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MARKET STRUCTURE: In the Spotlight, Again
Judith Chase

"GRADING" FISCAL POLICY: Assessing the Initial Impact of the Jobs and Growth Tax Relief and Reconciliation Act of 2003
Frank Fernandez and George Monahan

SECURITIES INDUSTRY UPDATE: Turning the Corner
George Monahan

SECURITIES INDUSTRY EMPLOYMENT
George Monahan

MONTHLY STATISTICAL REVIEW
Grace Toto

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Table of Contents

Page

3......... **Market Structure: In the Spotlight, Again**, by Judith Chase. It is likely that the SEC will soon be making key, perhaps historic, rulings in response to Nasdaq's recent petition on regulating Nasdaq securities, or in response to Nasdaq's long-standing exchange application. In this article, we review what these rulings will address, and we highlight insights on these issues that were heard at the recent 2003 SIA Market Structure Conference. The SEC is now in the position of deciding what exactly it means to be a registered securities exchange in the United States.

9......... **"Grading" Fiscal Policy: Assessing the Initial Impact of the Jobs and Growth Tax Relief and Reconciliation Act of 2003**, by Frank Fernandez and George Monahan. Real economic growth, which came to a virtual halt in May before picking up in June, appears to be accelerating as the summer passes, in part due to the initial impact of some provisions of the Act. It appears that growth will be both strong enough and sustained into next year to prompt renewed job creation. However, any realistic evaluation of the unfolding impact of the Act must assess how individuals and business respond to it, and the likely evolution of macroeconomic variables in the near term, along with a reasonable view of what values those variables might have been in the absence of the Act.

18........ **Securities Industry Update: Turning the Corner**, by George Monahan. Domestic pretax profits for the U.S. securities industry rose 11% in 2Q 2003 after tripling during the first quarter, a concrete sign that securities industry profitability has finally "turned the corner." Estimated full-year profits are $15.0 billion, just shy of 1999's second best total of $16.3 billion. This article gives a rundown of actual and estimated 2003 quarterly revenues and expenses.

26........ **Securities Industry Employment**, by George Monahan. The two-plus years of securities industry layoffs appears to have ended in May 2003, as the industry turned the corner in profitability. Preliminary data shows a burst of hiring, both nationally and in New York, in June, although New York still has a long way to go since it felt the brunt of the nationwide layoffs, over 80% of which were in Manhattan alone.

34........ **Monthly Statistical Review**, by Grace Toto. The Nasdaq Composite and DJIA both ended 2Q 2003 with their best quarterly performance since 4Q 2001, while the S&P 500 had its best quarterly showing since 4Q 1998. Further, for the first time in four years, these major market indices all posted gains during the first half of the year. Share and dollar volumes on the NYSE and Nasdaq climbed to their highest levels of the year in June, but through the first half of 2003 were still running below 2002's levels (with the exception of a slight uptick in NYSE share volume). Corporate debt issuance increased nearly 10% in the first half of 2003 compared to last year, as equity issuance slumped by nearly one-third. Meanwhile, the IPO market witnessed its slowest deal and dollar volumes since 1975 and 1990, respectively.

MARKET STRUCTURE: IN THE SPOTLIGHT, AGAIN

Market structure questions have been climbing steadily toward the top of the SEC priority action list for a variety of reasons, including Congressional pressure, causing everyone involved to revisit those issues that have arisen again and again since the National Market System was created in the mid-1970's. These issues continue to arise due to what some believe is an inherent tension between competition and fragmentation[1], and to the difficulty of finding a balance between the two that maximizes efficiency and fairness.

In this article, we review the latest developments affecting three of these issues in particular: 1) the nature of market centers; 2) how exactly market centers should be regulated and by whom; and 3) the rules governing trading in those centers. Also in this article, we highlight insights on these issues that were heard at the recent 2003 SIA Market Structure Conference, "Building the Future."[2]

It is likely that the SEC will be making key, perhaps historic, determinations having to do with each of those three questions, either in response to Nasdaq's recent petition on regulating Nasdaq securities, or in response to Nasdaq's long-standing exchange application. The latter is one of the subjects in particular that Congress is urging the SEC to tackle. At the core, the SEC now finds itself in the position of deciding what exactly it means to be a registered securities exchange in the United States.

Unequal Regulation?

There is a Nasdaq petition that is partly responsible for injecting new energy into old debates. On May 14th, the SEC issued a concept release, "Request for Comment on Nasdaq Petition Relating to the Regulation of Nasdaq-Listed Securities."[3] This concept release was issued in response to an April Nasdaq petition requesting action from the SEC to ensure equal surveillance costs and uniform trading rules for Nasdaq-listed securities. The SEC concept release, however, invited comment on those issues as they relate to listed securities and options as well as to Nasdaq stocks. It is thought that the comments received on these broader issues will also affect the Commission's ruling on the Nasdaq exchange application, which was submitted more than two years ago.

Nasdaq questions the extent to which all markets that trade Nasdaq securities have sufficient rules, examination programs, surveillance programs, and order tracking procedures, and asks the SEC to identify those that may not. This "unequal regulation," Nasdaq claims, may result in insufficient investor protection. The SEC requested comment on whether market participants believe this to be the case, and whether or not they believe that the same situation exists for listed securities. The SEC also asked about potential advantages and disadvantages of having a single market regulator of Nasdaq securities, and how that regulator would be chosen.

SIA does believe that the SEC should ensure parallel and consistent regulation across markets through the establishment of some minimum standards, but that these standards should not be identical, and need to contain a measure of flexibility that takes into consideration differences in

1 Edward Nicoll, CEO of Instinet, argued against this point of view in a speech at the 2003 SIA Market Structure Conference. For that speech, see http://www.instinet.com/about/news/viewpoints/index.shtml.

2 For conference information, see http://www.sia.com/ms2003/index.html.

3 For comment release, see http://www.sec.gov/rules/concept/34-47849.htm.

the trading models of different market centers. In other words, the standards should be both market-neutral and product-neutral. One panelist at the recent SIA Market Structure Conference recommended, for example, a short sale standard across markets. The Investment Company Institute agrees that uniform rules for all aspects of trading could hinder competition.[4] Charles Schwab goes further to argue on behalf of a single regulator for broker-dealers in all markets, saying that the NASD is "best positioned" for that role.

The majority of the other comments were opposed to the main thrust of the Nasdaq petition. Those comments, on the whole, were submitted by other SROs and/or market centers. The Philadelphia Stock Exchange (PHLX), for example, writes that Nasdaq uses the term *unequal regulation* "as a rhetorical device to imply that other markets trading or that may trade Nasdaq securities are not up to the task." They also point out that SROs cooperate with one another and with the SEC on a daily basis, and see no reason why that process should not work for Nasdaq securities as well. Finally, PHLX argues that differences in trading rules are actually "…a legitimate and appropriate basis for competition among markets."

Other market centers argue forcefully that Nasdaq failed to make a case that warrants SEC action. Bloomberg Tradebook LLC, for example, writes that "Nasdaq does not provide any demonstration that fragmentation or regulatory free-riding has led to a serious lapse in self regulation." The International Securities Exchange (ISE) asks the SEC not to take the actions requested by Nasdaq, calling Nasdaq's proposals "unnecessary" and "anticompetitive," and the proposed SEC actions "extraordinary" and "unprecedented." Essentially, claims the ISE, Nasdaq is attempting to impose its own view of what kind of regulatory program an SRO should have, and how much it should cost. ISE points specifically to the listed options market, in which the same products are traded across exchanges; they report that these exchanges have worked together well in less than four years to implement regulatory enhancements. The NYSE agrees that "there is no basis for attributing either the problems or the proposed solutions of the over-the-counter market to the much larger market for NYSE-listed securities."

The Intermarket Surveillance Group (ISG), the coordinator of surveillance among SROs that was created in 1983, of which the NASD is a full member, protests what it calls Nasdaq's "dismissal of ISG's role…[as] shortsighted." ISG goes further to mention that "…a number of the [Nasdaq's] UTP Plan participants, who are Full Members of the ISG, suggested that the ISG would be the appropriate forum for discussion of the issues raised in [Nasdaq's] Petition." SIA in its comment letter also suggested that ISG's mission could be expanded, an idea echoed by panelists at the SIA Market Structure Conference.

The reemerging public debate on these issues has led to a debate about the viability of self-regulation as a general concept.[5] New York State's Attorney-General Spitzer, for example, stated that "…[f]ixing self-regulation is perhaps the most important policy issue facing the SEC."[6] SEC Chairman Donaldson acknowledged that self-regulation, "a very sound concept" and "one of the genius ideas that came out of the 1929 crash...is under considerable pressure."[7]

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4 SIA's comment letter, as well as other organizations' letters, can be found at http://www.sec.gov/rules/concept/s71103.shtml.

5 Vincent Boland and Adrian Michaels, "SEC Reviews Regulation of Exchanges," *Financial Times*, Wednesday, July 23, 2003.

6 Paula Dwyer, "Commentary: Why the Market Can't Police Itself," *Business Week Online*, June 2, 2003.

7 Donna Miskin, "Market Structure, Hedge Funds on SEC Agenda," *Securities Industry News*, Monday, June 9, 2003.

In the past, some SIA member firms supported the idea of a hybrid SRO. One panelist endorsed that regime at the SIA Conference in June. One example of a hybrid SRO is a system under which regulation is bifurcated between individual market regulation, for which that market bears the costs, and a single designated outside regulator for activities across markets, the costs of which would be fairly distributed across markets. Some firms have suggested that the concept of the hybrid SRO in general may be an idea worthy of further exploration at this juncture. As we discuss in the next section, there are many who are unhappy with the way in which SROs regulatory functions are funded at present.

Market Data Redux

Nasdaq in its petition goes on to claim that because of this unequal regulation, Nasdaq in effect subsidizes the regulatory costs of these other marketplaces. Their suggestion to rectify this situation is to aggregate costs of regulation across exchanges, and take those costs out of market data revenues that are collected under the Nasdaq UTP [Unlisted Trading Privileges] Plan. Nasdaq believes that exchanges are lowering fees related to reporting or execution just to gain market share in the trading of Nasdaq securities. In response, broker-dealers sometimes quote and print trades to different markets, which, according to Nasdaq, only exacerbates regulatory difficulties. On these questions, the SEC asked for comment on what expenses would count as regulatory, and who would be responsible for categorizing expenses as such.

The reference to market data revenues opened up a subject that had been temporarily abandoned following the issuance of a Report by the Seligman Advisory Committee on Market Information, which suggested that more competition in the form of multiple competing data consolidators could benefit the industry.[8] The SEC has not yet taken any actions specifically related to those recommendations. However, at this year's SIA Market Structure Conference, Annette Nazareth, Director of the SEC's Division of Market Regulation, did remark that "[e]fforts by market participants to secure a larger share of market data revenues…have increasingly led to distortions in U.S. market structure."[9] She pointed out that SROs have an incentive to report as many trades as possible, as it is the number of trades that is the basis for the collection of market data revenue. The SEC did not allow SROs to continue offering market participants market data rebates out of concern that traders may be incentivized to engage in gratuitous transactions that have no economic value.

SIA agrees that there should be greater transparency of all regulatory costs and SRO fees and revenues. Some SROs take major exception to the market data revenue aggregation suggestion in the Nasdaq proposal. PHLX argues that the revenue streams that an SRO uses to meet its regulatory obligations are "…within the purview of each SRO's system of corporate budgeting." The ISE calls Nasdaq's idea of aggregating regulatory costs a kind of "socialization" of regulatory budgets, and writes that "it appears to us to be nothing more than a thinly-veiled attempt by Nasdaq to foster its ultimate goals of having a 'single regulator' for its competitive advantage." The NYSE agrees that tying regulatory costs to specific revenue streams at a level other than the individual SRO level would "create rigidities that may lead to misallocation of resources."

Bloomberg Tradebook, on the other hand, writes that "there would seem intuitively to be some truth" to the idea that Nasdaq subsidizes other markets' regulation, but also notes that Nasdaq

8 For an overview of the Seligman Report, see *SIA Research Reports*, Vol. II, No. 8, September 30, 2001, at http://www.sia.com/reference_materials/html/research_reports.html.

9 To access the speech in its entirety, please see http://www.sec.gov/news/speech/spch061303aln.htm.

hasn't displayed the revenue and expense data to support that argument. Bloomberg points to Nasdaq's recent "dramatic" loss in market share to Archipelago and CSE as justification for the SEC to look at the regulatory costs each organization bears. ArcaEx's market share in Nasdaq stocks reportedly grew from 11.7 percent in December of 2002 to 15.2 percent in June of 2003.[10] SIA agrees that the SEC should review regulatory costs across markets.

Market data is also a key ingredient in markets' surveillance programs. In its petition, Nasdaq suggested that the audit trail data covering trades reported away from Nasdaq is inadequate for Nasdaq's automated surveillance systems because it only provides trade data from the clearing firm level, and not the executing firm level, and because the data is received two days after the trade date. Regional exchanges' trade data is provided to Nasdaq by the ISG. In response to the SEC's question about whether all markets trading Nasdaq securities should have rules requiring detailed audit trail information, SIA suggested that the SEC should consider the cost to broker-dealers in supplying even more audit trail data, and that all SROs already make their case with the SEC that their surveillance methods are appropriate and sufficient. Some SIA firms suggested that OATS could become a utility with industry-shared costs.

Bloomberg Tradebook says that the SEC would be justified in requiring all SROs that trade Nasdaq-listed securities to have electronic audit-trail systems that are fully coordinated with the NASD's system. In fact, they add that one single unified order-tracking system for Nasdaq securities and listed securities might be more efficient and less costly than two. The NYSE notes that as of March 2003, Nasdaq securities were added to the ISG Consolidated Audit Trail System (COATS), and that the ISG Equity Audit Trail is a "useful supplement to individual market's data."

As it turns out, Nasdaq is not the only organization stirring up market data issues. In June, the NYSE launched LiquidityQuote, a product that was created to provide quotes of size on which institutions can execute. The vendor Bloomberg requested a stay on the product launch from the SEC, but the request was denied.[11] At issue were the NYSE's market data vendor restrictions, requiring vendors to get NYSE approval for the way in which data would be displayed, as well as any changes in the display. The SEC had approved LiquidityQuote on the basis that the data would be able to be displayed along with other markets' data.

In July, Charles Schwab filed an amicus brief claiming that retail investors did not have "fair, reasonable, and nondiscriminatory" access to the product.[12] The brief addresses a whole host of general market data issues, leading the NYSE to counter with the allegation that Schwab was "seeking to raise…issues substantially different from those raised by…prior submissions." Clearly, firms are reacting to the fact that an SEC ruling on the Nasdaq petition or Nasdaq exchange application could be imminent, and would likely include some guidance or rules or indication of direction on where the SEC stands on the market data regime as a whole.

[10] "Nasdaq Battleground," *Securities Industry News*, Monday, July 21, 2003.

[11] Mary Schroeder, "Big Board Rolls Out LiquidityQuote After SEC Ruling," *Securities Industry News*, Monday, June 16th, 2003.

[12] Mary Schroeder, "Market Data Debate Simmers," *Securities Industry News*, Monday, July 14th, 2003.

Key Trading Rules

Finally, the meaning and viability of several rules, such as intramarket price priority, the ITS trade-through rule, and decimal trading have come under question again recently in public discussions in a variety of contexts.

Intramarket price priority is at the heart of the debate about what constitute the core features of a securities exchange. There are major differences among market centers that do not necessarily have to do with whether the trading is floor-based or wholly automated. At the SIA Market Structure Conference, Annette Nazareth noted that the SEC has always required registered exchanges to run a limit order book in which orders that are priced the best are prioritized for execution. This type of price priority, she said, "…is inconsistent with the Nasdaq model in which each dealer can interact exclusively with its own order flow, while ignoring the book."

Therefore, SEC approval of the Nasdaq exchange application would, in a sense, mean that the SEC has revised or expanded its views on the defining characteristics of a registered U.S. exchange. Moreover, this decision, according to Nazareth, would likely have consequences: "…other markets would begin moving toward this model as well…[and] there is little doubt that the amount of internalization of orders across all markets would significantly increase."

The practice of internalization, also known as quote matching, or when a broker fills an order from the firm's proprietary holdings to make money from the spread, itself never fails to evoke debate. Also at the SIA Conference, new Nasdaq CEO Robert Greifeld, a proponent, equated internalization to competition. Meanwhile, at that same event, a panelist stated that internalization is anti-competitive. Edward Nicoll, the CEO of Instinet, also argued that day that internalization harms market quality by discouraging people from placing limit orders: "Not only do others free-ride off his advertised price, but he may never get executed." In any case, the SEC, by ruling on the Nasdaq exchange application, will also be ruling on the acceptability of internalization in market centers as a continuing widespread practice.

The ITS trade-through rule, created in 1975, has been the main instrument of the National Market System establishing *intermarket* price priority for listed securities, as opposed to just *intramarket* price priority, because the rule obligates exchanges to send the order to the market with the best price, at which point the specialist on the floor has 30 seconds to decide how to handle that order, giving the market plenty of time to move away. And, of course, there is no guarantee that the order will be executed on the floor at the displayed price.

The larger question raised by the existence of this rule in the current environment is about the desirability of a "hard" linkage between floor-based model exchanges and electronic model market centers. The NYSE currently retains about 80 percent of the listed trading business. ECNs who trade or wish to trade listed securities have for some time lobbied against the rule, often arguing that it shields less efficient markets from the consequences of competition.

More recently, however, other organizations have also begun to publicly support some modification of the trade-through rule, increasing the possibility that some action could be taken. Nasdaq and Instinet signed a joint letter to Congress asking for regulatory change in the listed market.[13] The Investment Company Institute in its comment letter to the SEC argued that "…allowing automatic execution participants to trade through manual participants in the listed

[13] Isabelle Clary, "Nasdaq: Walk Like an ECN?" *Securities Industry News*, Monday, June 23, 2003.

market for a *de minimis* amount…is an idea worthy of consideration." There already exist several exceptions of this type for three exchange-traded funds through March 2004.[14]

Some argue that it was the shift to decimal trading that caused irreparable harm to the viability of the trade-through rule, because the resulting tightening of spreads made speed of execution more important than price. SIA believes that broker-dealers should have the flexibility to set their own execution priorities based on each customer's unique preference, whether it is best price, speed, cost, or liquidity.

SEC Chairman Donaldson agrees that decimal trading has had "considerable unintended consequences," and suggested that there should be a review of its impact.[15] Other organizations, specifically the Security Traders Association and the PHLX, used Donaldson's comments as an opportunity to voice their opinions that decimalization has led to less liquidity and greater volatility.[16] However, Chairman of House Financial Services Michael Oxley reportedly called decimalization "a great success," a comment that led others to conclude that decimalization was unlikely to be reversed.[17]

It is said to be much more likely that the SEC will ban sub-penny trading. The practice of quoting Nasdaq stocks in sub-cents has apparently been growing, and now 15 percent of Nasdaq trades occur in sub-pennies.[18] Approximately two months ago, Instinet also announced that it would quote securities trading below $10 a share in sub-pennies.[19] Some market centers, like SuperMontage, choose not to quote in sub-pennies. A Nasdaq representative at the Market Structure Conference said that they may have to resort to using sub-pennies, but are concerned about doing so.

