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What's Inside...

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Battling the Big Board

By Philip Scipio

Ah, competition. Barclays Global Investors has had to battle State Street Global Advisors for market share in exchange-traded funds, and other ETF managers entering the market will have to compete vigorously to get the attention of investors, in some cases even competing for indices on which to base their products. Until now, however, the only area of this increasingly lucrative market untouched by competition has been the exchanges where ETFs list.

The American Stock Exchange boasts that it created and traded the first ETF. It built and nurtured the industry and for the most part has been the market of choice for ETFs. Its dominance may be about to end, however, as the New York Stock Exchange begins to trade the three largest ETFs—QQQ, SPDR and Diamond—during the first full week in August, possibly creating an appetite for trading ETFs on the Big Board where more than 1 billion shares change hands every day.

The NYSE launched its only trading ETF in December 2000, the iShares S&P Global 100 Index Fund, but the fund has done little to shake up the ETF landscape. Moreover, that launch has not been followed by a promised slate of new ETF products on the exchange. Instead, the NYSE in April announced plans to trade three of the biggest ETFs listed on the American Stock Exchange, using unlisted trading privileges, a rule that had previously been used by fledgling regional exchanges to trade stocks listed primarily on the NYSE and later the Nasdaq.

When the exchange announced its decision to trade the big three ETFs, NYSE chair-

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Exponential expansion

By Marsha Zapson

During the first two weeks in July, Euronext's NextTrack captured 54% of Europe's passively traded ETF market, which comprises Euronext, the Deutsche Börse's XTF, the London Stock Exchange's Extramark, OM Stockholm and the Swiss Exchange, according to Marianne Demarchi, Euronext's head of ETFs. And during June, it garnered 48%, she says. In comparison, according to Euronext records, DBAG had 41% at mid-July; SWX, 3%; LSE, 1%; and OM, 0%.

Launched in January 2001, Euronext steadily increased its tracker (Euronext's name for ETFs) trading, until it reached a weekly turnover of some €600 million ($523 million) at the end of June. By mid-July, its weekly turnover had receded to just over €500 million ($436 million).

When Euronext (which currently unites the Amsterdam, Brussels and Paris exchanges) began trading the Dow Jones Euro Stoxx 50, the Dow Jones Stoxx 50 and the CAC40 Master Unit in January, it attracted immediate and substantial volume *(ETFR, February 2001, page 3)*.

This wasn't simply the result of launch fever, however. One month later the two Stoxx products had turnover of about €120 million ($101 million) each, roughly 3.6 times that of ETFs traded on the Swiss Exchange for the same period. And during June, the Euro Stoxx 50 on Euronext (including all three Euro Stoxx 50 products listed there) had more than 35% of the market share, says Demarchi.

Cornering the market

"We've seen a lot of trading activity on core and key products at Euronext," says Demarchi. As interest in national indices rises throughout Europe, so does the popularity of the CAC 40 and the StreetTracks AEX. Since its January launch, the CAC 40's volume has more than tripled, and is now at 980 million trades through June, which represents about 51% of the total trading volume on Euronext, she says.

Attendant on this interest, options on the CAC 40 have also increased; Euronext cal-

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US-based ETFs expected to outperform

By Elise Coroneos

The plethora of exchange-traded funds in the marketplace can make it difficult for investors to decide where to invest. The tradable nature of ETFs means that recommendations from market analysts are as pertinent as they are to individual stocks, shedding light on which products are most likely to outperform relative to the general market.

And with the number of ETFs about to increase dramatically in Europe, investors will be looking to discover which countries, regions and sectors the experts say are poised to turn a profit.

> "The clouds over the US profit outlook should begin to lift within the next few months"

US to outperform

The US market is the place to be looking to garner profits over the next six months, says Myles Zyblock, the senior global equity strategist at Montreal-based BCA Research (an MAR sister company). At the same time, US-based ETFs are also expected to enjoy a favorable trading environment.

This upbeat profit outlook in the US is due in large part to the lagged effect that the cuts in interest rates will have on the economy. "The clouds hanging over the US profit outlook should begin to lift within the next few months," says Zyblock. "This should pave the way for a rally in US stocks."

In contrast, he says, the lack of opportunities to harness gains in the UK, Europe and Japan does not create a favorable backdrop for the ETF outlook in those regions. "We have recently moved to an underweight position in the UK," he says. "While it is still our number two pick among the major markets, it will continue to be held back by its high exposure to telecom stocks and an ongoing shift by investors out of relatively defensive sectors, which comprise a large portion of the UK market capitalization."

In Japan, there is little room to move with interest rates already at zero and a new government set to impose tight fiscal policy. This turn of events effectively puts handcuffs on the Japanese government, says Zyblock, meaning future market movements will be influenced by announcements of political policy rather than economic fundamentals.

