transactions is a key factor in the creation of an industry-wide STP environment. However, paper checks will always be in use, though data shows that their use is slowly declining across the industry. The idea is to build on the use of paper checks while still enabling one or several electronic payment methods. The SIA/STP Payments Subcommittee has found that ACH is still the most viable electronic payment method, but that an educational effort must be intensified so that more market participants choose to use it. That group plans to release a set of Best Practices for payments.

Corporate Actions

The process of distribution of corporate actions, like the process of setting up new accounts, is still a manual one. The process of reviewing those manual announcements costs the industry millions of dollars. Market participants report that the time period between record date and payable date on stock distributions is often too long, which can lead to operational problems. Moreover, exchanges have different requirements, further confusing the effort. Participants also report few delays receiving NYSE securities that result from a corporate action. However, non-NYSE issues can take as long as ten to fifteen days. The time frame between record date and payable date should be shortened to between five and fifteen days. The payment date should be identified in prospectus and available for payment on that date.

In order to streamline the corporate actions process, several steps of standardization are probably required. Shareholder communications should be issued standard security identification numbers in CUSIP or ISIN formats. Corporate actions announcements should also be similarly standardized in the new ISO 15022 format. It is also recommended that all corporate announcements be electronically filed, both offering documents as well as announcements. There could be standardization of a "fact" page on Letters of Transmittal and Prospectus, as well as industry-wide standardization of an "operations" page on Letters of Transmittal. Terms such as announcement date, effective date, and payable date should be standardized, as well as how issuers allocate payments.

Stock Lending

The lending of US equities and corporate bonds are almost all arranged and settled on a same day basis already. However, recalling the securities on loan is still a manual process that involves phone conversations and faxes. As a result, stock recalls currently operate on a T+3 basis. One way to facilitate STP with respect to stock recalls is to implement the Automated Recalls Management System (ARMS), which would automate and standardize communication from lender to borrower. ARMS is a system that would permit everyone involved to link recall and buy-in communication to their securities lending systems.

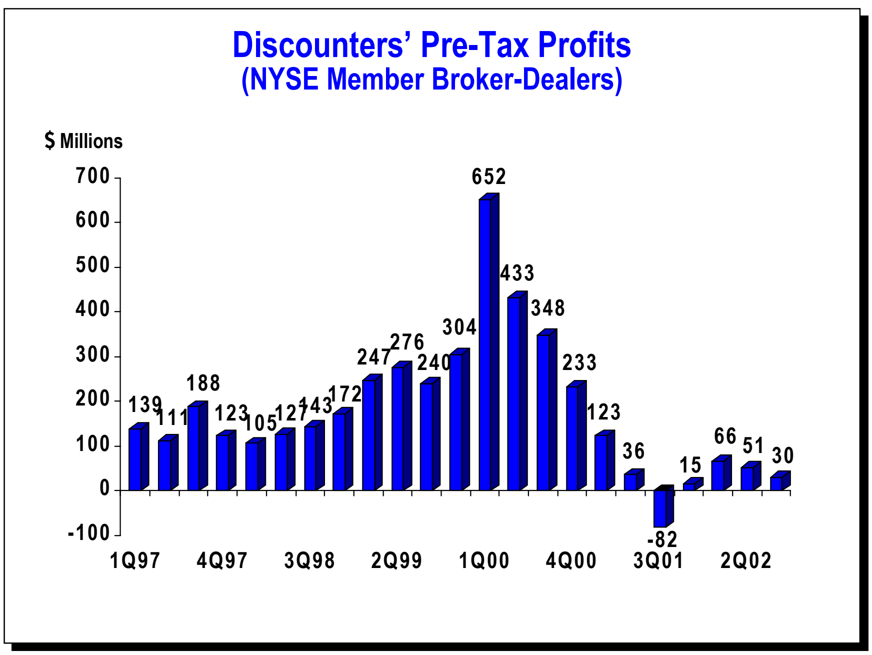
ARMS affords stock lenders and borrowers several clear benefits. A centralized messaging hub will ensure interoperability among multiple vendors and participants, therefore participants will only need to sign with one ARMS service provider. Status rates on recalls, as well as their success rates, will be automatically monitored, and participants can receive real-time alerts. What is most attractive about automating stock lending is that even those in the industry who do not choose to implement ARMS will still reap benefits from the new efficient automated processes.

Judith Chase
Vice President and Director, Securities Research

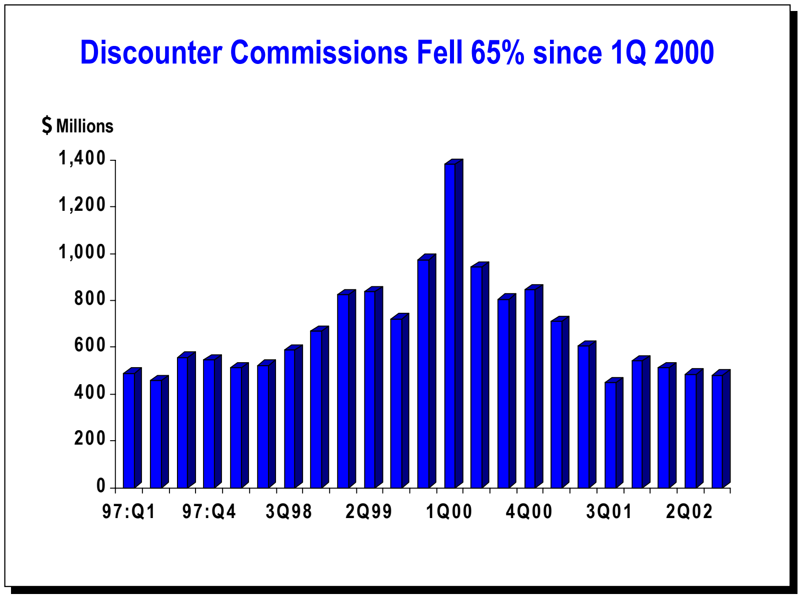
ONLINE TRADING GOES OFFLINE

Over the past 30 months, the industry has been in a decline matched only twice before over the past four decades -- the aftermath of the '87 Crash and the doldrums during the early '70s. If not for a massive cost-cutting program, with compensation expense reduced by one-third since 1Q 2000, and interest costs cut in half as rates fell to 39 year lows, the industry would have been posting red ink since last year.

Nowhere has the downturn been more strongly felt than in the retail sector, particularly for the discounters. These firms are suffering the most because retail activity, their bread and butter business, has fallen by two-thirds since 1Q 2000. Online traders, their main customer base, seem to have had their PCs locked in a frozen mode for 30 months. The discounters' huge bet on this investor group becoming the model for the future was nearly unanimous. They spent the past seven years gearing up, building infrastructure and courting the online trader, only to find online activity dwindling since early 2000.

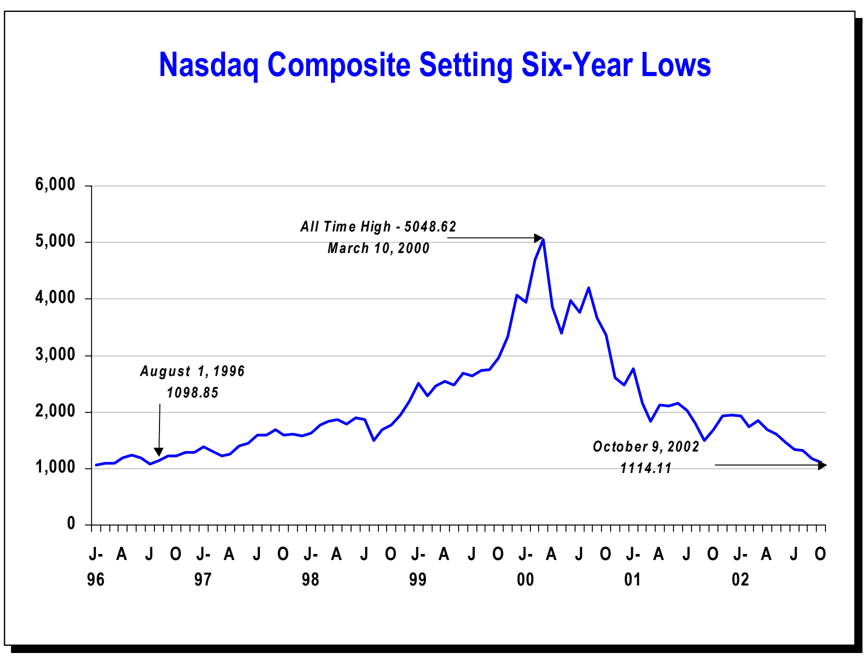


As a result, discounter commissions have fallen by two-thirds since the first quarter of 2000 along with online trading's share of all equity trades. Because of this, the business model is now swinging toward more traditional brokerage lines with advice being emphasized. Some are in the embryonic stage of embracing capital markets and others are emphasizing online banking, two areas also in decline.



Rock Bottom for Equities

It is not hard to see why online retail traders have shut down their PCs the past two years. As the third quarter closed, equities posted their worst September in 65 years. The Dow Industrial fell 12.4%, capping an 18% drop in the index for the quarter -- its worst quarterly showing since the '87 market crash 15 years ago. Despite the upturn in October, this all but seals 2002 as the third straight year the market has declined, an event not seen in over 60 years, specifically during 1939-1941.

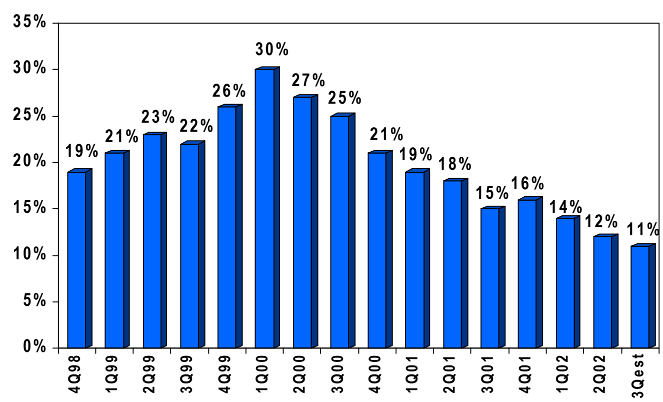


Further reducing individual investor activity is the dramatic erosion of public trust and confidence and rising uncertainty. The media is full of accounts of recent accounting and corporate governance scandals, bankruptcies, conflicts of interest, the continuing terrorist threat, and now U.S. saber rattling. The resulting fear and disillusionment, added to the devastation felt by the retail investor due to investment and retirement savings losses, is reflected in reduced account openings and a sharp fall in account activity.