In any case, not all investors have access to systems with sub-penny displays, leading to fears that those who do have access to those quotes may jump ahead. Organizations like the Financial Information Forum and the Software & Information Industry Association also voiced serious concerns about sub-penny quoting resulting in a marked increase in data traffic in their comment letters to the SEC. It is believed that decimalization has already led to an increase in the sheer number of trades, even as the size of trades gets smaller.

At the SIA Conference, Edward Nicoll made the point that decimal trading leads to a decrease in other negative externalities in the market, like internalization, discussed above. At the same Conference, however, Annette Nazareth noted that "we don't subscribe to [sub-penny pricing] for virtually any transaction in this country, save for gasoline purchases." What is clear is that furor over all of these issues will only increase as we move into the fall: Chairman Oxley has stated his intention to hold market structure hearings in the House "this year," at which SEC officials will testify.[20] Stay tuned.

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[14] See http://www.sec.gov/news/press/2003-67.htm.

[15] Vincent Boland and Adrian Michaels, "SEC Reviews Regulation of Exchanges," *Financial Times*, Wednesday July 23, 2003.

[16] "Industry Urges Action on Decimalization," *Wall Street Letter*, May 19, 2003.

[17] "Decimalization Is Here to Stay, Trading Experts Say," *Global Investment Technology*, July 7, 2003.

[18] Mary Schroeder, "Nasdaq Blasts Subpennies," *Securities Industry News*, June 23, 2003.

[19] Isabelle Clary, "SEC May Reshape U.S. Markets," *Securities Industry News*, May 19, 2003.

[20] "Congress Plans Market Structure Hearings," *Wall Street Letter*, May 26, 3003.

"GRADING" FISCAL POLICY:
Assessing the Initial Impact of the Jobs and Growth Tax Relief and Reconciliation Act of 2003

The Jobs and Growth Tax Relief and Reconciliation Act of 2003 ("the Act") continues to fuel a debate on national economic policy this year, even after the passage of the Act in late May. Adding to the confusion and helping to fuel this debate is the unusual nature of the current recovery. Although the short, sharp recession of 2001 is now officially said to have ended in November of that year, growth since then has been too slow to halt continued job losses, hence the need for the fiscal stimulus embodied in the Act. Real GDP growth is estimated at only 1.5% at an annual rate over the past nine months.

As growth remained modest in the second quarter of 2003 and the unemployment rate rose to 6.4% in June, some policymakers and pundits became impatient to see the benefit of this fiscal stimulus, and they pointed to these weak results as evidence that the Act was ineffective. This partisan view, though understandable, lacks substance given that the Act was passed only two months ago and that most of its provisions weren't implemented until July 1. Checks sent to some beneficiaries are still, quite literally, "in the mail". Individuals and corporations need some time to respond to the changes produced by the Act, such as the increase in disposable income, cuts in the cost of capital and changes in the relative, after tax returns of alternative investments, before they translate into increases in growth, and only with a more substantial lag, into jobs.

Real economic growth, which came to a virtual halt in May before picking up in June, appears to be accelerating as the summer passes, in part due to the initial impact of some provisions of the Act. Although there are some immediate, or ***announcement***, effects that are already clearly visible, such as a portion of the rise in equity prices witnessed since the Act's passage, most of the benefits of the Act are yet to arrive. When they do, initially they will likely be more muted but subsequently more sustained, than were projected in recent assessments.

Firms are ***not*** expected to "temporarily gear up production and hire more workers to meet the (increased) demand" for goods and services in the economy, if those increases are not seen as sustainable. First, employers would be expected to reduce job losses, hire more temporary workers, expand the hours worked by existing employees and/or increase spending on cost saving measures and productivity enhancements. In fact, in aggregate, employers appeared to be doing all these things in June, prompting assessments that labor markets are stabilizing and signaling that a resumption in job growth is not too far off. However, increases in demand will translate into a fall in the unemployment rate only with a lag, presumed to be roughly six months. By then a pick up in demand that is strong enough (in excess of 3% per annum) will have been sustained long enough to exhaust the usefulness of these interim responses by employers and to convince them that the improvement will not prove short-lived.

In the interim, until job growth resumes, the partisan debate, along with attempts to "grade" the stimulative value of the Act, will continue. Thus far most of these efforts have been limited in scope and in need of revision given recent events. Any realistic evaluation of the unfolding impact of the Act must assess how individuals and business respond to it and the likely evolution of macroeconomic variables in the near term along with a reasonable view of what values those variables might have been in the absence of the Act. Fortunately it appears that growth will be both strong enough and sustained into next year to prompt renewed job creation.

Resetting the Baseline

A good guide for assessing the impact of the Act was provided by the Congressional Budget Office (CBO) earlier this year.[1] What is noteworthy about this CBO report is that it goes beyond a limited or ***static*** scoring of the fiscal measures, that is to say, beyond "traditional conventions and practices that do not include possible macroeconomic effects" arising as a result of fiscal measures. In this report they provided a ***dynamic*** analysis, presenting "various models and assumptions to indicate the range of potential economic and budgetary impacts". The CBO also discussed the data, methods and resultant uncertainty of budget projections[2]. This level of detail facilitates the adjustment of both the CBO's "baseline" projections (a projection of federal spending and revenues under laws and policies in effect prior to the passage of the Act) to account for an additional quarters worth of fiscal and macroeconomic data, as well as to adjust the assessment of the fiscal impact of these tax measures to account for changes made to the proposals put forward in the President's Plan that was considered by the CBO in its report in March, that were incorporated into the final form of the Act signed by the President on May 28th.

First, the baseline projection needs to be adjusted for the actual budget totals through June. In the first three quarters of fiscal year 2003, the federal government ran a deficit of about $271 billion, the CBO estimates, more than double the $116 billion shortfall recorded over the same period last year and more than the $246 billion deficit for the full 2003 fiscal year projected by the CBO just 4 months ago. Receipts, which were expected to grow 2%, were 3.6% lower than during the comparable nine-month period of 2002. Outlays, excluding net interest on the debt were 8.1% higher, while net interest outlays dropped 7.3%, both figures roughly in line with earlier expectations. The CBO now projects that the deficit for fiscal year 2003 will "exceed $400 billion".[3]

Meanwhile, the Office of Management and Budget raised their forecast for the 2003 shortfall to $455 billion, equivalent to 4.2% of GDP, up from the $304 billion they forecast in February.[4] This $151 billion downward revision was attributed to a variety of factors. Revisions in the economic assumptions underlying the forecast accounted for $66 billion, as slower economic growth and lower than anticipated growth of salaries and wages reduced receipts from levels anticipated in February. Supplemental spending for the war Iraq added $47 billion, changes in the Act added $13 billion, with the remainder of the adjustment, some $26 billion attributable to other legislative and policy changes, including the extension of additional unemployment benefits.

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1. "An Analysis of the President's Budgetary Proposals for the Fiscal Year 2004" The Congress of the United States, Congressional Budget Office, March 2003.
2. "The Uncertainty of Budget Projections: A Discussion of Data and Methods, The Congress of the United States, Congressional Budget Office.
3. Monthly Budget Review: Fiscal Year 2003, A Congressional Budget Office Analysis, July 9, 2003.
4. Fiscal Year 2004 Mid-Session Review, Budget of the U.S. Government, Office of Management and Budget, July 15, 2004.

The OMB also reset the baseline budget projection for fiscal year 2004, raising the expected deficit from $307 billion to $475 billion. Real GDP growth in the fiscal year ahead, which is expected to average 3.6%, is unlikely to do so without the additional fiscal and monetary stimulus now in place. Adjustments to the forecast are also required for higher than projected unemployment as this fiscal year comes to a close.

Any adjustments to the projections need to include allowances for a lower interest rate environment. In March, the CBO forecast the 10-year Treasury note rate would average 4.4% in the current fiscal year and 5.2% during fiscal 2004. Now it appears that the Fed will maintain short-term rates (such as the Fed Funds rate, now at 1.0%) at or below current levels well into next year. Although some steepening of the Treasury yield curve is anticipated, the average 10-year rate is expected to be 50 basis points (0.5% per annum) lower than assumed in the March projections. The OMB in its Mid-Session Update goes further, forecasting that the yield on 10-year Treasuries will average 3.7% in this calendar year and 4.1% in 2004. The impact on net interest payments of lower interest rates will be partially offset by higher debt levels, but lower rates should help boost economic activity, and hence Treasury revenues, more than originally forecast during fiscal 2004.

In January of this year, SIA Research[5] examined the expectations of the President's Council of Economic Advisors (CEA) that the President's proposals would jointly add 0.4% to real GDP growth in 2003 and 1.1% in 2004, and generate 1.4 million jobs in the 18 months following enactment. This contrasted with expectations of most private sector analysts, which were more in line with the Federal Reserves economic model, which suggested that, the "add-on" to GDP growth would be 0.4% this year and 0.7% in 2004.

The Act as passed and signed into law two months ago was significantly altered from the President's proposals, but managed to retain most of its intended short term stimulative aspects. The most significant change was replacing the complete elimination of the double taxation of dividends, with a reduction in both the dividend and capital gains tax rates. Incorporating these and other provisions of the Act into current projections and adjusting the baseline in line with the actual events through June yields only a slightly less robust estimate of the impact of the tax measures.

Real GDP growth in fiscal 2003 is expected to be ¼ percentage point higher because of the Act, with this impact already apparent in a recovery in business, investor and consumer confidence in June. Reinforcing the immediate impact of the Act's passage was the coincident lifting of uncertainties (engendered by a spike in energy prices, the war in Iraq, heightened terrorist alerts, bad weather, etc.) and another interest rate cut. In fiscal 2004, real GDP growth is expected to be a full 1.0% higher than in the adjusted baseline, with roughly equal contributions coming from cyclical and structural ("supply-side") sources.

In terms of the job creating effects of the Act, prospects appear poorer in the short run than in earlier assessments, but here too, adjustments to incorporate recent events appears in order. As the Fed pointed out in late June and repeated this month, labor markets are stabilizing, raising hopes that the target for jobs might still be reached, despite the jump in the unemployment rate

[5] Defending the Dividend, SIA *Research Reports*, January 31, 2003.

last month[6]. Despite this we still expect unemployment to peak at 6.5% during the current quarter (as we have since last year) before showing any declines as 2003 comes to a close.

The Stock Market Response

One positive effect of the fiscal plan that has arrived on time and more than met expectations is the impact of the plan, in particular, the provisions which cut tax rates on dividends and capital gains, on U.S. equity prices. When the President's plan was originally put forward, proposing the complete elimination of the double taxation of dividends, Treasury cited private sector projections that "the dividend exclusion would boost stock prices between 3% and 15%, with most estimates falling between 7% and 9%." Our own estimate at the time fell squarely in the mid-range of these forecasts.

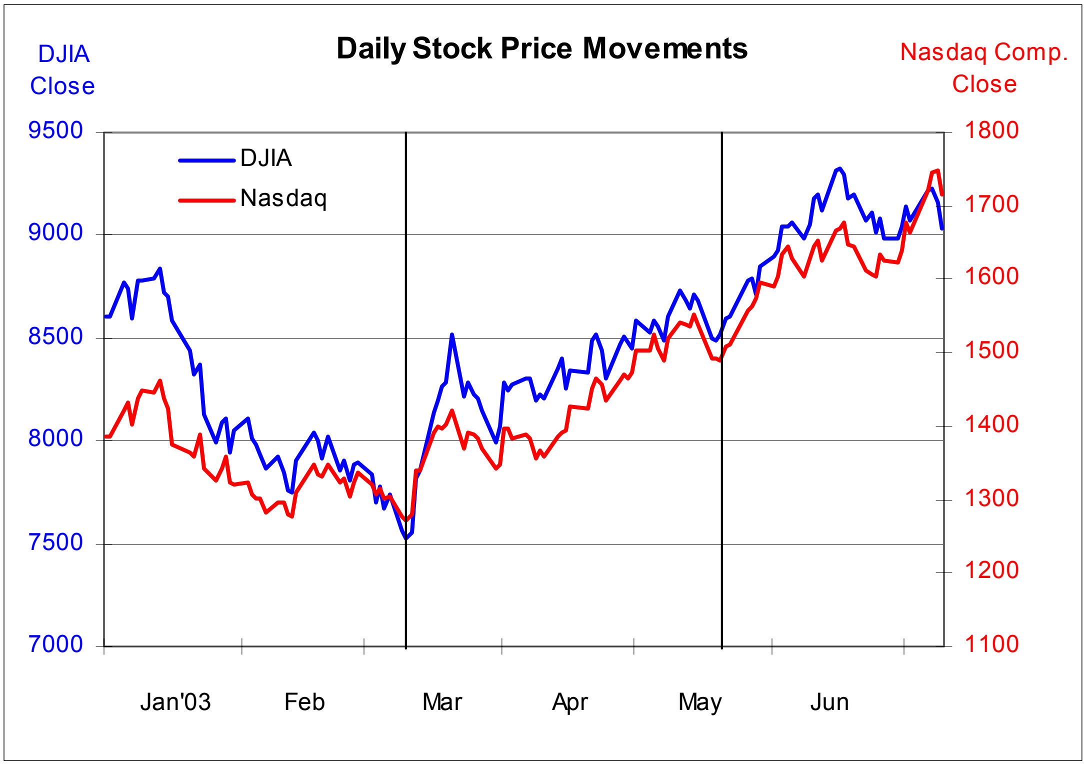
So how has the stock market fared thus far this year, and in particular since the President signed the Act just under two months ago? Excellent – the market has already met or exceeded Treasury's cited projections. For 2003's first half, the Nasdaq Composite Index shot up 22%, the S&P 500 climbed 11%, the NYSE Composite gained 10% and the Dow Jones Industrial Average rose 8%, with some major gyrations over the course of those six months.

Removing Uncertainties

This year started out with many sources of uncertainty: the direction of the economy and interest rates; a potential war with Iraq; orange terrorist alerts; and an unknown final outcome of the President's proposed tax package. The stock market dislikes uncertainty far more than it dislikes bad news. Thus, all of these uncertainties combined to drag down stock prices (along with economic activity) during the opening months of this year. After soaring in early January following a three-year bear market, all major market indices spiraled downward until by March 11th they were within sight of last October's five-year lows.

From January 2, the first trading day of 2003, through March 11, the Dow Jones Industrial Average shed 13% of its value, the S&P 500 Index fell 12%, while the Nasdaq Composite Index dropped 8%. One week later, the first major uncertainty was lifted with President Bush's issuance of a 48-hour ultimatum to Saddam Hussein. Although the news was bad – War – the removal of the uncertainty surrounding whether hostilities would ensue helped ignite a relief rally which eventually, by June 17, pushed up the NASDAQ by 31%, the S&P 500 by 26% and the DJIA by 24% (see graph and table below).

[6] Robert C. Pozen, "Jobless but Not Hopeless," *New York Times*, July 8, 2003, pA23.



Over half of this rally occurred from mid-March to mid-May as the President's tax package was working its way through Congress. The potential for large tax relief, including, in some form, elimination of the tax bias against dividend income, helped fuel this rally, but only secondarily, since its final outcome still remained uncertain.

This second major uncertainty was removed on May 21 and another one-third of the market rally ensued. On that day, the Congress' Joint Conference Committee passed HR-2, the *Jobs and Growth Tax Relief Reconciliation Act of 2003*, assuring the form of its final passage in the House and Senate and a presidential signature. (The House passed the bill the next day, May 22, the Senate the following day, May 23 and the President signed it the following week, May 28.)

	Nasdaq	**S&P 500**	**DJIA**
3/11/03	1271.47	800.73	7524.06
5/21/03	1489.87	923.42	8516.43
6/17/03	1668.44	1011.66	9323.02
% Change			
3/11-6/17	31.2%	26.3%	23.9%
5/21-6/17	12.0%	9.6%	9.5%

Once the tax bill passed conference committee on May 21 until a market peak on June 17, the NASDAQ climbed another 12% while the S&P and DJIA rose an additional 10%.

The rally retreated somewhat after that date until a third major uncertainty, the Federal Reserve's direction for interest rates, was removed. On June 25, with just three trading days left in

2003's first half, the Fed lowered by 25 basis points the federal funds target rate to 1.0% and the discount rate to 2.0%, both 45-year lows. It also confirmed it was remaining in an accommodative stance for monetary policy. This also rekindled the rally with NASDAQ's most recent peak of 1747.46 coming eight trading days later, July 8, leaving this index up 37% since March 11 and up 17% since May 21.

The late June pullback was not surprising given the market's huge run-up until that point. Still, the broad-based S&P 500 large cap index was up 15% for the second quarter, its best showing in 18 quarters (since 1998's fourth quarter gain of 21%) and its eighth best quarterly gain since WWII. Of the 500 stocks in the index, 470, or 94%, showed gains for the quarter, as did all 10 industry sectors in the index. The DJIA, up 12%, and the Nasdaq Composite, up 21% for the second quarter, also had their best quarterly showing since 4Q 2001's gains of 13% and 30%, respectively.

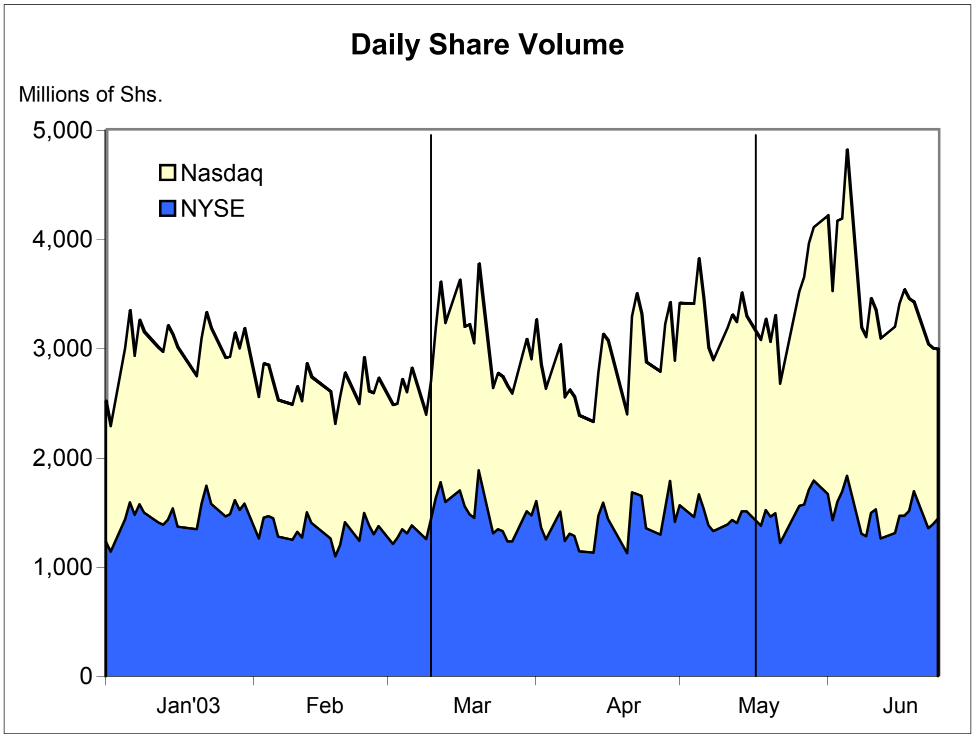
Investors Re-Enter the Market

Not only did prices rise but investor activity, which had been sluggish, rose dramatically as well. Average daily stock volume during the 90 days following the market bottom (March 12 through June 9) soared over the average for the 90 days leading up to the bottom (December 12, 2002 through March 11, 2003). Average daily volume for the 90 days following the bottom climbed 10% on the NYSE (1,476 million vs. 1,344 million shares per day) and 25% on NASDAQ (1,725 million vs. 1,376 million shares per day), or a combined 18% (3,201 million vs. 2,720 million shares per day).