Which US sectors?

So with analysts expecting a market upswing in the US relative to other regions and individual countries, the question becomes: Which sectors within the US will experience the best trading environment to allow investors to make profits in the next six months?

Matthew Pugsley, senior editor of *US Equity Sector Strategy* at BCA Research, says that certain US sectors look likely to outperform the market in relative terms, thereby signaling which ETFs to watch in the coming months. Consumer cyclicals is one recommended sector, which may signal upcoming profit opportunities in ETFs such as the iShares DJ US Consumer Cyclical (ticker: IYC).

"Spending has held up reasonably well in this economic slowdown," says Pugsley. "Consumer cyclicals are usually one of the first to rally when a recovery takes hold. They've started to rally already but we think there is still some more upside."

Basic materials, which encompasses items such as metals, mining, chemicals and aluminum, is another sector that is likely to experience a rally, says Pugsley. Although the US dollar is a wildcard factor influencing this undervalued sector, there is reason to believe ETFs such as the iShares DJ US Basic Materials (ticker: IYM) may be about to benefit, he says.

"We went bullish on basic materials about a month ago. Any hint that the global economy is bottoming and will start to improve early next year or towards the middle of next year, this sector could have a big, big rally. Waiting to invest in this sector at the beginning of next year when things are actually picking up, you will probably be too late."

Financials is another sector in which Pugsley expects to see gains. He warns, however, that the window of opportunity is probably a little less than six months. Of the financials-based ETFs, he expects that those with a greater percentage of banks as opposed to insurance companies should do better.

The last sector that Pugsley believes may hold the promise of profitable returns is the manufacturing sector. "Although this sector has been completely decimated in the past, we think that stocks have already discounted this and are looking towards a recovery," he says. "There has been underinvestment in this sector, so in the next recovery phase these stocks could do quite well."

On the downside

The consumer staples sector, which includes the likes of food, retail food stores and tobacco, is not likely to do well, says Pugsley. This anticipated poor performance, in turn, is likely to have a negative effect on ETFs such as the SPDR Consumer Staples (ticker: XLP).

"When investors start to discount a recovery in profits in the overall market, this sector tends to get left behind because it tends to have a stable earnings growth pattern," he says. "These stocks performed well in the last year, but you probably don't want to own them for the next six to nine months."

Since the inception of the *US Equity Sector Strategy* publication in May 2000, BCA Research's recommendations, if traded, would have redeemed a relative return of about 6%, with about 65% of trades being winners. Pugsley says that recommended trades yet to be closed are pretty well in the money.

With the boom in sector-based investing, both in the US and overseas, BCA Research is currently working toward not only providing recommendations on sectors where favorable performance is predicted, but also indicating which ETFs correlate to these sectors.

Top performers, 2Q

By Marsha Zapson

"The second quarter, which reverses the trend seen in previous quarters, is characterized by a snap-back rally in many of the more speculative areas of the market," says Christopher Traulsen head ETF analyst for Morningstar.

> "The second quarter is characterized by a snap-back rally"

First quarter 2001 and fourth quarter 2000 were retrenching periods, he says, but the recent second quarter started to reverse that trend a little bit. "Investors rotated back into the more aggressive sectors and pulled their money out of the defensive ones."

Winners and losers

These defensive sectors that had done well previously were now down, although not as sharply as the tech sectors had been. And for the second quarter, tech and biotech were up. Look at the QQQs, one of the most actively traded stocks in the world. Even though it is down 21.3% year to date through June, it was up 17.4% in the second quarter.

One of the top performers in the second quarter was the iShares Nasdaq Biotech, which was launched in February 2001. It was up 30.6% with some $131.9 million in assets after having been down 20.4% in the first quarter.

Running a close second was the Internet HOLDRs, up 29.9% in the second quarter (down 15.5% in the first quarter through mid-March); while the iShares Dow Jones US Internet was up 20.0% (down 46.9% mid-March); StreetTracks DJ US Small Cap Growth, an aggressive tech-heavy fund, was up 19.4% (down 22.6% mid-March); Nasdaq 100, up 17.4% (down 29.6% mid-March); StreetTracks Morgan Stanley Internet up 17.3% (down 38.1% mid-March); Fortune E 50 Index Fund, up 17.3% (down 27.5% mid-March); and the iShares Goldman Technology, launched at the end of March, up 17.0%.

"I could just keep going and going," says Traulsen. "The returns are very clearly split along these lines."