Online Traders Logged Off

It is little wonder that online trading's share of total equity volume has fallen by two-thirds, from a high of 30% in the first quarter of 2000 to an estimated 11% of total volume for the quarter just ended. The drought in retail activity has driven the online channel's market share back to lows not seen since online trading began to take off in 1997 when there were 18 or fewer broker-dealers offering this service.

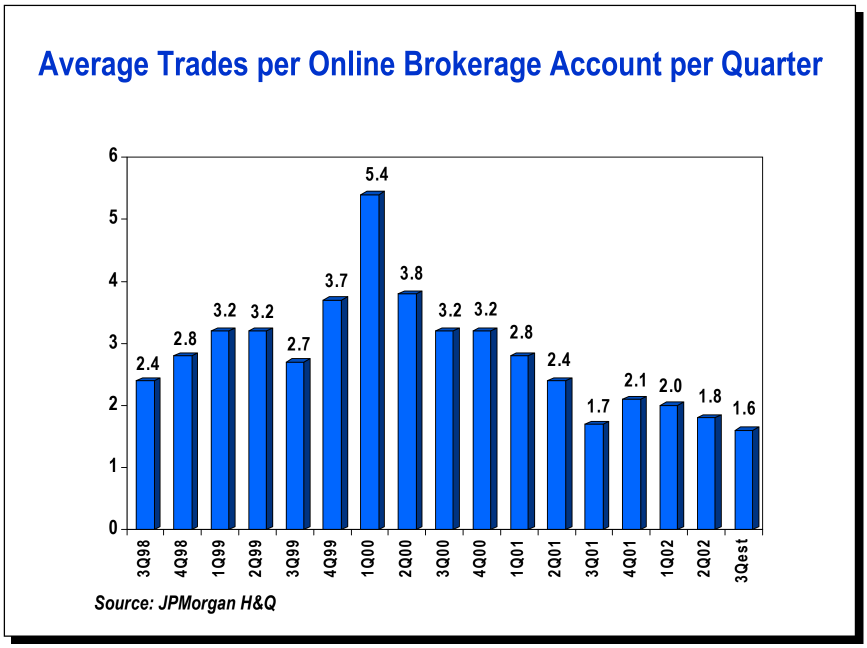
Market Share Of Industry Trades Through the Online Channel



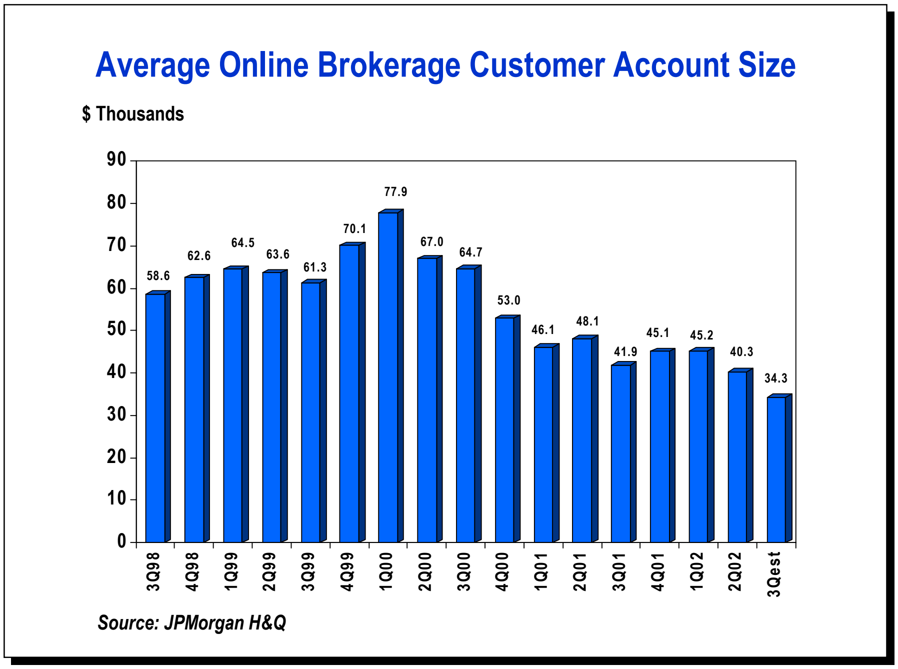
Source: JPMorgan H&Q

In the late 1990s, there was near unanimous agreement among analysts that a doubling of online accounts would occur between 2000 and 2002, and grow an additional 50% in 2003. While online accounts did grow during this period, it reached only a 20% cumulative growth rate, not 100%. Worse still was that this account growth did not necessarily translate into significantly increased activity or revenue dollars.

The online trader is decidedly offline today. In the current environment, online accounts on average are generating just one trade every two months versus nearly two trades every month only two years ago. Further, the average online account's size has been severely slashed, falling by more than half to $34,300 today from a peak of $77,900 two years ago.



Because we believe growth in retail activity, online's driver, will not return in any meaningful way until 2004, internet discounting is not now a viable profit center, if it ever was, for most firms for the foreseeable future. At a minimum, it is certainly not a business line to explore or expend additional capital on at this point in the retail cycle. Even the largest online discounters have begun raising commission rates, adding new products, consolidating with other firms. Datek-Ameritrade or E*Trade-TradeScape immediately come to mind this year. They are also expanding traditional brokerage businesses to either weather the storm or transform themselves permanently.



Retail's Still On the Run

Growth in retail brokerage has all but vanished and there is little doubt that it will be a long time before it returns. As the old saying goes, once all the cabbies and shoe-blacks finally have jumped into the market, it's time to sell – and that happened during the recent bubble, just as it did in 1929. In the 30 months since 1Q 2000, we've seen the Nasdaq collapse 75% to six year lows, the Dow Jones and S&P 500 tumble to five year lows, and retail activity crash by two-thirds. Retail investors have always been late to the party and they didn't begin arriving in droves for the latest one until early 1999 through early 2000. This surely helped the bubble. If the past is any indicator of their future behavior, we cannot expect to see retail activity back to its peak level until the end of the next up cycle. In the past it has taken retail activity twice as long to recover, on average, than the overall market itself. And this up-cycle has only just begun - maybe.

Online's One Sign of Hope

Although online assets and activity are decidedly down, the cumulative 20% increase in the account base since 2000, though yielding few dividends today, still demonstrates a core demand for self-directed, online financial services. This will eventually yield growth for the few focused firms which can tread water until retail's ship comes in again. These survivors are likely to emerge from the group of eight top online brokers who currently dominate, accounting for over 90% of all online accounts, assets and trades.

George R. Monahan
Vice President and Director, Industry Studies

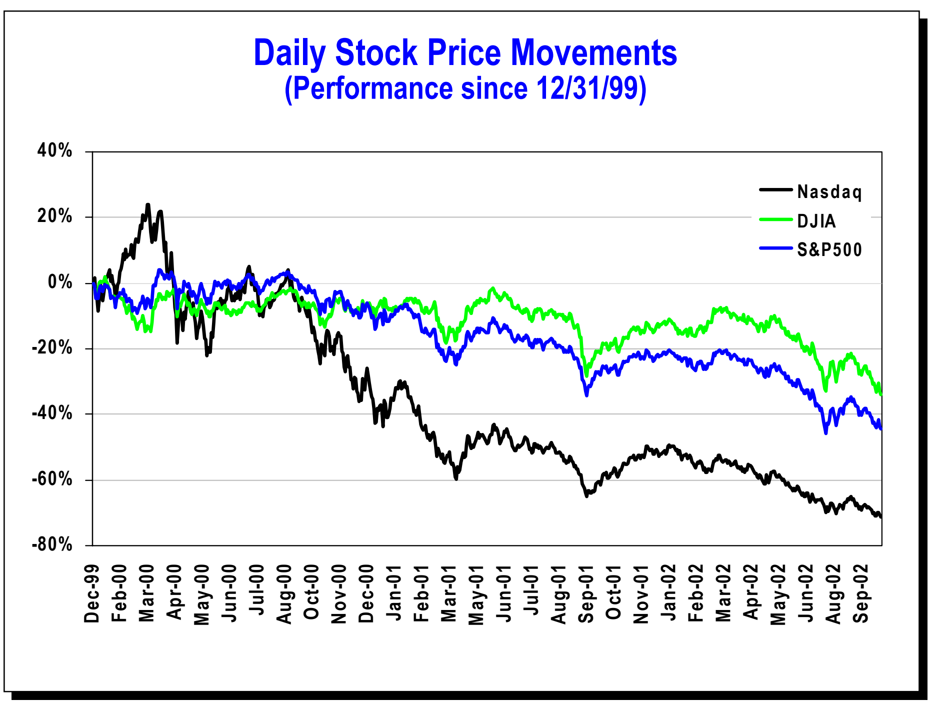
MONTHLY STATISTICAL REVIEW
And Third Quarter Roundup

U.S. Equity Market Activity

Stock Prices – After a brief rally in August, the US stock market sell-off resumed with a vengeance in September, a reflection of intensified worries about the fragile economic recovery, anemic corporate profits, corporate governance scandals, terrorism and the prospect of war with Iraq. All three of the market's major indexes registered four straight weekly losses in September and suffered their steepest monthly percentage declines of the year. The Dow Jones Industrial Average sank to 7591.93 by September's close and posted a 12.4% loss for the month, its worst monthly showing since August 1998. Indeed, blue-chip stocks have endured six straight months of near constant selling, something that hasn't happened since 1981. The broader-based S&P 500 Index dropped 11.0% in September to 815.28, yet was the only major index that managed to remain above its July low. Meanwhile, the Nasdaq Composite declined 10.9% to 1172.06, a fresh six-year low.

For the third quarter overall, the Dow was down 17.9%, its worst quarterly showing since it lost 25.3% in the fourth quarter of 1987. The S&P 500 fell 17.6% for the quarter, also the biggest drop since 1987. Stocks in the Nasdaq Composite slid 19.9%, just short of its 20.7% loss in the prior quarter.

