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NEW BUSINESS MODELS FOR SECURITIES RESEARCH

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YEAR-END 2003 STATISTICAL REVIEW

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NEW BUSINESS MODELS FOR SECURITIES RESEARCH

Summary

New equity research business models are rapidly emerging. The new business models are the product of structural changes, induced largely by dramatic alteration of the regulatory landscape. This in turn is transforming virtually every aspect of how research is produced, distributed and funded. The practical issues of managing the provision of research, such as compensation, communications, conduct and quality control, have been made more challenging by the need to ensure compliance with an evolving set of new regulatory rules. Additional challenges are imposed by budget reductions, intense public scrutiny, changing public preferences for research and a revolution in communications and information technologies. The mix of skills required to meet these added demands is also altering the profile of research management and, of course, research managers. Complicating the task is the need to draw and re-draw the “blueprints” for these new business models, due to the evolving nature of regulatory changes and the challenges they pose.

Management of research providers has had to redefine the roles and responsibilities of research analysts and the process of preparing and distributing research in order to comply with evolving reporting and disclosure rules, while simultaneously meeting the budget constraints imposed on an industry whose revenues had been in broad decline for three straight years. To meet these challenges many managers have sought cost savings and improvements in efficiency through a number of approaches, including: greater standardization or streamlining of research preparation and distribution; increased outsourcing; reduced coverage of individual stocks; provision of research only to institutional investors; discontinuation of investment banking activities; and, reductions in research staff and their average compensation.

Integrating compliance officers into research departments, recruiting additional supervisory analysts and investing in recruitment, training and recertification of analysts have posed additional challenges. Further management challenges arise as the pool of seasoned analysts shrinks amid compensation declines. Monitoring communications and dissemination of research reports have been both facilitated and complicated by technological change and cross-border integration. Upgrading the technology the U.S. Securities and Exchange Commission employs to provide issuer financial data would go a long way towards reducing high fixed costs associated with the provision of financial analysis. This would improve public access, which in turn would lower barriers to entry and help level the “playing field” in the business of securities research.

The following report will attempt to map these trends and provide a blueprint for new securities research business models. It draws on information gathered from two SIA conferences on these issues, at end-March and end-October 2003; survey information from research directors and managers; a flood of legislative, supervisory and regulatory releases; and, conversations with market participants.

The Changing Roles of Analysts

Market participants generally believe that despite the dramatic shifts in the regulatory landscape and other on-going market structure changes, how analysis *should* be performed changes very little over time, largely because what makes a company more or less valuable is relatively immutable. As a result, most traditional roles of analysts persist, although those activities are more narrowly proscribed and more actively monitored so as to minimize regulatory risks, while other roles have effectively been eliminated.

The principal, defining role of a research analyst is to perform diligent and thorough investigations of individual securities, companies and industries and present that analysis in the form of a research report that could be used to form the basis of an investment recommendation. This process includes investigative, analytical and selective functions, some of which benefit from the pressures to increase efficiency and reduce costs, others of which do not, but all of which are subject to increased scrutiny and additional monitoring, reporting and disclosure requirements.

An equity analyst is expected to examine the financial condition of a selected number of publicly traded companies that are believed to be of potential investment value. This examination covers a broad range of publicly available information, financial statements, industry research, interviews of company executives and extensive exploration of all facets of a business. An analyst performing fundamental analysis will examine, among other things, historical earnings, ownership of assets, outstanding contracts, and other business factors, while a quantitative analyst will concentrate on applying statistical analysis techniques to as broad as possible a sample of meaningful and accurate data.

This aggregative or investigative function is the descriptive part of the research process that lends itself most to streamlining or commoditization. Most of this function involves the collection and preparation of standard statistical measures used for ratio, cash flow and valuation analysis of company data. Cost savings have been realized by accomplishing these tasks with more formalized processes and delegating them to computerized activities staffed by more junior employees or by outsourcing them entirely.

Interpretation of this data is a more sophisticated and complex task, more the work of a true research analyst and lends itself less to standardization and outsourcing. This activity draws on industry expertise, company and industry contact, grass roots research, site/plant visits, comparative analysis and other methods of “filling in the mosaic” that involve elements of subjective judgment. Successful analysts are expected to make evaluations of a company’s recent and expected earnings, revenue and cash flow sustainability, operating and financial strengths and weaknesses, long term viability and dividend and price appreciation potential. Analysts also test the sensitivity of these projections to cyclical factors and to various types of risk such as credit and market risk. Many research managers see value added by directing resources to these activities and tailoring the output to the investment needs and risk profiles of distinct customer bases.

Another principal role of securities analysts has been virtually eliminated by recent changes in the supervisory and regulatory environment¹. This role is assisting corporate financing activities of their firms in carrying out initial public offerings (IPOs), private placements and secondary offerings, including the proper pricing of these issues. Although the intent of rule changes appears to be largely to prohibit the use of research to obtain investment banking business, it also restricts the analysts ability to vet proposed transactions for internal review or to communicate their views and insights gained while performing due diligence responsibilities to customers of the firm during “quiet periods”² or to potential customers during offering periods. These are periods when investors need to absorb more material information than ever before and when they would benefit most from the analysts’ views.

The Challenges to Research Management

The principal challenge to management is to develop policies and procedures to become fully compliant with the new rules, while improving the quality and timeliness of the provision of research that customers need to make an informed investment decision and do so rapidly and with fewer resources dedicated to non-compliance activities. Only by overcoming these challenges and meeting this obligation to investor education can research contribute to the restoration of public trust and confidence that has been eroded by recent scandals.

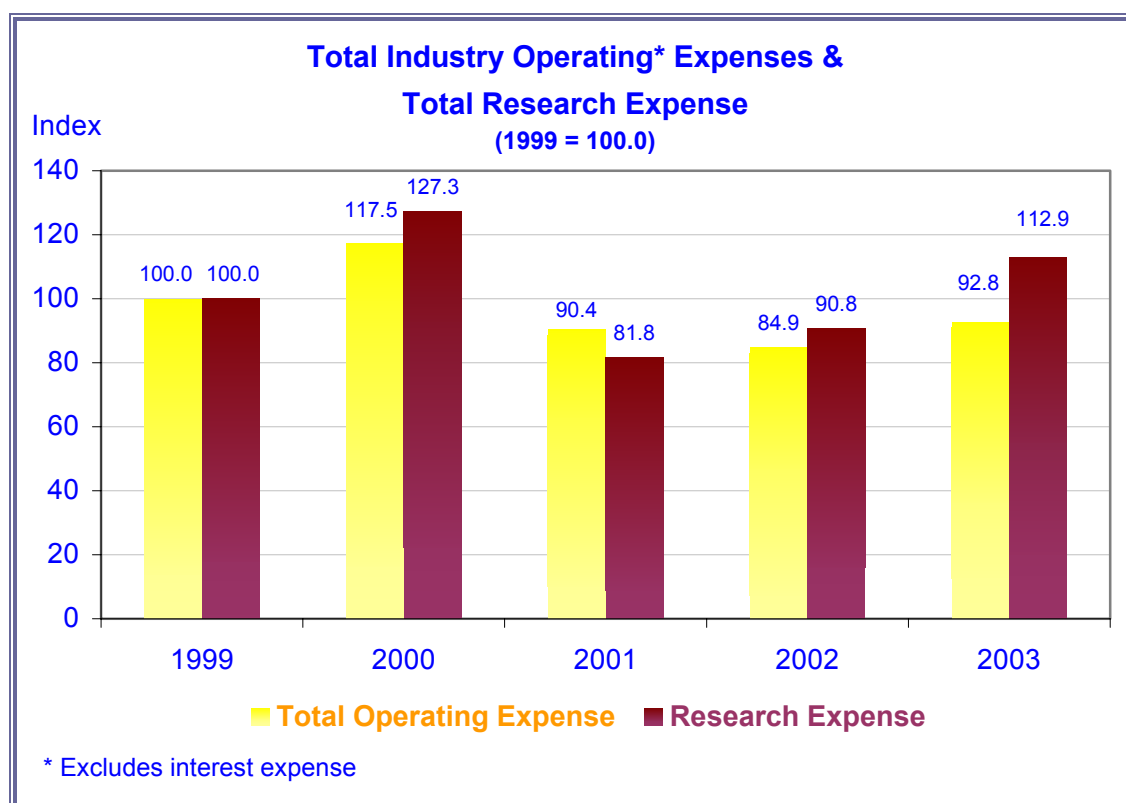
Perhaps the biggest challenges in the past three years have been imposed by budgetary constraints. This is particularly true for those firms that engage in investment banking. Equity research spending by securities firms peaked in 2000 as did total industry non-interest expense. Research spending had increased rapidly during the boom in equity issuance activity of the late 1990s. This was not surprising as investment banking functions funded roughly 35%-40%, on average, of the research budget of firms that engaged in underwriting and/or participated in syndicates during that period. As equity investment banking plunged in 2001, research budgets were slashed fully by one-third of their previous peak and declined as a percent of total non-interest expense. Although non-investment banking firms did not see such a dramatic expansion in research budgets, nor experience such sharp declines as the “bubble” burst, cuts in expense were imposed on virtually all activities at all types of securities firms.

However, in 2002 and again this year, research spending grew, despite a continuing decline in overall compensation of research analysts and total non-interest industry expenses. Although many areas contributed to the rise, increased legal expenses showed the most rapid rate of increase, doubling or tripling at many, if not most, firms. Legal fees directly associated with re-

¹ Some of the key implications of new rules released by the Securities and Exchange Commission and the self-regulatory organizations or SROs, the NYSE and the NASDR, include prohibitions on: research participation in solicitation of investment banking business; communications between investment banking and research personnel unless properly “chaperoned”; research participation in deal-related “roadshows”; sourcing of investment banking transactions by research personnel; investment banking input into company specific research coverage decisions; and, investment banking control over marketing/selling efforts by research personnel that are related to investment banking transactions.

² Quiet periods were imposed of 40 days (with limited exceptions) on issuance of research by managers and co-managers following an IPO and of 10 days (with limited exceptions) on issuance of research by managers and co-managers following a secondary offering. Later, quiet periods were extended to cover public appearances. Quiet periods were also imposed (with limited exceptions) to blackout research 15 days prior to or after the expiration, waiver or termination of a lock-up agreement when the firm is a manager or co-manager. These rules also impose a 25 day quiet period following an IPO to all syndicate members.

search activities include oversight of new regulations, codification of practices, procedures and internal controls, production of codes of conduct and policy guidelines, and monitoring compliance. Legal fees are expected to continue to increase both through separate counsel serving research departments (and reflected in research budgets) and through the activities of the firm's general counsel.



Compliance costs also soared as firms sought to conform to changing rules that have gone through gradual evolution. Increased supervisory and regulatory requirements prompted the need for new policies and processes that require constant monitoring and real-time disclosure of a broad array of issues. These issues range from analyst compensation and personal trading of analysts (and their household members) to communications (both internal and external), and determining if the firm has provided any type of service to a company that is the subject of research. These changes have required re-engineering of disclosures that accompany research publications, systems and procedures to govern activities and the coordination of legal, compliance, systems and operations personnel to carry out these tasks. Complicating this process further is the fact that research is global, while regulatory standards governing these activities vary from country to country, necessitating separate procedures and processes for distribution of research, along with an attendant rise in associated costs. Hiring of compliance officers and supervisory analysts represented exceptional areas of job growth in an industry where total employment continued to fall until the second half of this year.

Other costs have also increased, although not as dramatically as legal and compliance expenses. General administrative costs have increased as have the cost of printing and distributing research products. To be able to update and revise report content and formatting to comply with

real time disclosure and reporting obligations has required reprogramming and system redesign by communications and information technology professionals. Expenses associated with personnel training and recruitment have gone up as well, reflecting downsizing, outsourcing and higher personnel turnover rates. The increased time senior management of securities firms has had to devote to research issues and the costs associated with lost productivity due to uncertainty and disruptions caused by shifts in the business model can also be cited as contributors to higher costs. While these costs are not reflected in research budgets, they nonetheless are part of the cost of doing business, specifically the business of providing research.

After some additional outlays this year and next, to conform to “final” rules governing equity research, some cost savings will inevitably result from standardization of these processes and procedures, and total equity research spending is expected to decline in 2005. Firms are already well advanced in implementing the changes triggered by the SEC’s release adopting the final version of the proposed amendments to rules governing research analyst conflicts of interest at end-July 2003 and the approval, at end-October 2003 by a U.S. District judge of a \$1.4 billion settlement between principal investment banking firms and a group of regulators which had been reached at end-April 2003. However, the anticipated reduction in the costs of compliance once these “one-off” outlays are past is not expected to be large. Monitoring of compliance with new regulations and disclosure requirements imposed on securities research operations are ongoing expenses that have a high fixed cost component.

New challenges will be added in the years ahead, forcing further changes to securities research business models and additional costs. For example, The Bond Market Association proposed a set of best practices for fixed-income research which could catalyze a new set of supervisory and regulatory changes for the fixed-income side of the securities business, in much the same manner that a comparable effort by SIA in 2001 presaged many of the recent changes in rules governing equity research. In addition, efforts by ICSA, IOSCO, and the regulators in the UK and the EU seek to produce greater homogeneity in codes and standards governing the dissemination of research internationally, but more needs to be done. This will, in turn, prompt further efforts by securities firms engaged in cross-border activities and generate additional costs.

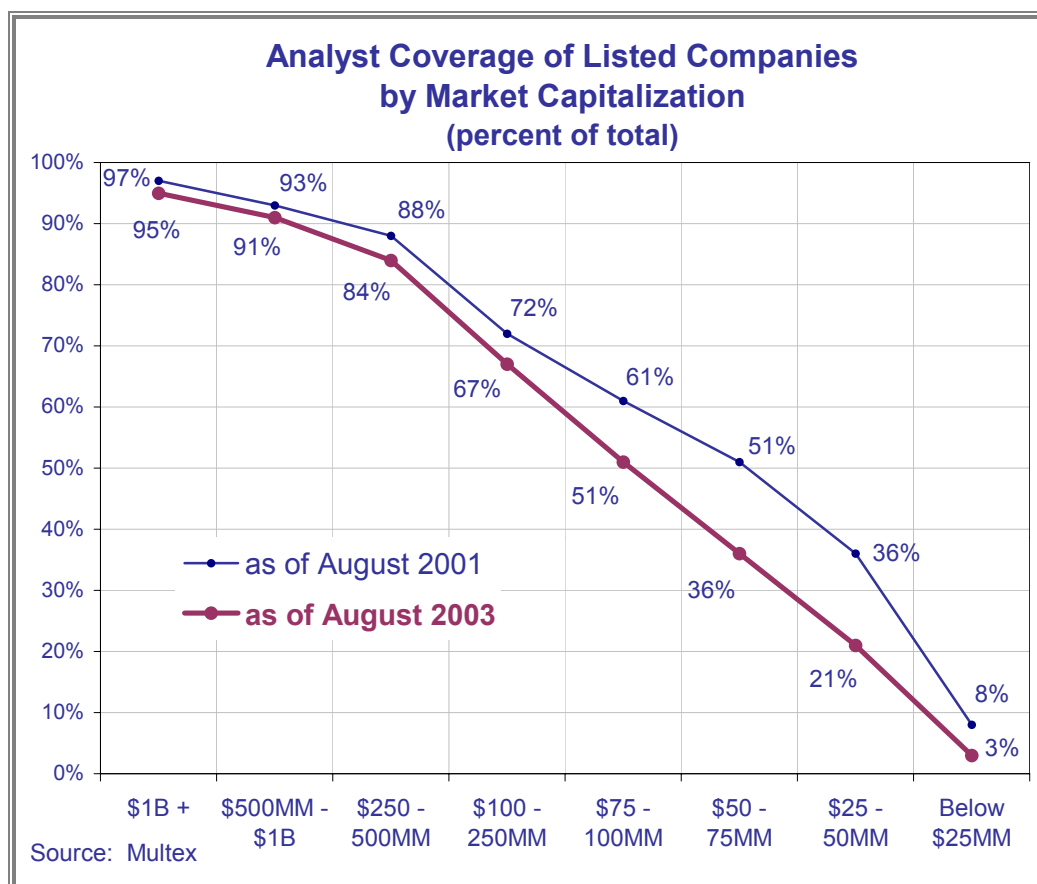
Controlling the Costs of Compliance

Controlling these costs will in large part determine how much research coverage of individual stocks will have to be reduced to conform to reduced resources or whether the firm can continue to produce in-house research at all. Recently, firms both large and small have questioned whether the provision of in-house research to individual investors at no additional charge is still justified given the higher costs.