The other major trend Traulsen sees is that small caps generally outperformed large caps by a substantial degree. For example, the iShares Russell 2000 Growth Index—the small cap growth index—was up 16.3% for the second quarter (down 16.5% in the first quarter through mid-March); and iShares 1000 Growth Index—the big cap growth index—was up 10% (down 20.8% mid-March). Even though growth did better than value in general, the iShares Russell 2000 Value Index was up 11.5% (down 0.67% mid-March). Traulsen attributes this increase to the small cap effect, which to some extent was bigger in some areas than the tech effect, though not across the board.

Clearly, the major trend is that the biotech and tech sector funds did best in the quarter, reversing the previous pattern in which they sold down very sharply. "That's what worked; what didn't, is the flip side," he says.

Interestingly, the worst performer was the Broadband HOLDRs. Because this ETF contains heavily weighted companies that didn't do well in the second quarter, such Lucent, Nortel and JDS Uniphase, it's no surprise that it was down 13.1%

Companies that sell equipment into the telecom sector are still not doing well, says Traulsen. The telecom companies that would normally buy equipment have a long road to recovery and have cut back purchases considerably, dampening the outlook for companies that sell into that channel. In particular, the HOLDRs Utilities was down 5.8% in the second quarter, and iShares DJ US Utilities was down 3.6%.

On a different note, the Energy Select Spider was down 0.7% in the second quarter, and the iShares DJ US Energy was down 1.7%. Although energy is not really a defensive sector, many managers have rotated into the area because it has been more reasonably priced than other growth areas, says Traulsen. "The theory was, and still is, that energy companies had underinvested for years in research and exploration." Add to that the energy shortage, and energy becomes an appealing sector, he says. And finally, the industry has been battered this year, says Traulsen.

All of which doesn't mean that these sectors are bouncing back for the long haul, he says. Rather, after these companies had sold off so sharply, the value of stocks rallied and the Fed continued to ease, prompting investors to return. But again, this reactionary market movement was itself buffeted by earnings and revenues reports, which became negative again.

"Overall, the rally didn't last long," says Traulsen. "Many of the top performers in the second quarter are beginning to sell off pretty sharply at the top of the third, and the predominant trend in the second quarter is already reversing."

International investing

International markets did not do well across the board in both quarters, according to Kaunal Kapoor, a Morningstar senior analyst. After a promising start in January, they fell apart by the end of the first quarter and rallied briefly in the second quarter. There were some exceptions, such as the iShare MSCI South Korea, which was up 15.9% year to date through the end of June.

Because many European indices are heavily weighted in telecom stocks, the downward trend in that sector has hurt many ETFs. Asia, on the other hand, is a little more technology driven than Europe, but the trends there are generally the same.

Interestingly, the top iShare MSCI is Mexico (up about 24% through June), which is being viewed as a "bit of a stable haven given what's happening in parts of South America," says Kapoor.

Those who have looked to invest internationally ex-US have also favored growth sectors, says Kapoor. "What they are finding is that no one wants to own those investments, especially if they are in tech and telecom; which is, of course, similar to the US investment environment."

South Africa's ETF...and largest IPO

By Rupert Lee

SATRIX 40

Market Capitalization Satrix 40	R3.062b ($369 million)
Net Asset Value per Satrix 40	R8.29 ($1)
Launch date [as IPO]	November 27, 2000
Listing price	R7.74
Average daily volume	1.13 million shares
Value of daily trading	R11 million ($1.3 million)
Each share (as at July 23, 2001)	R8.29 ($1)

Service Providers

Trustee and custodian	Webber Wentzel Bowens Trustees (Pty) Ltd and ABSA Bank
Investment manager	IndexCo Managers (Pty) Ltd (subsidiary of Johannesburg Stock Exchange)

The overall management mandate is with IndexCo. However, the asset management mandate is with Sanlam Asset Managers (previously named Gensec Asset Management)

Registrar	Computershare
Index provider	JSE in collaboration with the Actuarial Society of South Africa
Joint Sponsors (for IPO)	CorpCapital Corporate Finance and Gensec Securities

The top 10 holdings in the ALSI 40 Index as of July 23, 2001:

Stocks	Weightings (%)
ANGLO AMERICAN PLC	14.88
RICHEMONT SECURITIES DR	9.45
BILLITON PLC	8.14
ANGLO AMERICAN PLATINUM	5.81
OLD MUTUAL PLC	5.69
STANDARD BNK INVCORP ORD	4.15
S A BREWERIES PLC	4.13
FIRSTRAND LTD	4.05
SASOL LTD	3.91
NEDCOR LTD	3.15
Subtotal—top 10 stocks	63.36
Subtotal—next and final 30 stocks	36.64
Total 40 Stocks—ALSI 40 Index	100.00

Such was the success for African continent's first exchange-traded fund, the Satrix 40, that it became South Africa's largest IPO, worth R2.6 billion ($314 million), and now ranks as one of the country's top 40 stocks.