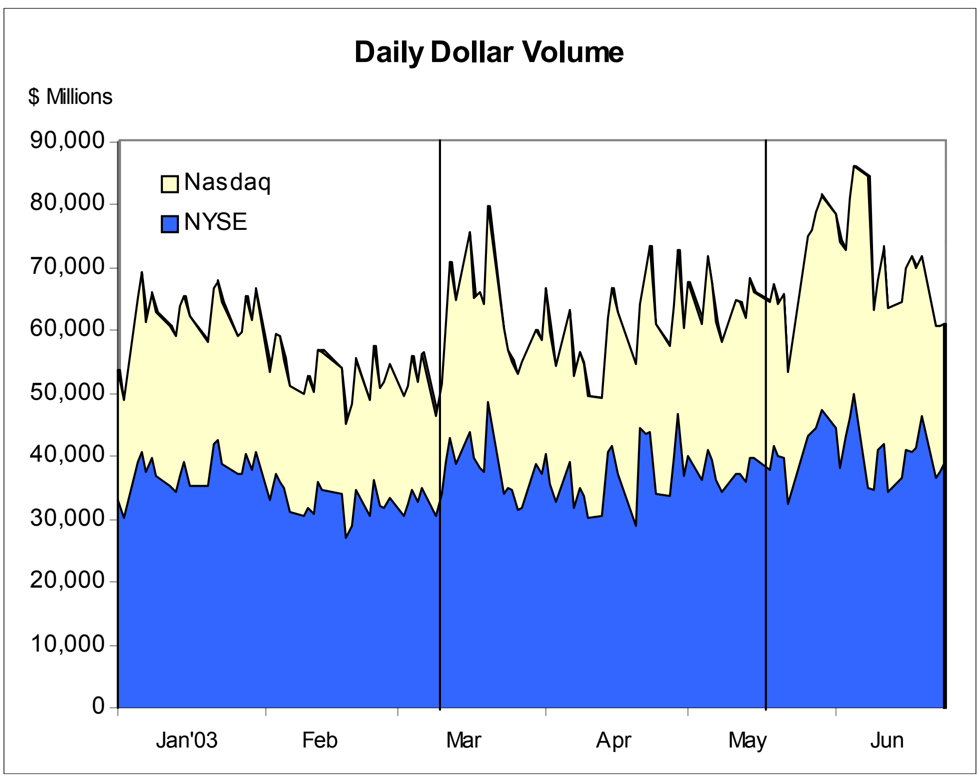
Average daily share & dollar volume 90 days before and after market bottom

90 days prior/post market trough	Sh vol (mil) NYSE	Sh vol (mil) Nasdaq	Sh vol (mil) Total Sh Vol	$ vol ($mil) NYSE	$ vol ($mil) Nasdaq	$ vol ($mil) Total $ Vol
avg 12/12/02-Mar 11/03	1,344	1,376	2,720	33,761	21,502	55,264
avg 3/12/03-6/9/03	1,476	1,725	3,201	38,549	26,554	65,103
% chg	9.8%	25.4%	17.7%	14.2%	23.5%	17.8%

The same was true for average daily dollar volume of these trades. Average daily dollar volume in the 90 days following March 11 versus the prior 90 days rose 14% on the NYSE (to $38.55 billion from $33.76 billion per day). On the NASDAQ it rose 24% to $26.55 billion from $21.50 billion per day. Daily dollar volume also rose 18% combined (to $65.10 billion from $55.26 billion per day.)



Daily Share Volume
Millions of Shs.
5,000
4,000
3,000
2,000
1,000
0
Nasdaq
NYSE
Jan'03
Feb
Mar
Apr
May
Jun



Daily Dollar Volume
$ Millions
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Nasdaq
NYSE
Jan'03
Feb
Mar
Apr
May
Jun

President's Tax Package Boosts Investor Confidence

The same increase in investor activity can be seen after HR-2 came out of Congress' Joint Conference Committee on May 21. In the month following its resolution, average daily share volume on the NYSE rose while average daily volume on Nasdaq soared 19% versus the month prior to the Bill's resolution. Combined, average daily volume on both markets rose 11%. The same was true for average daily dollar volume, which climbed 7%, 19% and 12%, respectively, on the NYSE, Nasdaq, and the two combined.

	Sh vol (mil)	Sh vol (mil)	Sh vol (mil)	$ vol ($mil)	$ vol ($mil)	$ vol ($mil)
5/21/03 bill approved by House & Senate conference comm.	NYSE	Nasdaq	Total Sh Vol	NYSE	Nasdaq	Total $ Vol
4/21/03-5/21/03	1,479	1,723	3,202	38,536	25,987	64,523
5/21/03-6/21/03	1,515	2,050	3,565	41,102	30,956	72,057
% chg	2.4%	19.0%	11.3%	6.7%	19.1%	11.7%

The most sidelined investor for nearly three years has been the retail investor. The top five retail brokerages, mainly online brokers, had suffered a dramatic drop in their retail trading volume, which declined by about half since its 2000 peak. However, these five major retail houses showed meaningful improvement in their monthly retail volume and revenues in the second quarter. April figures surpassed earlier months and May's trading climbed about 20% over April while June's figures were up an additional 13% for the full month from significant volume strength during the month's first two weeks. Again, the latter half of June slowed from a profit-taking market pause, as volume on NASDAQ was 19% lower during the last two weeks of June compared to the first two weeks.

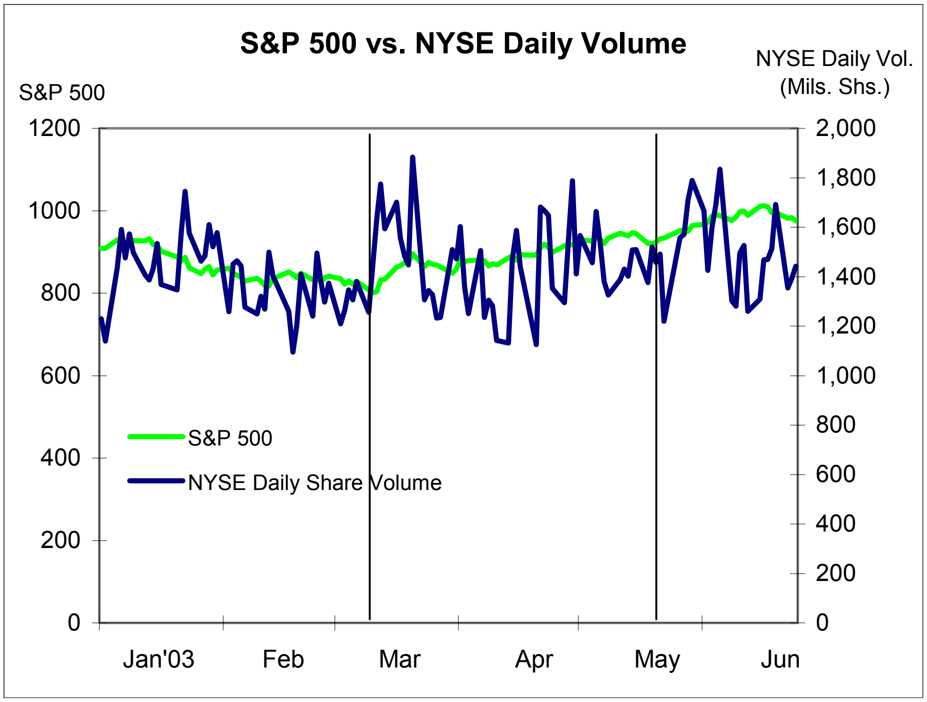
Attracting Foreign Investment

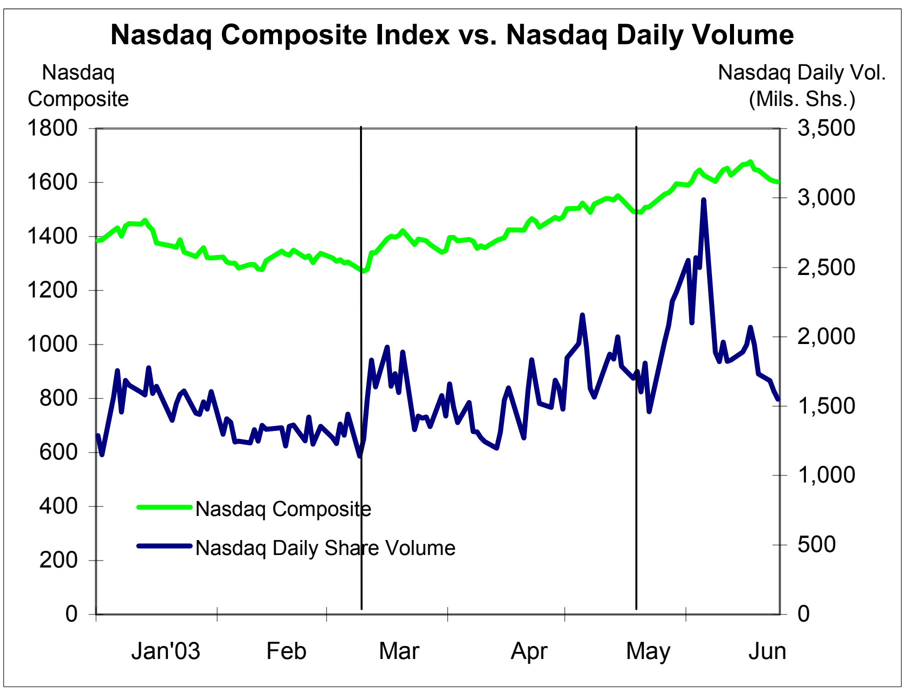
The return of the investor, whether retail or institutional, to U.S. stocks was not limited to Americans. Foreign investors have been flocking back to U.S. securities this year. U.S. Treasury data shows that foreign investors made near-record net purchases of $135.5 billion in U.S. securities during this year's first quarter which was very close to 2002's record quarterly average of $137.2 billion in net purchases (although this was mainly from a surge in net purchases of bonds). Corporate and agency bonds were of particular interest to foreigners.

Foreigners were just as shy as Americans about investing in U.S. equities at the start of this year. They were net sellers of $2.8 billion and $2.1 billion of U.S. stocks in January and February, respectively. However, after the market bottomed on March 11, foreign investors came roaring back to U.S. equities, as did domestic investors. By month's end, foreigners had made net purchases of $2.8 billion of U.S. equities in March and an additional $4.4 billion in April. That put 2003 in the black for foreign net investment in U.S. equities and, further, both May and June figures are anticipated to have eclipsed April's positive investing totals.

In Conclusion

While we still believe it is premature to attempt to evaluate anything but the most immediate impact of the Act, the response in terms of stronger growth in output and higher asset values and hence a positive wealth effect appears to be developing in line with our earlier expectations. More time will be needed before the job creating aspects of the Act can be evaluated, but with labor markets stabilizing after a long decline, we are hopeful that this part of the fiscal program will also meet, if not exceed, expectations.





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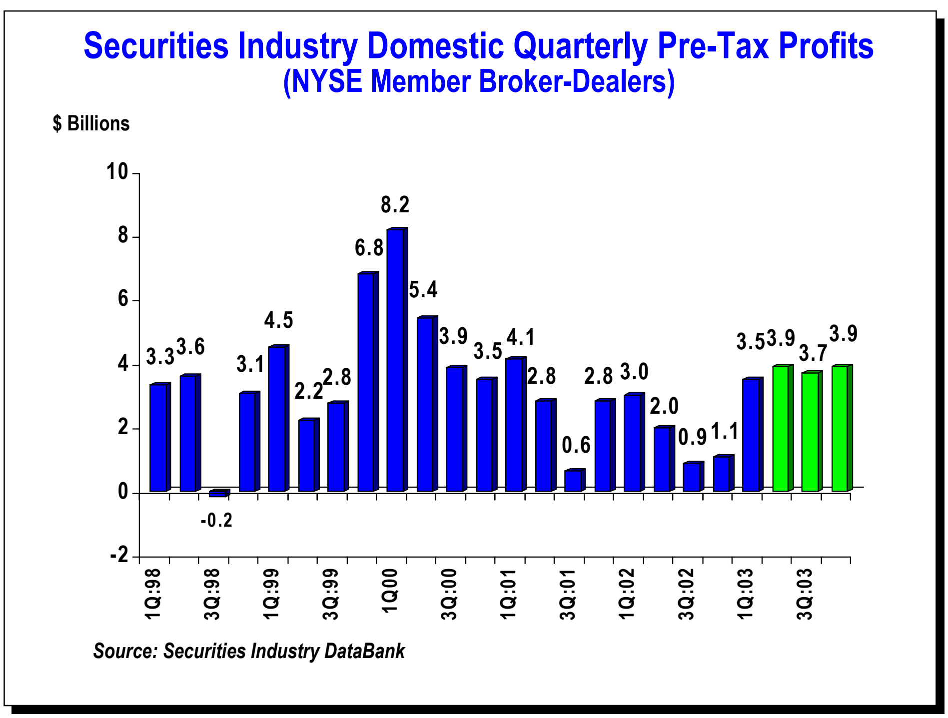
SECURITIES INDUSTRY UPDATE:
Turning the Corner

Summary

The three year decline in the securities industry appears to have come to an end as top line revenue growth resumed, and the sources of this revenue growth broadened beyond just the fixed income side of operations to include more product and service lines offered by securities firms in the quarter just ended. The long slide in industry performance from the peak in 1Q 2000, forced dramatic cost cutting efforts in order to maintain profitability over the past three years, which include large job losses and still sharper cuts in overall compensation. Now with profits recovering and expected to remain strong in near term, compensation is rising and employment gains are expected for the industry as whole by end year. This is good news for both the NYS and NYC economies, which are heavily dependent on the tax revenues and the stimulus provided by Wall Street spending, and which bore the brunt of the cuts nationally during the downturn. A boost to activity at both the state and local level is expected to become visible in the second half of this year, with the NYC economy ending a three-year recession.

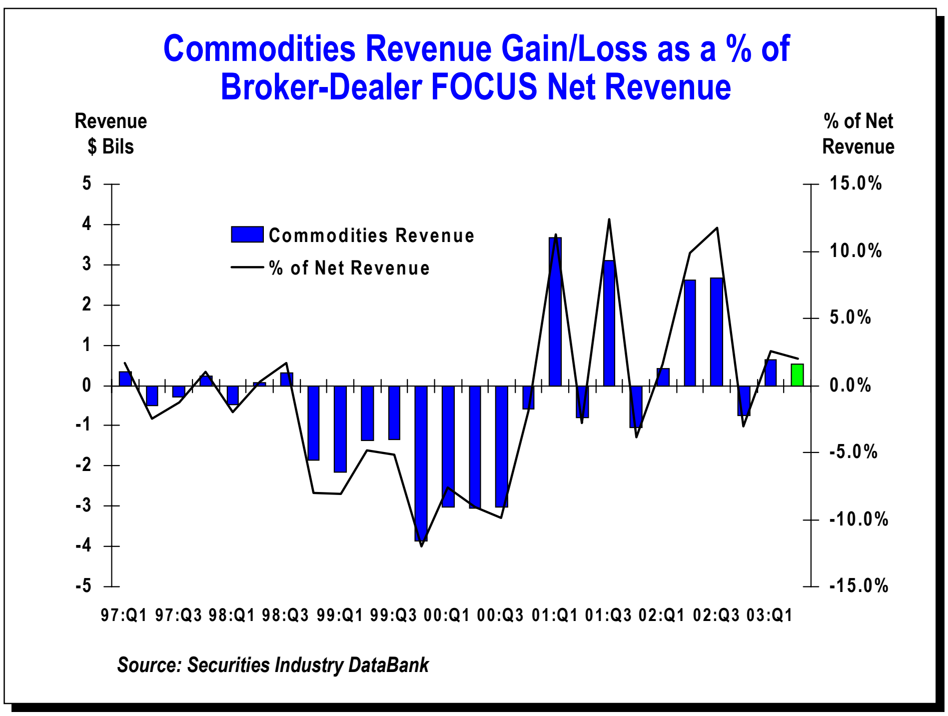
A Turning Point

Domestic pre-tax profits for the U.S. securities industry more than tripled during the first quarter to $3.5 billion from $1.1 billion in 4Q 2002, and this was the best quarterly showing in two years. Based on results of publicly held firms and second quarter market data, the industry appears to have "turned the corner" with second quarter profits expected to climb an additional 11% to $3.9 billion domestically. The first quarter's improvement came solely from better trading results in fixed income and commodities, which jumped from $2.7 billion in 4Q 2002 to $6.0 billion in 1Q 2003, while every other revenue source either remained flat or declined. Revenue from fixed income and commodities trading climbed another $0.5 billion in the second quarter (an 8% increase), but there was an additional $1.3 billion improvement in other revenue sources, mainly underwriting and commission revenues, a 4% increase. Together, the $1.8 billion increase represented a 5% gain in total revenues over 1Q 2003's $35.1 billion.