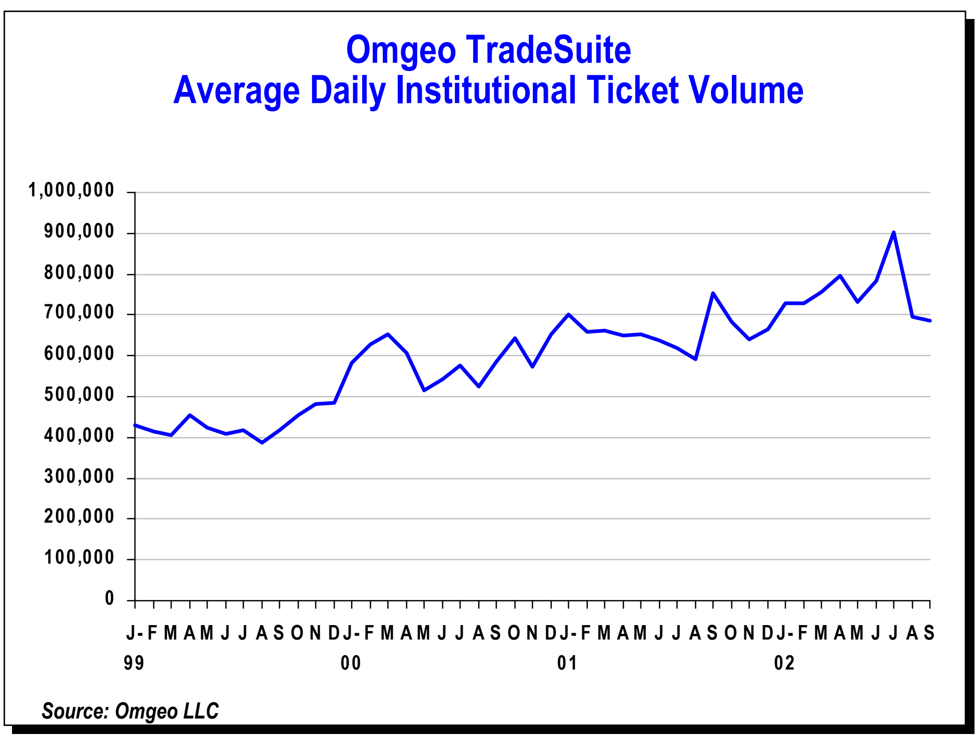
As a result, all the major market indexes registered double-digit losses through the first nine months of the year. The Nasdaq Composite Index has tumbled 39.9% and was 76.8% off its March 2000 peak. Meanwhile, the S&P 500 sank 29.0% through September and stood 46.6% below its all-time high set 2 ½ years ago. The DJIA lost 24.2% since the start of the year, and was down 35.2% from its January 2000 record level.



Since falling 5% during the first nine days in October to new lows, the stock market has staged an impressive two-week rally, with the S&P 500, DJIA and Nasdaq Composite climbing 15%, 17% and 19%, respectively, from their Oct. 9 lows. The advance was propelled by bargain hunting, short covering, and buying by professional money managers. Whether this rally will endure or prove to be just another bear bounce remains to be seen. Either way, the stock market seems headed for its third down year in a row.

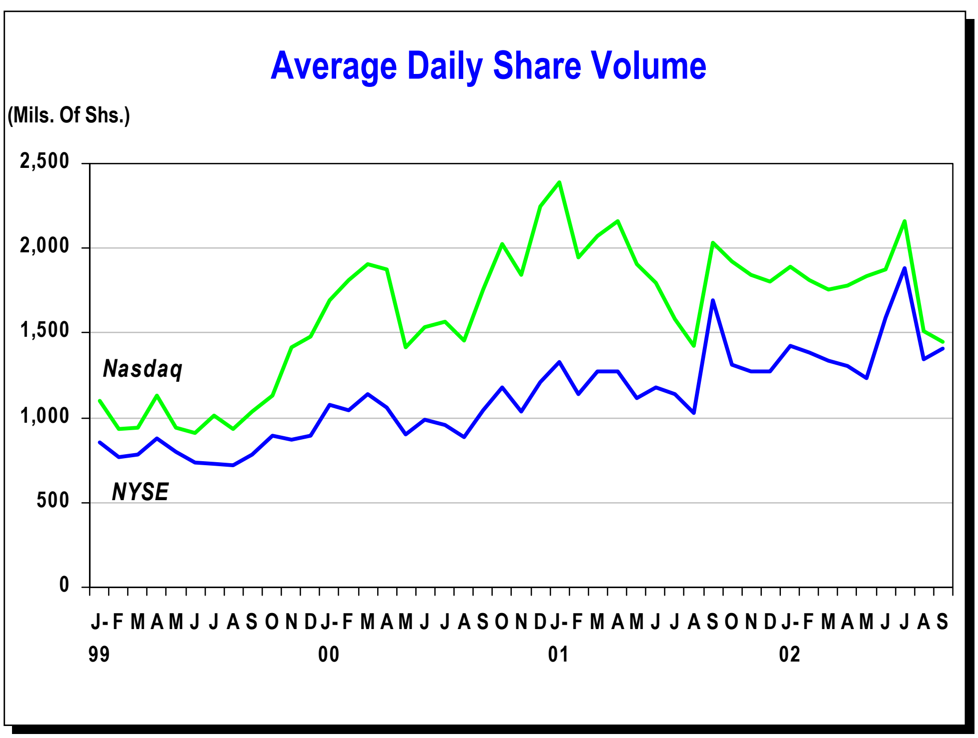
Global markets have been ravaged as well this year, as European markets also hit five and six year lows in the third quarter of 2002. Germany's Xetra DAX Index tumbled 37% for the quarter, and was down 46% through the first nine months of the year. London's FTSE 100 Index lost 20% in the third quarter and was down 29% year-to-date, while the Paris CAC 40 Index plunged 29% in 3Q'02 and 40% for the year. In Japan, the Nikkei Index ended the quarter down 12% and down 11% year to date. Global markets, as measured by the Dow Jones World Stock Index (excluding the US), plummeted 20% year-to-date, a reflection of both falling equity markets and a weaker dollar.

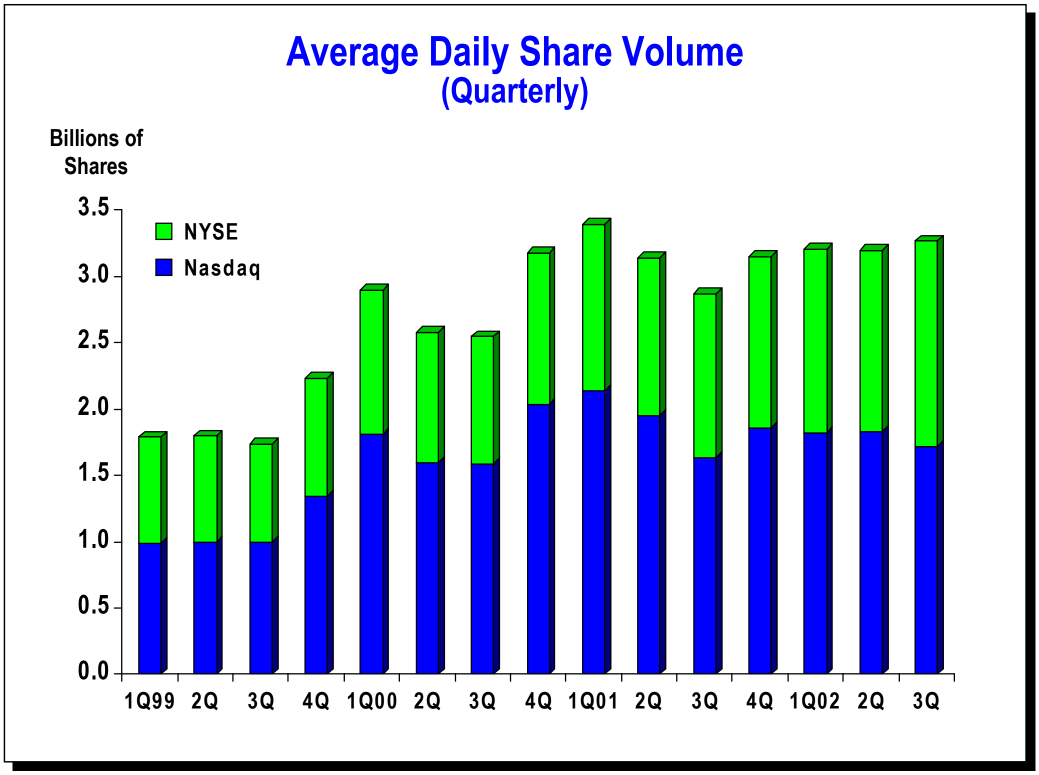
Trading Volume – Institutional trading activity has dropped off markedly from its heady level in July, when activity was hectic during the severe market downturn. Since peaking at a record 903,601 trades daily in July, institutional activity has tumbled to a 2002 monthly low of 685,151 trades per day in September. Despite this recent slowdown, the number of institutional trades processed daily through Omgeo TradeSuite on a year-to-date basis, at 757,731 trades daily, remains 15.4% ahead of the record pace reached in full-year 2001.



Share Volume – NYSE share volume has remained relatively strong throughout the year. After averaging 1.38 billion shares daily in the first half of 2002, volume soared to a monthly record 1.89 billion shares traded daily in July. Trading activity has since fallen back to levels seen earlier in the year, as volume in August and September averaged 1.34 billion and 1.41 billion shares daily, respectively. The strong showing in July, however, drove the 3Q'02 total to a record 1.55 billion daily, smashing the previous record of 1.38 billion shares daily set in this year's first quarter. Through the first nine months of 2002, NYSE volume averaged 1.44 billion shares daily, a 15.7% increase over the annual record pace of 1.24 billion per day set in 2001.