The ETF was listed in November 2000 by IndexCo Managers, a subsidiary of the Johannesburg Stock Exchange. The exchange is the sixth in the world to launch an ETF.

Gensec and CorpCapital were joint sponsors of the IPO, with CorpCapital being responsible for the corporate finance aspect and both CorpCapital and Gensec being responsible for raising capital. CorpCapital is owned by Corpgro, a financial services conglomerate that owns banking, insurance and investment firms.

Gensec Bank is an investment bank that specializes in providing derivative-based risk management products to the investment industry. The bank, which is owned by Sanlam, one of the largest funds management firms in South Africa, has an active proprietary trading and market making desk.

Single institutional investor key

The Satrix 40 IPO succeeded thanks to a single institutional investor's taking up the bulk of the IPO. This created a critical mass available for efficient secondary market activity, according to the JSE.

The exchange expects retail demand to increase following the implementation last month of the Satrix Investment Plan, whereby investors can invest as little as a one-off lump sum of R500 or R100 as a monthly contribution via a direct debit facility. The plan's objective, says Russell Loubser, executive president of the JSE, is to enhance liquidity by making it more accessible to the retail market.

The initiative will mute criticism offered worldwide by managed fund (unit trust) providers that ETF investments are not suitable to smaller retail investors because of high brokerage costs involved in regularly buying small ETF amounts.

Administration of the plan, which entails investing in units of Satrix 40, collecting distribution payments and reporting to clients, has been outsourced by IndexCo. Under the Satrix Investment Plan, the annual administration fee is 0.60%, the Marketable Securities Tax 0.25% and brokerage 0.10%.

Although the JSE has not yet undertaken a formal survey on the percentage of retail equity investors in the general population, brokers estimate that there may be up to one million retail investors, of whom fewer than 250,000 (less than 1% of the total population) are regarded as active on the JSE.

Resource dominated index

The Satrix 40 is based on the All Share Top 40 Companies Index, which accounts for 80% of the total JSE market capitalization of R1.4 trillion ($173.0 billion). There are 629 stocks listed on the JSE, with total daily turnover of R1.7 billion ($205 million).

The index is managed by the JSE in collaboration with the Actuarial Society of South Africa. Although the Satrix 40 is one of the JSE's top 40

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stocks, it is not included in the ALSI 40 index.

The JSE is regarded by global investors as a predominantly resource-based equity market, with 40% of total market capitalization coming from resource stocks.

In fact, it is the last resource-dominated equity market. Canada's and Australia's equity markets were also regarded as resource-based markets until the 1990s, when an increase in technology and financial services IPOs brought down the resource component in the two markets.

Liquid secondary market

The bid-ask spread in the Satrix 40 is typically two to three cents (eg, R8.28/8.31).

CorpCapital Bank and Gensec act as market makers, while warrants, futures and index options hedging activity using the ETF occurs.

South Africa has an active warrants market. Warrants worth R2.7 billion were traded in first quarter 2001, compared with R5.1 billion for the whole of 2000, according to the JSE. There are nearly 300 warrants listed—mostly call warrants from eight issuers.

Gensec Bank launched two warrants on the Satrix 40 within the first week of the ETF's launch. At present, there are some 15 warrants on Satrix 40 by the various issuers, including Gensec's successful "compound warrants," which are ranked as the 20th most liquid security on the JSE. Hedging of these warrants has increased liquidity in the ETF.

The country also has an active index futures contract listed by the South African Futures Exchange that sees daily volume of around 33,000 lots, making it the 11th most active index futures contract in the world by volume. In addition, Safex lists an index options contract with daily volume of 67,000 lots, making it the world's sixth most active index options contract by volume.

While some hedging activity occurs between the JSE and Safex markets, arbitrage activity between Satrix 40 and index futures is fairly limited owing to tax complications.

Besides the boost to trading in the ETF from increasing retail activity, there are also OTC equity-linked structured products offered by banks that use the ETF for hedging. As a result, liquidity on the Satrix 40 is relatively high for the JSE market, with annual turnover at nearly 100% of market capitalization ($330 million compared to $369 million), and even exceeds Hong Kong's TraHK.

The overall equity market is dominated by institutional fund managers and principal trading/derivatives-related trading activities of investment banks. One-fifth of JSE volumes comes from offshore investors, and less than 10% is sourced from retail investors.

The largest fund managers include Old Mutual, Sanlam, Rand Merchant Bank and Liberty Life, while major institutional investment banks include Merrill Lynch, Deutsche Bank, UBS Warburg, HSBC and JP Morgan.

The future

With the Satrix 40 ETF and related warrants being well received, further ETFs are likely to be introduced to help consolidate liquidity in the local markets.