To meet these challenges and budgetary constraints many managers have sought cost savings and improvements in efficiency by *separating the steps in the process of preparing and distributing research*. Those functions that can be standardized are being separated from those that add value. The former are then *streamlined* or *commoditized*, while the latter are *tailored* to meet more defined customer preferences and reduced breadth of coverage. This is part of a general restructuring of research departments, which has been most sweeping at securities firms with investment banking operations, however virtually all firms have made efforts to en-

hance efficiency through streamlining the data collection and processing part of research preparation.

The second most common approach has been to *restrict the number of stocks covered* by research analysts. In an earlier issue of this publication³ we noted a significant decline in research coverage. In August 2001, 4,763 stocks had analyst coverage. By August 2003, that number had steadily dwindled to 4,103, a 14% decline. Of the 660 additional "orphan" stocks, stocks for which coverage was halted, 60% had a market cap of less than \$50 million, so called "micro-cap" stocks. Fewer earnings estimates per stock were issued and the error of those estimates increased. It has also been noted that the number of seasoned analysts has been falling even faster than the number of stocks covered, implying that, on average, each analyst is expected to provide coverage on a greater number of stocks, and that "average" analyst tended to be slightly more junior. This may have contributed to the increased error and the reduced number of earnings estimates per stock.



Another approach to managing costs is to *discontinue equity underwriting* or syndicate operations. This has the advantage of reducing the compliance burden and simplifying the provision

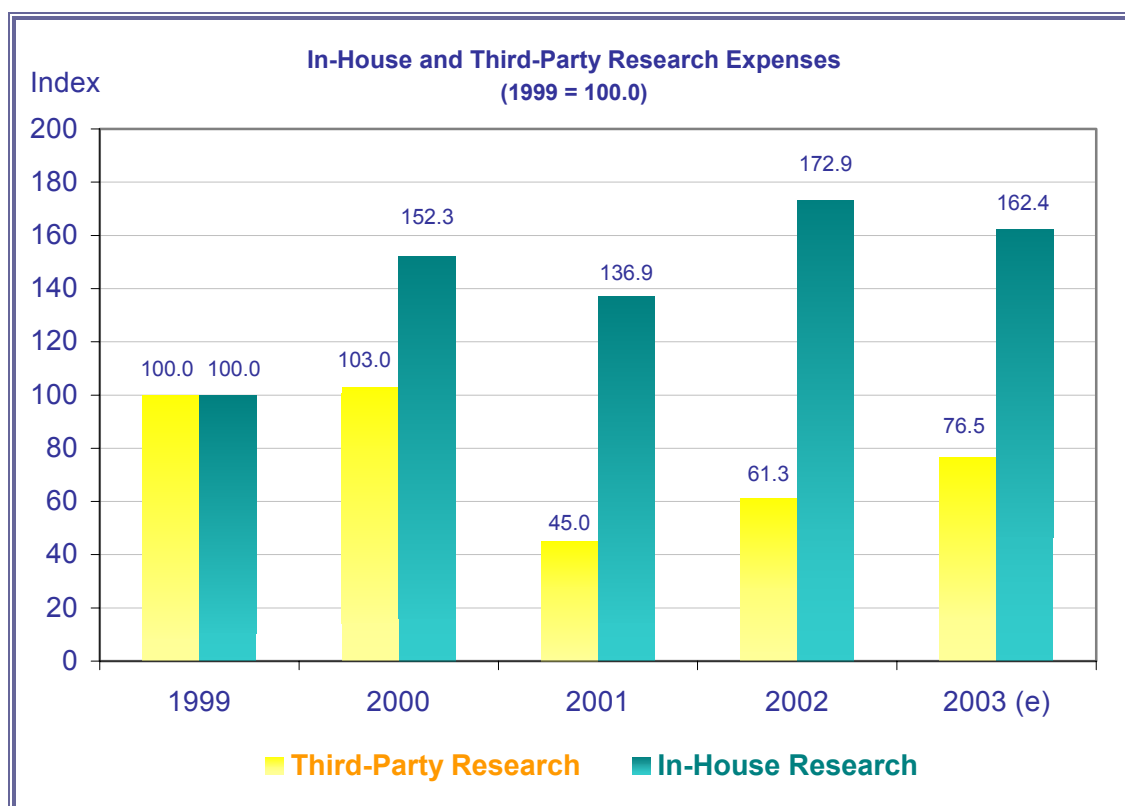
³ "Going Private: Responding to the Small Cap Dilemma", SIA Research Reports, Vol. IV, No. 8, August 21, 2003, pp. 3-12.

of research. With the plunge in equity issuance activity (and in revenues generated by investment bankers) in the past three years, this has been an increasingly attractive alternative for some firms. The downsizing of syndicate operations at many firms suggest that, at least on the margin, this choice is being made. However, the appeal of this choice may already be waning, if as appears to be the case, a cyclical upturn in issuance activity is underway. Equity underwriting remains a high margin business and research support for investment banking activities, even narrowly proscribed, such as the performance of due diligence remains a useful role.

A fourth approach has been to *provide research only to institutional investors*. This too has the advantage of a reduced compliance burden and of a more easily deliverable research product, but it is an approach only those firms willing to specialize in the institutional market can pursue. Institutional investors are relatively few in number compared to individual investors (easing distribution costs) but each generate significant revenues for the firms that service their needs. Those needs cover the full range of research services (long term and short term outlooks, top down and bottom up stock analysis, absolute and relative valuations, etc.). However, institutional investors are believed to value knowledge, insights, access, and data points provided by securities firms more than those same firms' stock picks, formulation of price targets or earnings estimates which are the principal focus of individual investors. An added advantage of focusing solely on institutional investors is that analysts' performance can be more easily measured, simply by asking customers and tailored to meet specific needs rather than having to rely on some arbitrary measure which tends to be subject more to the vagaries of the market than factors controllable by research management.

The disadvantages of this approach include the reticence of institutional investors to pay for research services directly and the increased competition for those "research dollars" coming from other securities firms, third party providers and from in-house research staffs of institutional investors that have been expanded in recent years. Another major disadvantage is the increased scrutiny now being focused on the practice of "soft-dollar" payments for research which could lead to a new round of supervisory and regulatory changes that would alter this business model for research.

A fifth approach is to *rely increasingly on outsourcing* part or all of the process of providing research. Securities firms spending on third party research and outside data vendors declined even more sharply than spending on in-house research in 2001, but fully rebounded in 2002. Increases in spending on third party research continued this year, both in absolute terms and as a share of total research spending and are expected to continue to grow in 2004, due to regulatory changes, cost concerns and changing investor preferences. Terms of the recently approved "global settlement" required the ten firms party to the agreement to purchase independent research from third parties at a cost of \$432.5 million over five years. In addition, settling firms must hire independent research consultants to manage the process. Non-settling firms are also expected to increase expenditures on independent research. Providing third party research may be required in this competitive market if it is seen that customers expect it or if it is viewed as necessary to overcome customers' skepticism over the objectivity of sell-side research, as appears to be the case. Offering independent research is seen as complimenting efforts dedicated to ensuring objectivity. It also provides a mechanism for direct comparison of independent and in-house research.



Another argument in favor of outsourcing is to reduce costs. Increasingly research functions are being outsourced to take advantage of substantially lower costs, principally lower compensation and occupancy expense, realizable outside of major U.S. financial centers, where a disproportionate share of research was prepared in the past. Broad based dissemination of advances in information and communications technology has made remote preparation of research feasible and these cost savings realizable. However, questions concerning the quality of the research prepared in this manner inevitably arise, particularly if it does not involve functions such as site visits or conversations with management of the firm or if the analysts lack familiarity with the products, markets and customers of the issuing firms they are analyzing.

The Choice of Independent Research Providers

The choice of independent research providers is daunting, given more than 300 have been identified thus far. They vary widely in type, quality and size, ranging from one man operations to large statistical rating organizations and data vendors such as Standard & Poors and Valueline. Some potential selections are readily apparent. S&P Investment Services for example plans to increase its 60 person stock analysis staff by 20% to meet expected demand from purchasers of independent research. However, with respect to most independent research providers the choice is not so clear. To ease the task of identifying and evaluating independent research providers, several attempts to categorize them have been made. One attempt to group independent research providers, along with broad characterizations of strengths and weaknesses of each group, is shown presented below.

- **Quantitative Research Shops** – The pattern driven, computer-based quantitative analysis undertaken by such shops allows them to cover a broad range of stocks with relatively small staffs. This approach, which relies heavily on technical analysis, has both

strengths (breadth of coverage at relatively low costs) and weaknesses (lack of depth of analysis and lack of experienced analysts able to provide insight and interpretation of market trends).

- ***Traditional Independent Research Shops*** – These are firms that focus on the production of in-depth company analysis, but which focus on a limited number of companies, a particular industry or industries or geographic sectors in which analysts at these firms have specialized knowledge. These firms tend to be “boutiques”, and the quality of research varies widely. However, many of these “niche” participants are regarded as high quality, thoughtful analysts whose objective reports are often the vanguard of changes in market direction.
- ***Commodity Research Providers*** – This type of research provider generates highly standardized, “commoditized” coverage of thousands of companies. While these firms tend to have low overhead because research is done by rote, based on a specific formula, little analytical insight into the “value proposition” is gained and these products are largely geared to individual investors.
- ***Research Consolidators*** – Although they do not generate research themselves, research consolidators aggregate independent research on platforms specifically tailored to institutional customers. Traditionally this service, where access is fee based, was largely of interest to institutional investors such as pension fund and mutual fund managers, but is now being geared towards sell-side institutions as the provision of independent, third party research becomes more commonplace.
- ***Large Independent Providers*** - This group is comprised of large firms that have the resources to provide broad based coverage of all listed issuers, but do not engage in investment banking activities. This group includes: non-investment banking securities firms; other financial service providers, including institutional investors; market data and statistical data providers; nationally recognized statistical ratings organizations (NRSROs), and others. Most members of this group have the advantages of already providing a known research product, and one, that if not already providing broad based coverage of individual stocks, can do so in short order. These firms also have a brand name that customers will recognize and a verifiable track record, that if not directly relevant, is easily transferable, such as in the provision of credit ratings for fixed income markets. Most of these firms can also provide assurance of continuity given strong capital bases and diversified businesses. This is an important consideration for distributors of third party research that must engage in substantial cost and effort to select a provider and distribute its reports.

Spending on third party research and outside data vendors and suppliers declined even more sharply than did outlays for in-house research in 2000 and 2001. This was largely because in the rush to trim expenses in line with rapidly falling revenues as the long bull market in equities came to an end, it was easier to discontinue supplier/vendor contracts than it was to reduce employment costs and downsize facilities. However, beginning in 2002 as terms of the settlement became apparent, so did the “need” to offer a broader range of research views to customers and spending on third party research rapidly rebounded. This trend continued in 2003 and the number of potential independent providers continues to grow.

The greatest challenge in evaluating and selecting independent research providers comes from the difficulty in distinguishing between those providers who actively gather and assess primary information and those who merely synthesize and aggregate the work of others without specific attribution. Additional complications in the selection process have arisen from absence of both an exhaustive “registry” of these providers and of a clear process of evaluating their relative performance. Many of the most promising providers have relatively short histories and limited resources that preclude any real judgment on their ability to independently sustain delivery of research product and services.

The various factors that are weighed in the selection of independent providers is expected to favor larger, non-investment banking financial firms. By virtue of advantages gained by sheer size and market presence and because of their ability to bear high fixed costs of entry into the very competitive market for providing equity research, larger financial firms have a competitive advantage. However, purchasers of third party research will want more than one choice to offer to customers, thus affording the opportunity for a select number of smaller, independent providers to compete in this arena. This is already the case. In a recent SIA survey of member firms, the majority of firms that provided retail customers with third-party research (52.9%) stated that they use between two and three outside providers, and a significant number (17.7%) stated that they used more than three providers of third party research for their retail clients.¹

Lowering Barriers to Entry and Leveling the Playing Field

As we noted earlier, the business of providing broad based securities research has a high fixed cost component that poses both a significant barrier to entry and one that favors larger research providers that are better capitalized and can spread these costs across a larger revenue base. We believe that the recent increases in disclosure and reporting requirements relating to research have raised this barrier still higher, and inadvertently may contribute to increased concentration and reduced competition in the preparation of financial information and analysis. The increased cost of compliance has had the effect of reducing the depth and breadth of research coverage, particularly coverage of small cap stocks, and may have also reduce the quality of the coverage that is still available as research department spending related to actual analysis is declining to accommodate the sharp rise in legal and compliance costs research managers confront. It is a truism that regulatory or supervisory changes generally have unintended consequences.

On average, one-quarter to one-third of the budget of research departments that is actually devoted to the preparation of research is spent on descriptive analysis, e.g. “marshalling the important facts relating to an issue and presenting them in a coherent, readily available manner”². Much of the information that must be “marshaled” is existing data that is collected by the U. S. Securities and Exchange Commission (SEC) and made available through EDGAR. EDGAR, the Electronic Data Gathering, Analysis, and Retrieval system, performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the SEC. Its primary purpose is to increase the efficiency and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency.

¹ Securities Industry Association, Report on Research Conducted on Publicly Traded Companies, June 2003.

² Graham, B. and Dodd, D., Security Analysis, McGraw Hill, 1934, p.15.

Unfortunately, EDGAR does not fully succeed in this public utility function, and it is felt by most market participants that substantial improvements in EDGAR could and should be made to increase “efficiency and fairness”. Several problems arise with EDGAR that if corrected would have a substantial positive impact on the market, reducing both reporting costs and the high fixed cost of preparing research. This in turn would improve the viability of the business model for research as well as enhancing existing tools for monitoring markets and market activities.

These specific limitations include the fact that not all relevant documents filed with the SEC by public companies are available on EDGAR and not all documents that can be filed electronically are yet permitted to be. More importantly, the technology currently used by EDGAR is outmoded and does not easily lend itself to working with the data that is available. This forces research providers engaged in descriptive analysis to extract the data from EDGAR and manually reenter it into more usable formats. This process is repeated at countless numbers of firms and in aggregate is a substantial misapplication of scarce resources. This also imposes costs that are disproportionately born by smaller independent research providers and by smaller issues who increasingly cannot attract research coverage and increasingly see fewer reasons to be listed.

Simply creating enhanced file structures in XBRL (Extensible Business Reporting Language), a business oriented flavor of XML (Extensible Markup Language) which lends itself more easily to electronic corporate filings and to easy and efficient manipulation of all corporate reporting data, would go a long way towards streamlining and commoditizing the aggregative or descriptive functions of securities research. This would allow the resources freed up to be employed in the much more valuable and important selective and critical functions carried out by securities analysts. It would also “level the playing field” among research providers and “empower” self-directed investors who wish to carry out their own research and analysis.

If the SEC were to take this “upgrade” further, it could direct experienced software engineers to develop XBRL data warehouses, support tools and logic and file structures that would allow it to deliver data and standard statistical measures commonly used in securities analysis to research providers and individuals at a fraction of the cost that they now, in aggregate, spend in individually repeating these largely uniform tasks.