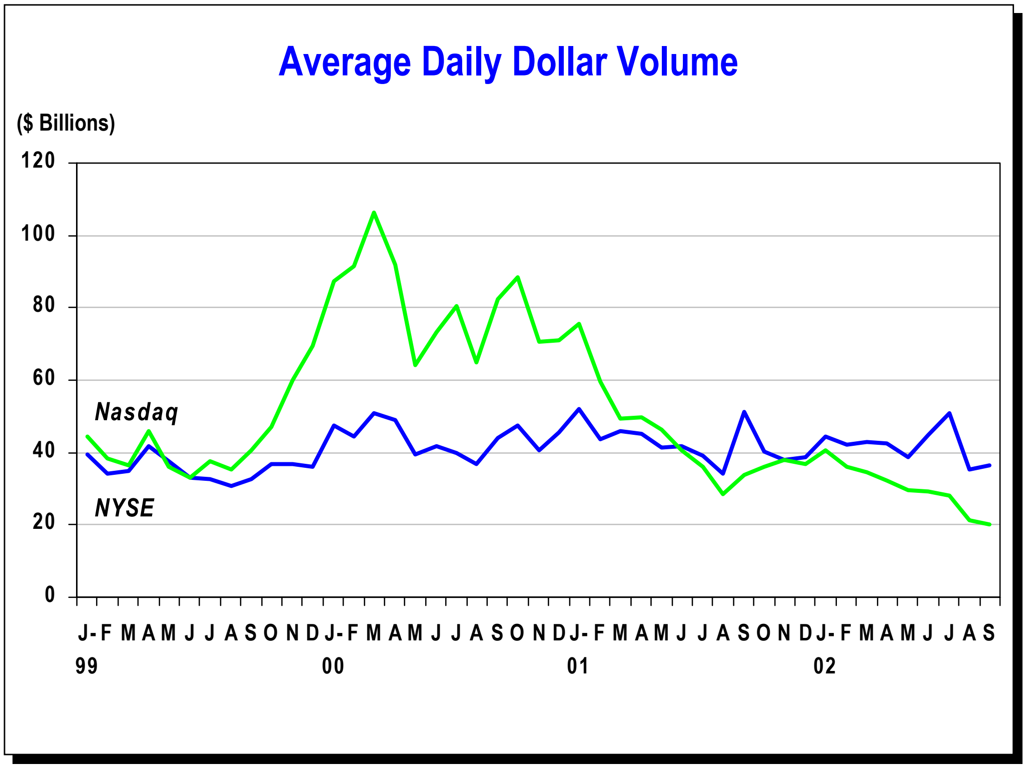
Trading volume on Nasdaq has fallen off sharply in the past two months. During the first and second quarters of 2002, volume averaged a respectable 1.83 billion shares daily. Volume then spiked in July to 2.16 billion daily (its fourth best monthly volume ever), before tumbling to a 13-month low of 1.45 billion shares daily in September. For the third quarter overall, Nasdaq volume averaged 1.71 billion shares per day, 19.9% below the record 2.14 billion daily share average set in 1Q'01 and its slowest pace since 3Q'01. For the first nine months of 2002, Nasdaq volume averaged 1.79 billion shares daily, 5.9% short of last year's average of 1.90 billion shares per day. Fortunately, trading activity has picked up in October amid the sharp stock market rebound.



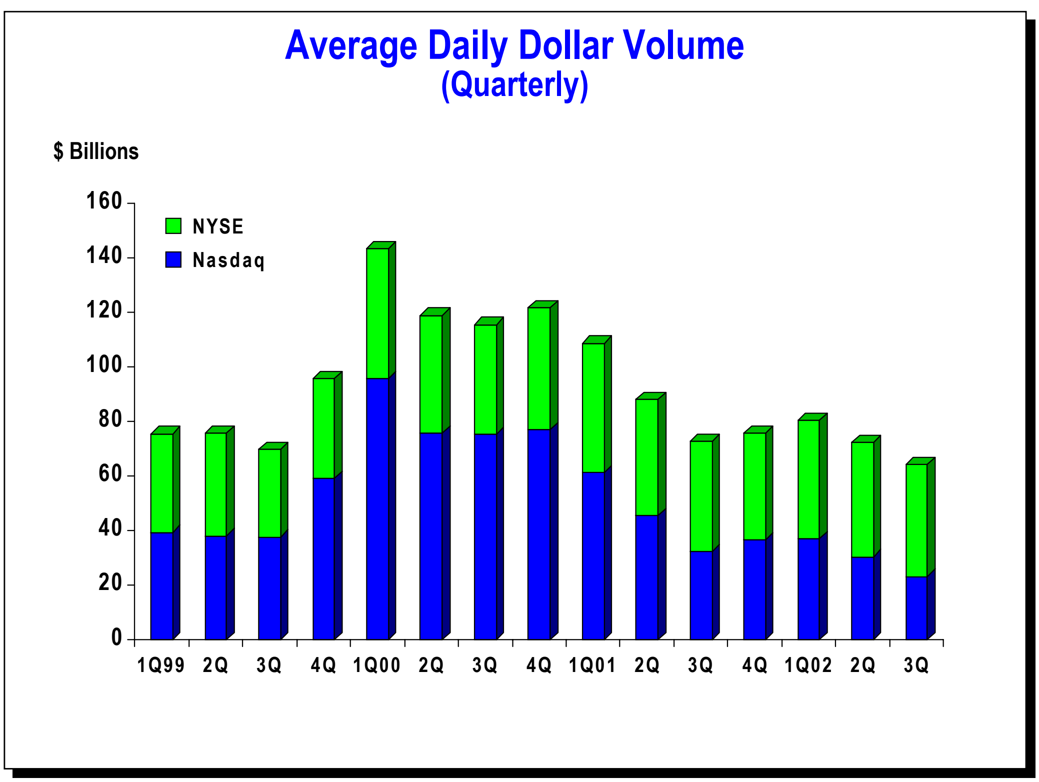


Dollar Volume – This year's downward trend in the dollar value of trading on Nasdaq continued through September. Due to severely declining stock prices and curtailed trading activity, Nasdaq dollar volume declined in each of the past eight months, falling from $40.8 billion daily in January to a four-year low of $20.2 billion daily in September. In 3Q'02, Nasdaq dollar volume averaged $23.3 billion daily, nearly one-fourth below 2Q'02's level and three-fourths below the record $95.6 billion daily average reached in 1Q'00. That brought the year-to-date average to $30.1 billion daily, a steep 31.7% drop from 2001's $44.1 billion daily average and 62.8% below the record $80.9 billion daily average set in 2000.

Dollar volume in NYSE stocks, which spiked to $50.9 billion daily in July on record trading activity, sank to a one-year low of $35.5 billion in August before increasing slightly to $36.3 billion in September. For the third quarter overall, the value of trading in NYSE stocks averaged $41.1 billion, just 2.2% short of 2Q'02's level and 14.0% lower than 1Q'00's record $47.8 billion daily average. Through the first nine months of 2002, NYSE dollar volume averaged $42.0 billion, just shy of 2001's $42.3 billion daily pace and 4.3% below the $43.9 billion daily record set in 2000. It is worth noting, however, that this is the first year since 1998 that dollar volume has been stronger on the NYSE than on Nasdaq.



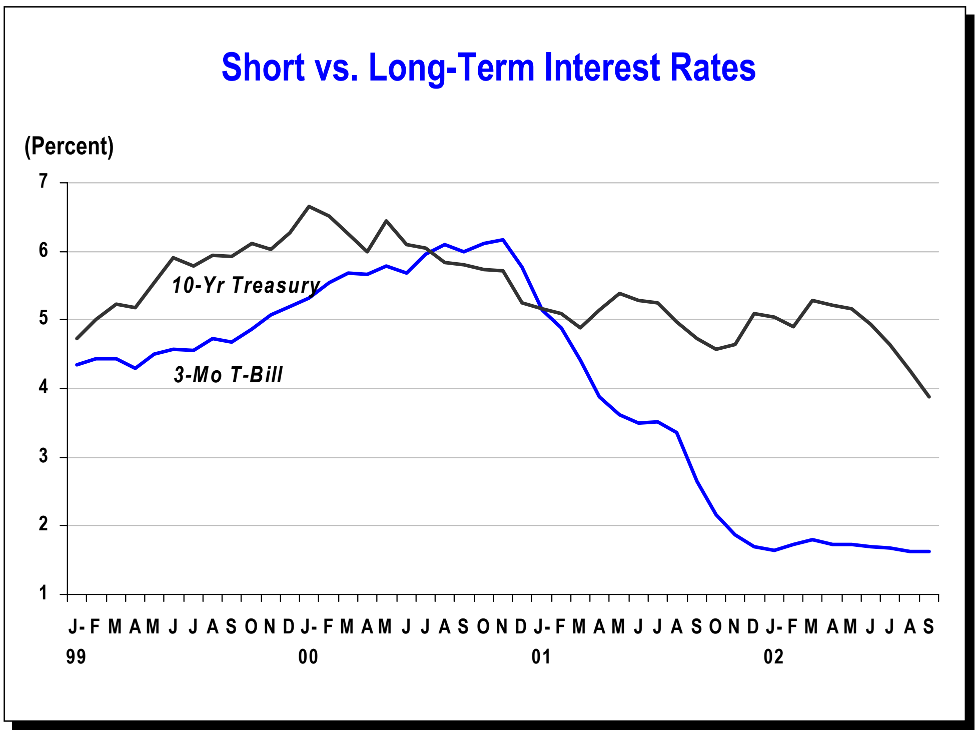
Average Daily Dollar Volume
($ Billions)
120
100
80
60
40
20
0
Nasdaq
NYSE
J-F M A M J J A S O N D J-F M A M J J A S O N D J-F M A M J J A S O N D J-F M A M J J A S
99
00
01
02



Average Daily Dollar Volume
(Quarterly)
$ Billions
160
140
120
100
80
60
40
20
0
NYSE
Nasdaq
1Q99 2Q 3Q 4Q 1Q00 2Q 3Q 4Q 1Q01 2Q 3Q 4Q 1Q02 2Q 3Q