The JSE, with its partners Gensec Bank and CorpCapital, is currently working on ETFs based on the Satrix Fini (financial) and Satrix Indi (industrial) indices. However, plans to list ETFs on overseas indices are on hold, as current central bank restrictions prevent equity products from being linked to foreign indices. These restrictions partly explain why the major ETF providers such as SSgA and BGI have not entered the South African market.

The JSE is wary of international competition from offshore exchanges such as London Stock Exchange, which has lured the primary listings of several large listed companies. The South African equities market had been kept out of the international financial community in the 1970s and 1980s because of the country's apartheid policies and its capital controls.

However, following the country's political changes, the South African equities market went through deregulation by the mid-1990s. Negotiated commission, corporate and foreign membership of the JSE, and electronic trading were introduced.

The developments were equivalent to London's mid-1980s "Big Bang." They sought to increase market liquidity, which had languished in the previous two decades.

Satrix 40 NAV

Creating an ETF: A primer

By Philip Scipio

The ETF market is beginning to get a bit crowded, but there's still plenty of room for new products provided that an enterprising financial services firm or investment advisor can find a suitable index on which to base the fund. In fact, that's the very first step.

An upstart ETF manager could opt to create its own index, choosing a list of its favorite companies for a basket that would trade on the public market as a single security. This model, however, is already occupied by Merrill Lynch, and there is some question whether it is available for use by others. Moreover, the model would also prevent any changes in the index after the product launch, and therefore the product wouldn't really be an ETF in the strictest sense.

> "Not anyone can come up with a crazy idea and turn it into an ETF"

Alternatively, a new manager could create an index, and base the ETF on that index with the intention of changing components occasionally and adjusting the weightings of components. But that would be more or less an actively managed ETF, which has not yet been approved by the Securities and Exchange Commission.

Although the SEC has done plenty of ground work on ETFs, the agency is still very cautious when it comes to approving an index that backs an ETF. "You could potentially create your own index for an ETF," says State Street Global Investors Principal Gus Fleites. "But the thing to be aware of is that not every index will be approved by the SEC as a viable index for these products."

Getting the license

A variety of tests need to be run on an index to make sure that it will qualify, says Fleites. Although ETFs receive a number of regulatory exemptions during the SEC approval process, they must meet certain special requirements, one being the choice of an index that will pass muster. "Not every Tom, Dick and Harry can come up with a crazy idea and turn it into an ETF—a few have tried," says Fleites.

Once the prospective ETF manager settles on an index he intends to use as the basis for the fund, he has to secure a license agreement, says Fleites. For a small upstart player, it's probably best to look for a niche where there aren't a vast number of similar products—media stocks, for example (where at press time no ETF existed). An upstart ETF provider interested in this area might then select the S&P Broadcast Media index. If the small firm can survive the S&P vetting process, a licensing agreement may follow.

"There are a number of things involved in the licensing process," says Jacqueline Meziani, director of global business development at the S&P. People should bring up a million things from legal jurisdiction to who's responsible for distribution of the data. But the first thing on the S&P's list of questions is, 'Is this a viable product that we would be attaching our name to? Is this a reputable firm?'

"Just as the SEC wants to know that the index isn't something created by someone in a basement or that the index is something created by a reputable firm with capabilities in place to operate the index, we want to know how reputable the firm is. To find out, we put them though a vetting process, especially if this is their first agreement with the S&P."

Meziani will not discuss the fee structure, noting that each agreement is different.

Given that S&P Broadcast Media index is unattached, should the upstart firm ask the S&P for an exclusive license agreement? Sure. "You can always try to get an exclusive," says Fleites. Actually getting one is another story. "It all depends on the value of the index," he says. "If the index provider thinks that it's a hot commodity, they will be reluctant to give an exclusive to somebody unless that exclusive is linked to some major promise of assets. In general, I would imagine that most indexers would be reluctant to offer an exclusive."

The exclusive is a strange thing, but it's not as big a deal as people think, says Meziani. "We typically don't do them," she says. "It's a really serious thing for us because things can happen in the future that you can't foresee."

After the license is secured, provided the vetting goes well, the next step is to create a file with the regulators, pretty much the same way one would do when launching a mutual fund, says Fleites. Getting a product through the SEC is still likely to take a least six months, even if it's a plain vanilla fund.

Getting help

Since Vanguard received approval for its first ETFs, there have been at least 16 new filings with the SEC for additional products from other providers. "Vanguard's entering the market has absolutely pulled others into the arena," says Robert Tull who runs the new ETF Services unit for the American Stock Exchange.

"We are focused on helping people who don't have a US infrastructure to pick the service providers, create product design and concept, and infrastructure support and operations support," says Tull.