It is timely to consider this upgrade now given the success various market participants have had in recent years in efforts to standardized the preparation and presentation of these measures. This includes, of course, recent efforts by FASB to move towards convergence with the IASB on preparation and presentation of financial information, which have led to important changes in the calculation of corporate earnings. These changes will inevitably prompt serious analysts to go back and apply the new standards to historical information in order to make comparisons between past performance and future performance. The costs of converting past data to new accounting standards as they emerge, if done individually by research providers, is not inconsequential and would further raise barriers to entry and tilt the playing field still further in favor of large firms. The current need to ensure the broad based availability of independent research of high quality to the investing public makes this a worthwhile project. Given that a significant portion of increased resources appropriated by Congress to expand and enhance the SEC’s activities still go unspent, it is difficult to understand why this important task would not be undertaken.

Frank A. Fernandez

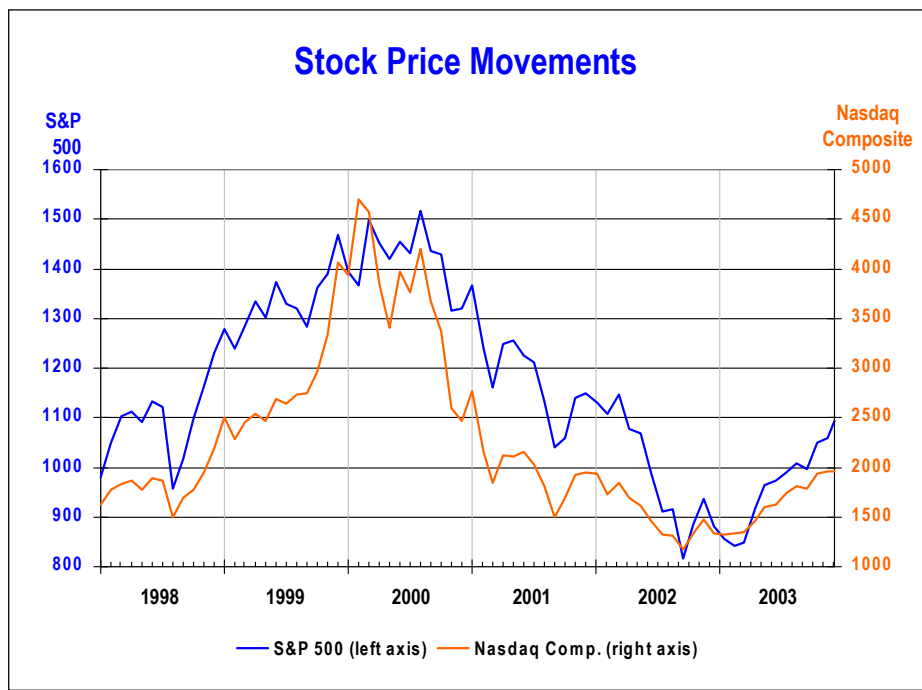
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YEAR-END 2003 STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices –The U.S. stock market is poised to register solid gains in 2003 after enduring a three-year losing streak. As of December 22nd, the Nasdaq Composite has surged 46% year-to-date, after declining nearly 32% in 2002. The S&P 500 and the DJIA increased 24% this year, after dropping 23% and 17%, respectively, in the prior year. Thus, this year's gains have erased all of last year's losses. Still, the Nasdaq Composite, S&P 500 and Dow remain 61%, 28% and 12%, respectively, below their all-time highs set in early 2000.

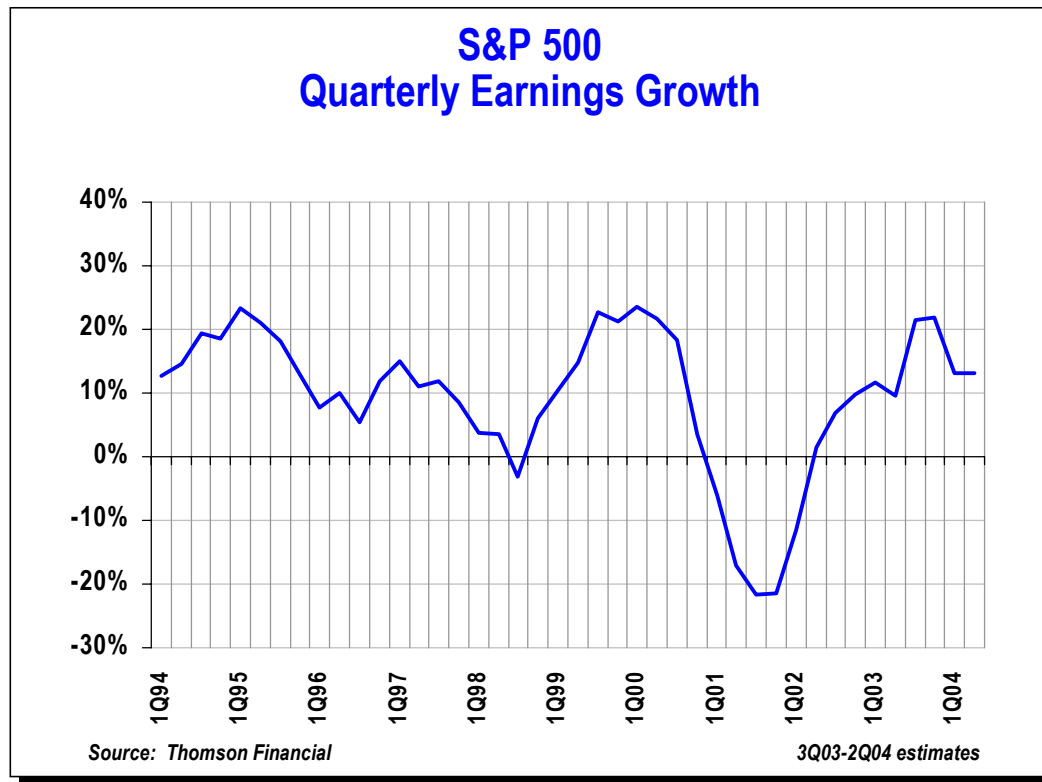
	Nasdaq Composite	S&P 500	DJIA
1Q03	0.4%	(3.6)%	(4.2)%
2Q03	21.0	14.9	12.4
3Q03	10.1	2.2	3.2
4Q03*	9.4	9.7	11.5
2003*	46.4	24.2	23.9
2002	(31.5)	(23.4)	(16.8)
* Through 12/22/03			



Stock prices have been on an upward trajectory since March, as the onset of war with Iraq removed much of the uncertainties in the market. The swift military victory in Iraq, large tax cuts and dividends and capital gains tax relief, monetary easing by the Fed in June to a 45-year low

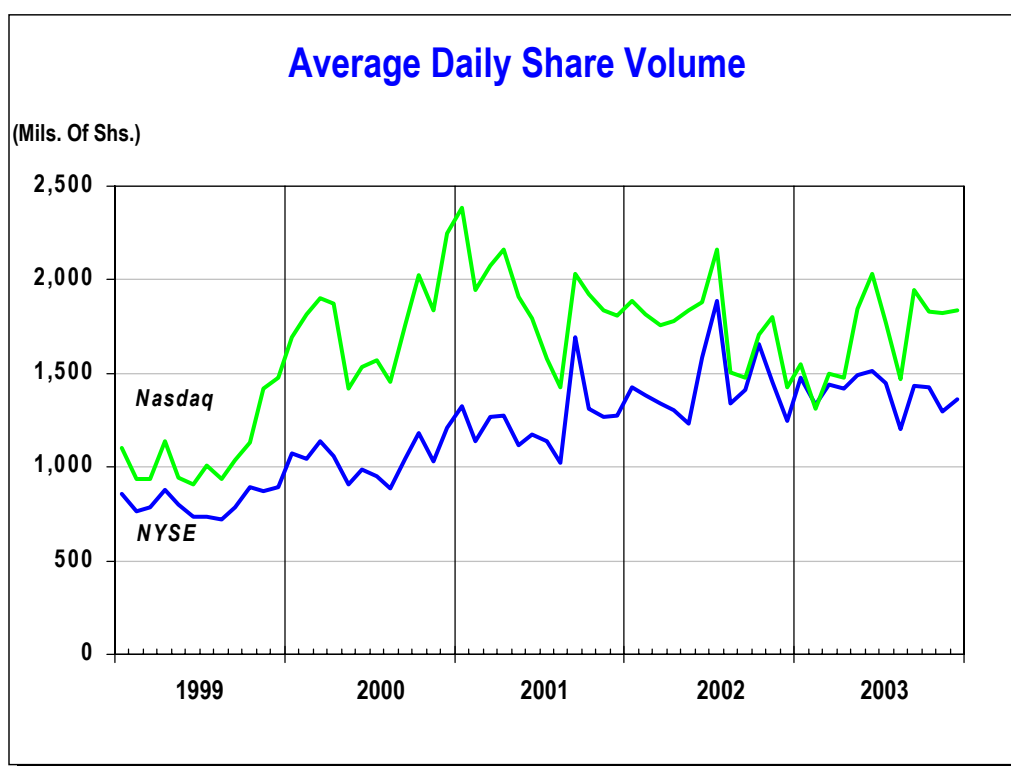
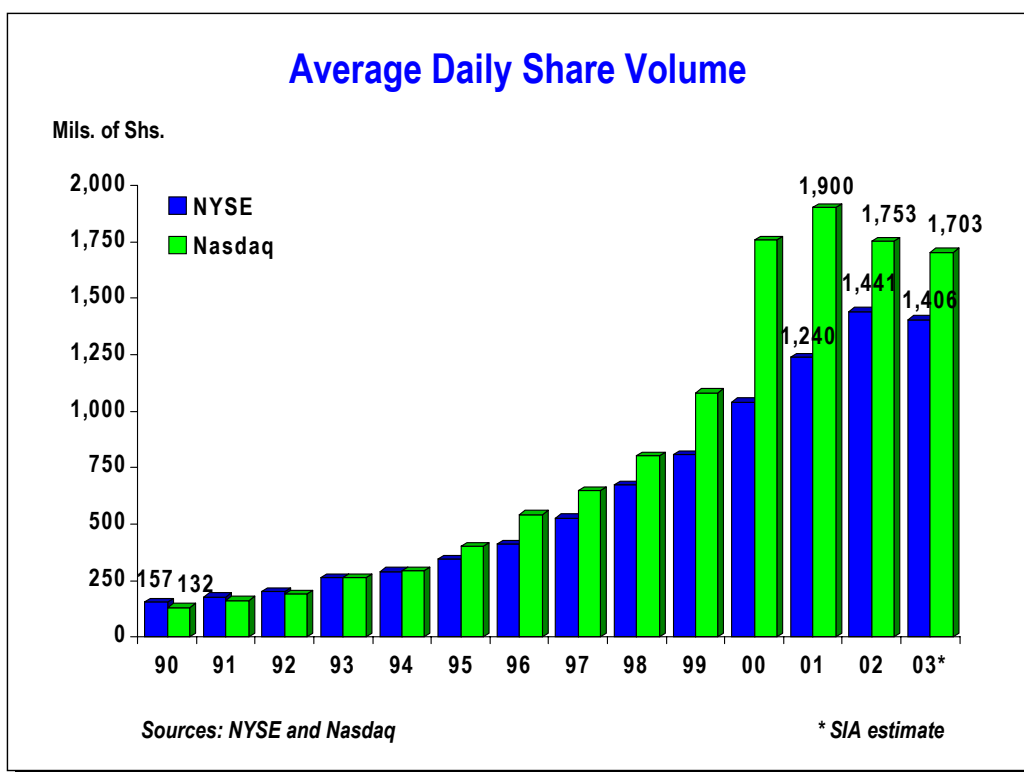
of 1%, a strong recovery in corporate profits and a more robust economic turnaround than expected have contributed to the market's sharp rebound this year.

The Nasdaq Composite climbed to a 23-month high of 1989.82 on December 1, as the battered tech sector and small, low-quality stocks have posted the biggest gains this year, which is typical during a period of strong profit growth. Over the last few weeks, however, the larger-cap stock indices have outperformed, sending the DJIA and S&P 500 to 19-month highs on December 22. This in part reflects the expectation that higher-quality companies are likely to outperform in 2004 as profit growth decelerates.



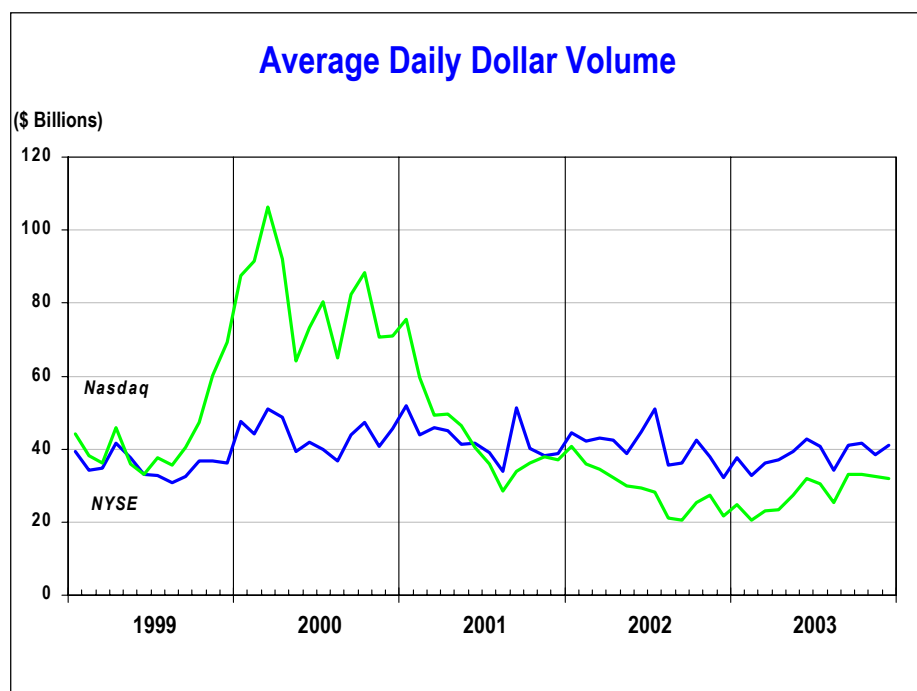
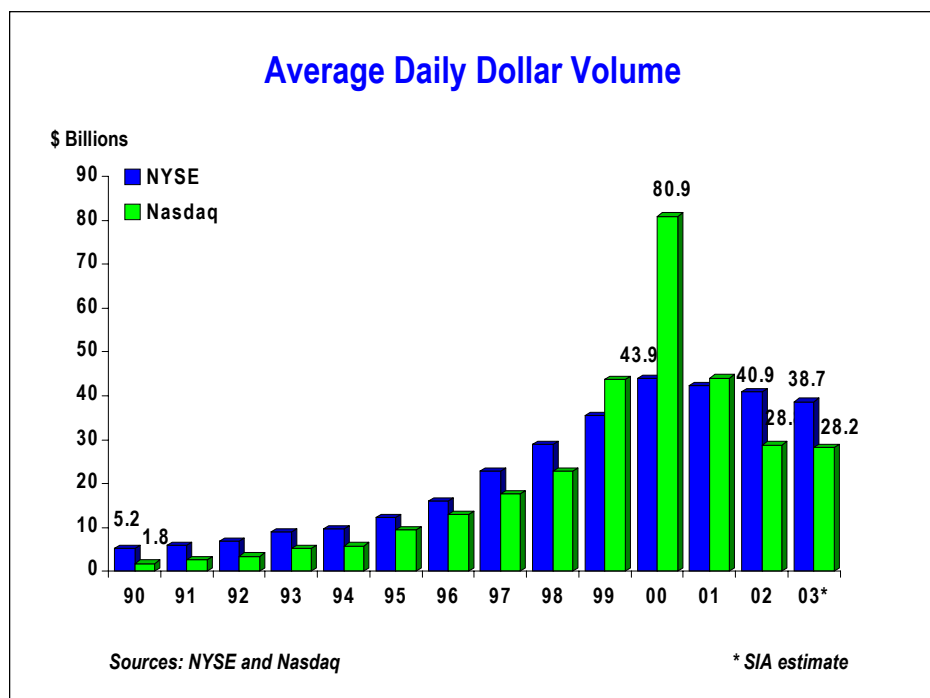
Most market observers are upbeat about prospects for the stock market in 2004, but expect gains to moderate amid investor concerns about an eventual Fed rate increase, and a slowing of corporate profit and economic growth from their elevated 2003 levels.