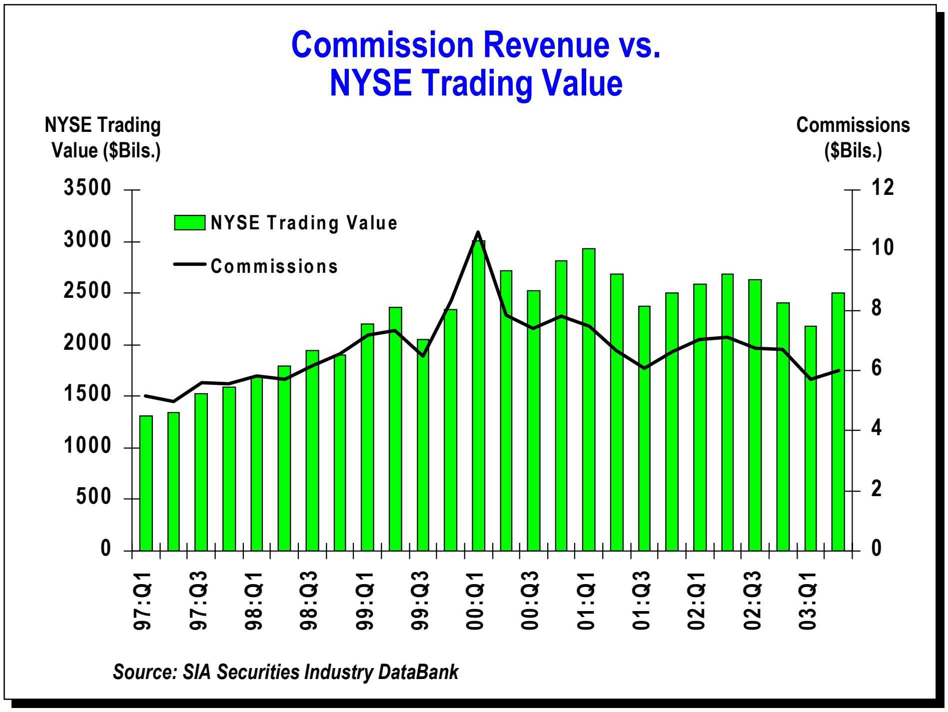


SECURITIES INDUSTRY NYSE Member Firms ($billions)	1Q02	2Q02	3Q02	4Q02	1Q03	2Q03	3Q03	4Q03	1Q04	2Q04
Pre-Tax Profits	3.0	2.0	0.9	1.1	3.5	3.9	3.7	3.9	4.0	4.0
Gross Revenue	38.5	39.0	35.6	35.5	35.1	36.9	37.0	37.1	37.3	38.0
Gross Expense	35.5	37.0	34.7	34.4	31.6	33.0	33.3	33.2	33.3	34.0
Interest Expense	11.3	12.7	13.0	11.5	9.6	9.5	9.3	9.1	9.1	9.1
Revenue Net of Interest	27.2	26.3	22.6	24.0	25.4	27.4	27.7	28.0	28.2	28.9
Total Compensation	14.4	14.5	13.0	11.3	13.6	13.7	13.8	14.0	15.5	16.0
—Base Compensation	10.4	10.4	10.1	10.1	10.1	10.0	10.1	10.2	10.5	10.5
—Variable Compensation	4.0	4.1	2.9	1.2	3.5	3.7	3.7	3.8	5.0	5.5

Debt trading alone climbed $2 billion, or 59%, in the first quarter to $5.4 billion from $3.4 billion in 4Q 2002, and an additional 9% in 2Q 2003 to $5.9 billion, and accounted for 89% of total trading gains during both the first and second quarters. Falling interest rates drove the gains as 10-year Treasury yields dropped from an average of 4.05% in January to 3.33% in June, before rebounding in July. Meanwhile, spurred by rising energy costs, the volatile commodities trading revenue line climbed from a loss of $737 million in 4Q 2002 to a gain of $644 million in 1Q 2003, and is estimated to have hovered around that level for the second quarter.



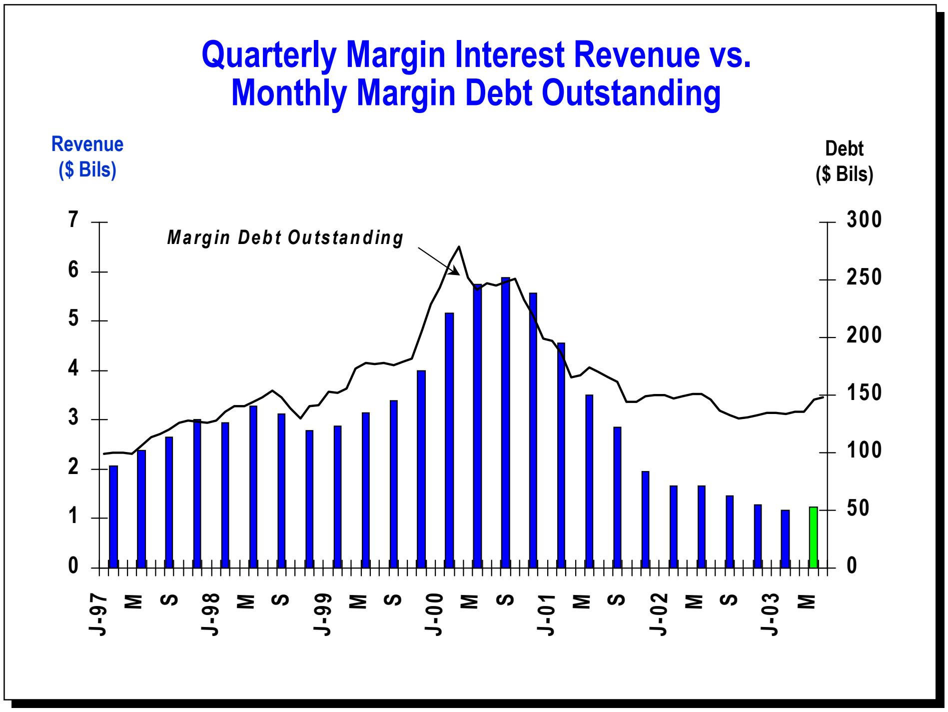
Commissions were $5.7 billion in 1Q 2003, $1.0 billion below 4Q 2002, but rose 5% in 2Q 2003 to $6.0 billion from progressively increasing volume and value of trading during the quarter. Firms seem to be benefiting not only from higher volume and higher values, but from the end of the long slide in the average size of equity trades and progress in the transition to more fee-based pricing as well.



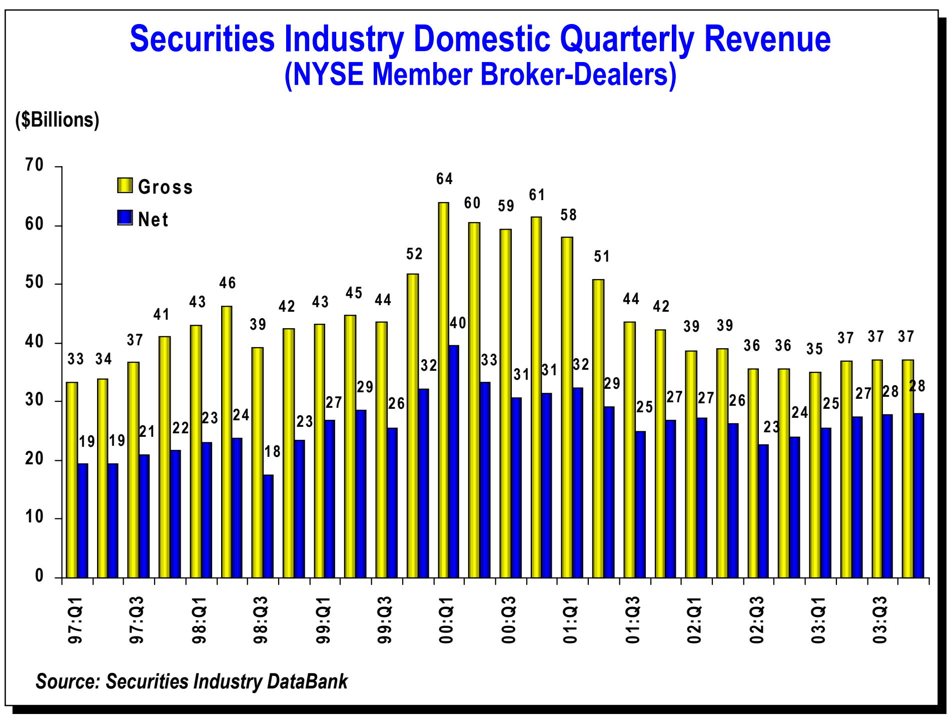
"Other revenue related to the securities business," which today is almost entirely gross interest revenue (other than margin interest) but includes a minor amount of revenue from mergers & acquisitions activity and private placement fees, fell $2.0 billion, or 15%, during the first quarter to just $11.5 billion and remained at the level during the second quarter. That's a $15.7 billion, or 58%, drop in revenues from non-margin interest and M&A fees in just over two years, down from $27.2 billion in 4Q 2000, and the lowest level in seven years. This largely reflects the impact of the general decline in interest rates as interest margins improved, and leverage employed by securities firms increased.

Margin interest itself dropped an additional 9% in this year's first quarter to under $1.2 billion, a nine-year low and an 80% decline in just 2 ½ years from the $5.9 billion earned in 3Q 2000. Although interest rates continued to fall in the second quarter, increased retail activity and a pickup in margin debt outstanding led to a slight increase in margin interest revenue to just over $1.2 billion. Mutual fund and asset management revenues remained flat the past three quarters, both of which are still at levels earned in the late 1990s, although we anticipate a second half pickup in these revenue sources. Finally, underwriting fees of $3.2 billion in 1Q 2003 and $3.8 billion in 2Q 2003 were up from the prior two quarters, but still well below the $5.6 billion earned just three years earlier, in 1Q 2000.

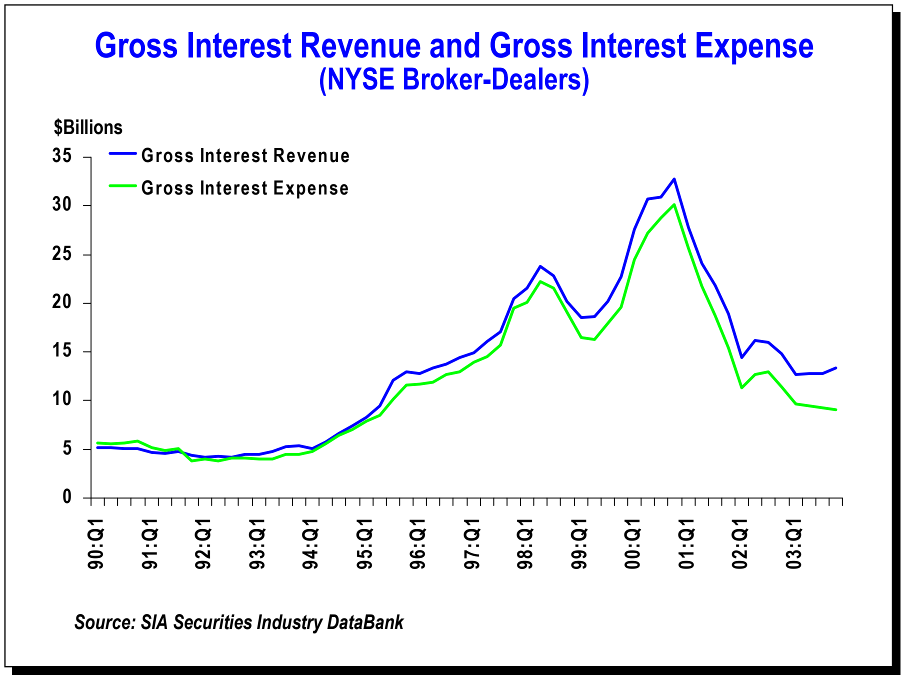
So, despite the $3.3 billion improvement from trading during the first quarter, gross revenue slipped once again to a six-year quarterly low of $35.1 billion domestically, down 1% from the prior quarter's $35.5 billion. This is only slightly more than half of the quarterly gross revenue generated just three years earlier ($64.0 billion in 1Q 2000). Second quarter gross revenue is estimated to have increased to $36.9 billion with minor improvements anticipated for the balance of the year.



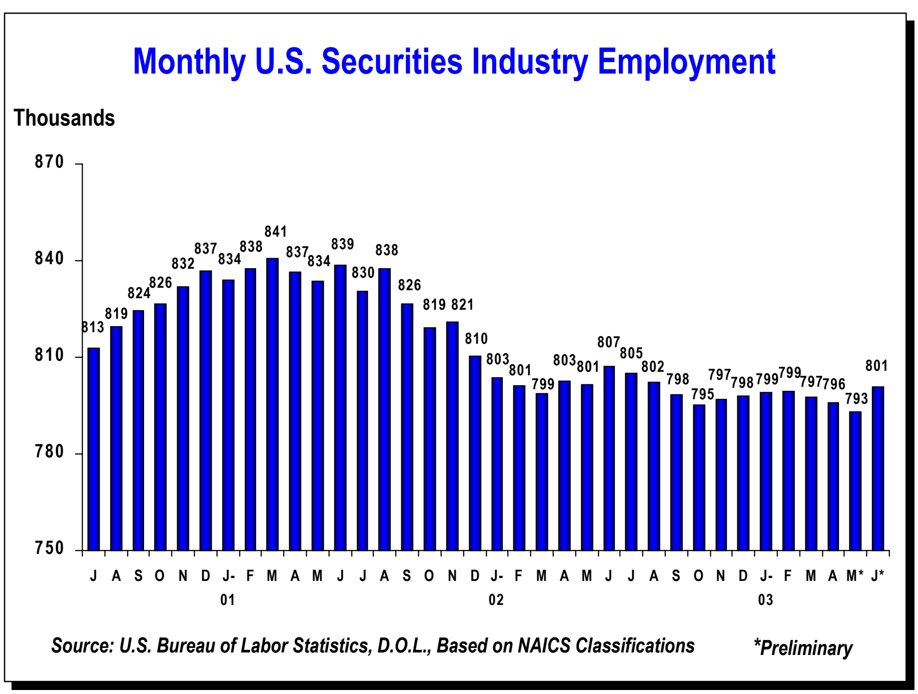
Net revenue, however, experienced another quarter of marginal improvement, rising 5% from $24.1 billion in 4Q 2002 to $25.4 billion in 1Q 2003, about the same level earned four years ago, in Q3 1999. However, we estimate substantial improvement to $27.4 billion in the second quarter with continued improvement for the balance of the year.

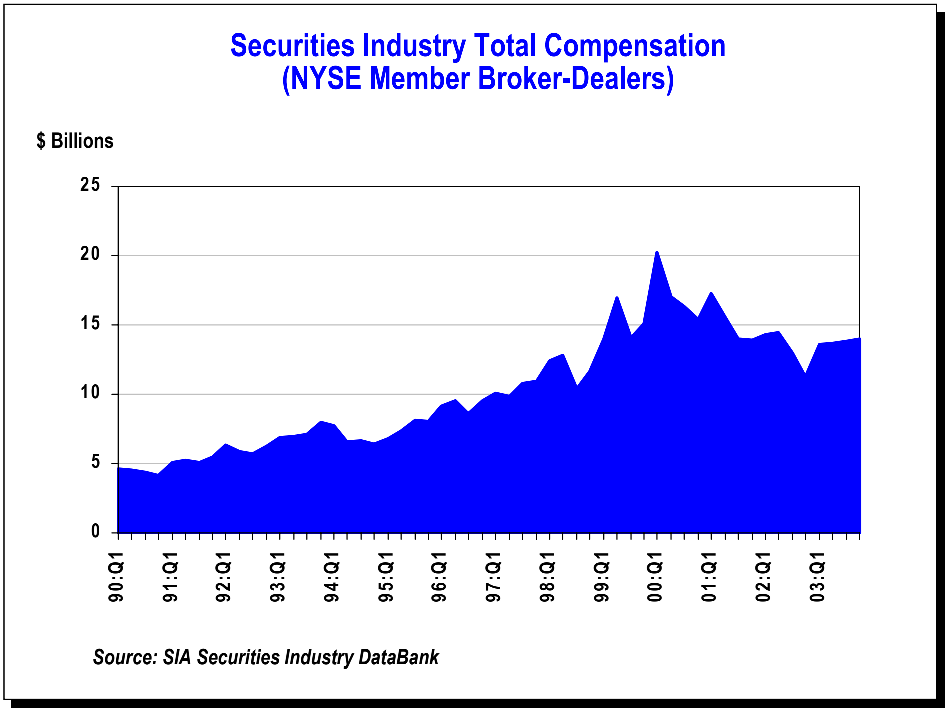


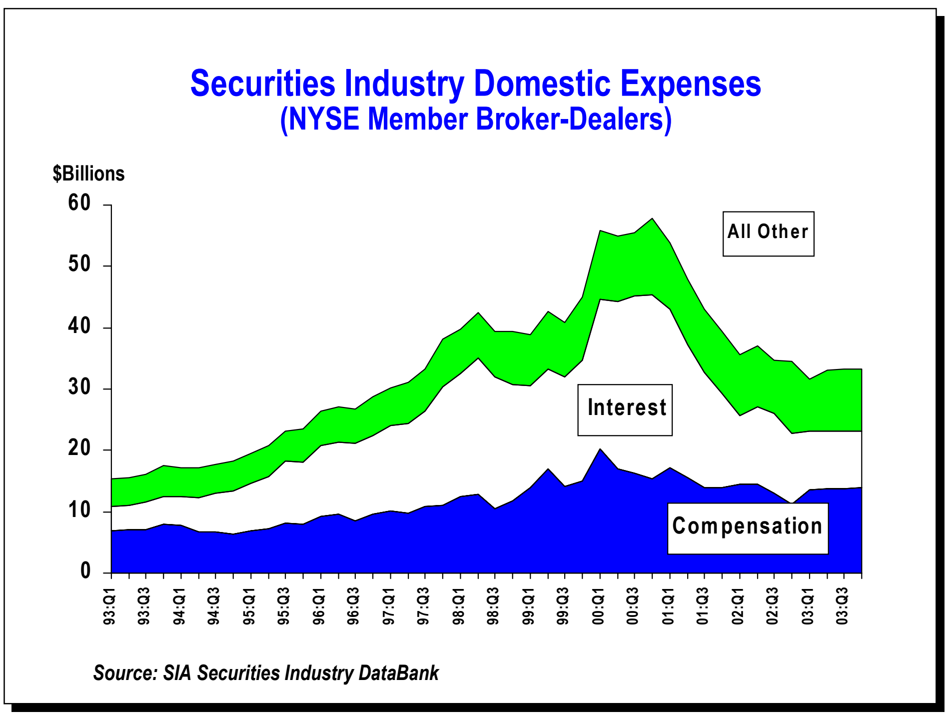
Cost controls combined with interest rate declines have kept the expense side of the income statement in line with falling revenue for the past three years. Thanks to monetary easing from the Federal Reserve that began two years earlier (1Q 2001), gross interest expense has fallen fast and furious for U.S. broker-dealers. Currently, yields on 10-year Treasuries are at 45-year lows, levels not seen since the Eisenhower Administration. Gross interest expense fell another $2.0 billion during this year's first quarter to $9.6 billion, an eight-year low. Only nine quarters earlier, during 4Q 2000, the securities industry's domestic interest costs were triple that level, or $30.1 billion, even on a 15% lower debt load. The Fed lowered rates once again in June, and we forecast continued declines in gross interest expense throughout 2003. So Fed easing certainly eased the costs for financial institutions, kept them from posting red ink during prior periods and will add to their bottom lines for the balance of 2003.