People new to the ETF arena space want to know how to differentiate their products from other products that are currently trading, says Tull. They want to know what's needed on the investment manager side as well as on the infrastructure side in terms of the index information gathering and reporting process. They are also interested in the arbitrage mechanics and other structure that keep the trading units in step with the underlying index, he says.

The new unit is primed to suggest legal counsel, accountants and custodians and provide help designing marketing and sales brochures that are US compliant and developing the interface to link these various components. All of this—which will be addressed in the next issue—before the first share is purchased for the new ETF.

Specialist opinion

By Elise Coroneos

Rock Island Index Trading was formed in 1999 with a view to entering the ETF specialist business. Founder and chairman of Rock Island Co, Andrew Davis, and managing director of Rock Island Index Trading, Jonathan Peabody, believed their experience in applying mathematical arbitrage strategies at the Chicago Research and Trading Group provided them with valuable knowledge that would facilitate their success in the world of ETFs.

Part of the Rock Island Co, which has a total of three broker-dealers, Rock Island Index Trading is the specialist for a number of ETFs on the Chicago Stock Exchange. They are the DJIA Diamond (ticker: DIA); the S&P 400 Midcap SPDR (ticker: MDY); the nine sector SPDRs products, of which the predominant ETFs are the SPDR Energy (ticker: XLE), the SPDR Financial (ticker: XLF), and the SPDR Technology (ticker: XLK); and a significant number of the Merrill Lynch HOLDR products.

Rock Island Index Trading is a member of the Chicago Stock Exchange and a participant in the Index and Options Market of the Chicago Mercantile Exchange.

> "If they can save one penny for their customer, they will come to Chicago and do the business"

How do you create liquidity?

Davis: We are constantly, on a real time basis, measuring the theoretical value of ETFs versus all of their component pieces, versus all of their futures contracts, and other ETF products with close correlations. We are running statistical arbitrage and pure arbitrage, looking for liquidity by finding relative value from one instrument to another.

If we sell someone 500,000 financial sector SPDRs, it is not because we think they are going lower; it is because we have found another financial instrument we can buy at a small price advantage that allows us to offset our risk.

Peabody: The interesting aspect of the ETF business is the ability of the specialist to create liquidity independent of any particular market center.

How will competition intensify with the NYSE about to trade the SPDR, QQQ and Diamonds?

Davis: The competition between the exchanges manifests itself in terms of more advanced technology, lower-cost execution and higher automation. All three of these are particularly important in the ETF world, because one of the major reasons people use ETFs is they are looking for more efficient ways to invest and allocate capital into the equity markets.

The NYSE is proposing to do exactly what we do, which is to make competitive markets for ETFs whose primary listing is on the Amex. As the marketplace has evolved, interesting things have happened in terms of where customers have chosen to do business. For several of the Amex's leading products, they don't do the majority of the business. For the QQQ, the Amex trades around 40% of the total volume, with Chicago doing about 10% to 20% of the business and the rest of the volume being traded on emerging company exchanges.

We all wait with anticipation to see what type of impact the NYSE has on this market. They're a tough competitor, but this is a unique product, so we'll see what they bring to it.

How do you compete with the primary specialists?

Davis: Although the Amex dominates the ETF market in terms of primary listings, they do not always dominate in terms of volume traded. On the Chicago Stock Exchange, we have days when we trade about 80% of the volume for a particular ETF. Recently, one of the major hedge funds was seeking to invest in the financial sector of the marketplace. They bought approximately 10 million financial sector SPDRS that day, and about 50% of that volume was traded on the Chicago Stock Exchange.

Traditionally, brokerage firms route the orders, and customers don't know that much about where orders get executed. But in the ETF arena, where the customer who buys 10 million financial sector SPDRs is very sophisticated and price conscious, the broker-dealers acting as the agents for the hedge funds are scrupulous to check all the market centers to find the best price. If they can save one penny for their customer by buying 500,000 ETFs on the Chicago Stock Exchange because we are willing to sell an ETF at $37.40 versus $37.41 on the Amex, they will come to Chicago and do the business.

Peabody: We are very price competitive because we have to be. Because the Amex has been the leader in this business, we have to give people a reason to come to Chicago. We try to create that reason through speed and price competition.

A lot of the time, specialists in secondary markets allow price discovery to take place on the primary market. But given that we view our ability to create prices as being on par with the primary market specialists, we are prepared to perform price discovery. We proactively make prices—we are not a reactive.

How will you compete as a firm?

Davis: In terms of our basic deployment of product, we are not looking to do anything significantly different. We have considered market making operations in Europe and Asia, or just running our domestic operation into other time zones. However, at the moment, there doesn't seem to be enough demand from those other time zones to make that a worthwhile endeavor.