Share Volume – Trading activity on the major exchanges this year is down slightly from 2002 levels. Although the trading pace on Nasdaq has picked up considerably to an estimated 1.83 billion shares daily in 4Q'03 from 1.46 billion shares per day in 1Q'03, Nasdaq volume for full year 2003 is on track to average about 1.70 billion shares daily, down 3% from 2002's 1.75 billion daily and nearly 11% below 2001's record 1.90 billion daily. Volume on the New York Stock Exchange has fallen to 1.36 billion daily in the second half of 2003 from 1.45 billion daily in the first half. For the year, NYSE volume is expected to average 1.41 billion daily in 2003, just 2% short of 2002's record 1.44 billion daily pace.



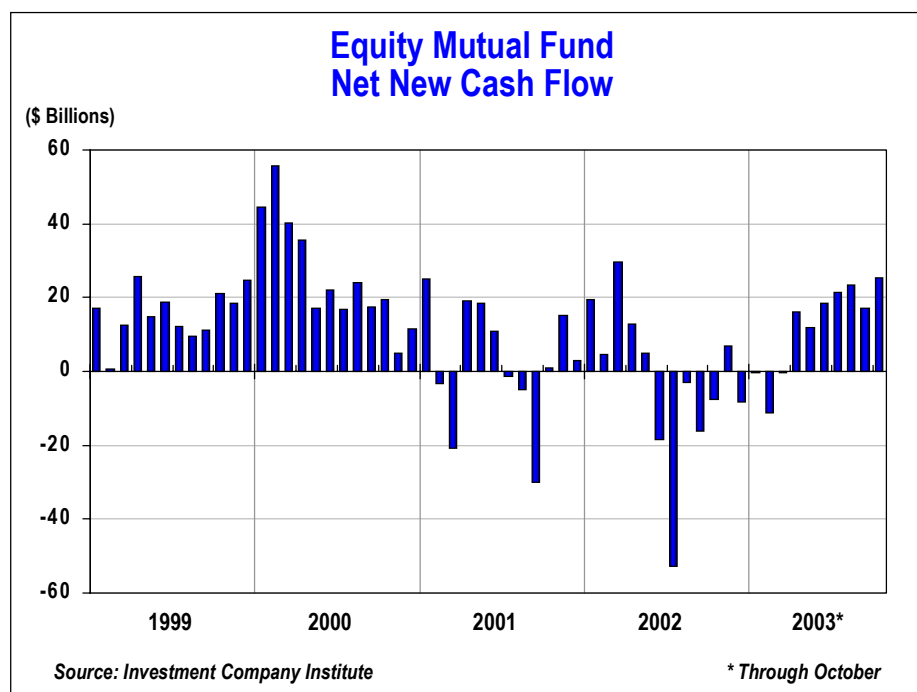
Dollar Volume – The value of trading in both NYSE and Nasdaq stocks has dipped slightly this year from 2002 levels, mainly due to weak 1Q'03 figures. SIA estimates that Nasdaq dollar volume will average \$28.2 billion daily in 2003, down 2% from \$28.8 billion daily in 2002 and 65%

below the record \$80.9 billion daily record set in 2000. The value of trading in NYSE stocks averaged an estimated \$38.7 billion daily in 2003, 5% short of the \$40.9 billion per day average in 2002 and 12% behind 2000's record \$43.9 billion daily average.

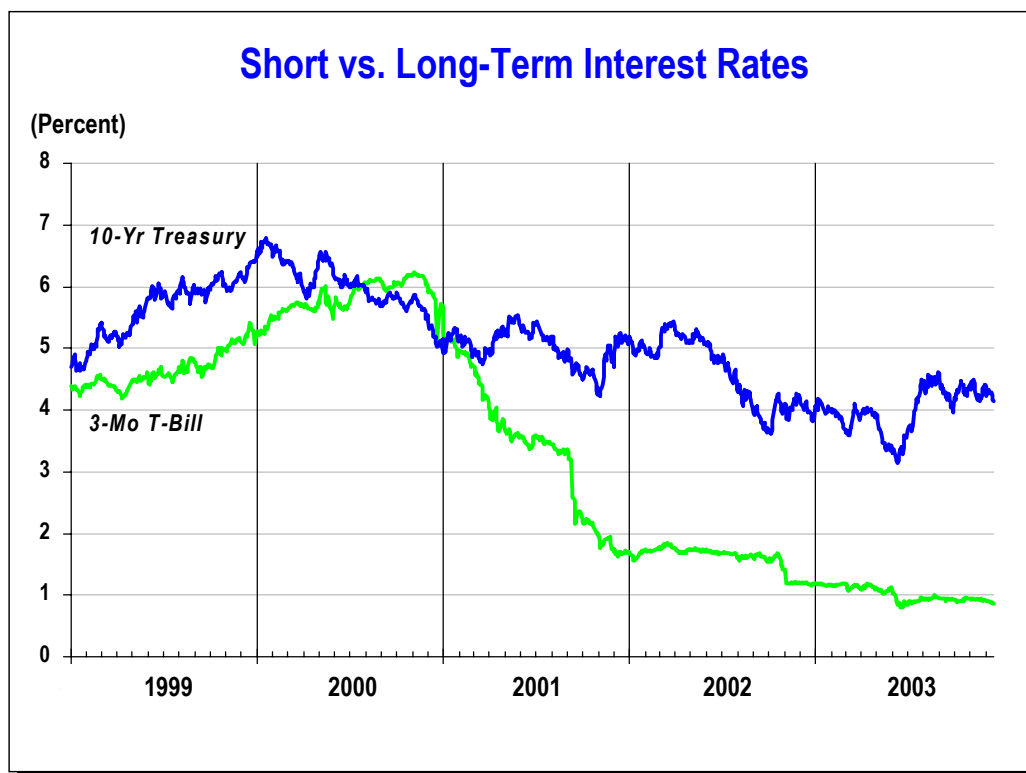


Equity Mutual Funds –Despite the scandals relating to market timing and late-day trading, the retail sector continued to invest via the mutual fund channel this year. Equity funds witnessed solid inflows throughout the April-October period (latest available data), in stark contrast to outflows during 9 of the prior 10 months. Based on 10-months annualized data, equity fund in-

flows are projected to reach \$147.1 billion this year, reversing last year's trend in which there were \$27.7 billion of equity fund outflows.



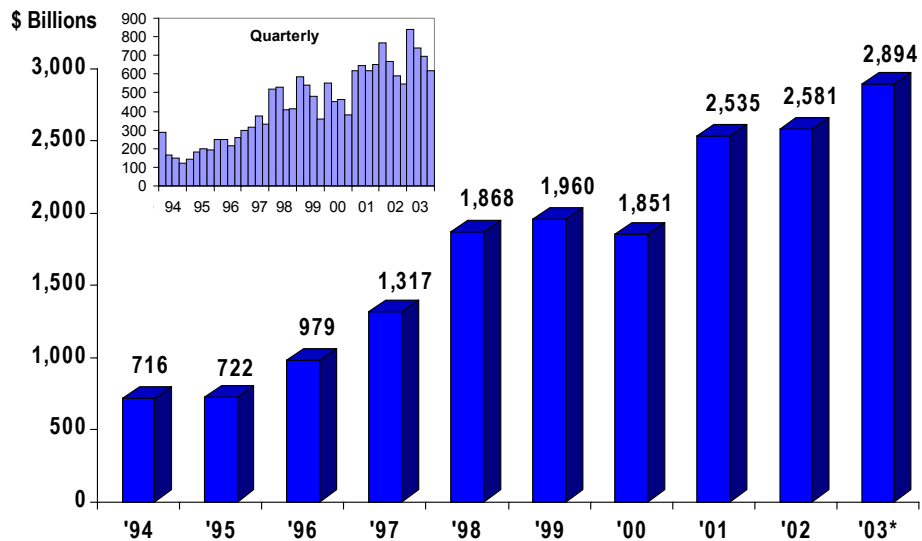
eral budget deficit, and hedging strategies employed by mortgage investors triggered the massive sell-off that pushed interest rates higher. The market has settled down since then, with the 10-year Treasury yield ranging between 4.15%-4.5% throughout the fourth quarter of 2003. On the short-end, yields on 3-month T bills started the year at 1.2%, then fell below 1% in June when the Fed cut its benchmark federal funds rate by a quarter point to a 45-year low of 1%. For the remainder of the year, 3-month T bill yields averaged 0.92%.



U.S. Underwriting Activity

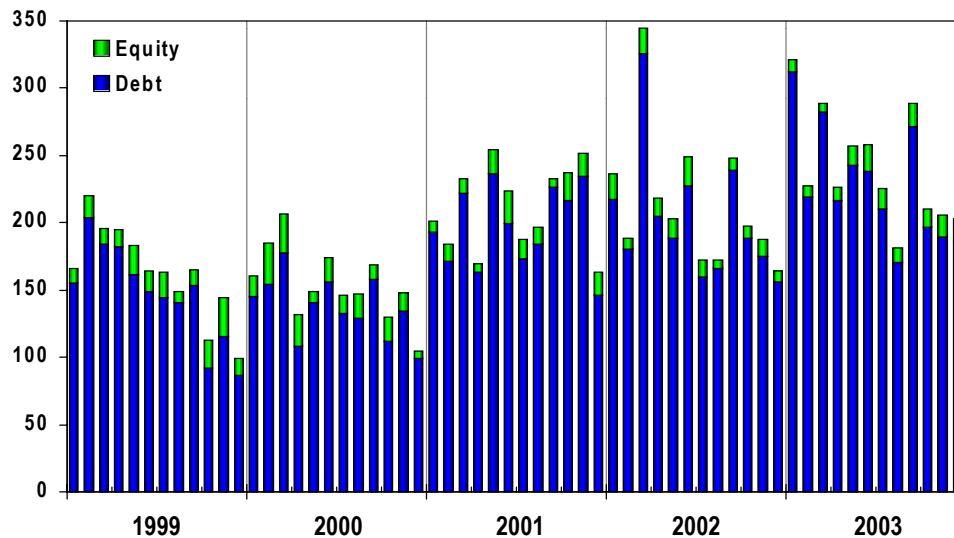
Despite progressive quarterly declines in 2003, the value of all U.S. corporate underwritings is projected to total \$2.89 trillion, 12% above the annual record set last year of \$2.58 trillion. New issuance of all debt and equity products in 2003, with the exception of IPOs, increased over 2002 levels. Record corporate bond issuance in 1Q'03 drove the overall total, as issuers refinanced debt at lower interest rates and a turbulent stock market drove investors to the relative safety of fixed-income instruments.

Total Corporate Underwriting

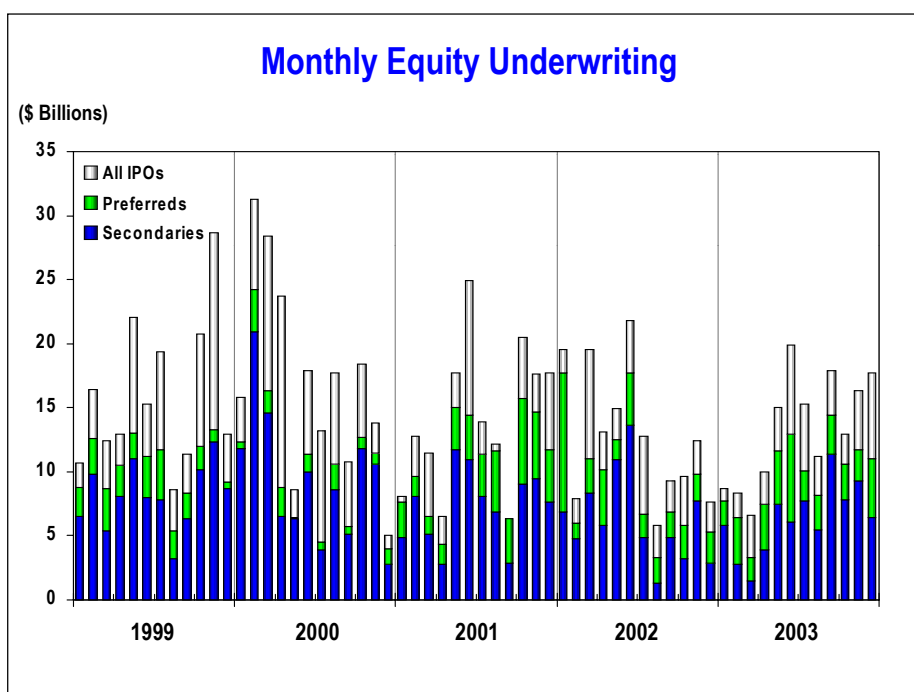
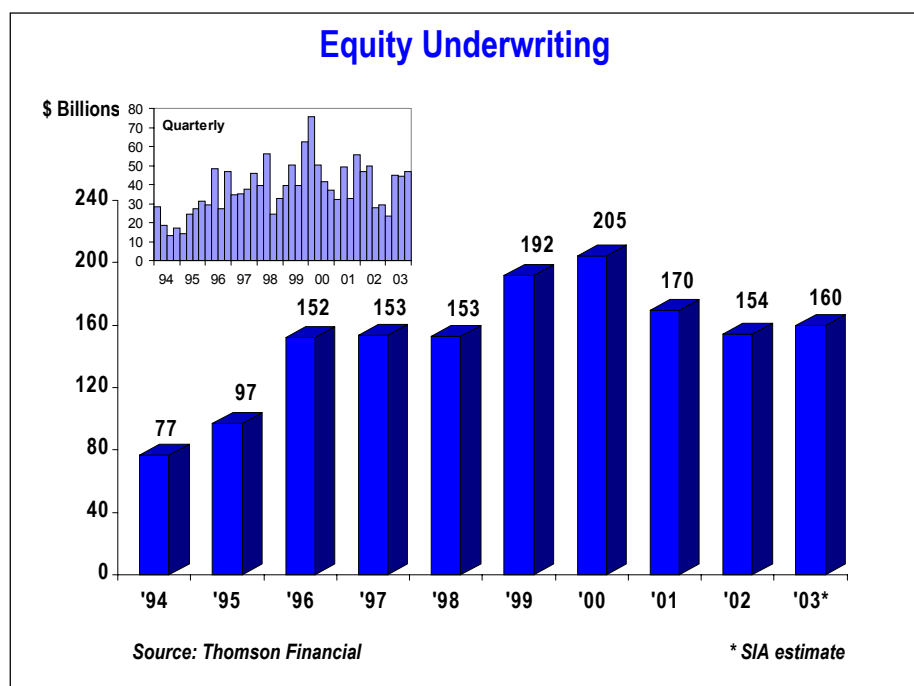