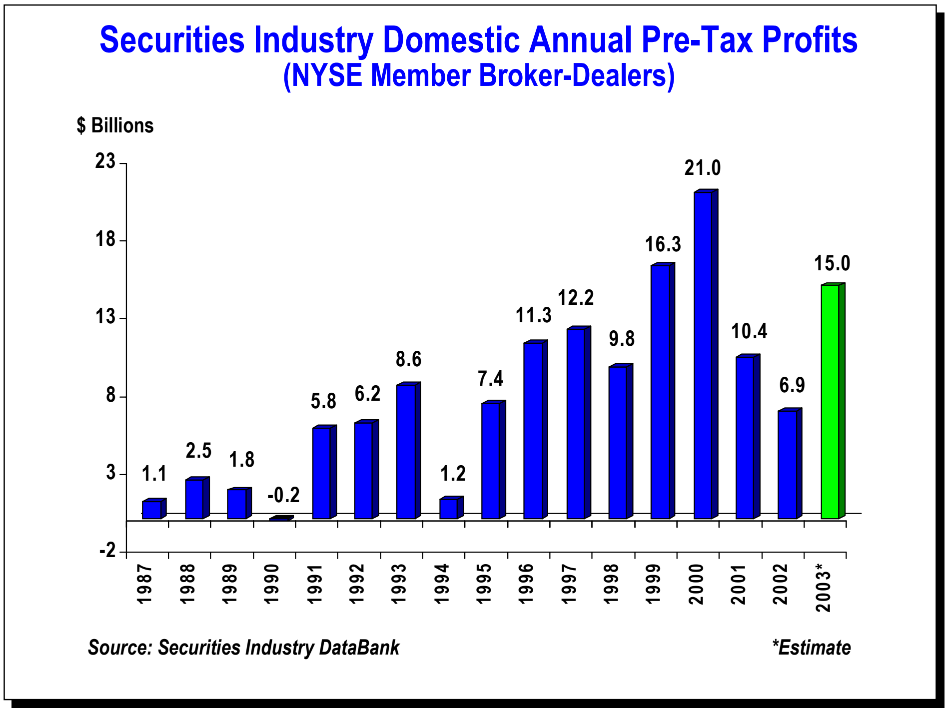
The Fed did not account for all the savings, however, as firm management has worked to reign in every other cost over this period. Compensation costs had been nearly slashed in half from their peak of $20.2 billion in 1Q 2000 to just $11.3 billion in last year's final quarter. That slashing came from record headcount reductions for the securities industry the past two years (see related story), which ended this May, and vastly scaled back bonuses and payouts for the remaining workforce. Total compensation costs, however, are expected to rise a manageable 3.7% for full-year 2003 due to the improved business environment we have just entered.





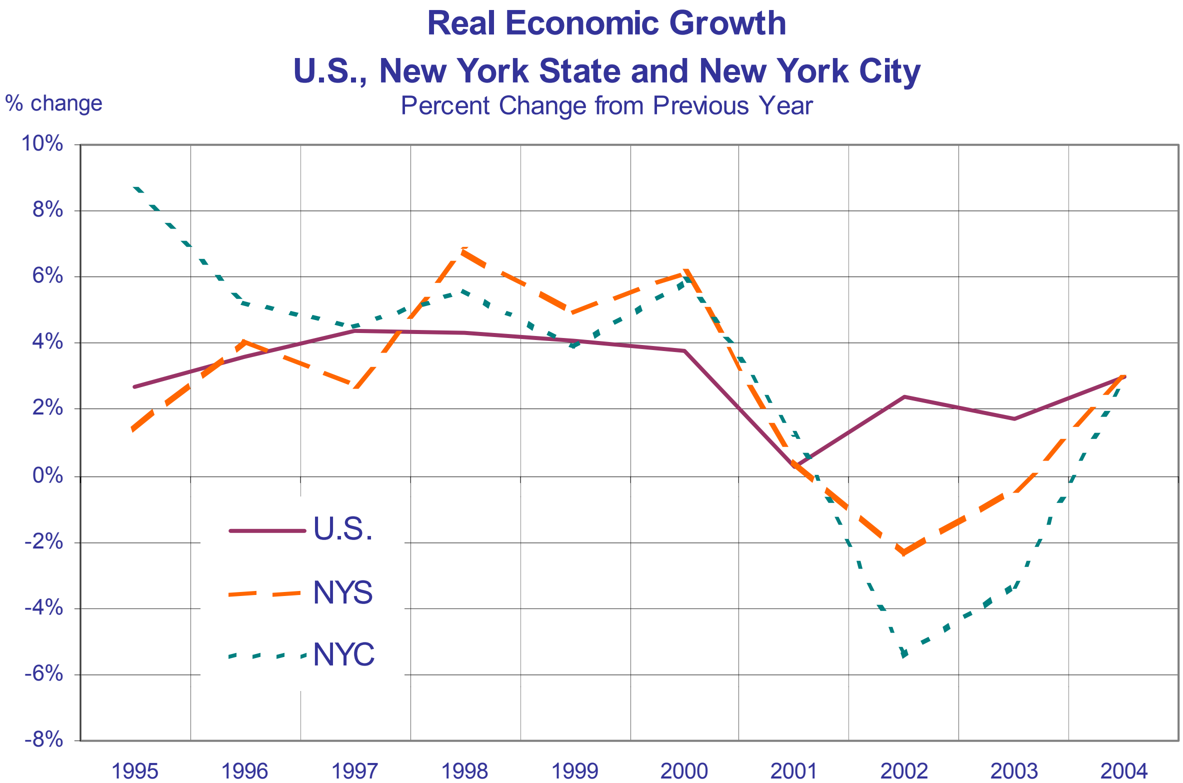


Total expenses declined 8% to $31.6 billion in the first quarter, from $34.4 billion in 4Q 2002, but is estimated to have inched up to $33.0 billion in the second quarter and is expected to be just marginally higher for the balance of the year. Since revenue declined only 1% while gross expenses fell 8% during the first quarter, pre-tax profits for the U.S. securities industry more than tripled during the first quarter to $3.5 billion from $1.1 billion in 4Q 2002.



With revenue growth estimates exceeding cost increase estimates for the second, third and fourth quarters, 2003 pre-tax profits are estimated to more than double this year to $15.0 billion, not far behind 1999's second-best profit total of $16.3 billion. The industry certainly seems to have "turned the corner" for profitability with half the year now under its belt. Any sustained acceleration of this trend could easily lead to the second-best annual result for profits the industry has ever known.

This is great news not only for our member firms but for the national, state and local economies as well. Securities industry performance is a coincident if not a leading indicator of economic performance. This stronger performance reflects the growth in primary and secondary market activity, which presages the sharp upturn in economic activity anticipated in the second half of 2003 in response to both fiscal and monetary stimulus as well as the lifting of major uncertainties that prevailed earlier in the year.



Sources:
For U.S. real GDP: Bureau of Economic Analysis, U.S. Department of Commerce.
For NYS real GSP: NYS Office of the Budget.
For NYC real GCP: NYC Office of Management and Budget.
Forecasts for 2003-2004: SIA

This is particularly true for the NYS and NYC economies, where roughly a quarter of the securities industry personnel nationwide are located. It is hardly surprising, given the nature of the downturn in capital markets and in securities industry revenues, that the NYS and NYC economies bore the brunt, indeed, even a disproportionate share of the cost cutting and job losses nationwide. Similarly, the concentration of the increase in revenues in fixed income origination and fixed income and commodities trading will bode well for the state and local economy, where a disproportionate share of the national total of these activities are carried out. The sharp jump in profitability of these activities has also triggered higher "production payouts" to bond traders, bond salesmen and investment bankers engaged in these activities. This is reflected in increases in variable compensation even before fixed compensation rises in response to net new hires expected later this year. Better tax collections began to reflect this as 2Q 2003 came to a close. Similarly, firms' non-interest, non-compensation spending is expected to rise as the current climate imposes increased transaction-based costs and a greater regulatory burden as well as encourages easing of further cost cutting measures as the 2004 budget planning season gets underway. This spending by securities firms will boost a broad base of businesses ranging from suppliers and vendors, to lawyers, printers, restaurants, etc. Overall, we expect this stimulus to put an end to the three-year recession which has gripped NYC.

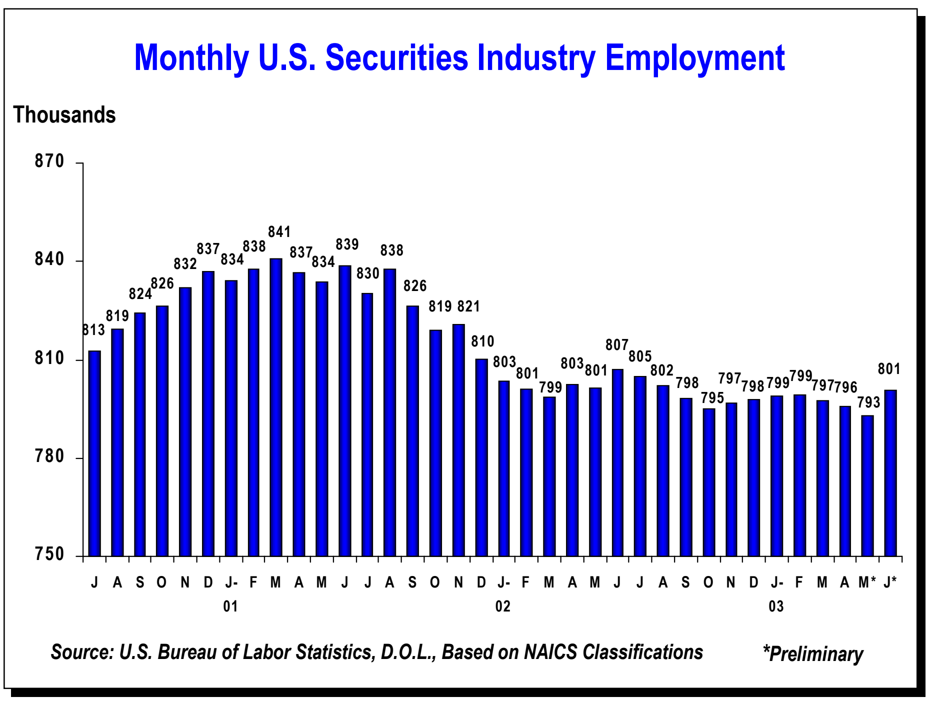
George R. Monahan
Vice President and Director, Industry Studies

SECURITIES INDUSTRY EMPLOYMENT

Nationwide Job Market Turns the Corner

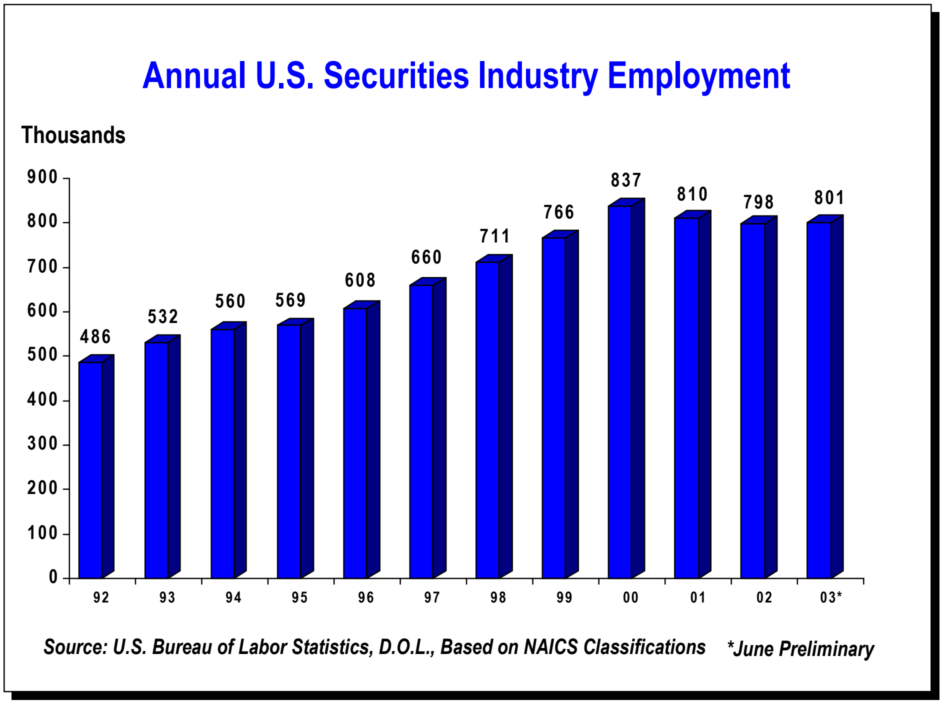
The U.S. Department of Labor's Bureau of Labor Statistics (BLS)[1] just released preliminary June data which show the first meaningful increase in U.S. securities industry employment in a year, albeit subject to the inevitable revision next month. Total securities industry jobs increased by 7,600 this June to 800,600, a 1.0% increase over May's 793,000. This was also the highest employment level since last August and the single largest monthly gain in three years, since the 8,900 or 1.1% gain in July 2000. While the employment data is subject to revision, the industry just posted its two best profit quarters in over two years and all evidence is that the industry has finally turned the corner for activity and profitability, and even that the "jobless recovery" itself may be turning the corner.

Driving the employment gain was the first meaningful improvement in stock prices and activity in quite some time. After sinking to lows in mid-March, which nearly touched the five- year lows set last fall, benchmark indices such as the DJIA, S&P 500 and Nasdaq Composite staged a powerful three-month rally, rising to their highest levels in a year by June 17th. Although they gave back a portion of these gains by the end of June, all major stock indices still posted double-digit returns for the second quarter of 2003 and touched new highs during July. This bodes well for a reversal in the prior layoff trend, where occasional spikes in employment were followed by reversals to new lows, and we expect a trend in increased employment to be confirmed over the balance of the year.



[1] The U.S. Bureau of Labor Statistics (BLS) employment figures utilize the new North American Industry Classification System (NAICS) for the securities and commodities industry. This 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. These figures 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. Employment data can be obtained on the BLS web site at: http://data.bls.gov/labjava/outside.jsp?survey=ce

Under BLS' new North American Classification System (NAICS) adopted this June, securities and commodities industry employment reached an all-time apex of 840,900 in March of 2001 and then declined by 47,900, or 5.7%, over the next two years to a recent nadir of 793,000 jobs in May 2003 (preliminary). Again, preliminary data shows a 1.0% spike for June 2003.



Year-end annual data showed a steady increase of jobs in the industry through December 2000 to 836,900. This was followed by two years of declines to 810,200 and 798,000 at year-end 2001 and 2002, respectively. At mid-year 2003, we are already above last year's close with six months to go. It would take an additional 1.2% increase in employment in the second half (or a 2.4% annual rate) to return to year-end 2001 levels, which is a distinct possibility as long as the current favorable environment continues for the industry.

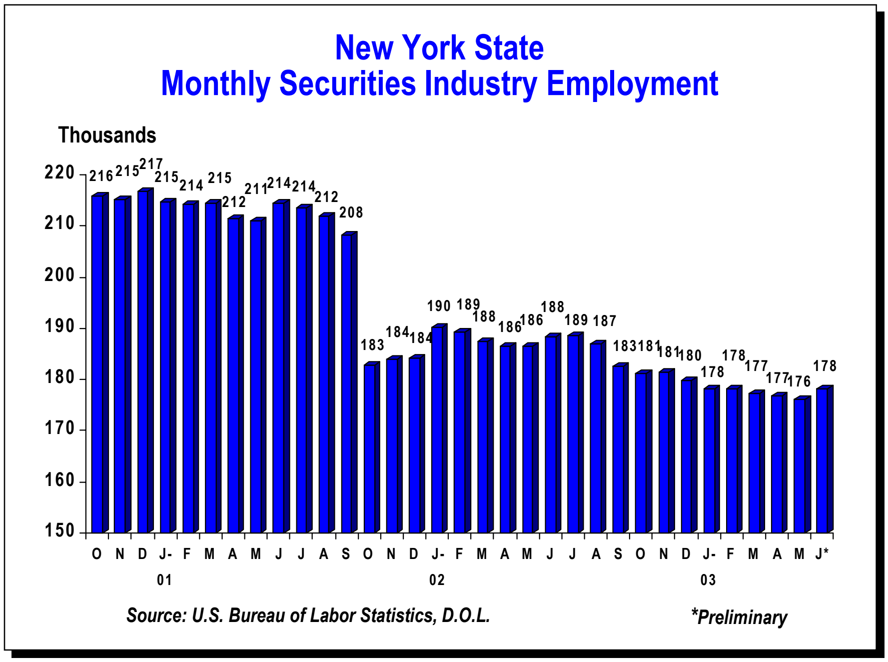
New York – Biggest Job Losses but Comparable Gains

New York, as usual, experienced the vast bulk of the job declines during the recent securities industry recession. This was due to the same forces that inflicted severe securities industry job losses in New York during prior industry recessions. These include: the heavy concentration of total industry employment in the state and city; New York's concentration of highly specialized, and highly compensated areas such as investment banking, securities and derivatives trading, arbitrage, and New York's tendency to lead the U.S. in a recession's onset and lag in its reversal.

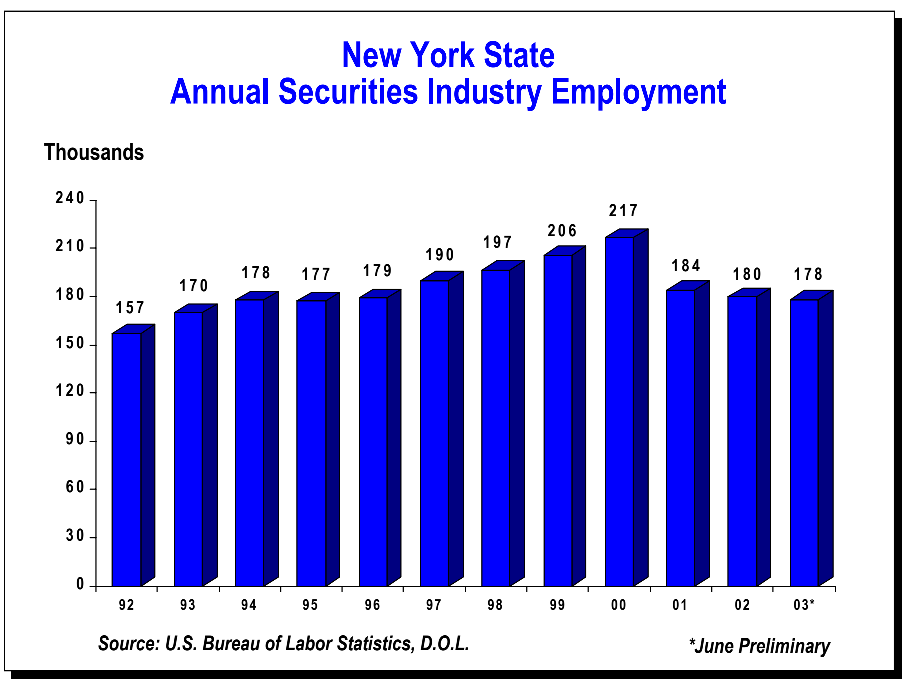
New York State's securities and commodities industry employment reached its peak of 216,700 in December 2000 when layoffs began, a full quarter prior to the national employment peak. Over the next 29 months, the State lost a record 40,500 securities industry jobs, or 18.7%, falling to 176,200 by the end of this May. That equaled 85% of the nationwide job losses of 47,900 experienced over the past two years leaving the other 49 states with only a 1.2% decline in securities industry employment in two-plus years vs. New York's 18.7% total decline.