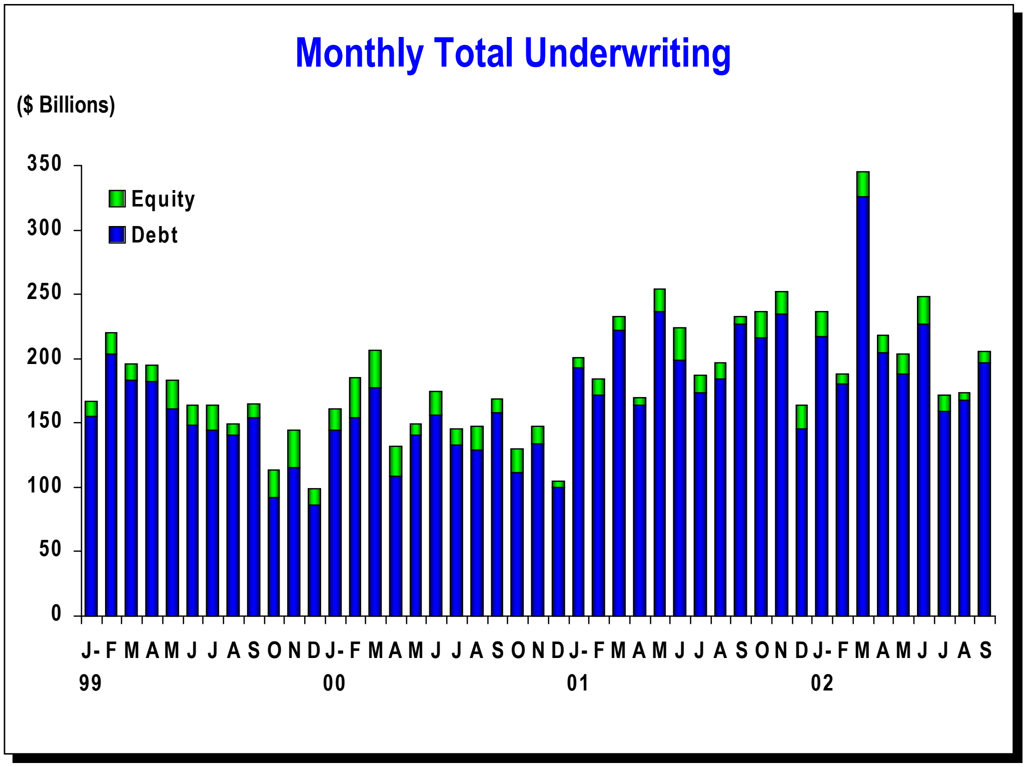
Interest Rates – With U.S. and global equity markets plummeting this year, investors have flocked to the relative safety of government securities, despite low yields, as they perceive few alternatives. The influx of money spurred the biggest six-month rally in Treasuries since 1995. The 10-year Treasury yield was driven down 141 basis points (bps) to 3.87% in September -- a 40-year low -- from 5.28% in March. Over that same time frame, yields on 3-month T-bills fell 16 bps to 1.63%. As a result, the yield spread between the 10-year Treasury and the 3-month T-bill has narrowed from a historically wide 349 bps in March to 224 bps in September.

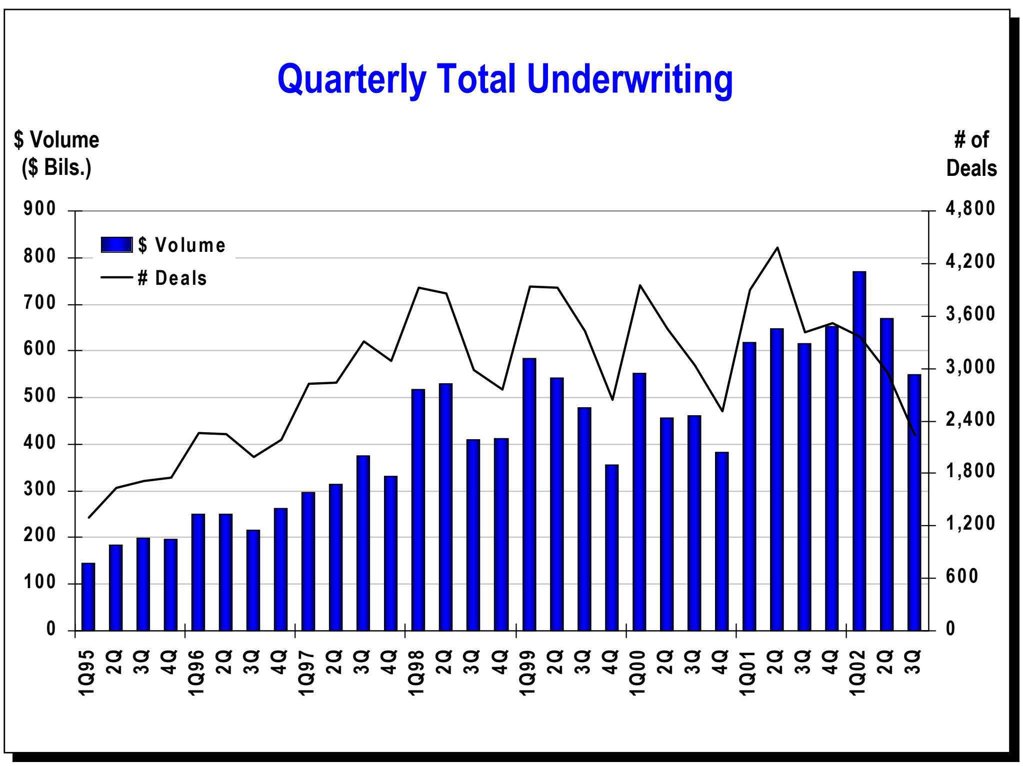
Bond market performance has been impressive this year. The Treasury market had a total return of 11.1% in this year's first nine months, according to Merrill Lynch's Treasury Master Index. Merrill's US Broad Market Index, which measures investment-grade bonds overall, including Treasuries, corporates, mortgages and agencies, returned 8.6% so far this year.



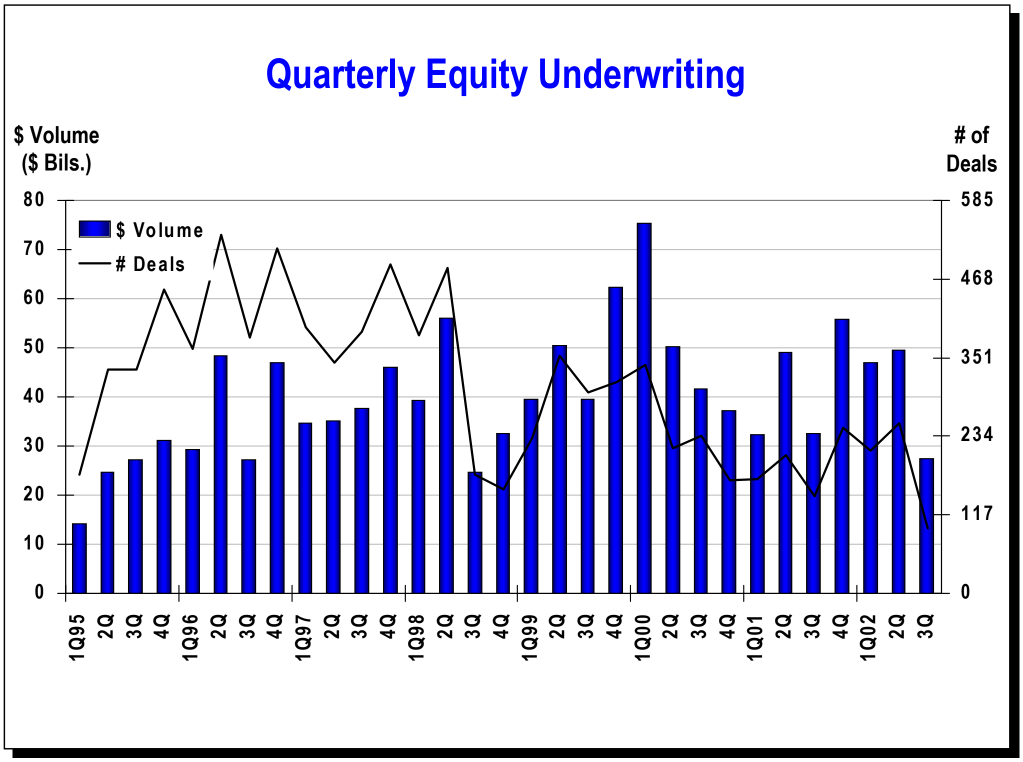
U.S. Underwriting Activity

Total Underwriting – Although rebounding in September, total underwriting activity in the U.S. market declined each quarter through this year's first nine months, from a record $769.7 billion in 1Q'02 to $550.1 billion in 3Q'02, its lowest level since 4Q'00. Nevertheless, buoyed by the record monthly volume in March, underwriting activity through the first nine months of the year increased 5.6% to nearly $2.0 trillion from $1.9 trillion during the comparable period in 2001. Volume this year has been driven up by a surge in asset-backed securities offerings, which is the only product on track to top its 2001 annual level.


Monthly Total Underwriting
($ Billions)
350
300
250
200
150
100
50
0
Equity
Debt
J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S
99
00
01
02

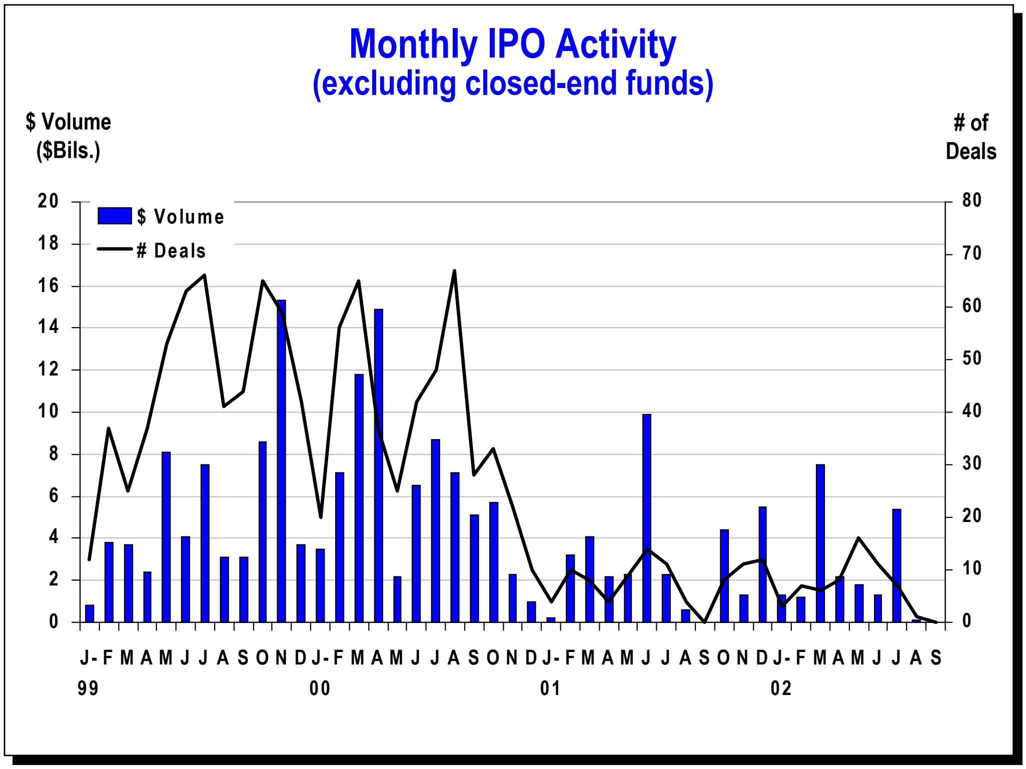

Quarterly Total Underwriting
$ Volume
($ Bils.)
of
Deals
900
800
700
600
500
400
300
200
100
0
4,800
4,200
3,600
3,000
2,400
1,800
1,200
600
0
$ Volume
# Deals
1Q95 2Q 3Q 4Q 1Q96 2Q 3Q 4Q 1Q97 2Q 3Q 4Q 1Q98 2Q 3Q 4Q 1Q99 2Q 3Q 4Q 1Q00 2Q 3Q 4Q 1Q01 2Q 3Q 4Q 1Q02 2Q 3Q