Do you think ETFs will keep growing at their current pace?

Davis: Because of the efficiency of the ETF market and growing interest from both financial advisors and individual investors, I would expect the ETF market to continue to grow at 50% a year over the next five years. There is no doubt in my mind that ETFs will grow at a much faster pace than mutual funds, so that gap will narrow.

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Exponential expansion

culates an 81.8% increase in options trading since February. All of which makes the CAC 40 a very liquid product.

The CAC 40 is by far Euronext's most popular ETF. In comparison, the AEX, Euronext's other national index that was introduced at the beginning of July *(ETFR, July 2001, page 12)*, does not yet have a rich trading history. Its volume is uneven, says Demarchi. It generally hovers around €600,000 ($523 million) per day, though it can spike to €30 million ($26.2 million). But she believes in its growth potential: It is, after all, a well-known and established index in Europe, and the Netherlands' key index, she says.

> "The CAC 40 represents about 51% of the total trading volume on Euronext"

National indices are the most attractive ones to European investors today because they are the most familiar, and the broader ones are the most popular. "Your average man or woman in the street knows about the CAC 40 in France or the AEX index in the Netherlands," says Demarchi. "It's similar to an American's awareness of the Dow Jones Industrial Average. Retail investors are beginning to want broader exposure, and so they turn to these indices."

Moreover, says Demarchi, the number of retail investors is increasing. "There are not many ways in which we can track whether an investment is retail or professional, but we can approximate it by the transaction size," she says. "And we see that smaller transaction sizes are increasing. When we looked at order flow product by product, it became apparent that the CAC 40, the AEX and the Euro Stoxx products are popular retail instruments. Also, online brokers, who are great supporters of these products, have told us they are seeing more and more retail investing in ETFs."

Interestingly, the Dow Jones Industrial Average Master Unit is doing "pretty well," she says. "It's among the four or five products that are trading the most." Investors across Europe are aware not only of the key national indices, such as the AEX, the CAC 40 and the DAX, but also of the DJIA and, potentially, the Nasdaq 100, she says. The DJIA is on TV and radio and in the newspapers everyday.

Euronext (at press time) lists 18 ETFs, nine of which trade in Paris, and 11 in Amsterdam. (The LDRS, based on the Euro STOXX 50 and STOXX 50, are listed in both Amsterdam and Paris.) In addition to the ETFs based on national indices, there are also a pan-European sector product, pan-European blue chip products (such as the Euro Stoxx 50) and global international products (such as the DJIA Master Unit and the Dow Jones Global Titans).

Four new iBloomberg ETFs, which were listed mid-July on the Amsterdam platform, are all based on pan-European sector indices: cyclicals, industrials, resources and staples. They complement the four existing ones that were listed on Euronext Amsterdam in mid-February: telecom, technology, financial and pharmaceutical.

"Hopefully, we will be launching 30 more between now and year's end," says Demarchi. Of those 30, she discusses the 15 that are imminent. In late summer, State Street Global Advisors will introduce 12 StreetTracks *(ETFR, May 2001, page 10)* on Euronext based on MSCI indices. In addition, Indexchange will launch two products already trading in Germany, Euro Stoxx 50 and Stoxx 50, which will soon be listed on Euronext Paris.

Finally, Demarchi hopes to list an ETF based on a socially responsible investment index within the next few weeks. This ETF, the first of its kind, will probably be based on an ARESE SA (the Social and Environmental Rating Agency) index, she says. Paris-based ARESE SA issues guidelines on socially responsible investments, and has designed an index calculated by Stoxx.

Of the ARESE Sustainable Performance Index series, the ASPI Eurozone, which tracks Eurozone financials, went live in July 2001. Over the next 12 months, the ASPI Eurozone will be followed by country, pan-European and global indices, all of which will use a Dow Jones STOXX index as the relevant financial benchmark.

Looking to the fourth quarter, Demarchi says that among the projected 15 ETFs, three will be based on FTSE indices, including the FTSE 100, the FTSE Euro 100, the FTSE Euro and the FTSE Global.

One pan-Euro platform

As Euronext continues to implement its NSC trading system (which has been used since 1994 in Paris) and Clearing 21 system, ETF launching and trading will be consolidated. Euronext Paris implemented NSC at the end of April, Brussels did so in mid-May, and Amsterdam will follow in October. Recently, Euronext announced the addition of the Portuguese Exchange to Euronext; and although it does not currently trade ETFs, it may theoretically do so in the future, as well as adopt the NSC trading system, says Demarchi.

What this means is that, regardless of an ETF's entry point, all ETFs will be traded side by side on the same electronic platform, thereby facilitating the listing and clearing processes as well as the trading of product. Once the adoption of the NSC platform is complete, trading fees will be uniform, but taxes will remain dependent on the investor's resident country.