Of course the biggest drop-off ever came in the month following the World Trade Center terrorist attacks – a record 25,500 industry job losses in New York, or 12.2%. These came from casualties, job relocations out of state (some temporary, some permanent), temporarily dislocated workers with no physical offices to report to (closed or destroyed), and actual long-term downsizing.

Nevertheless, New York also had a 1.1% gain in securities employment this June (preliminary), a 2,000 spike in headcount, the best since last June. That's just over one-quarter of the nationwide gains, which is just above New York's share of total securities employment nationally.

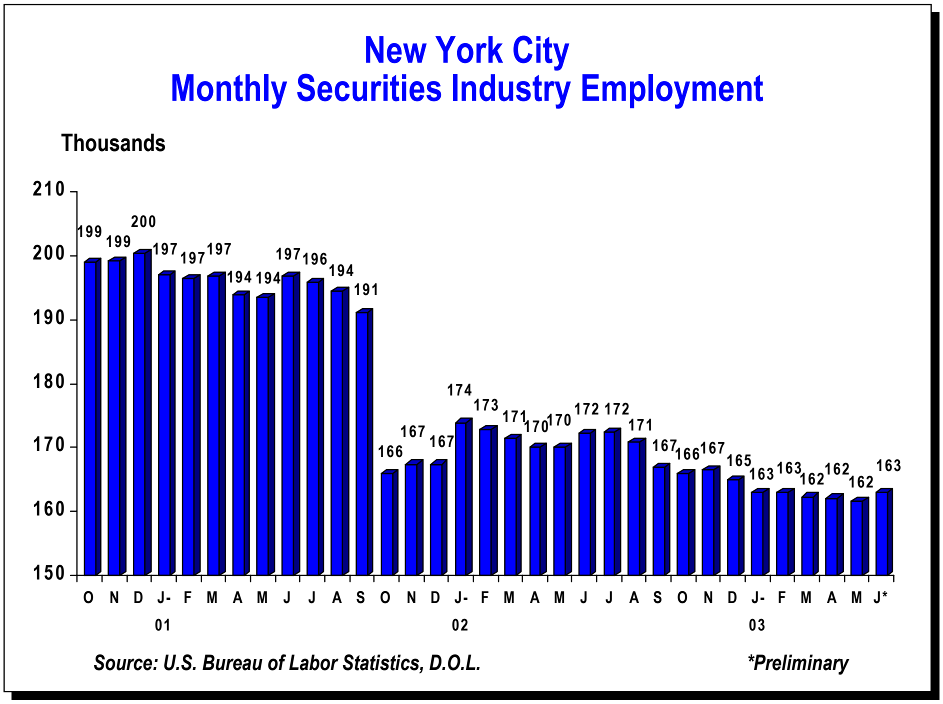


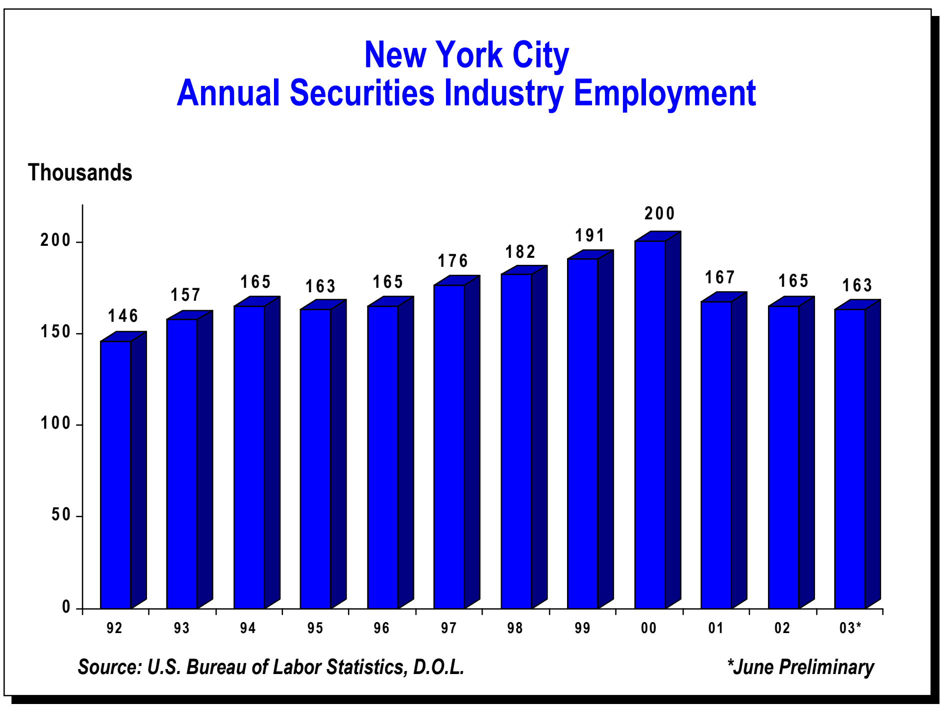
Despite June's uptick, securities employment in New York State is still below July 1994 levels, nine years ago.



New York City Accounted for Over Four-Fifths of Nationwide Securities Job Losses

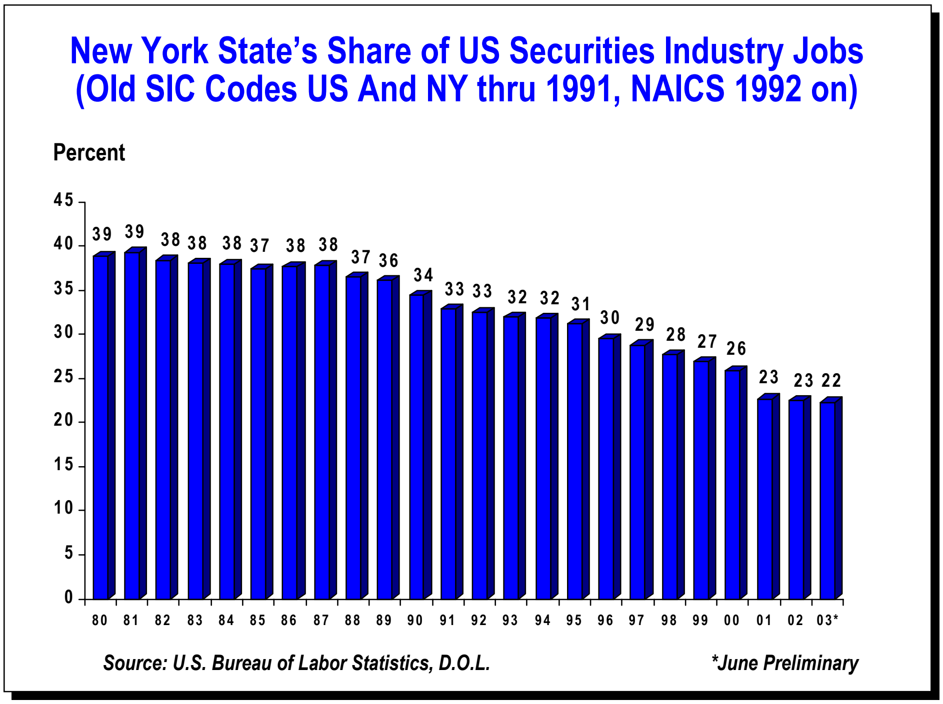
Securities and commodities industry employment in New York City, virtually all in Manhattan and accounting for 92% of statewide securities employment, also reached its all-time peak in December 2000 at 200,300. Over the next 29 months, the city's securities industry lost a record 38,700 jobs, or 19.3%, as employment sank to a recent nadir of 161,600 in May 2003. Amazingly, the single Borough of Manhattan accounted for 81% of the total nationwide reductions in securities personnel over the past two years. Again, even with June's preliminary uptick, the city's securities workforce is at the same level is was nine years ago.

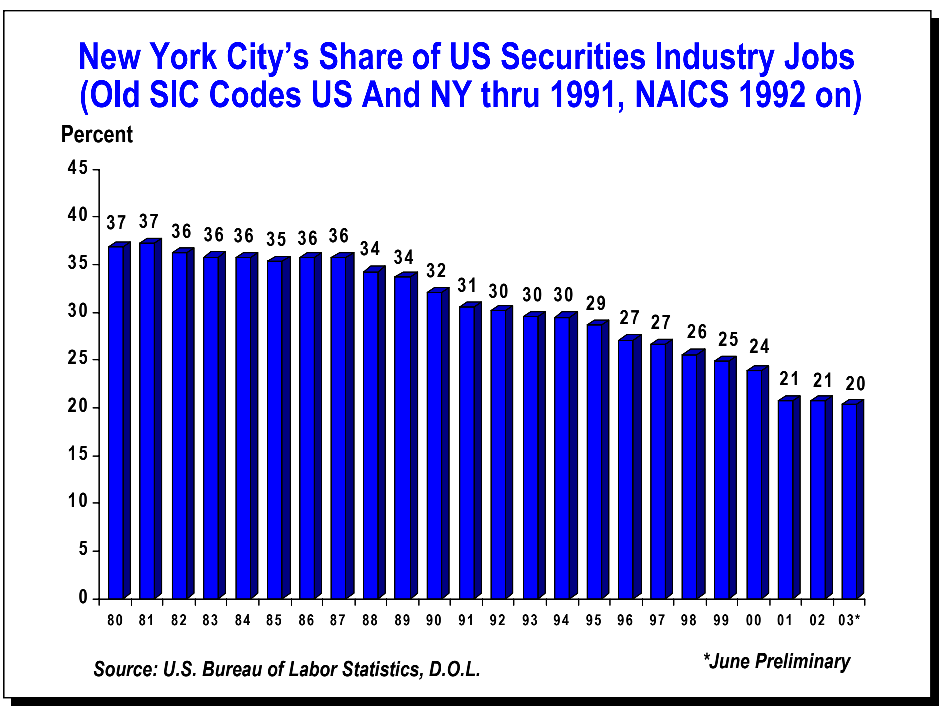


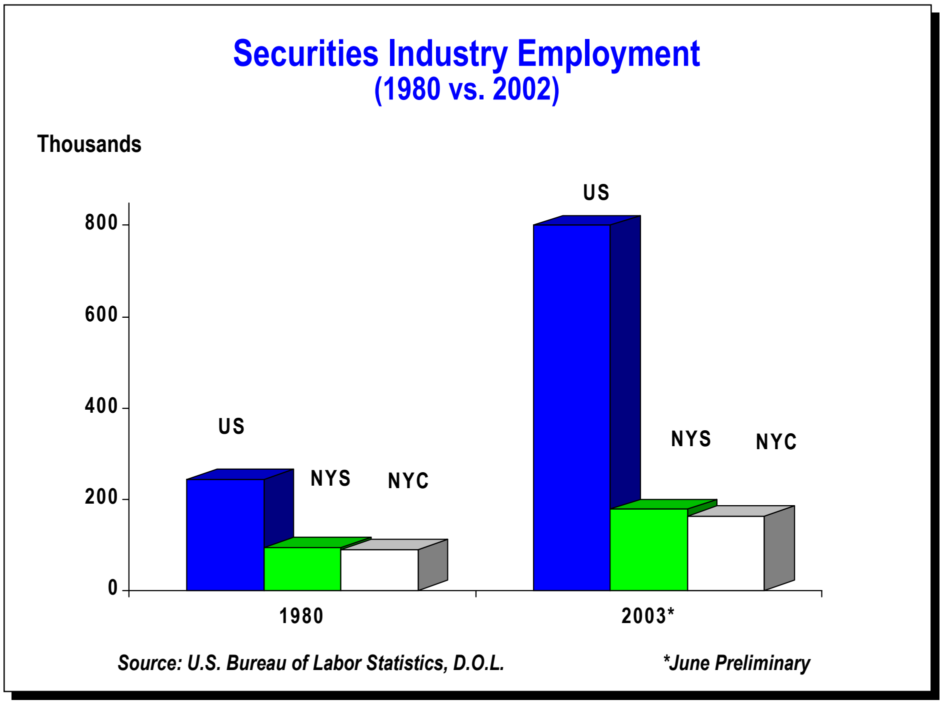


New York's Shrinking Share of U.S. Securities Industry Jobs

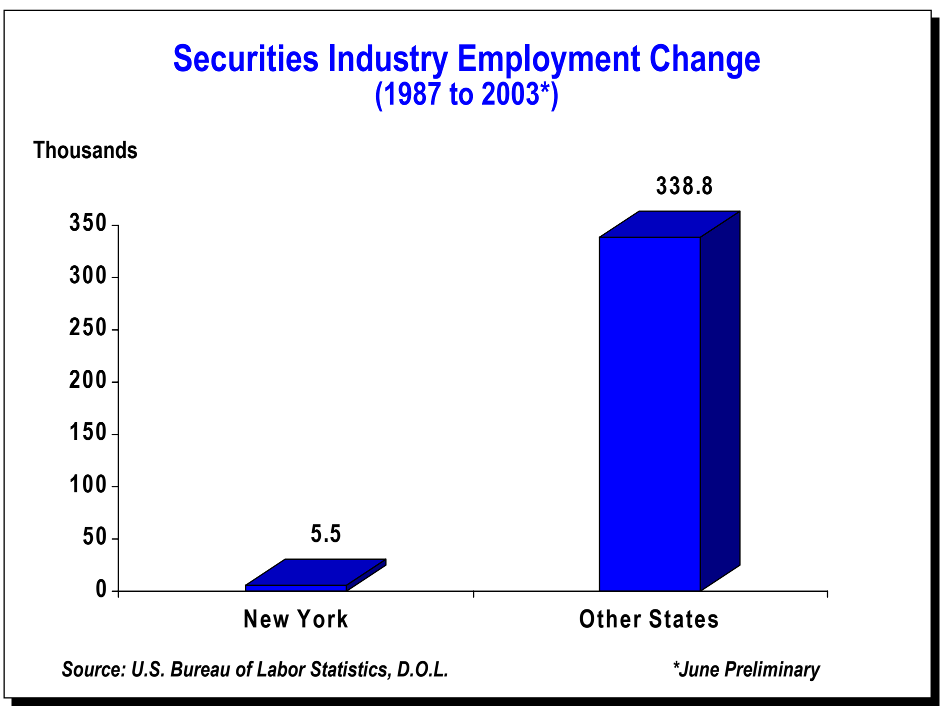
The brutal job losses experienced in New York the past two years merely accelerated a long-term trend in industry employment. New York State and City securities and commodities industry employment has been shrinking relative to its national employment for decades. New York State and City's share of U.S.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





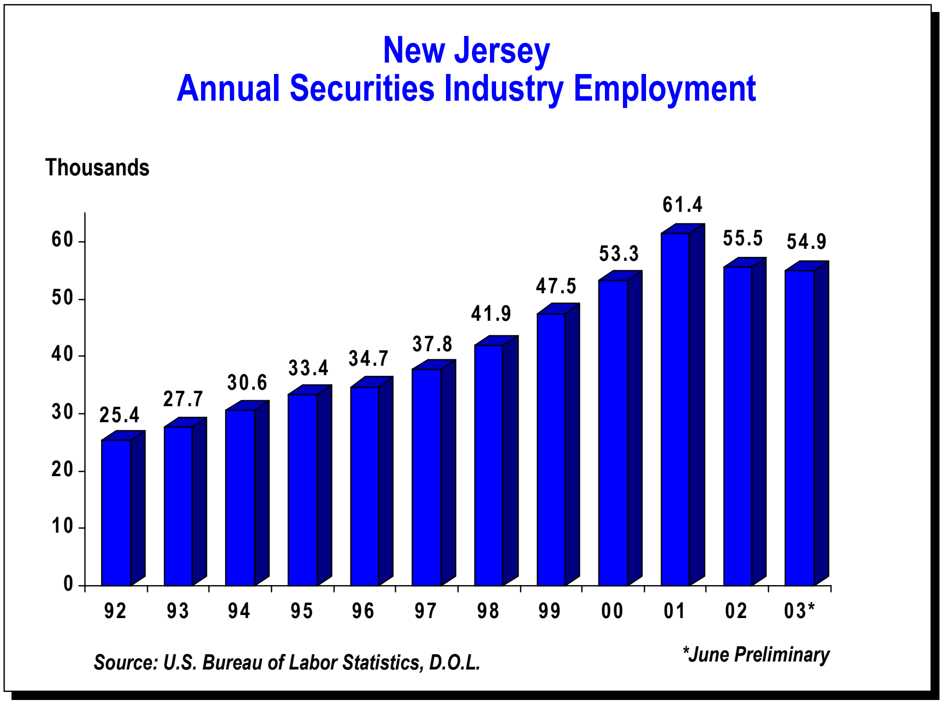


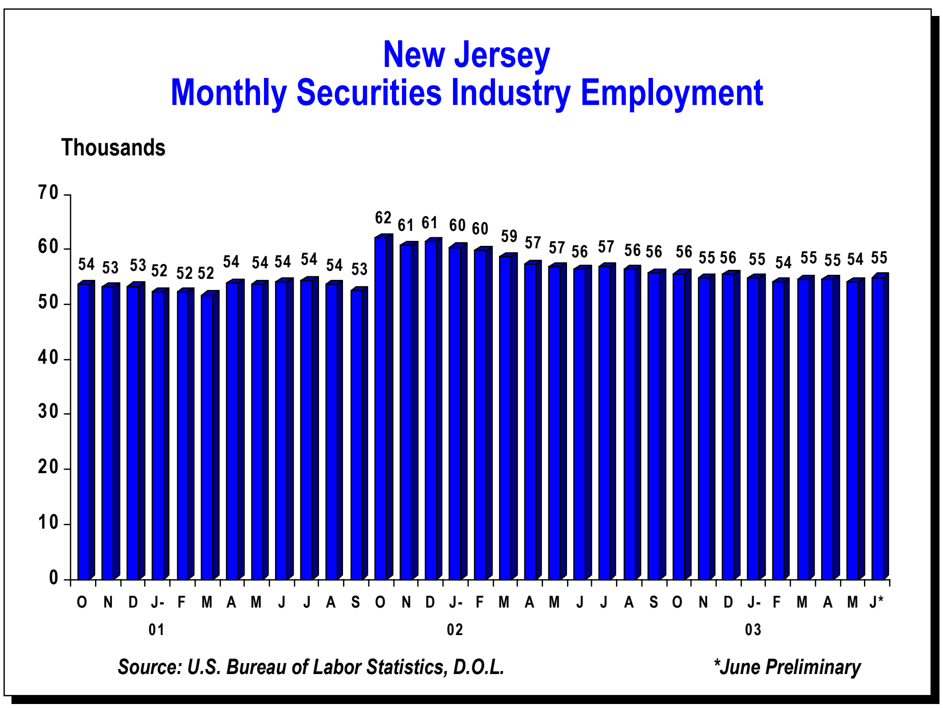
Although New York State still commands 22% of the securities and commodities industry's workforce, the number of net new securities industry jobs created in New York since the 1987 stock market crash is only 1.6% of the number created in the other 49 states through this June.