Monthly Total Underwriting

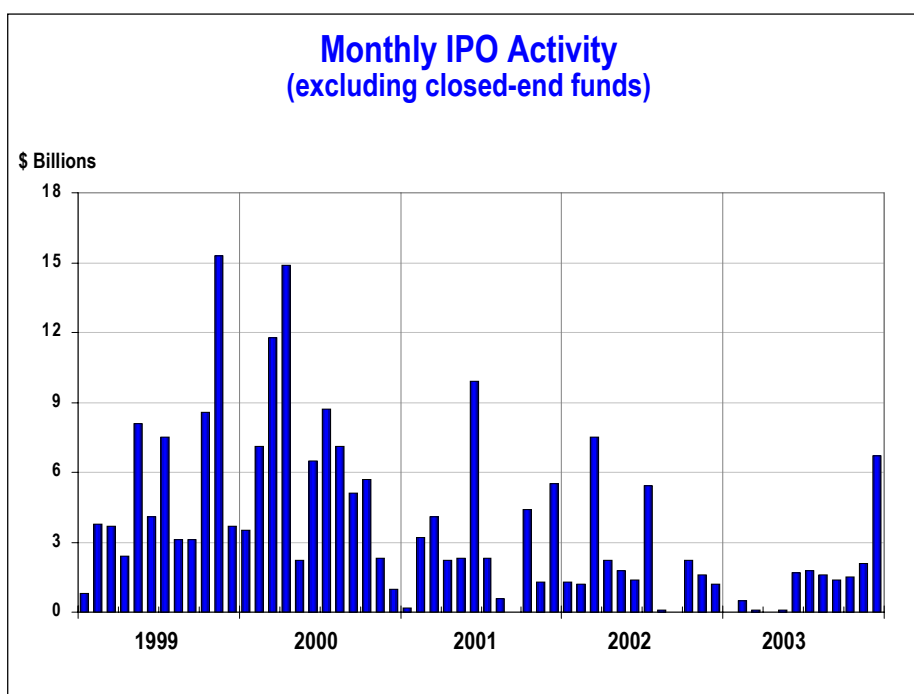
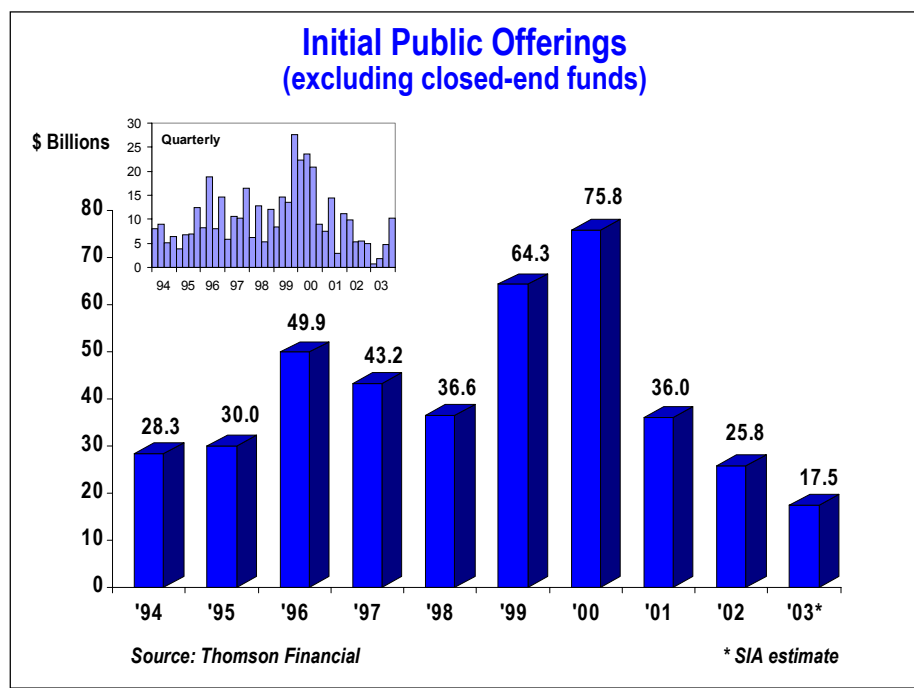
(\$ Billions)



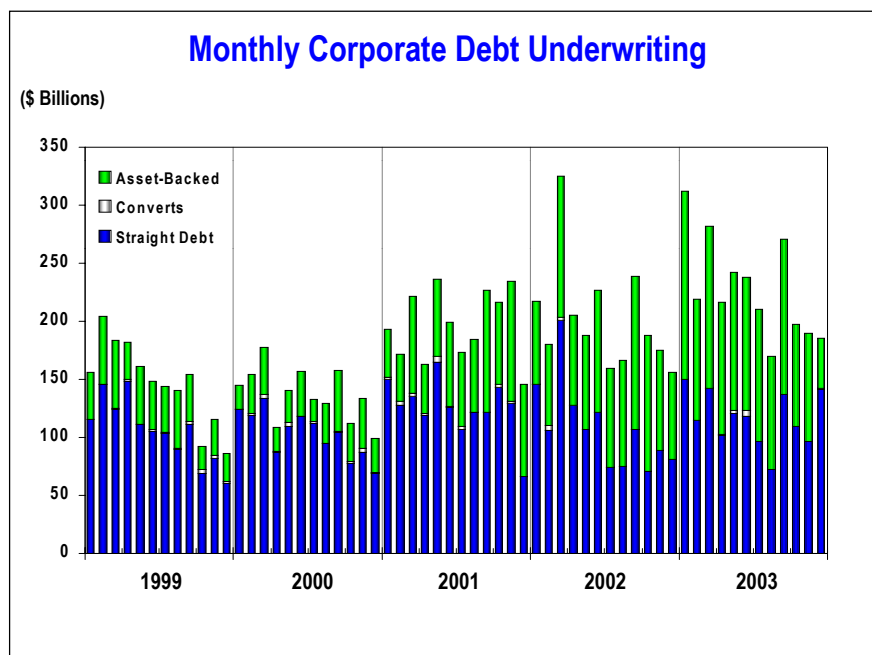
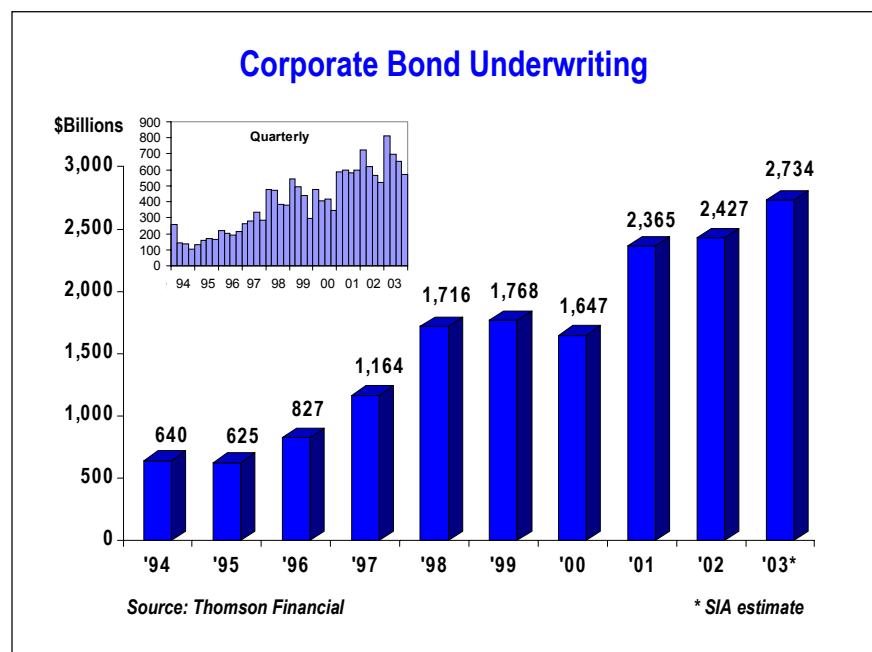
Equity Underwriting – Common and preferred stock underwriting volume in 2003 is expected to reach \$159.5 billion, 4% above last year's total, yet still 22% below 2000's record of \$204.5 billion. Fourth quarter issuance amounted to \$46.8 billion, representing the strongest quarterly level of the year and nearly double 1Q'03's \$23.6 billion.



Initial Public Offerings – The IPO market was virtually non-existent during the first five months of the year, but the pace of offerings quickened in recent months. A tripling in IPO proceeds to a projected \$6.7 billion in December from November's level pushed the 4Q'03 total to \$10.2 billion, nearly double 3Q'03's pace and the most activity this market has seen since 4Q'01. Despite this acceleration, initial public offerings for full-year 2003 were off 32% from last year, raising only \$17.5 billion. This was less than one-quarter of the record \$75.8 billion set in 2000 and the lowest annual total since 1991. The growing backlog, which currently consists of 59 deals valued at \$11.9 billion, should lead to a more active market next year.



Corporate Bond Underwriting – Driven by record asset-backed bond issuance, the value of total corporate bond underwritings in the U.S. is projected to reach \$2.73 trillion in 2003, 18% above the \$1.12 trillion record set in 2002. While there was record annual asset-backed bond issuance, the pace of offerings slowed across the course of the year as the refinancing boom cooled. Since reaching a quarterly record \$406.8 billion in 1Q'03, asset-backed bond issuance sank to \$223.8 billion in 4Q'03, its lowest level since 2Q'01.



Grace Toto
Vice President and Director, Statistics

U.S. CORPORATE UNDERWRITING ACTIVITY

(In \$ Billions)

	Straight Corporate Debt	Con- vertible Debt	Asset- Backed Debt	TOTAL DEBT	Common Stock	Preferred Stock	TOTAL EQUITY	All IPOs	"True" IPOs	Secondaries	TOTAL UNDER- WRITINGS
1985	76.4	7.5	20.8	104.7	24.7	8.6	33.3	8.5	8.4	16.2	138.0
1986	149.8	10.1	67.8	227.7	43.2	13.9	57.1	22.3	18.1	20.9	284.8
1987	117.8	9.9	91.7	219.4	41.5	11.4	52.9	24.0	14.3	17.5	272.3
1988	120.3	3.1	113.8	237.2	29.7	7.6	37.3	23.6	5.7	6.1	274.5
1989	134.1	5.5	135.3	274.9	22.9	7.7	30.6	13.7	6.1	9.2	305.5
1990	107.7	4.7	176.1	288.4	19.2	4.7	23.9	10.1	4.5	9.0	312.3
1991	203.6	7.8	300.0	511.5	56.0	19.9	75.9	25.1	16.4	30.9	587.4
1992	319.8	7.1	427.0	753.8	72.5	29.3	101.8	39.6	24.1	32.9	855.7
1993	448.4	9.3	474.8	932.5	102.4	28.4	130.8	57.4	41.3	45.0	1,063.4
1994	381.2	4.8	253.5	639.5	61.4	15.5	76.9	33.7	28.3	27.7	716.4
1995	466.0	6.9	152.4	625.3	82.0	15.1	97.1	30.2	30.0	51.8	722.4
1996	564.8	9.3	252.9	827.0	115.5	36.5	151.9	50.0	49.9	65.5	979.0
1997	769.8	8.5	385.6	1,163.9	120.2	33.3	153.4	44.2	43.2	75.9	1,317.3
1998	1,142.5	6.3	566.8	1,715.6	115.0	37.8	152.7	43.7	36.6	71.2	1,868.3
1999	1,264.8	16.1	487.1	1,768.0	164.3	27.5	191.7	66.8	64.3	97.5	1,959.8
2000	1,236.2	17.0	393.4	1,646.6	189.1	15.4	204.5	76.1	75.8	112.9	1,851.0
2001	1,511.2	21.6	832.5	2,365.4	128.4	41.3	169.7	40.8	36.0	87.6	2,535.1
2002	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
<u>2002</u>											
Jan	145.7	0.2	71.2	217.1	8.6	10.8	19.4	1.8	1.3	6.9	236.5
Feb	106.2	3.8	70.2	180.1	6.7	1.2	8.0	1.9	1.2	4.8	188.0
Mar	200.5	3.2	121.7	325.4	16.9	2.7	19.6	8.5	7.5	8.3	344.9
Apr	127.3	0.0	77.5	204.9	8.7	4.4	13.1	2.9	2.2	5.8	218.0
May	106.7	0.1	81.4	188.2	13.3	1.6	14.9	2.4	1.8	10.9	203.1
June	121.3	0.4	105.2	226.9	17.7	4.1	21.8	4.1	1.4	13.6	248.7
July	74.1	0.4	84.9	159.4	11.0	1.8	12.8	6.1	5.4	4.9	172.2
Aug	74.7	0.0	91.7	166.4	3.8	2.0	5.7	2.5	0.1	1.3	172.2
Sept	106.8	0.0	132.3	239.1	7.3	2.0	9.3	2.4	0.0	4.9	248.4
Oct	70.5	0.1	117.4	188.1	7.0	2.6	9.5	3.8	2.2	3.2	197.6
Nov	88.5	0.4	86.4	175.3	10.2	2.1	12.3	2.6	1.6	7.7	187.6
Dec	80.8	0.0	75.6	156.4	5.2	2.4	7.6	2.3	1.2	2.9	164.0
<u>2003</u>											
Jan	150.0	0.0	162.5	312.4	6.8	1.9	8.8	1.0	0.0	5.8	321.2
Feb	114.7	0.0	104.1	218.8	4.7	3.6	8.3	1.9	0.5	2.8	227.1
Mar	141.9	0.1	140.2	282.3	4.8	1.8	6.5	3.3	0.1	1.5	288.8
Apr	101.5	1.3	113.6	216.5	6.4	3.6	10.0	2.5	0.0	3.9	226.5
May	120.7	3.0	118.7	242.3	10.9	4.1	15.0	3.4	0.1	7.5	257.3
June	118.0	5.1	114.7	237.9	13.1	6.8	19.9	7.0	1.7	6.1	257.8
July	96.4	0.4	113.7	210.5	12.9	2.4	15.3	5.2	1.8	7.7	225.8
Aug	72.7	0.0	97.4	170.1	8.4	2.7	11.1	3.0	1.6	5.5	181.2
Sept	137.4	0.0	133.7	271.1	14.9	3.0	17.9	3.5	1.4	11.4	289.0
Oct	109.7	0.1	87.2	197.0	10.1	2.8	12.9	2.3	1.5	7.8	209.9
Nov	96.6	0.0	93.0	189.6	13.8	2.4	16.2	4.6	2.1	9.3	205.8
Dec (est)	141.3	0.7	43.6	185.5	13.0	4.6	17.7	6.7	6.7	6.4	203.2
YTD '02	1,303.2	8.6	1,115.4	2,427.2	116.4	37.6	154.0	41.2	25.8	75.2	2,581.1
YTD '03	1,401.0	10.7	1,322.3	2,734.0	119.8	39.7	159.5	44.3	17.5	75.6	2,893.5
% Change	7.5%	24.7%	18.5%	12.6%	3.0%	5.6%	3.6%	7.4%	-32.1%	0.5%	12.1%

Note: IPOs and follow-ons are subsets of common stock. "True" IPOs exclude closed-end funds.