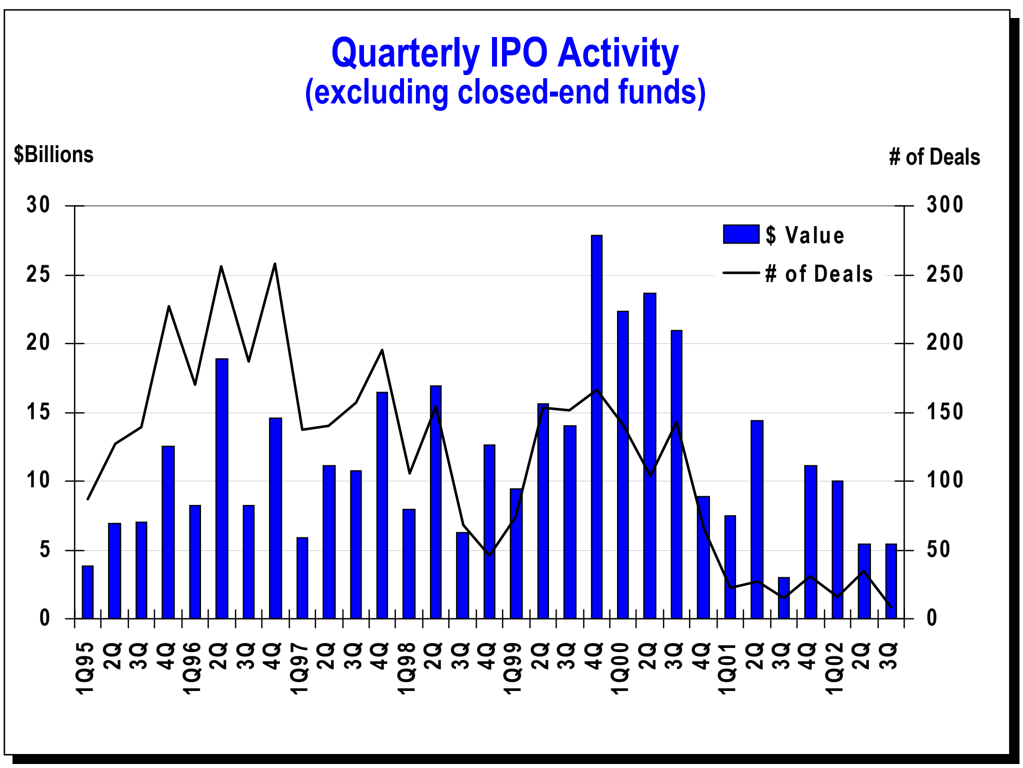
Equity Underwriting – Given the turbulent conditions in the stock market, common and preferred stock offerings slowed considerably in 3Q'02. Dollar proceeds plunged 44.6% from $49.6 billion in 2Q'02 to $27.5 billion in 3Q'02, the lowest level we have seen since 3Q'98. Despite the recent weakness in activity, equity underwriting through the first nine months of 2002 totaled $124.0 billion, representing an 8.8% increase from $114.0 billion in the same period a year ago.



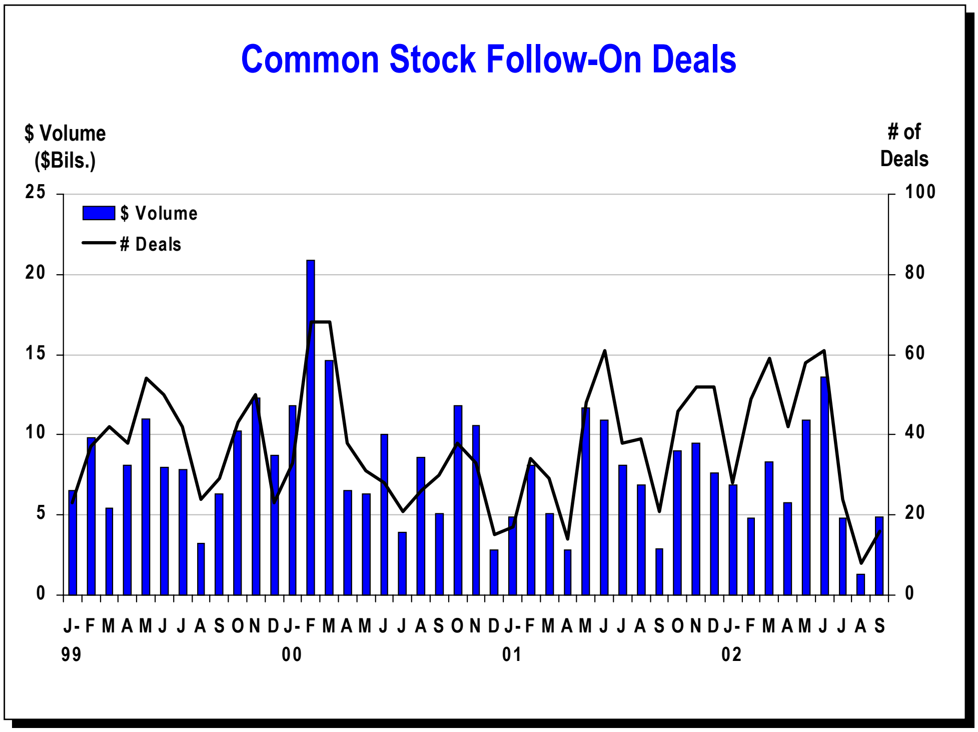
The IPO market ground to a halt in September, as it was the first month since September 2001 in which there were no IPOs (excluding closed-end funds). During the third quarter of 2002, $5.4 billion was raised via eight deals, the slowest deal volume since 1980. Just one deal alone, the spin-off of CIT Group Inc. from Tyco International Ltd. in July accounted for $4.6 billion, or 88%, of the $5.4 billion raised in the quarter. Year-to-date through September, activity is down 16.5% to $20.8 billion from $24.9 billion in last year's comparable period.

The outlook for this market remains bleak, as difficult market conditions and a lack of investor interest have resulted in a number of deals being postponed or cancelled recently. In addition, market participants note that in the current environment, there are only about a dozen deals, expected to raise roughly $2 billion, that have a chance to get done by the end of the year.


Monthly IPO Activity
(excluding closed-end funds)
$ Volume
($Bils.)
of
Deals
$ Volume
# Deals
20
18
16
14
12
10
8
6
4
2
0
80
70
60
50
40
30
20
10
0
J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S O N D J- F M A M J J A S
99
00
01
02

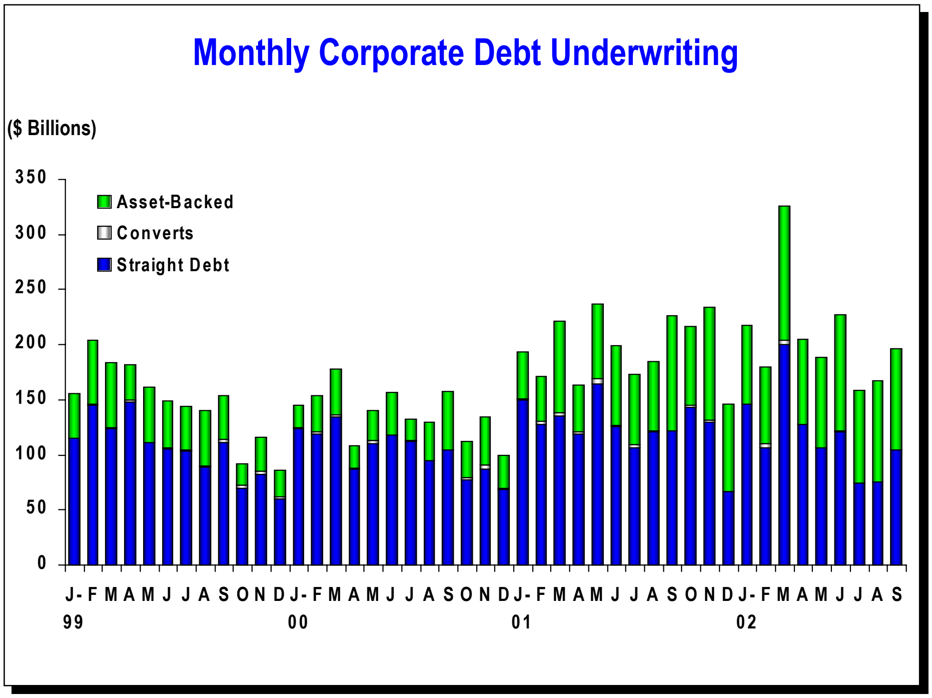

Quarterly IPO Activity
(excluding closed-end funds)
$Billions
# of Deals
$ Value
# of Deals
30
25
20
15
10
5
0
300
250
200
150
100
50
0
1Q95 2Q 3Q 4Q 1Q96 2Q 3Q 4Q 1Q97 2Q 3Q 4Q 1Q98 2Q 3Q 4Q 1Q99 2Q 3Q 4Q 1Q00 2Q 3Q 4Q 1Q01 2Q 3Q 4Q 1Q02 2Q 3Q