New Jersey 's Securities Industry Benefiting at New York's Expense

New Jersey's security and commodity industry employment grew 215% from 1990 to 2001 (December to December), yet fell by 5,900 jobs last year, a decrease of 9.6%. However, this was mainly due to a year-end spike in 2001 following the WTC tragedy with temporary relocations across the river in 2001 reversed in 2002.





New Jersey's monthly security and commodity employment numbers picked up sharply in October 2001 by 9,700 jobs while New York City's and State's securities employment fell sharply following the September 11th attack and WTC relocations. Some of these jobs migrated back to New York in the following months while the New York securities recession spanned the entire Metro-area, bringing New Jersey down to its lowest employment level since the WTC attack – 54,100 jobs by May 2003. Preliminary June figures for New Jersey also show a 1.5% uptick. New Jersey's employment base of securities industry jobs has stabilized while New York's numbers continued to plummet. This is partly due to New Jersey's cost advantages over New York and partly due to business continuity plans that call for geographical diversity and redundancy following the WTC tragedy and the continuing terrorist threat.

George R. Monahan
Vice President and Director, Industry Studies

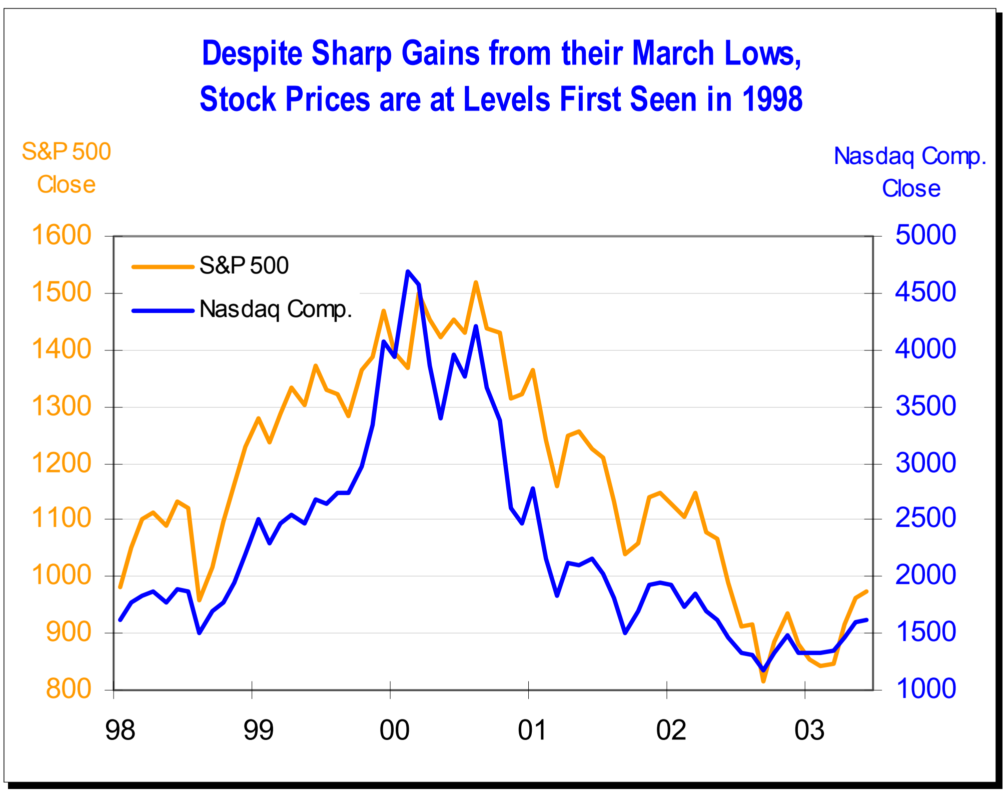
MONTHLY STATISTICAL REVIEW

U.S. Equity Market Activity

Stock Prices – Since sinking to lows for the year on March 11th, a broad three-month stock market rally drove the benchmark indices to their highest levels in a year by June 17th. Although stocks gave back a portion of their gains by the end of June, all major stock indices still posted double-digit returns for the second quarter of 2003, the first time that has happened since the fourth quarter of 2001. A number of factors helped fuel this spring rally, including the quick end to major combat in Iraq, the ongoing recovery in corporate earnings, tax cuts, in particular dividends and capital gains tax relief, and monetary easing by the Fed.

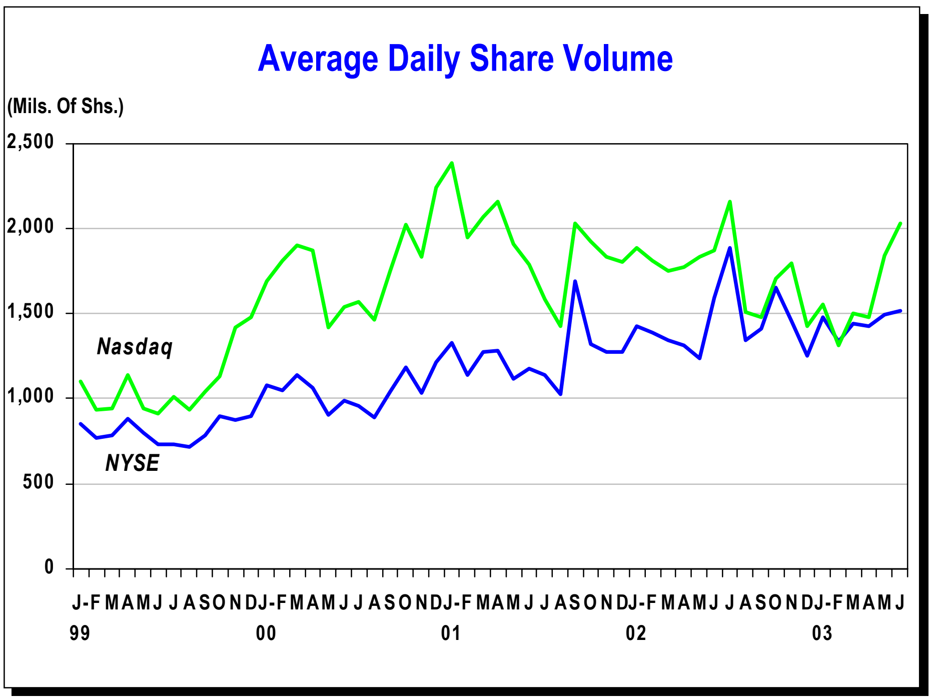
The Nasdaq Composite Index and DJIA both ended 2Q 2003 with their best quarterly performance since 4Q 2001, while the S&P 500 had its best quarterly showing in 4-1/2 years, since 4Q 1998. Over-sold tech stocks led the rally, catapulting the Nasdaq Composite 21.0% in the second quarter and 21.5% in the first half of 2003. The S&P 500 advanced 14.9% during 2Q 2003 and 10.8% since the start of the year. The Dow increased 12.4% for the quarter and was up 7.7% in the first six months of 2003. This was the first time that all major indices posted a first half gain since 1999.

While this year's stock market comeback is encouraging, the fact remains that the S&P 500, the Nasdaq Composite and the DJIA are still no higher than they were five years ago.



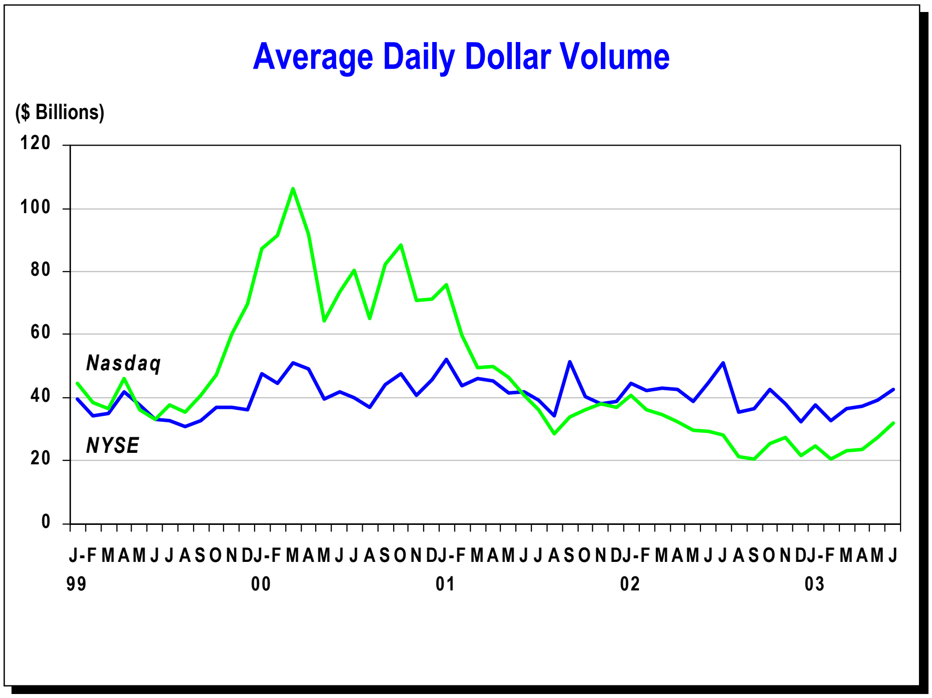
Share Volume – Volumes on Nasdaq and the NYSE reached the highest levels of the year in June. After rising 25% in May, Nasdaq volume increased another 10% in June to 2.03 billion shares daily, its first monthly reading with over 2 billion shares changing hands daily since last July. Significant increases in customer trading volume at the largest online brokerage houses in May and June signaled that the retail investor is finally back in the market. Due to the slower trading pace earlier in the year, however, Nasdaq volume through this year's first six months averaged 1.62 billion daily, a 7.3% decline from 2002's 1.75 billion daily average.

On the NYSE, average daily volume edged up 1.9% from May's level to 1.52 billion shares per day in June, its briskest pace since last October. June's activity lifted year-to-date volume on the NYSE to 1.45 billion shares daily, or just above the annual record pace of 1.44 billion daily set last year.

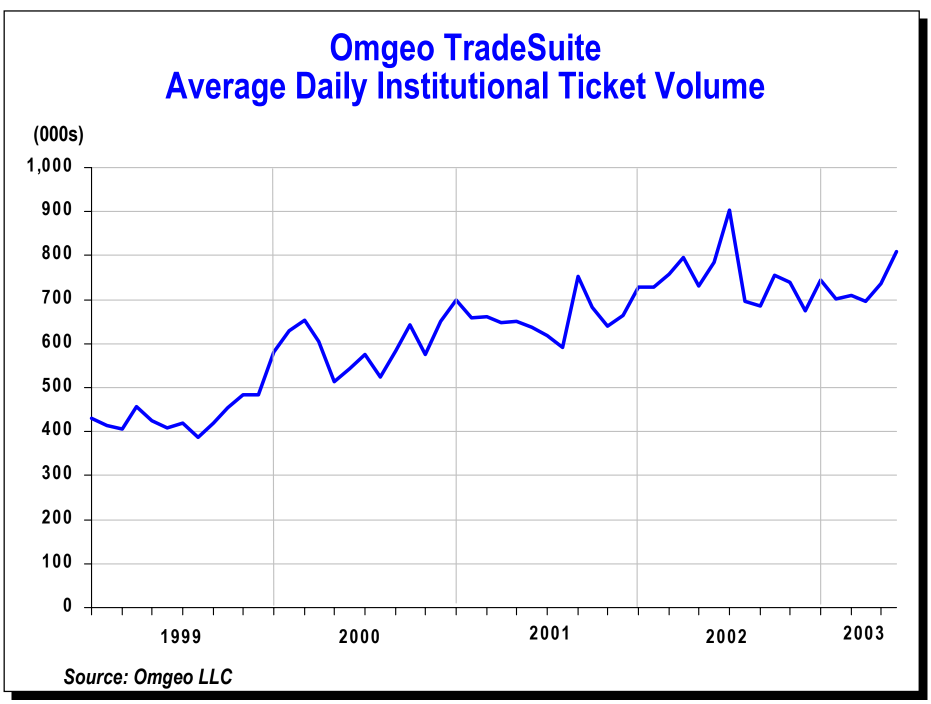


Dollar Volume – The value of trading in NYSE and Nasdaq stocks steadily increased during the past four months to new 2003 monthly highs in June. Average daily dollar volume on Nasdaq jumped 16.8% in June to $32.0 billion daily, marking the first month since last April that Nasdaq dollar volume exceeded $30 billion a day. Despite these recent gains, Nasdaq dollar volume year-to-date, at $25.2 billion daily, is still down 12.3% from 2002's $28.8 billion daily average and represents its lowest level since 1998.

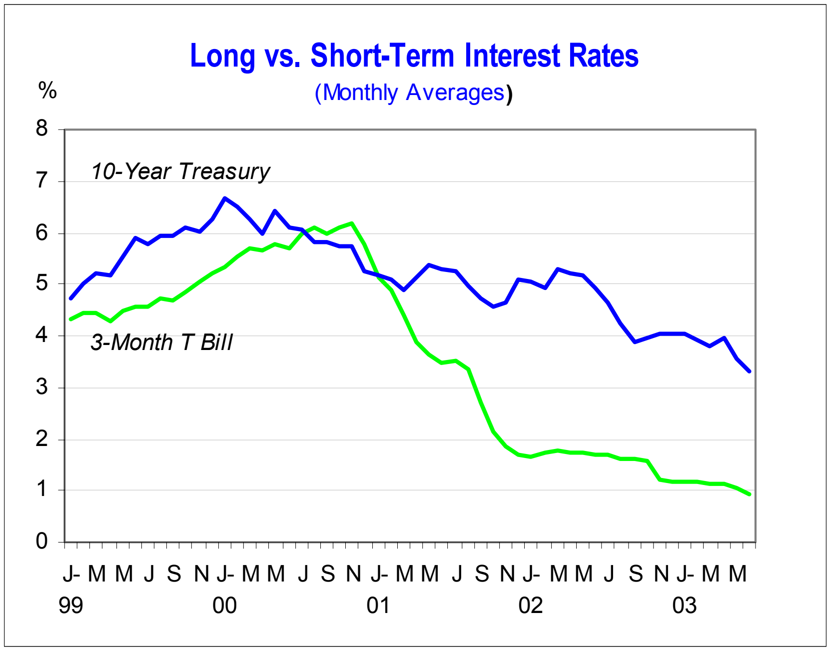
Dollar volume on the NYSE reached an 11-month high of $42.7 billion daily in June, up 8.9% from May. Even so, year-to-date NYSE dollar volume of $37.7 billion daily trails 2002's $40.9 billion daily average by 7.9%.

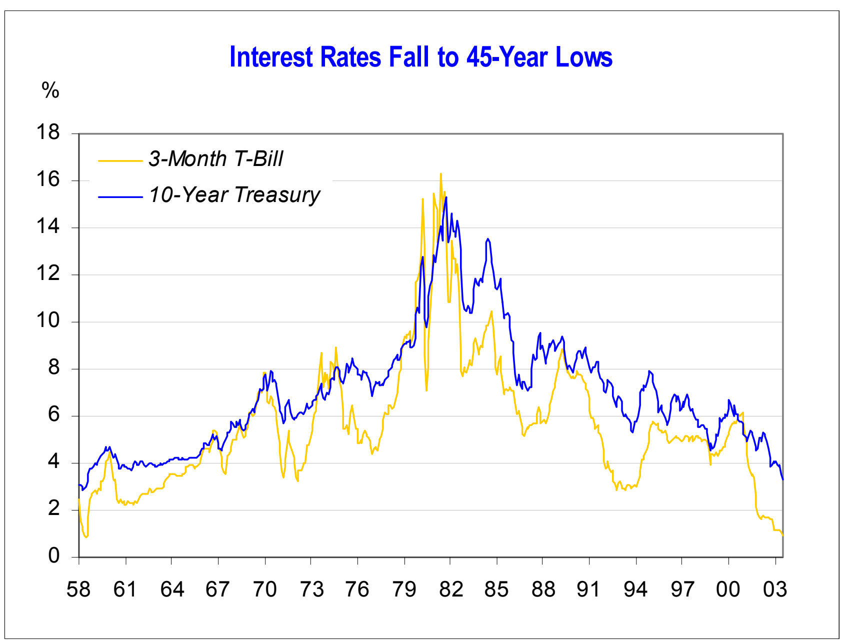


Trading Activity – A renewed interest in equities by institutional investors, as well as retail, was also evident during May and June. Institutional ticket volume, after drifting lower through April to a 2003 low of 696,607 trades per day, climbed in the ensuing two months to 809,108 daily in June, the second busiest month ever behind July 2002's record 903,601 daily average. For the first half of the year, 733,482 institutional trades were processed daily on average, just short of 2002's record pace of 749,267 trades per day.