Source: Thomson Financial

MUNICIPAL BOND UNDERWRITINGS

(In \$ Billions)

INTEREST RATES

(Averages)

	Compet. Rev. Bonds	Nego. Rev. Bonds	TOTAL REVENUE BONDS	Compet. G.O.s	Nego. G.O.s	TOTAL G.O.s	TOTAL MUNICIPAL BONDS	3-Mo. T Bills	10-Year Treasuries	SPREAD
1985	10.2	150.8	161.0	17.6	22.8	40.4	201.4	7.47	10.62	3.15
1986	10.0	92.6	102.6	23.1	22.6	45.7	148.3	5.97	7.68	1.71
1987	7.1	64.4	71.5	16.3	14.2	30.5	102.0	5.78	8.39	2.61
1988	7.6	78.1	85.7	19.2	12.7	31.9	117.6	6.67	8.85	2.18
1989	9.2	75.8	85.0	20.7	17.2	37.9	122.9	8.11	8.49	0.38
1990	7.6	78.4	86.0	22.7	17.5	40.2	126.2	7.50	8.55	1.05
1991	11.0	102.1	113.1	29.8	28.1	57.9	171.0	5.38	7.86	2.48
1992	12.5	139.0	151.6	32.5	49.0	81.5	233.1	3.43	7.01	3.58
1993	20.0	175.6	195.6	35.6	56.7	92.4	287.9	3.00	5.87	2.87
1994	15.0	89.2	104.2	34.5	23.2	57.7	161.9	4.25	7.09	2.84
1995	13.5	81.7	95.2	27.6	32.2	59.8	155.0	5.49	6.57	1.08
1996	15.6	100.1	115.7	31.3	33.2	64.5	180.2	5.01	6.44	1.43
1997	12.3	130.2	142.6	35.5	36.5	72.0	214.6	5.06	6.35	1.29
1998	21.4	165.6	187.0	43.7	49.0	92.8	279.8	4.78	5.26	0.48
1999	14.3	134.9	149.2	38.5	31.3	69.8	219.0	4.64	5.65	1.01
2000	13.6	116.2	129.7	35.0	29.3	64.3	194.0	5.82	6.03	0.21
2001	17.6	164.2	181.8	45.5	56.3	101.8	283.5	3.39	5.02	1.63
2002	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
<u>2002</u>										
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	4.0	8.9	20.9	1.73	4.91	3.18
Mar	1.7	13.0	14.7	4.9	5.6	10.5	25.2	1.79	5.28	3.49
Apr	2.3	14.7	17.0	4.4	4.1	8.5	25.5	1.72	5.21	3.49
May	2.4	20.7	23.1	4.0	6.9	10.9	34.0	1.73	5.16	3.43
June	1.5	20.3	21.8	5.2	11.6	16.8	38.6	1.70	4.93	3.23
July	1.1	15.7	16.8	4.8	6.2	11.0	27.8	1.68	4.65	2.97
Aug	0.6	20.4	21.0	3.8	6.6	10.4	31.5	1.62	4.26	2.64
Sept	1.1	16.8	17.8	4.1	5.6	9.7	27.5	1.63	3.87	2.24
Oct	2.9	24.0	26.9	5.9	8.9	14.8	41.7	1.58	3.94	2.36
Nov	1.4	25.3	26.7	3.0	5.6	8.5	35.2	1.23	4.05	2.82
Dec	2.0	16.6	18.6	2.9	4.4	7.3	26.0	1.19	4.03	2.84
<u>2003</u>										
Jan	1.4	16.8	18.2	4.4	4.3	8.7	27.0	1.17	4.05	2.88
Feb	1.8	15.6	17.4	5.1	7.6	12.7	30.1	1.17	3.90	2.73
Mar	2.0	16.4	18.4	4.2	5.5	9.7	28.1	1.13	3.81	2.68
Apr	1.7	18.4	20.1	4.6	10.2	14.8	34.9	1.13	3.96	2.83
May	3.0	20.0	23.0	5.5	7.0	12.5	35.5	1.07	3.57	2.50
June	2.0	22.6	24.7	6.6	17.1	23.7	48.4	0.92	3.33	2.41
July	2.2	18.3	20.5	6.5	6.0	12.6	33.1	0.90	3.98	3.08
Aug	1.1	17.3	18.4	3.8	3.4	7.1	25.6	0.95	4.45	3.50
Sept	1.4	17.4	18.8	3.6	3.2	6.8	25.5	0.94	4.27	3.33
Oct	1.6	16.0	17.6	3.8	11.9	15.7	33.3	0.92	4.29	3.37
Nov	1.4	15.3	16.6	4.1	4.0	8.1	24.7	0.93	4.30	3.37
Dec (est)	1.7	19.0	20.7	2.8	8.6	11.3	32.0	0.90	4.28	3.38
YTD '02	19.5	210.5	230.0	52.3	73.1	125.4	355.4	1.60	4.61	3.01
YTD '03	21.2	213.2	234.5	55.0	88.8	143.8	378.2	1.01	4.02	3.01
% Change	8.9%	1.3%	2.0%	5.1%	21.5%	14.7%	6.4%	-37.0%	-12.9%	-0.1%

Sources: Thomson Financial; Federal Reserve

STOCK MARKET PERFORMANCE INDICES

(End of Period)

STOCK MARKET VOLUME

(Daily Avg., Mils. of Shs.)

VALUE TRADED

(Daily Avg., \$ Bils.)

	Dow Jones Industrial Average	S&P 500	NYSE Composite	Nasdaq Composite	NYSE	AMEX	Nasdaq	NYSE	Nasdaq
1985	1,546.67	211.28	1,285.66	324.93	109.2	8.3	82.1	3.9	0.9
1986	1,895.95	242.17	1,465.31	348.83	141.0	11.8	113.6	5.4	1.5
1987	1,938.83	247.08	1,461.61	330.47	188.9	13.9	149.8	7.4	2.0
1988	2,168.57	277.72	1,652.25	381.38	161.5	9.9	122.8	5.4	1.4
1989	2,753.20	353.40	2,062.30	454.82	165.5	12.4	133.1	6.1	1.7
1990	2,633.66	330.22	1,908.45	373.84	156.8	13.2	131.9	5.2	1.8
1991	3,168.83	417.09	2,426.04	586.34	178.9	13.3	163.3	6.0	2.7
1992	3,301.11	435.71	2,539.92	676.95	202.3	14.2	190.8	6.9	3.5
1993	3,754.09	466.45	2,739.44	776.80	264.5	18.1	263.0	9.0	5.3
1994	3,834.44	459.27	2,653.37	751.96	291.4	17.9	295.1	9.7	5.8
1995	5,117.12	615.93	3,484.15	1,052.13	346.1	20.1	401.4	12.2	9.5
1996	6,448.27	740.74	4,148.07	1,291.03	412.0	22.1	543.7	16.0	13.0
1997	7,908.25	970.43	5,405.19	1,570.35	526.9	24.4	647.8	22.8	17.7
1998	9,181.43	1,229.23	6,299.93	2,192.69	673.6	28.9	801.7	29.0	22.9
1999	11,497.12	1,469.25	6,876.10	4,069.31	808.9	32.7	1,081.8	35.5	43.7
2000	10,786.85	1,320.28	6,945.57	2,470.52	1,041.6	52.9	1,757.0	43.9	80.9
2001	10,021.50	1,148.08	6,236.39	1,950.40	1,240.0	65.8	1,900.1	42.3	44.1
2002	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
<u>2002</u>									
Jan	9,920.00	1,130.20	6,116.90	1,934.03	1,425.9	56.1	1,888.7	44.5	40.8
Feb	10,106.13	1,106.73	6,117.96	1,731.49	1,381.8	56.3	1,812.8	42.1	35.9
Mar	10,403.94	1,147.39	6,348.79	1,845.35	1,337.1	57.1	1,756.8	42.9	34.5
Apr	9,946.22	1,076.92	6,071.22	1,688.23	1,307.3	55.4	1,779.0	42.4	32.1
May	9,925.25	1,067.14	6,035.27	1,615.73	1,234.2	61.5	1,834.2	38.9	29.8
June	9,243.26	989.82	5,636.54	1,463.21	1,587.0	66.9	1,877.1	44.8	29.4
July	8,736.59	911.62	5,195.61	1,328.26	1,886.3	79.0	2,158.2	50.9	28.1
Aug	8,663.50	916.07	5,239.81	1,314.85	1,341.4	58.4	1,509.0	35.5	21.2
Sept	7,591.93	815.28	4,709.96	1,172.06	1,409.0	90.3	1,477.3	36.3	20.5
Oct	8,397.03	885.77	5,000.32	1,329.75	1,654.8	68.3	1,709.3	42.5	25.4
Nov	8,896.09	936.31	5,236.85	1,478.78	1,454.4	57.7	1,799.5	37.9	27.3
Dec	8,341.63	879.82	5,000.00	1,335.51	1,247.9	57.6	1,423.6	32.1	21.6
<u>2003</u>									
Jan	8,053.81	855.70	4,868.68	1,320.91	1,474.7	62.9	1,547.6	37.5	24.7
Feb	7,891.08	841.15	4,716.07	1,337.52	1,336.4	53.6	1,311.4	32.8	20.4
Mar	7,992.13	848.18	4,730.21	1,341.17	1,439.3	64.7	1,499.9	36.3	23.0
Apr	8,480.09	916.92	5,131.56	1,464.31	1,422.7	54.7	1,478.2	37.1	23.5
May	8,850.26	963.59	5,435.37	1,595.91	1,488.6	69.6	1,847.9	39.2	27.4
June	8,985.44	974.50	5,505.17	1,622.80	1,516.3	79.5	2,032.2	42.7	32.0
July	9,233.80	990.31	5,558.99	1,735.02	1,451.1	67.4	1,771.7	40.7	30.5
Aug	9,415.82	1,008.01	5,660.16	1,810.45	1,200.3	57.7	1,470.8	34.1	25.3
Sept	9,275.06	995.97	5,644.03	1,786.94	1,436.7	83.9	1,943.2	41.1	33.0
Oct	9,801.12	1,050.71	5,959.01	1,932.21	1,430.0	68.6	1,827.1	41.7	33.1
Nov	9,782.46	1,058.20	6,073.02	1,960.26	1,293.3	71.7	1,821.0	38.5	32.4
Dec*	10,338.00	1,092.94	6,321.84	1,955.80	1,358.7	79.3	1,833.9	41.1	32.0
YTD '02	8,341.63	879.82	5,000.00	1,335.51	1,441.0	63.7	1,752.8	40.9	28.8
YTD '03	10,338.00	1,092.94	6,321.84	1,955.80	1,405.6	67.9	1,702.7	38.7	28.2
% Change	23.9%	24.2%	26.4%	46.4%	-2.5%	6.6%	-2.9%	-5.5%	-2.0%

*Dec. 2003 stock prices as of 12/22; share and dollar volumes estimated.

MUTUAL FUND ASSETS

(\$ Billions)

MUTUAL FUND NET NEW CASH FLOW*

(\$ Billions)

	Equity	Hybrid	Bond	Money Market	TOTAL ASSETS	Equity	Hybrid	Bond	Money Market	TOTAL	Total Long- Term Funds
1985	116.9	12.0	122.6	243.8	495.4	8.5	1.9	63.2	-5.4	68.2	73.6
1986	161.4	18.8	243.3	292.2	715.7	21.7	5.6	102.6	33.9	163.8	129.9
1987	180.5	24.2	248.4	316.1	769.2	19.0	4.0	6.8	10.2	40.0	29.8
1988	194.7	21.1	255.7	338.0	809.4	-16.1	-2.5	-4.5	0.1	-23.0	-23.1
1989	248.8	31.8	271.9	428.1	980.7	5.8	4.2	-1.2	64.1	72.8	8.8
1990	239.5	36.1	291.3	498.3	1,065.2	12.8	2.2	6.2	23.2	44.4	21.2
1991	404.7	52.2	393.8	542.5	1,393.2	39.4	8.0	58.9	5.5	111.8	106.3
1992	514.1	78.0	504.2	546.2	1,642.5	78.9	21.8	71.0	-16.3	155.4	171.7
1993	740.7	144.5	619.5	565.3	2,070.0	129.4	39.4	73.3	-14.1	228.0	242.1
1994	852.8	164.5	527.1	611.0	2,155.4	118.9	20.9	-64.6	8.8	84.1	75.2
1995	1,249.1	210.5	598.9	753.0	2,811.5	127.6	5.3	-10.5	89.4	211.8	122.4
1996	1,726.1	252.9	645.4	901.8	3,526.3	216.9	12.3	2.8	89.4	321.3	232.0
1997	2,368.0	317.1	724.2	1,058.9	4,468.2	227.1	16.5	28.4	102.1	374.1	272.0
1998	2,978.2	364.7	830.6	1,351.7	5,525.2	157.0	10.2	74.6	235.3	477.1	241.8
1999	4,041.9	383.2	808.1	1,613.1	6,846.3	187.7	-12.4	-5.5	193.6	363.4	169.8
2000	3,962.0	346.3	811.1	1,845.2	6,964.7	309.4	-30.7	-49.8	159.6	388.6	228.9
2001	3,418.2	346.3	925.1	2,285.3	6,975.0	31.9	9.5	87.7	375.6	504.8	129.2
2002	2,667.0	327.4	1,124.9	2,272.0	6,391.3	-27.7	8.3	140.7	-46.6	74.7	121.3
<u>2002</u>											
Jan	3,372.1	347.2	946.9	2,303.4	6,969.6	19.4	2.2	10.4	14.0	46.0	32.0
Feb	3,310.5	348.3	962.5	2,301.0	6,922.3	4.7	2.3	10.9	-5.5	12.4	17.9
Mar	3,495.7	359.2	958.3	2,247.9	7,061.1	29.7	3.3	6.6	-53.0	-13.4	39.5
Apr	3,367.8	354.5	980.6	2,231.4	6,934.4	12.9	3.3	7.7	-19.6	4.3	23.9
May	3,341.5	356.4	994.1	2,230.7	6,922.7	4.9	1.5	10.5	-3.2	13.6	16.8
June	3,088.7	341.4	1,003.7	2,197.4	6,631.2	-18.2	0.4	12.2	-43.6	-49.3	-5.6
July	2,770.1	320.7	1,032.9	2,254.6	6,378.4	-52.6	-4.7	28.1	54.6	25.4	-29.2
Aug	2,781.1	324.9	1,063.7	2,217.5	6,387.3	-3.1	0.6	17.4	-38.7	-23.9	14.9
Sept	2,505.3	305.4	1,089.0	2,164.6	6,064.2	-16.1	-0.7	15.3	-54.9	-56.4	-1.5
Oct	2,659.5	316.7	1,083.6	2,177.5	6,237.2	-7.6	-1.0	6.4	12.4	10.2	-2.2
Nov	2,818.4	332.3	1,098.7	2,309.3	6,558.6	7.0	1.2	7.6	129.9	145.6	15.8
Dec	2,667.0	327.4	1,124.9	2,272.0	6,391.3	-8.3	-0.2	7.3	-38.8	-40.0	-1.2
<u>2003</u>											
Jan	2,597.7	324.7	1,138.2	2,273.6	6,334.2	-0.4	1.1	13.0	-1.2	12.5	13.7
Feb	2,537.8	322.9	1,171.1	2,236.2	6,268.0	-11.1	0.1	19.7	-39.6	-30.9	8.7
Mar	2,551.3	325.3	1,183.3	2,204.7	6,264.6	-0.3	0.9	10.6	-32.3	-21.0	11.3
Apr	2,770.3	346.8	1,210.5	2,157.7	6,485.3	16.1	2.7	10.5	-53.8	-24.4	29.4
May	2,958.5	365.8	1,238.7	2,140.6	6,703.6	11.9	3.1	8.9	-17.8	6.1	23.9
June	3,031.1	373.6	1,248.4	2,164.4	6,817.5	18.6	4.0	5.1	22.1	49.9	27.7
July	3,126.0	376.4	1,212.1	2,152.5	6,867.0	21.4	3.5	-10.8	-12.9	1.2	14.1
Aug	3,238.5	382.3	1,209.4	2,141.0	6,971.2	23.4	3.3	-12.6	-20.3	-6.1	14.2
Sept	3,228.5	388.2	1,231.3	2,100.0	6,948.0	17.3	3.7	-5.9	-50.5	-35.3	15.1
Oct	3,441.3	403.6	1,227.3	2,078.7	7,150.9	25.5	3.9	-1.3	-23.3	4.8	28.1
Nov											
Dec											
YTD '02	2,659.5	316.7	1,083.6	2,177.5	6,237.2	-26.2	7.3	125.5	-137.7	-31.2	106.5
YTD '03	3,441.3	403.6	1,227.3	2,078.7	7,150.9	122.5	26.4	37.2	-229.6	-43.4	186.2
% Change	29.4%	27.5%	13.3%	-4.5%	14.6%	NM	264.5%	-70.3%	NM	NM	74.9%

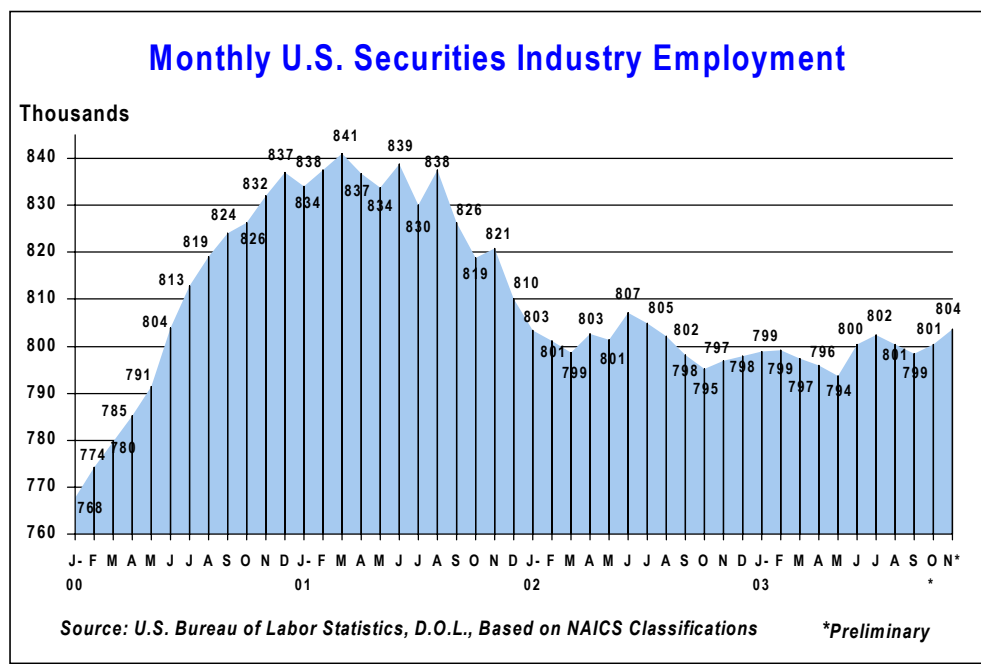
* New sales (excluding reinvested dividends) minus redemptions, combined with net exchanges