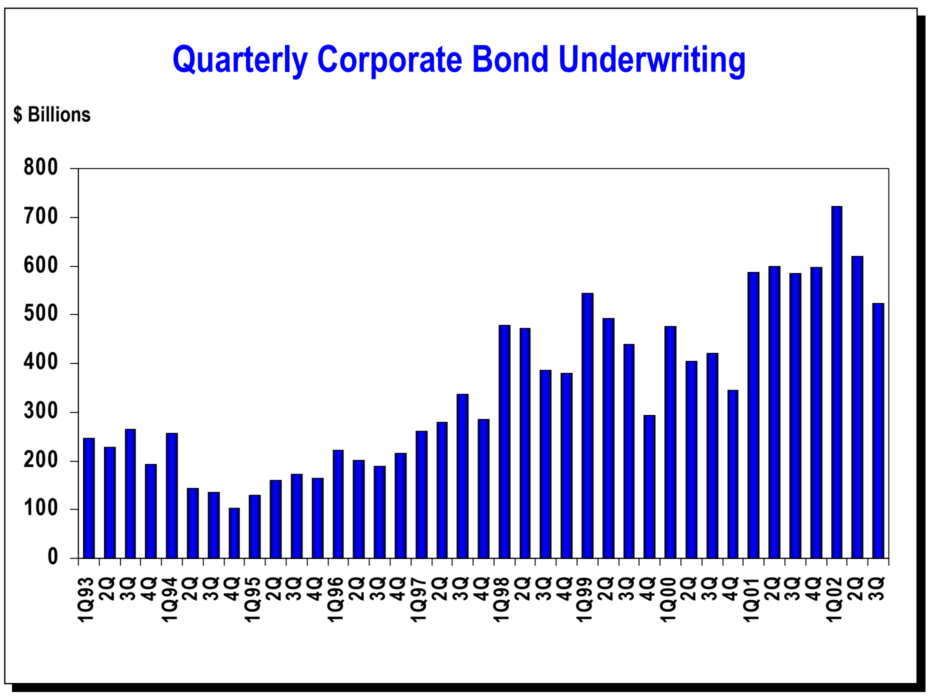
After raising $20.0 billion in 1Q'02, follow-on common stock offerings surged over 50% in 2Q'02 to $30.3 billion. Two of the largest deals of the year were completed in the second quarter: Accenture's $1.87 billion deal in May, and AT&T Corp.'s $2.25 billion offering in June (the largest of the year). Since then, follow-on volume has slowed considerably. A mere $11.0 billion was raised in 3Q'02, down 36.3% from 2Q'02's level and its lowest level in four years. That brought the year-to-date total to $61.2 billion, just shy of the $61.5 billion raised in last year's comparable period.



Corporate Bond Underwriting – Corporations rushed to issue new securities early in the year to take advantage of record low interest rates. This was evident in the phenomenal record volume of $325.5 billion in March. Activity dropped off markedly to a 2002 low of $158.8 billion in July as worries about corporate credit quality plagued the market. Despite a slight pickup in activity to $196.4 billion in September, volume in 3Q02 totaled a mere $522.6 billion, the lowest since 4Q'00. Driven by record volume in 1Q'02, corporate bond underwriting volume totaled roughly $1.87 trillion in the first nine months of 2002, a 5.4% increase over the $1.77 trillion raised in last year's comparable period.

As mentioned earlier, asset-backed securities were the only debt product to register an increase over last year's results, primarily due to the record level of refinancing activity in residential real estate. During the first nine months of 2002, asset backed bond issuance totaled $795.3 billion, up 37.3% from the $579.4 billion issued in the same period a year ago.





Grace Toto
Assistant Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In $ Billions)

	Straight Corporate Debt	Con-vertible Debt	Asset-Backed Debt	**TOTAL DEBT**	High-Yield Bonds	Common Stock	Preferred Stock	**TOTAL EQUITY**	All IPOs	Follow-Ons	**TOTAL UNDER-WRITINGS**
1985	76.4	7.5	20.8	104.7	14.2	24.7	8.6	33.3	8.5	16.2	138.0
1986	149.8	10.1	67.8	227.7	31.9	43.2	13.9	57.1	22.3	20.9	284.8
1987	117.8	9.9	91.7	219.4	28.1	41.5	11.4	52.9	24.0	17.5	272.3
1988	120.3	3.1	113.8	237.2	27.7	29.7	7.6	37.3	23.6	6.1	274.5
1989	134.1	5.5	135.3	274.9	25.3	22.9	7.7	30.6	13.7	9.2	305.5
1990	107.7	4.7	176.1	288.4	1.4	19.2	4.7	23.9	10.1	9.0	312.3
1991	203.6	7.8	300.0	511.5	10.0	56.0	19.9	75.9	25.1	30.9	587.4
1992	319.8	7.1	427.0	753.8	37.8	72.5	29.3	101.8	39.6	32.9	855.7
1993	448.4	9.3	474.8	932.5	55.2	102.4	28.4	130.8	57.4	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	33.3	61.4	15.5	76.9	33.7	27.7	716.4
1995	466.0	6.9	152.4	625.3	28.9	82.0	15.1	97.1	30.2	51.8	722.4
1996	564.8	9.3	252.9	827.0	37.2	115.5	36.5	151.9	50.0	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	31.4	120.2	33.3	153.4	44.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	42.9	115.0	37.8	152.7	43.7	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	36.6	164.3	27.5	191.7	66.8	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	25.2	189.1	15.4	204.5	76.1	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	30.6	128.4	41.3	169.7	40.8	87.6	2,535.1
<u>2001</u>											
Jan	149.6	1.7	41.7	193.0	5.9	5.4	2.7	8.1	0.5	4.9	201.1
Feb	127.5	3.3	40.5	171.3	4.1	11.3	1.5	12.8	3.2	8.1	184.1
Mar	135.5	2.3	83.8	221.6	1.3	10.1	1.4	11.5	5.0	5.1	233.1
Apr	119.3	1.1	42.9	163.4	3.1	5.0	1.5	6.5	2.2	2.8	169.9
May	164.8	4.8	67.0	236.6	3.1	14.4	3.3	17.8	2.7	11.7	254.4
June	126.1	1.0	71.9	199.0	3.6	21.4	3.5	24.9	10.5	10.9	223.8
July	106.8	2.6	63.9	173.3	0.2	10.6	3.3	13.9	2.5	8.1	187.2
Aug	121.2	0.2	63.0	184.4	2.7	7.6	4.7	12.3	0.6	6.9	196.7
Sept	121.8	0.0	104.6	226.5	0.2	2.9	3.4	6.3	0.0	2.9	232.8
Oct	142.8	2.7	70.8	216.4	1.9	13.7	6.7	20.4	4.8	9.0	236.8
Nov	129.3	1.9	102.9	234.2	3.1	12.4	5.2	17.6	2.9	9.5	251.8
Dec	66.4	0.0	79.4	145.8	1.4	13.6	4.1	17.7	6.0	7.6	163.4
<u>2002</u>											
Jan	145.9	0.2	71.2	217.3	4.8	8.6	10.8	19.4	1.8	6.9	236.7
Feb	106.2	3.8	70.2	180.1	1.2	6.7	1.2	7.9	1.9	4.8	188.0
Mar	200.6	3.2	121.7	325.5	4.2	16.9	2.7	19.6	8.5	8.3	345.0
Apr	127.2	0.0	77.5	204.8	2.6	8.7	4.4	13.1	2.9	5.8	217.9
May	106.4	0.1	81.7	188.3	0.1	13.3	1.6	14.9	2.4	10.9	203.2
June	121.3	0.4	105.1	226.8	2.8	17.6	4.0	21.6	4.1	13.6	248.4
July	74.3	0.4	84.2	158.8	0.4	11.0	1.6	12.5	6.1	4.8	171.4
Aug	75.2	0.0	92.2	167.4	0.4	3.8	2.0	5.7	2.5	1.3	173.2
Sept	104.8	0.0	91.6	196.4	1.0	7.2	2.0	9.2	2.4	4.9	205.6
Oct											
Nov											
Dec											
YTD '01	1,172.7	17.0	579.4	1,769.1	24.2	88.7	25.3	114.0	27.2	61.5	1,883.1
YTD '02	1,062.0	8.1	795.3	1,865.3	17.4	93.8	30.2	124.0	32.6	61.2	1,989.3
% Change	-9.4%	-52.5%	37.3%	5.4%	-27.8%	5.8%	19.4%	8.8%	19.9%	-0.5%	5.6%

Note: High-yield bonds is a subset of straight corporate debt. IPOs and follow-ons are subsets of common stock.
Source: Thomson Financial Securities Data

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
2001										
Jan	1.2	4.9	6.1	4.4	1.9	6.3	12.4	5.15	5.16	0.01
Feb	0.9	10.3	11.2	4.7	5.1	9.8	21.0	4.88	5.10	0.22
Mar	1.2	16.2	17.4	2.7	5.1	7.8	25.1	4.42	4.89	0.47
Apr	1.0	10.5	11.5	3.6	3.5	7.1	18.6	3.87	5.14	1.27
May	1.2	18.5	19.7	4.4	4.5	8.9	28.6	3.62	5.39	1.77
June	1.8	18.1	19.9	5.1	4.8	9.9	29.9	3.49	5.28	1.79
July	1.5	13.1	14.7	3.8	2.3	6.1	20.8	3.51	5.24	1.73
Aug	1.6	12.6	14.2	3.9	5.8	9.7	23.9	3.36	4.97	1.61
Sept	0.9	9.1	10.0	2.2	2.0	4.2	14.1	2.64	4.73	2.09
Oct	3.1	15.1	18.2	4.8	9.0	13.8	32.0	2.16	4.57	2.41
Nov	2.0	18.2	20.2	3.4	5.8	9.2	29.4	1.87	4.65	2.78
Dec	1.1	17.6	18.8	2.5	6.5	9.0	27.8	1.69	5.09	3.40
2002										
Jan	1.1	12.3	13.4	4.3	3.8	8.1	21.5	1.65	5.04	3.39
Feb	1.5	10.6	12.1	4.9	3.9	8.9	20.9	1.73	4.91	3.18
Mar	1.7	13.0	14.6	4.9	5.5	10.5	25.1	1.79	5.28	3.49
Apr	2.3	14.4	16.7	4.4	4.0	8.5	25.2	1.72	5.21	3.49
May	2.4	20.7	23.1	4.1	6.8	10.9	34.0	1.73	5.16	3.43
June	1.5	20.3	21.8	5.2	11.5	16.7	38.5	1.70	4.93	3.23
July	1.1	15.8	16.9	4.8	6.1	10.8	27.7	1.68	4.65	2.97
Aug	0.7	20.1	20.8	3.8	6.6	10.4	31.1	1.62	4.26	2.64
Sept	1.1	16.4	17.4	4.1	5.4	9.5	26.9	1.63	3.87	2.24
Oct										
Nov										
Dec										
YTD '01	11.4	113.2	124.6	34.8	35.0	69.8	194.4	3.88	5.10	1.22
YTD '02	13.2	143.4	156.7	40.6	53.7	94.2	250.9	1.69	4.81	3.12
% Change	16.5%	26.7%	25.8%	16.6%	53.3%	35.0%	29.1%	-56.4%	-5.6%	156.0%

Sources: Thomson Financial Securities Data; Federal Reserve

STOCK MARKET PERFORMANCE INDICES

(End of Period)

STOCK MARKET VOLUME

(Daily Avg., Mils. of Shs.)