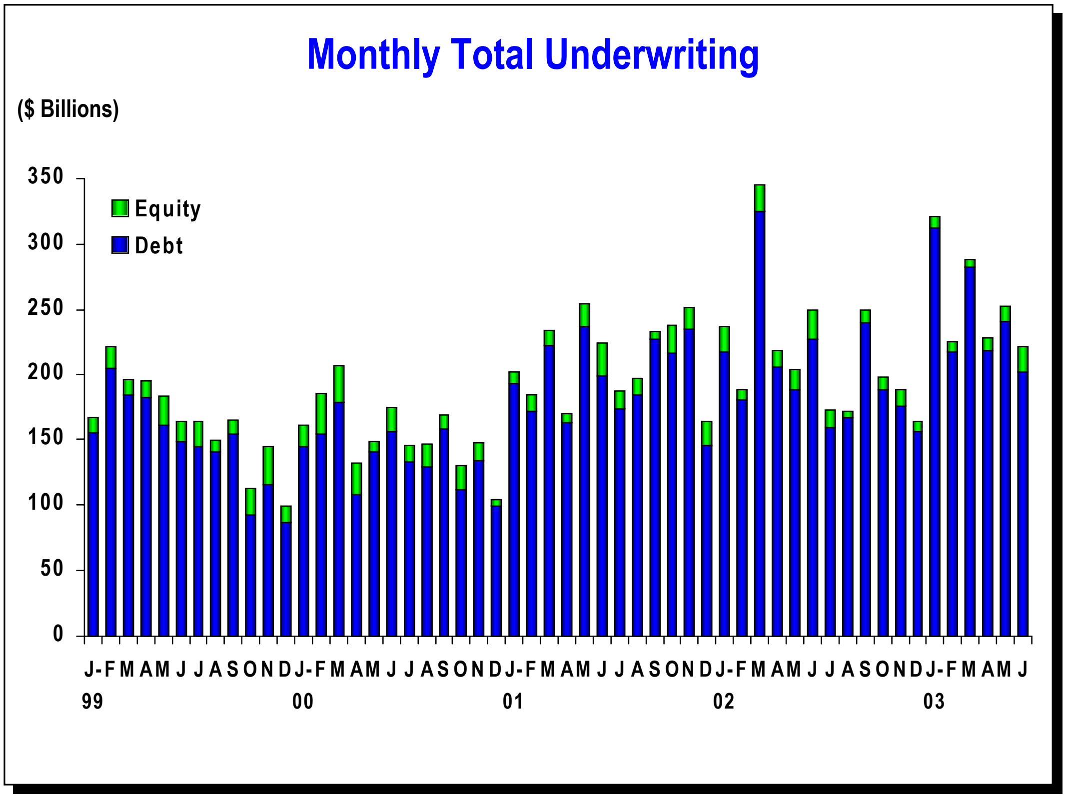
Interest Rates – A three-year Treasury market rally accelerated in 2Q 2003, pushing both short-and long-term interest rates to fresh 45-year lows in June. After spiking to 4.11% on March 21, the 10-year Treasury yield tumbled nearly 1% to 3.13% by mid-June before backing up to end the second quarter at 3.54%. Much of that increase came after June 25, when policy makers of the FOMC cut the federal-funds rate by a quarter point to 1%, its lowest level since 1958, and signaled they will keep interest rates low for as long as needed to boost economic performance. The Fed's action helped drive the yield on 3-month T-bills to 0.89% by June's end, down from 1.12% at the end of 1Q 2003.





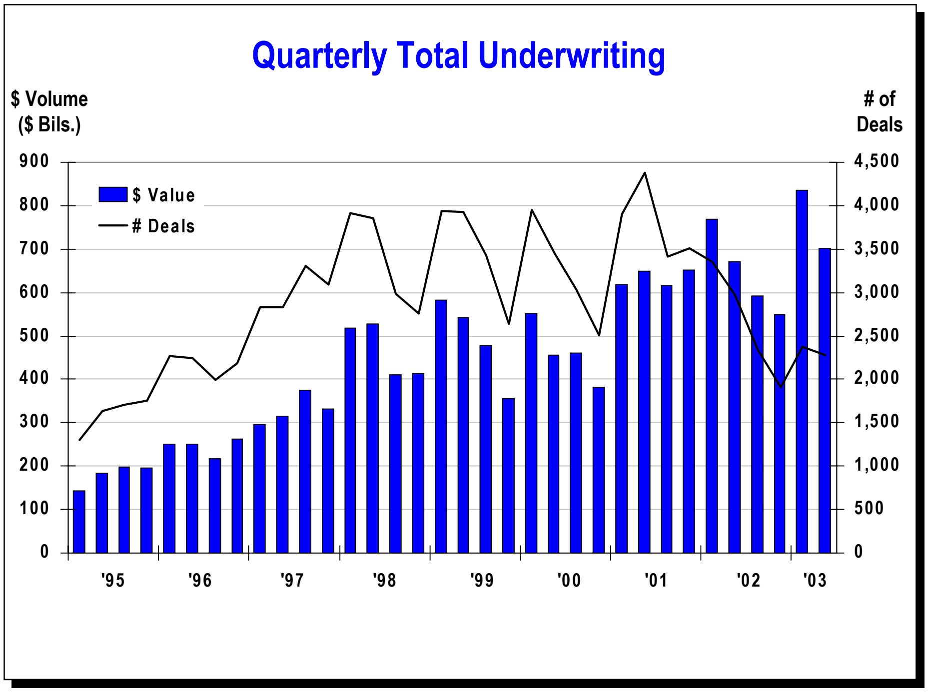
U.S. Underwriting Activity

Securities issuance rose 6.7% to $1.54 trillion in the first half of 2003 from $1.44 trillion during the same period last year. Robust corporate bond sales drove the overall total, as companies took advantage of historically low interest rates to refinance debt. Debt issuance rose 9.5% to $1.47 trillion in the first half of 2003 from $1.34 trillion in last year's similar period. Meanwhile, equity issuance slumped by nearly one-third to just $66.2 billion in this year's first six months from $96.7 billion in the first half of 2002.

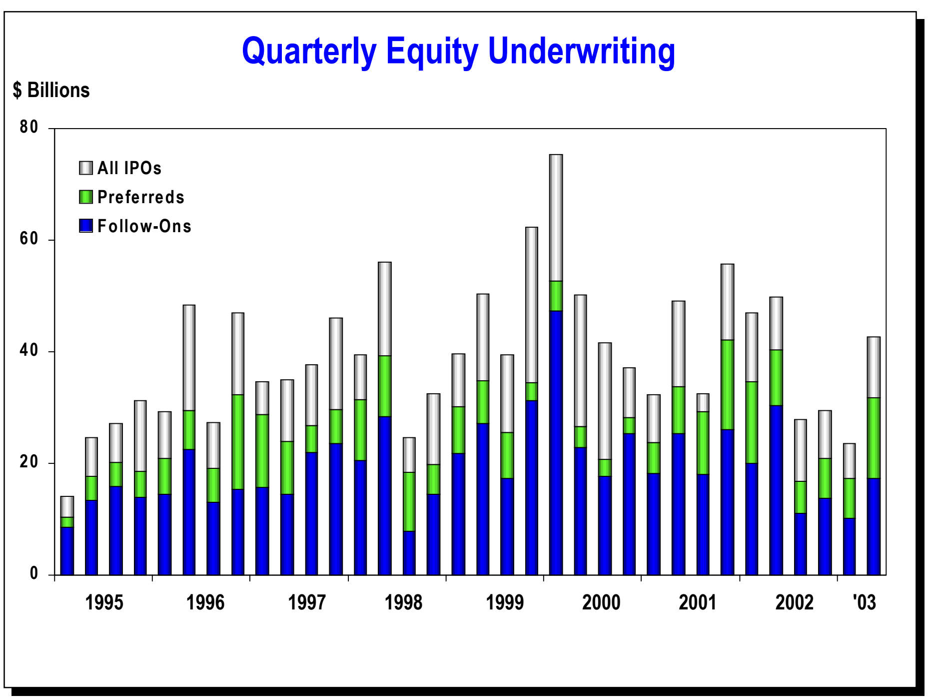


On a quarterly basis, total underwriting volume slid 16.0% to $701.1 billion in 2Q 2003 from the record $834.5 billion set in 1Q 2003, mainly due to a cooling off in debt issuance from the first quarter's torrid pace. Even though debt offerings during the second quarter slipped 18.8% to $658.4 billion from 1Q 2003's record $811.0 billion, it was the third best quarter ever.

Common and preferred stock issuance strengthened in 2Q 2003, reflecting an improved stock market environment. After sinking to an eight-year low of $23.5 billion in 1Q 2003, equity issuance surged 81.6% to $42.7 billion in 2Q 2003 – its best quarterly showing in a year, but still a far cry from the record $75.4 billion raised in the first quarter of 2000.

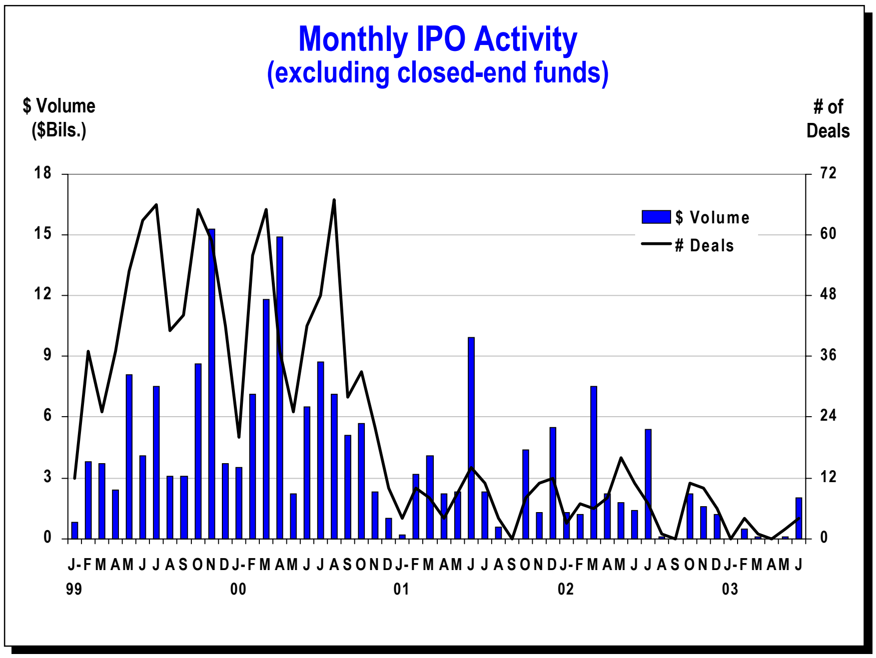


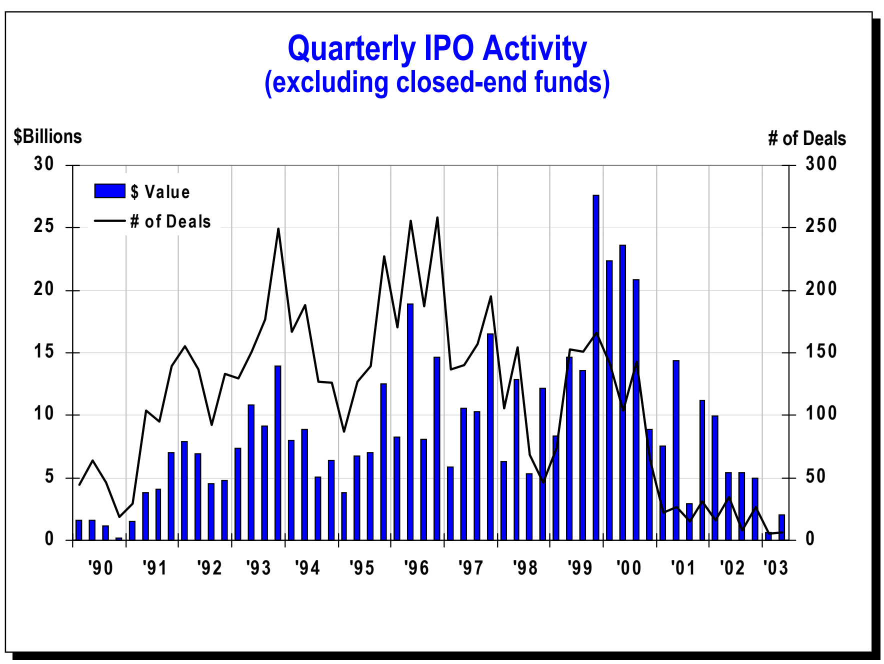
Equity Underwriting – Straight and convertible preferred stock offerings raised $14.5 billion in the second quarter of 2003, double the amount raised in 1Q 2003 and the fourth best quarterly showing ever. New issuance of common stock jumped 72.8% from 1Q 2003 weak level to $28.2 billion in 2Q 2003, yet remained 29.1% below levels reached in the second quarter of 2002.



Initial Public Offerings – The domestic IPO market remains depressed. After only five IPOs in 1Q 2003 raised $644.2 million, in 2Q 2003 six companies raised $2.1 billion. The bulk of this year's volume came from two prominent REIT deals completed in late June that raised roughly $700 million each (REIT deals are not considered "true" IPOs in the traditional sense). The 11 IPOs completed during this year's first half represented the lowest six-month total since the bear market of 1975. In terms of dollar proceeds, the $2.7 billion raised was the lowest since 1990.

Given that issuance typically slows down during the summer months, and the current IPO backlog consists of 21 companies seeking to raise only $3.1 billion, any meaningful rebound in this market is not expected anytime soon.

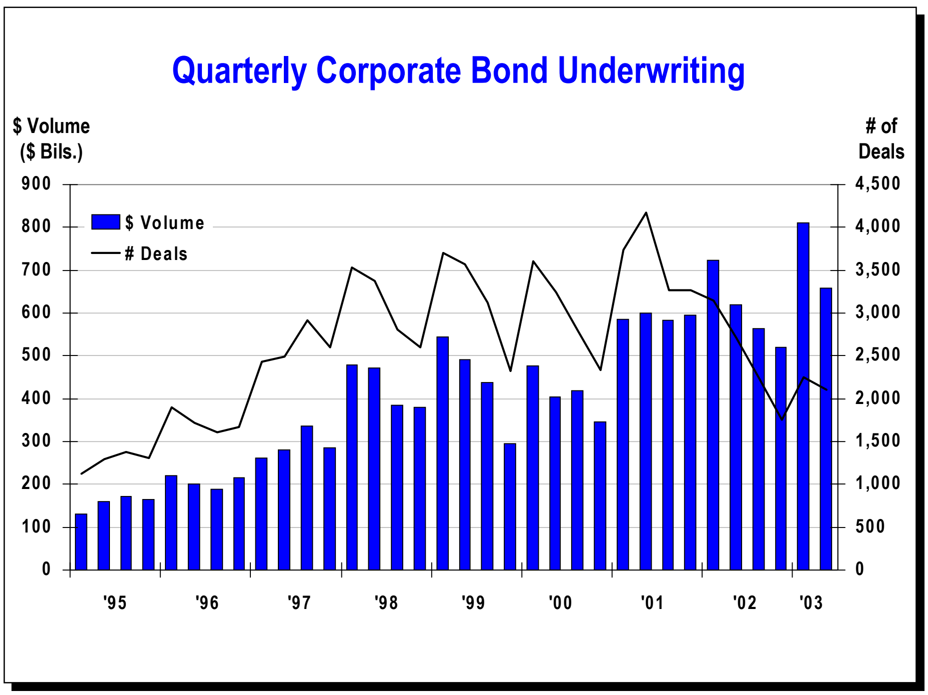




Corporate Bond Underwriting – Asset-backed bond issuance in 2Q 2003 was still strong, despite falling in June, as $316.1 billion was raised in this market. While short of the record $404.5 billion posted in 1Q 2003, it was the second highest quarterly total ever. The $720.6 billion of asset-backed securities issued in the first half of 2003 was up 36.7% from year-earlier levels.

New issuance of straight corporate debt also slowed in the second quarter of 2003, raising $333.2 billion as compared to $406.5 billion in 1Q 2003. The year-to-date total of $739.6 billion is 8.4% short of the $807.8 billion issued a year ago.

Underwritten convertible debt offerings (excluding Rule 144A deals) soared in this year's second quarter to a record $9.1 billion from a mere $125 million in 1Q 2003. The $9.2 billion raised in this year's first half already exceeds 2002's full-year total of $8.6 billion.



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	Follow-Ons	**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	1.8	8.6	1.0	0.0	5.8	321.0
Feb	114.6	0.0	101.8	216.5	4.7	3.6	8.3	1.9	0.5	2.8	224.8
Mar	141.8	0.1	140.2	282.1	4.8	1.8	6.5	3.3	0.1	1.5	288.7
Apr	102.3	1.3	114.0	217.6	6.4	3.8	10.1	2.5	0.0	3.9	227.7
May	120.4	3.0	116.4	239.8	8.9	4.0	12.9	1.4	0.1	7.5	252.7
June	110.5	4.8	85.8	201.1	12.9	6.7	19.6	7.0	2.0	5.9	220.7
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '02	807.8	7.7	527.0	1,342.5	71.9	24.8	96.7	21.6	15.4	50.3	1,439.2
YTD '03	739.6	9.2	720.6	1,469.5	44.4	21.7	66.2	17.1	2.7	27.4	1,535.6
% Change	-8.4%	20.0%	36.7%	9.5%	-38.2%	-12.3%	-31.6%	-21.0%	-82.4%	-45.6%	6.7%

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	16.4	17.8	4.4	4.3	8.7	26.5	1.17	4.05	2.88
Feb	1.8	15.5	17.3	5.1	7.6	12.7	30.0	1.17	3.90	2.73
Mar	2.0	15.8	17.8	4.2	5.8	10.0	27.8	1.13	3.81	2.68
Apr	1.6	18.2	19.8	4.6	10.2	14.7	34.5	1.13	3.96	2.83
May	3.1	19.2	22.4	5.5	6.2	11.7	34.1	1.07	3.57	2.50
June	1.9	21.0	22.9	6.7	16.8	23.5	46.5	0.92	3.33	2.41
July										
Aug										
Sept										
Oct										
Nov										
Dec										
YTD '02	10.4	91.6	102.1	27.8	35.8	63.6	165.7	1.72	5.09	3.37
YTD '03	11.9	106.1	118.0	30.5	50.9	81.4	199.4	1.10	3.77	2.67
% Change	14.2%	15.7%	15.6%	10.0%	42.0%	28.0%	20.4%	-36.1%	-25.9%	-20.7%

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
2002									
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	5636.54	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
2003									
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									
Aug									
Sept									
Oct									
Nov									
Dec									
YTD '02	9,243.26	989.82	5,636.54	1,463.21	1,375.8	58.9	1,824.8	42.5	33.7
YTD '03	8,985.44	974.50	5,505.17	1,622.80	1,448.1	64.3	1,624.5	37.7	25.2
% Change	-2.8%	-1.5%	-2.3%	10.9%	5.3%	9.3%	-11.0%	-11.4%	-25.0%

MUTUAL FUND ASSETS
($ Billions)

MUTUAL FUND NET NEW CASH FLOW*
($ Billions)

	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	-18.3	0.4	12.2	-43.6	-49.3	-5.7
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	-0.6	15.4	-54.9	-56.2	-1.4
Oct	2,659.5	316.7	1,083.6	2,177.5	6,237.2	-7.5	-1.0	6.4	12.5	10.4	-2.1
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	2,958.6	365.8	1,238.9	2,141.1	6,704.3	12.1	3.1	9.0	-17.8	6.3	24.2
June											
July											
Aug											
Sept											
Oct											
Nov											
Dec											
YTD '02	3,341.5	356.4	994.1	2,230.7	6,922.7	71.5	12.6	46.2	-67.4	62.8	130.2
YTD '03	2,958.6	365.8	1,238.9	2,141.1	6,704.3	16.5	7.9	62.8	-144.7	-57.5	87.2
% Change	-11.5%	2.6%	24.6%	-4.0%	-3.2%	-76.9%	-37.1%	36.0%	NM	-191.6%	-33.0%

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

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