Source: Investment Company Institute

SECURITIES INDUSTRY EMPLOYMENT

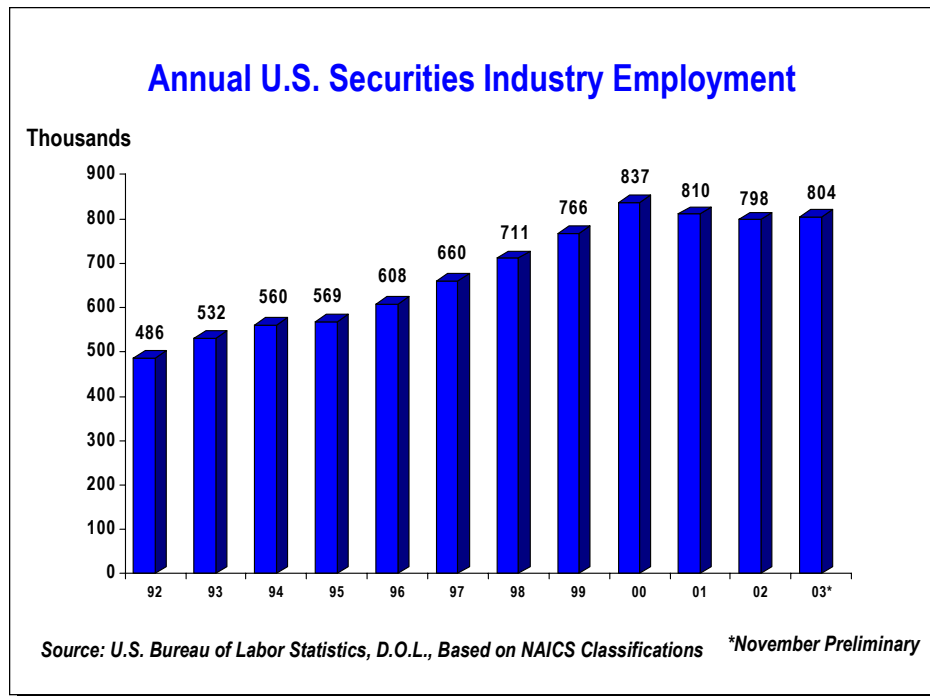
Nationwide Job Market

National securities industry employment rose by 3,000 positions, or 0.8%, in November to 803,500 jobs vs. October's revised 800,500 level, according to the U.S. Department of Labor's Bureau of Labor Statistics (BLS). All of this growth was outside New York since employment continues to decline in the Empire State. November's data marks the new peak for the year and brings total nationwide securities industry employment up by 9,800, or 1.2%, from its recent nadir of 793,700 this past May.



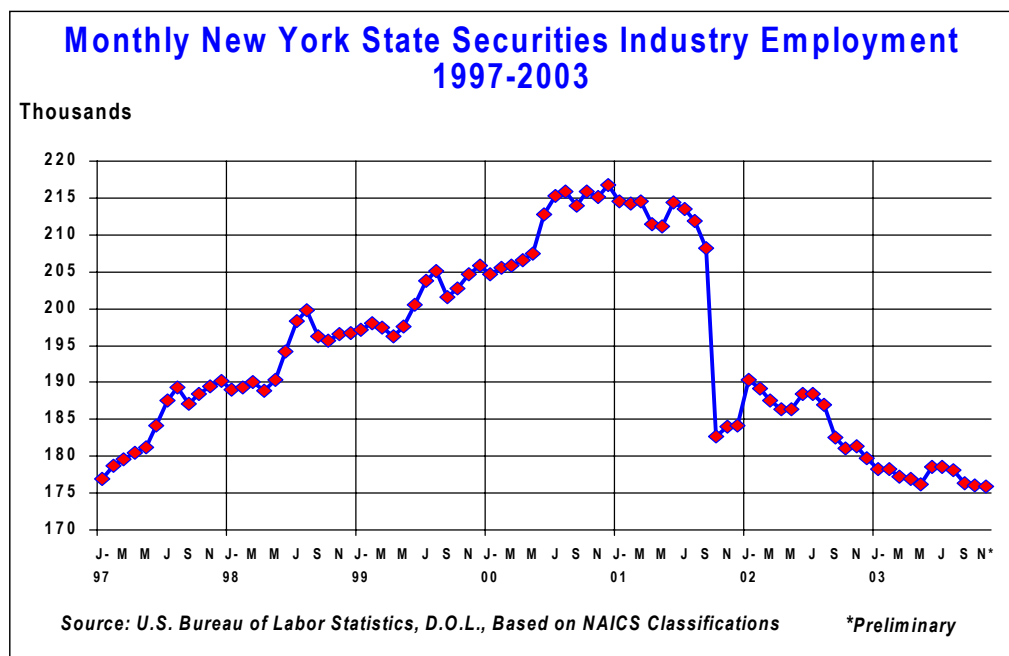
It took the industry just over two years to slash 47,200 jobs, or 5.6%, from its March 2001 peak of 840,900 jobs to its recent nadir in May.

Although we are seeing some improvements in securities employment growth, it is still very hard to predict how long it will take for the employment recovery process to return job levels to March 2001's peak. Right now we are back to a monthly level first reached over three years ago, June of 2000. At that time, it took nine months for the securities industry workforce to reach its all-time peak of 840,900 jobs.

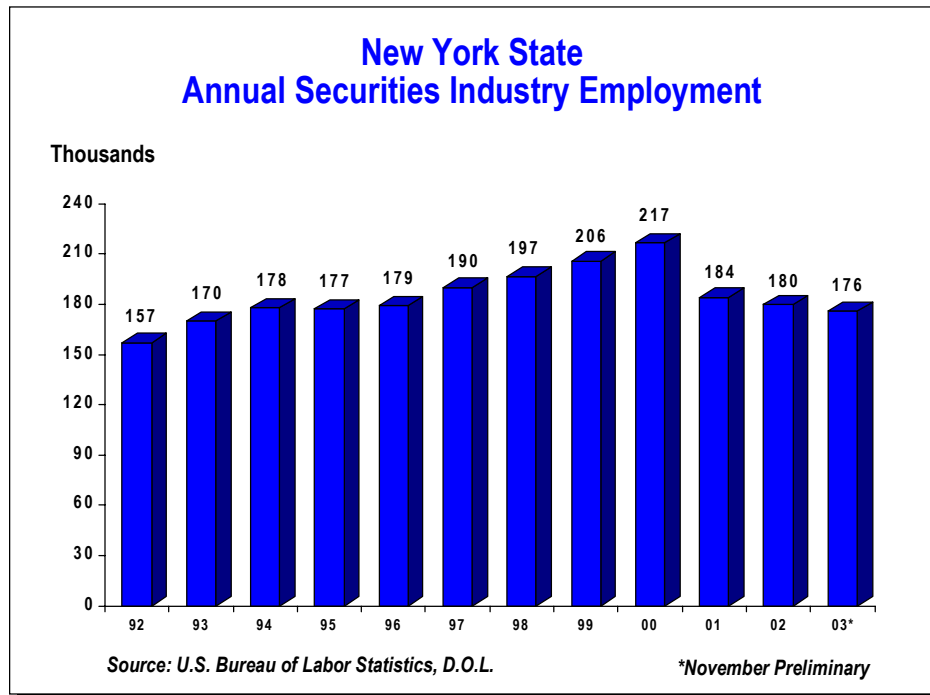


New York State Securities Employment

New York State securities industry employment declined for the fourth consecutive month in November to a new recent low of 175,900, down 2,700 or 1.5% from the June/July 2003 high of 178,600. This is the same level of industry employment in the state 10 years ago.



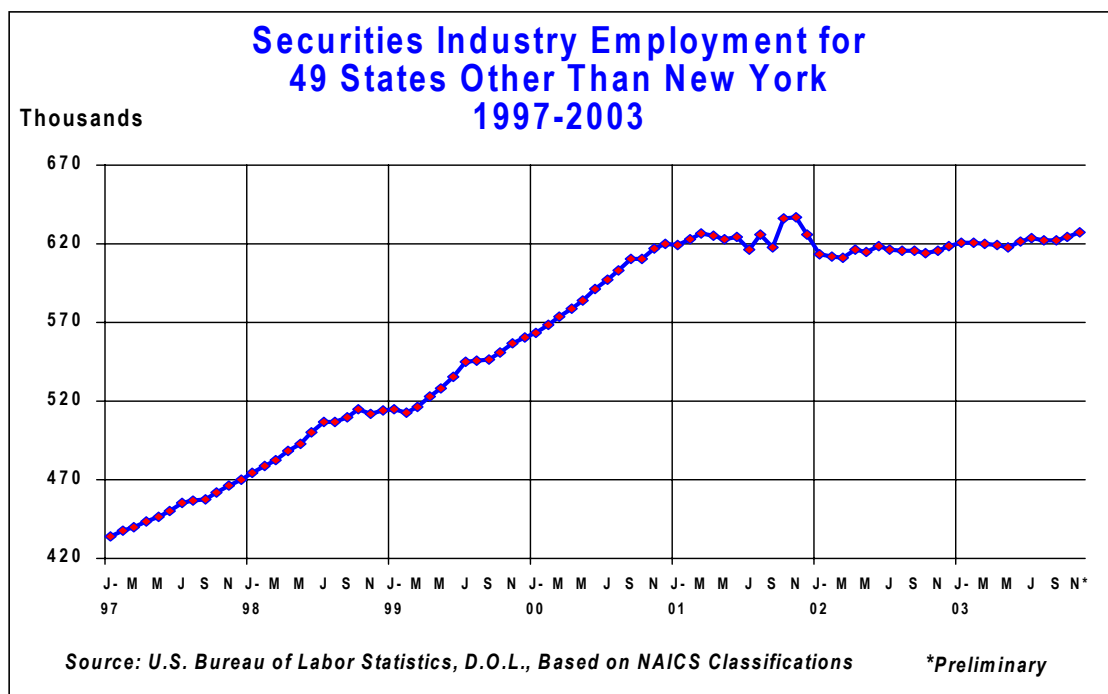
New York employment peaked one quarter earlier than the national figures, 216,700 in December 2000, and has now declined by 40,800 or 19% to its current November low. That equals 86% of the nationwide job losses through this May.



Preliminary November data indicates that New York State's securities industry employment is still sitting at year-end 1994 levels.

Securities Industry Employment in 49 States Other than New York

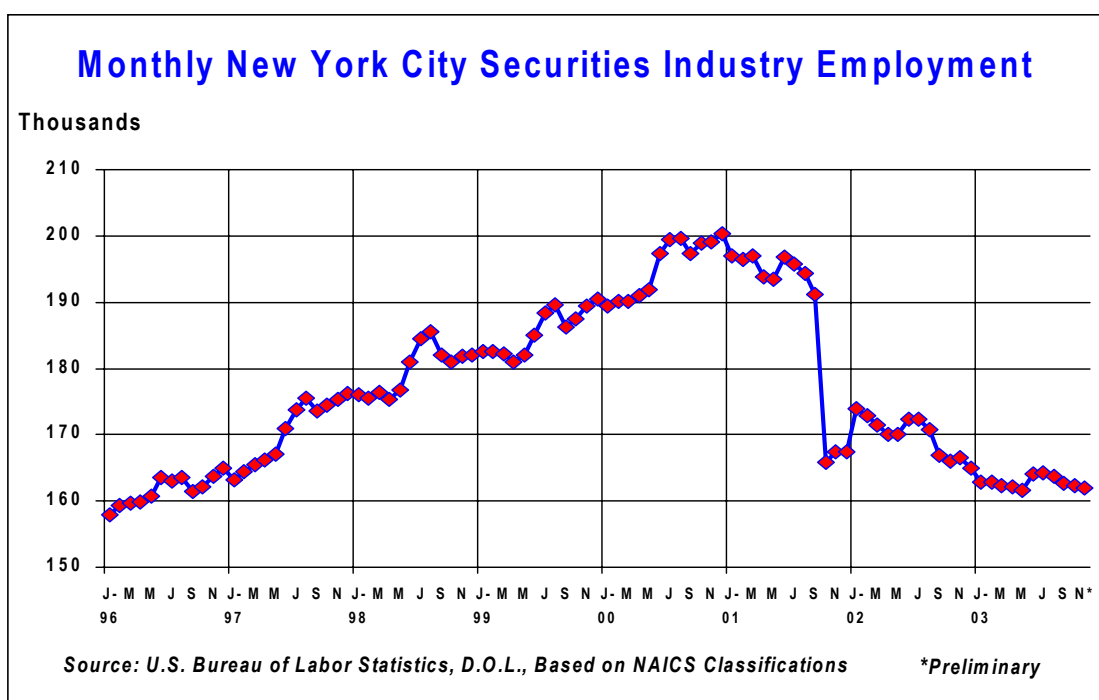
The employment trend for all 49 states other than New York does not show a downturn since 2000, but it does indicate a halt in growth.



Other than the short-lived spike in October 2001, a consequence of the September 11 disaster as companies temporarily moved their downtown Manhattan employees to locations nearby (mainly New Jersey), non-New York employment has hovered around year-end 2000 levels for three years.

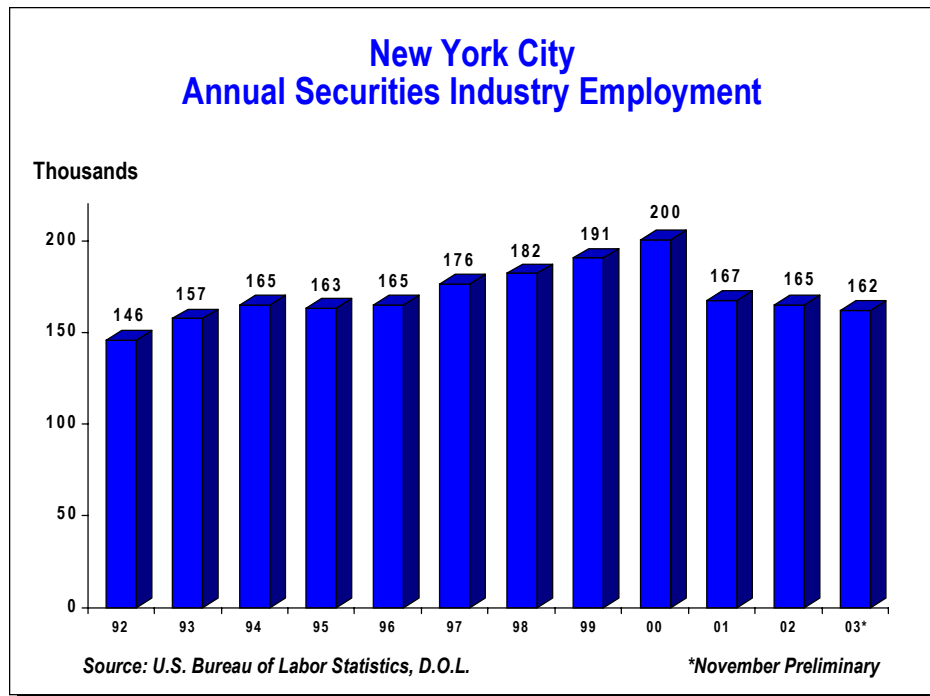
New York City Securities Workforce

With 92% of the state's securities industry workforce concentrated in New York City, almost entirely in Manhattan, the city's figures mirrored the state's. New York City securities industry employment declined for the fourth consecutive month in November to 161,900, down 2,300 or 1.4% from this July's 2003 high of 164,200. Currently we are only 300 jobs above the recent nadir of 161,600 New York City securities industry jobs posted this May and the same level posted for the city nine years ago.