VALUE TRADED

(Daily Avg., $ Bils.)

	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	121.58	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	138.58	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	138.23	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	156.26	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	195.04	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	180.49	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	229.44	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	240.21	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	259.08	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	250.94	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	329.51	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	392.30	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	511.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	595.81	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	650.30	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	656.87	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	589.80	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2001									
Jan	10,887.36	1,366.01	663.64	2,772.73	1,325.9	72.5	2,387.3	52.0	75.6
Feb	10,495.28	1,239.94	626.94	2,151.83	1,138.5	70.9	1,947.6	43.8	59.7
Mar	9,878.78	1,160.33	595.66	1,840.26	1,271.4	82.5	2,071.4	45.9	49.2
Apr	10,734.97	1,249.46	634.83	2,116.24	1,276.5	78.4	2,162.8	45.1	49.6
May	10,911.94	1,255.82	641.67	2,110.49	1,116.7	66.7	1,909.1	41.4	46.4
June	10,502.40	1,224.42	621.76	2,160.54	1,175.0	63.8	1,793.9	41.6	40.6
July	10,522.81	1,211.23	616.94	2,027.13	1,137.1	56.0	1,580.7	39.0	36.0
Aug	9,949.75	1,133.58	587.84	1,805.43	1,025.7	49.1	1,426.4	34.0	28.4
Sept	8,847.56	1,040.94	543.84	1,498.80	1,694.4	72.8	2,033.0	51.2	33.9
Oct	9,075.14	1,059.78	546.34	1,690.20	1,314.3	67.8	1,926.0	40.1	36.1
Nov	9,851.56	1,139.45	579.27	1,930.58	1,270.1	57.8	1,840.3	38.1	37.8
Dec	10,021.50	1,148.08	589.80	1,950.40	1,275.3	54.1	1,807.0	38.8	36.2
2002									
Jan	9,920.00	1,130.20	578.50	1,934.03	1,425.9	56.1	1,888.7	44.5	40.8
Feb	10,106.13	1,106.73	578.60	1,731.49	1,381.8	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	600.43	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	574.18	1,688.23	1,307.3	55.4	1,779.0	42.4	32.1
May	9,925.25	1,067.14	570.78	1,615.73	1,234.2	61.5	1,834.2	38.9	29.8
June	9,243.26	989.82	533.07	1,463.21	1,587.0	66.9	1,877.1	44.8	29.4
July	8,736.59	911.62	491.37	1,328.26	1,886.3	79.0	2,158.2	50.9	28.1
Aug	8,663.50	916.07	495.55	1,314.85	1,341.4	58.4	1,509.0	35.5	21.2
Sept	7,591.93	815.28	445.44	1,172.06	1,409.0	90.3	1,451.5	36.3	20.2
Oct									
Nov									
Dec									
YTD '01	8,847.56	1,040.94	543.84	1,498.80	1,223.4	67.7	1,913.8	43.4	46.7
YTD '02	7,591.93	815.28	445.44	1,172.06	1,435.0	64.5	1,787.2	42.0	30.1
% Change	-14.2%	-21.7%	-18.1%	-21.8%	17.3%	-4.7%	-6.6%	-3.3%	-35.4%

MUTUAL FUND ASSETS

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL ASSETS**
1985	116.9	12.0	122.6	243.8	495.4
1986	161.4	18.8	243.3	292.2	715.7
1987	180.5	24.2	248.4	316.1	769.2
1988	194.7	21.1	255.7	338.0	809.4
1989	248.8	31.8	271.9	428.1	980.7
1990	239.5	36.1	291.3	498.3	1,065.2
1991	404.7	52.2	393.8	542.5	1,393.2
1992	514.1	78.0	504.2	546.2	1,642.5
1993	740.7	144.5	619.5	565.3	2,070.0
1994	852.8	164.5	527.1	611.0	2,155.4
1995	1,249.1	210.5	598.9	753.0	2,811.5
1996	1,726.1	252.9	645.4	901.8	3,526.3
1997	2,368.0	317.1	724.2	1,058.9	4,468.2
1998	2,978.2	364.7	830.6	1,351.7	5,525.2
1999	4,041.9	383.2	808.1	1,613.1	6,846.3
2000	3,962.0	346.3	811.1	1,845.2	6,964.7
2001	3,418.2	346.3	925.1	2,285.3	6,975.0
2001					
Jan	4,093.5	354.9	833.3	1,954.8	7,236.5
Feb	3,688.9	344.9	844.5	2,018.7	6,897.0
Mar	3,402.9	333.7	852.1	2,035.5	6,624.2
Apr	3,715.7	348.0	846.0	2,031.5	6,941.2
May	3,744.6	352.6	858.4	2,070.9	7,026.5
June	3,677.2	349.9	860.8	2,052.5	6,940.4
July	3,589.3	351.7	882.3	2,069.8	6,893.1
Aug	3,382.7	342.6	908.3	2,104.3	6,737.9
Sept	3,018.9	324.1	909.6	2,161.7	6,414.3
Oct	3,111.2	330.3	935.2	2,239.7	6,616.4
Nov	3,348.6	343.0	934.1	2,306.5	6,932.2
Dec	3,418.2	346.3	925.1	2,285.3	6,975.0
2002					
Jan	3,373.5	347.2	947.0	2,303.5	6,971.2
Feb	3,312.0	348.4	962.7	2,301.2	6,924.3
Mar	3,497.4	359.2	958.4	2,247.2	7,062.2
Apr	3,369.5	354.5	980.8	2,230.8	6,935.7
May	3,343.3	356.4	994.3	2,229.8	6,923.8
June	3,089.6	341.4	1,003.6	2,196.5	6,631.1
July	2,770.3	320.7	1,033.2	2,254.6	6,378.8
Aug	2,782.0	324.9	1,064.1	2,218.2	6,389.2
Sept					
Oct					
Nov					
Dec					
YTD '01	3,382.7	342.6	908.3	2,104.3	6,737.9
YTD '02	2,782.0	324.9	1,064.1	2,218.2	6,389.2
% Change	-17.8%	-5.2%	17.2%	5.4%	-5.2%

MUTUAL FUND NET NEW CASH FLOW*

($ Billions)

	Equity	Hybrid	Bond	Money Market	**TOTAL**	Total Long-Term Funds
1985	8.5	1.9	63.2	-5.4	68.2	73.6
1986	21.7	5.6	102.6	33.9	163.8	129.9
1987	19.0	4.0	6.8	10.2	40.0	29.8
1988	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	5.8	4.2	-1.2	64.1	72.8	8.8
1990	12.8	2.2	6.2	23.2	44.4	21.2
1991	39.4	8.0	58.9	5.5	111.8	106.3
1992	78.9	21.8	71.0	-16.3	155.4	171.7
1993	129.4	39.4	73.3	-14.1	228.0	242.1
1994	118.9	20.9	-64.6	8.8	84.1	75.2
1995	127.6	5.3	-10.5	89.4	211.8	122.4
1996	216.9	12.3	2.8	89.4	321.3	232.0
1997	227.1	16.5	28.4	102.1	374.1	272.0
1998	157.0	10.2	74.6	235.3	477.1	241.8
1999	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	32.2	9.5	87.8	375.3	504.8	129.6
2001						
Jan	24.9	2.5	9.0	103.5	139.9	36.4
Feb	-3.3	1.3	8.9	58.2	65.1	6.8
Mar	-20.7	-0.4	7.7	13.7	0.4	-13.3
Apr	19.1	1.2	1.4	-10.5	11.2	21.7
May	18.4	0.9	6.3	34.3	59.8	25.6
June	10.9	1.2	2.3	-24.2	-9.8	14.3
July	-1.3	1.3	9.3	12.2	21.5	9.3
Aug	-5.0	-0.7	16.7	26.1	37.2	11.0
Sept	-30.0	-1.3	7.7	52.9	29.3	-23.6
Oct	0.9	1.6	13.6	74.2	90.2	16.0
Nov	15.3	1.0	6.9	60.3	83.5	23.2
Dec	2.9	1.0	-1.9	-25.4	-23.3	2.1
2002						
Jan	20.0	2.2	10.5	14.0	46.7	32.7
Feb	5.4	2.3	10.7	-5.5	12.9	18.4
Mar	29.6	3.3	6.7	-53.1	-13.4	39.7
Apr	12.9	3.3	7.8	-19.5	4.5	24.0
May	4.9	1.5	10.6	-4.3	12.6	16.9
June	-18.3	0.4	12.2	-43.6	-49.2	-5.6
July	-52.6	-4.7	28.1	54.6	25.4	-29.2
Aug	-2.9	0.5	17.4	-38.4	-23.4	15.0
Sept						
Oct						
Nov						
Dec						
YTD '01	43.1	7.3	61.6	213.3	325.2	111.9
YTD '02	-1.0	8.9	103.9	-95.7	16.1	111.8
% Change	-102.3%	22.7%	68.8%	-144.9%	-95.1%	0.0%

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

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