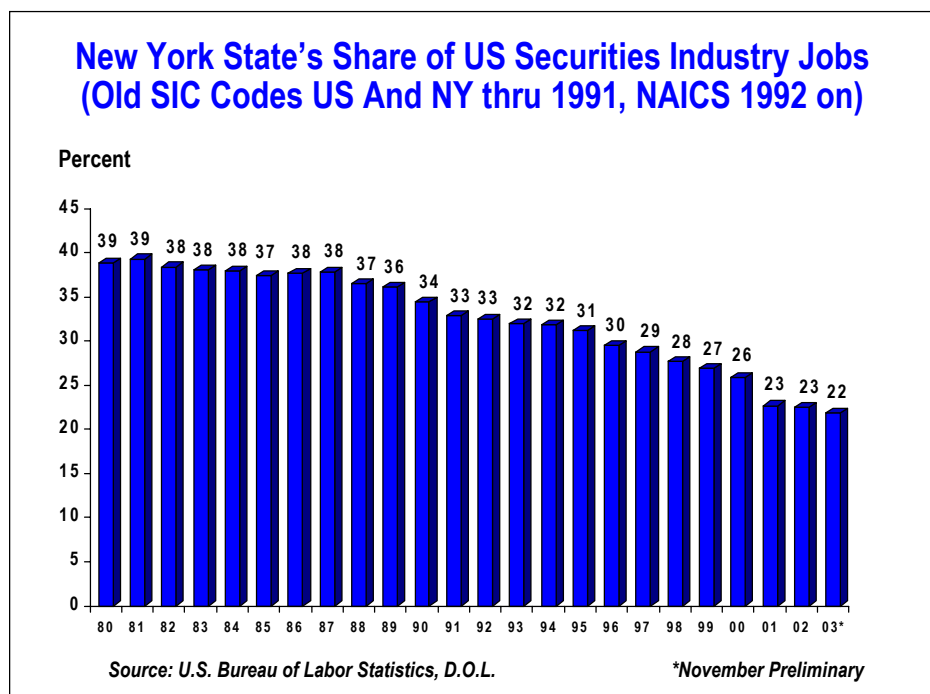
New York City employment peaked one quarter earlier than the national figures, 200,300 in December 2000, and then declined by 38,700 or 19% to 161,600 in May 2003. That means 82% of the nationwide job losses occurred in New York City alone through this May.

New York City's employment level is now back to May/June 1996 levels, which is a little further back than the statewide figures.

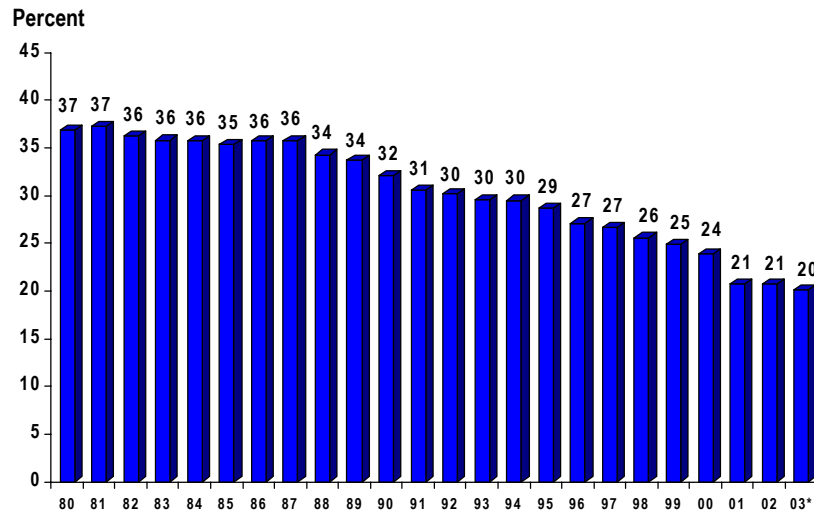


New York's Shrinking Share of U.S. Securities Industry Jobs

The brutal job losses experienced in New York the past two years merely accelerated a long-term trend in industry employment. New York State and City securities and commodities industry employment has been shrinking relative to its national employment for decades. New York State and City's share of U.S. securities jobs was cut nearly in half from 1980 to 2003, falling from 39% and 37%, respectively, to 22% and 20%.



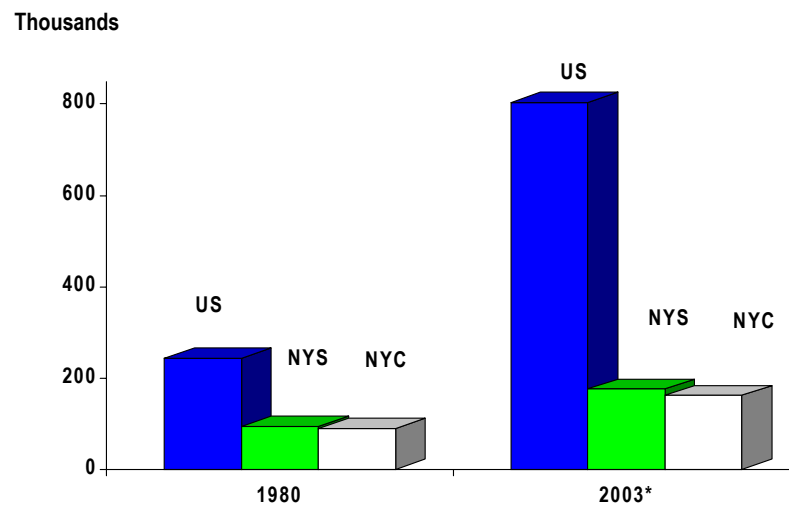
New York City's Share of US Securities Industry Jobs (Old SIC Codes US And NY thru 1991, NAICS 1992 on)



Source: U.S. Bureau of Labor Statistics, D.O.L.

*November Preliminary

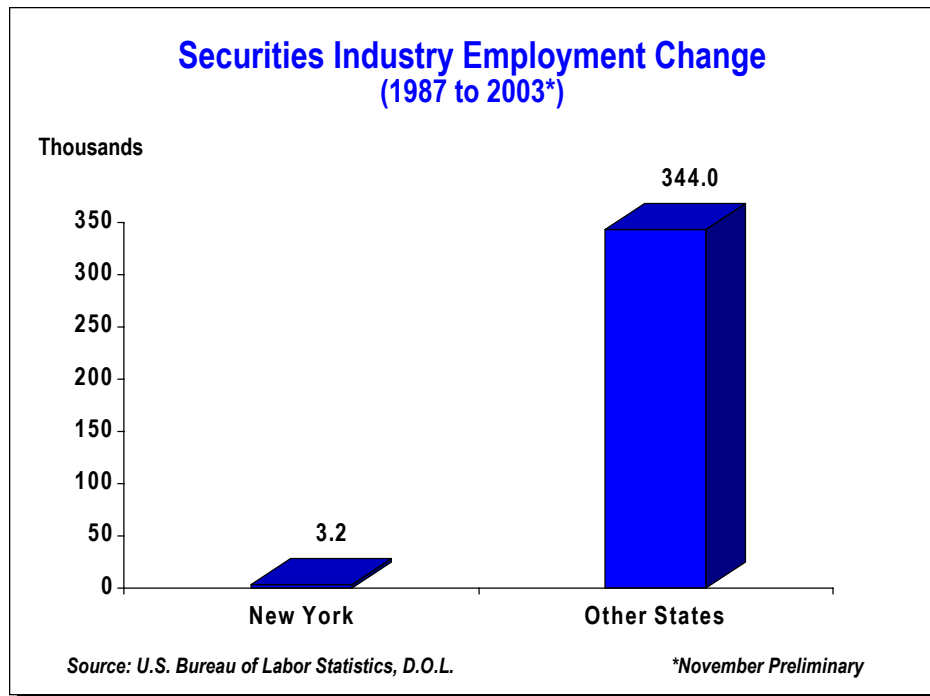
Securities Industry Employment (1980 vs. 2002)



Source: U.S. Bureau of Labor Statistics, D.O.L.

*November Preliminary

Although New York State still commands 22% of the securities and commodities industry's workforce, the number of net new securities industry jobs created in New York since the 1987 stock market crash through this November is only 0.9% of the number created in the other 49 states.



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Research Assistant

Year End	U.S.	Change From Prior Year (U.S.)	N.Y. State	Change From Prior Year (N.Y. State)	N.Y. State as % of U.S.	N.Y. City	Change From Prior Year (N.Y. City)	N.Y. City as % of N.Y. State	N.Y. City as % of U.S.
1973	182.1	-9.6%	77.4	-15.1%	42.5%	74.5	-15.0%	96.3%	40.9%
1974	167.1	-8.2%	69.0	-10.9%	41.3%	66.1	-11.3%	95.8%	39.6%
1975	171.3	2.5%	69.4	0.6%	40.5%	67.0	1.4%	96.5%	39.1%
1976	177.4	3.6%	72.8	4.9%	41.0%	70.1	4.6%	96.3%	39.5%
1977	183.4	3.4%	73.3	0.7%	40.0%	70.2	0.1%	95.8%	38.3%
1978	194.3	5.9%	77.0	5.0%	39.6%	73.7	5.0%	95.7%	37.9%
1979	214.2	10.2%	82.1	6.6%	38.3%	78.4	6.4%	95.5%	36.6%
1980	243.7	13.8%	94.8	15.5%	38.9%	90.0	14.8%	94.9%	36.9%
1981	267.0	9.6%	105.0	10.8%	39.3%	99.6	10.7%	94.9%	37.3%
1982	283.8	6.3%	108.9	3.7%	38.4%	102.7	3.1%	94.3%	36.2%
1983	328.3	15.7%	125.0	14.8%	38.1%	117.5	14.4%	94.0%	35.8%
1984	341.1	3.9%	129.2	3.4%	37.9%	121.7	3.6%	94.2%	35.7%
1985	367.5	7.7%	137.6	6.5%	37.4%	130.0	6.8%	94.5%	35.4%
1986	417.1	13.5%	157.1	14.2%	37.7%	148.8	14.5%	94.7%	35.7%
1987	456.3	9.4%	172.7	9.9%	37.8%	163.0	9.5%	94.4%	35.7%
1988	438.7	-3.9%	160.3	-7.2%	36.5%	150.4	-7.7%	93.8%	34.3%
1989	426.9	-2.7%	154.1	-3.9%	36.1%	144.0	-4.3%	93.4%	33.7%
1990	417.4	-2.2%	143.5	-6.9%	34.4%	133.9	-7.0%	93.3%	32.1%
1991	424.1	1.6%	139.5	-2.8%	32.9%	129.6	-3.2%	92.9%	30.6%
1992	485.9	14.6%	158.0	13.3%	32.5%	146.5	13.0%	92.7%	30.2%
1993	531.5	9.4%	170.0	7.6%	32.0%	157.4	7.4%	92.6%	29.6%
1994	560.2	5.4%	178.0	4.7%	31.8%	165.0	4.8%	92.7%	29.5%
1995	568.8	1.5%	177.4	-0.3%	31.2%	163.0	-1.2%	91.9%	28.7%
1996	608.3	6.9%	179.3	1.1%	29.5%	164.9	1.2%	92.0%	27.1%
1997	659.9	8.5%	190.2	6.1%	28.8%	176.3	6.9%	92.7%	26.7%
1998	711.0	7.7%	196.7	3.4%	27.7%	182.1	3.3%	92.6%	25.6%
1999	766.4	7.8%	205.8	4.6%	26.9%	190.5	4.6%	92.6%	24.9%
2000	836.9	9.2%	216.7	5.3%	25.9%	200.3	5.1%	92.4%	23.9%
2001	810.2	-3.2%	184.1	-15.0%	22.7%	167.4	-16.4%	90.9%	20.7%
2002	798.0	-1.5%	179.8	-2.3%	22.5%	164.9	-1.5%	91.7%	20.7%
Jan:02	803.4	-3.7%	190.3	-6.4%	23.7%	173.9	-6.7%	91.4%	21.6%
Feb:02	801.1	-4.3%	189.2	-7.1%	23.6%	172.9	-7.2%	91.4%	21.6%
Mar:02	798.7	-5.0%	187.5	-7.9%	23.5%	171.4	-8.2%	91.4%	21.5%
Apr:02	802.6	-4.1%	186.4	-8.0%	23.2%	170.0	-8.6%	91.2%	21.2%
May:02	801.4	-3.9%	186.4	-7.9%	23.3%	170.1	-8.4%	91.3%	21.2%
June:02	807.1	-3.8%	188.4	-8.6%	23.3%	172.3	-9.2%	91.5%	21.3%
July:02	804.8	-3.0%	188.5	-8.0%	23.4%	172.4	-9.0%	91.5%	21.4%
Aug:02	802.2	-4.2%	186.9	-9.2%	23.3%	170.8	-10.4%	91.4%	21.3%
Sep:02	798.1	-3.4%	182.6	-10.0%	22.9%	166.9	-12.1%	91.4%	20.9%
Oct:02	795.1	-2.9%	181.1	-4.2%	22.8%	166.0	-4.8%	91.7%	20.9%
Nov:02	796.8	-2.9%	181.4	-5.9%	22.8%	166.5	-6.5%	91.8%	20.9%
Dec:02	798.0	-1.5%	179.8	-5.6%	22.5%	164.9	-6.0%	91.7%	20.7%
Jan:03	798.9	-0.6%	178.2	-6.4%	22.3%	162.9	-6.3%	91.4%	20.4%
Feb:03	799.2	-0.2%	178.2	-5.8%	22.3%	162.9	-5.8%	91.4%	20.4%
Mar:03	797.4	-0.2%	177.3	-5.4%	22.2%	162.3	-5.3%	91.5%	20.4%
Apr:03	795.9	-0.8%	176.9	-5.1%	22.2%	162.1	-4.6%	91.6%	20.4%
May:03	793.7	-1.0%	176.2	-5.5%	22.2%	161.6	-5.0%	91.7%	20.4%
June:03	800.4	-0.8%	178.6	-5.2%	22.3%	164.0	-4.8%	91.8%	20.5%
July:03	802.4	-0.3%	178.6	-5.3%	22.3%	164.2	-4.8%	91.9%	20.5%
Aug:03*	800.5	-0.2%	178.1	-4.7%	22.2%	163.8	-4.1%	92.0%	20.5%
Sept:03*	798.5	0.1%	176.3	-3.5%	22.1%	162.6	-2.6%	92.2%	20.4%
Oct:03*	800.5	0.7%	176.1	-2.8%	22.0%	162.4	-2.2%	92.2%	20.3%
Nov:03*	803.5	0.8%	175.9	-3.0%	21.9%	161.9	-2.8%	92.0%	20.1%

*Preliminary

NOTE: The U.S. Bureau of Labor Statistics (BLS) employment figures shown here are from the old SIC system through 1991 and the new NAICS series thereafter. The securities and commodities industry includes: investment banking and securities dealing; securities brokerage; miscellaneous financial investment activities; miscellaneous intermediation; commodity contracts dealing; commodity contracts brokerage; securities and commodity exchanges; portfolio management; investment advice; trust, fiduciary, and custody activities, and miscellaneous financial investment activities. The data are partially obtained from enrollment data for unemployment benefits and thus BLS figures will lag securities industry announced layoffs until completed, layoff packages expire, and unemployment benefits are applied for. Also, industry announced layoffs often are company intentions for global layoffs while BLS data reflect only U.S. employment. Further, individuals laid off at one firm often join another firm for no net change in employment in those cases. Employment data can be obtained on the BLS web site at: <http://data.bls.gov/labjava/outside.jsp?survey=ee>



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