Total weekly turnover on NextTrack

Source: Euronext

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Battling the Big Board

man Richard Grasso said the addition of those products to the Big Board would open them to the deepest pool of liquidity in the world and enhance their desirability to both institutional and retail customers. At present, the average trading volume of the QQQ is nearly 30 million shares, of the SPDR more than 6 million shares and of the Diamond close to 2 million shares. The trading volume in the NYSE's own iShares S&P Global 100, by contrast, averages about 30,000 shares.

> "They are just another exchange joining the fray"

Liquidity fragments

It is still unclear whether the NYSE, when it begins trading these three products, will bring more volume or simply splinter the volume further, taking activity from the Amex and Chicago exchange as well as other electronic trading venues.

Although SSgA was not consulted by the NYSE regarding the exchange's decision to trade the SPDR, the additional trading venue could be beneficial for the product, according to the firm's Gus Fleites.

The more access people have to it, the better the chance for more liquidity, says Fleites. "It's just a further distribution for the product I don't think we have an issue with." At the same time, however, "you don't want liquidity fragmented too much by having shares trade on different exchanges as opposed to having one centralized liquidity in one place where there's better access to pricing."

According to an NYSE spokesman, the exchange has a three-pronged approach for establishing itself in the ETF market place. It will focus on "organic" creation of ETFs, that is, ETFs that originate on the exchange like the iShares S&P Global 100. And although the NYSE has never used unlisted trading privileges prior to this year, it will further take advantage of that option to gain a foothold into the ETF marketplace. So far, three-quarters of the ETFs the NYSE trades are traded through UTP. Finally, the exchange will encourage existing products to list.

Old feuds

The number of companies listed on the Amex has stabilized and even been on the rise in recent years. But the NYSE has a long history of luring the Amex's most prized listings off the exchange. The last of these included Viacom, The New York Times Co and Hasbro. Those departures served to highlight the prestige of an NYSE listing and at the same time, gave the impression that the Amex was on its last legs, says Patrick Healy, president of The Issuer Network, a consulting firm that advises public companies on where to list their stock. The NYSE can be very persuasive in making its pitch, says Healy.

And that might soon be true for ETFs as well.

According to Fleites, the NYSE has not contacted SSgA about switching the listings of any of its ETF products from the Amex to the Big Board, and the firm will not "in the foreseeable future" change the listings, he says. However, as SSgA creates new products, it will look at all the alternative exchanges to see what makes sense. The firm, says Fleites, doesn't currently have any plans to list any new products.

New threats

Despite the history of cutthroat competition between the exchanges, Amex vice president Bob Rendine doesn't give much weight to the potential threat of the NYSE trading its top ETFs. "I can't get into discussions about what effect they are going to have," he says. "We do a pretty good business over here. The NYSE has merely joined a peer group of other exchanges like the Boston, Pacific and Chicago that trade these products using UTP. The effect on our product so far has been very minimal; we're holding our own. They are just another exchange joining the fray."

"We remain the central ETF listing exchange," says Robert Tull, vice president of new product development at the Amex. Tull has been tapped to lead Amex ETF Services, a new business unit created to leverage the exchange's leadership in the industry and to pursue new opportunities. The timing of the unit's launch relative to the NYSE's ETF push is merely coincidental, says Tull. The exchange has been working on the business model for the new unit since late last year.

Tull, previously a managing director at Deutsche Bank, was instrumental in developing ETFs at DB and Morgan Stanley.

There is a cachet associated with being listed on the NYSE, but that has been true largely for listed companies. The same doesn't hold true for options and other products like ETFs, which the NYSE has tried in the past to list only to later abandon those efforts.

As it stands, the Amex is still in the center of the ETF universe. The value of assets in Amex-listed ETFs has grown to about $80 billion—up from $70 billion at the end of 2000. Average daily composite volume of Amex ETFs increased to 91 million shares, from 46 million shares at end-2000.

New ETFs entering the market will likely continue to be drawn to the type of energy that surrounds those products on the Amex unless managers see a compelling reason to list elsewhere. For the first three months of trading the big three ETFs, the NYSE says, it will wave fees associated with trading the products on the exchange.

It is not inconceivable that the exchange will offer sweetheart deals to lure other ETFs away from the Amex. According to the NYSE spokesman, no such deals have been made for Amex listed ETFs—yet. He acknowledges that the exchange has been very competitive in the past and will continue to be competitive going forward.

For its part, the Amex intends to keep its eye on its franchise by heightening the services it offers to existing ETFs and helping new programs through the process. "There are filings pending for enhanced ETF products, leveraged index products and debt index products," says Tull.

Japanese ETFs launch in Tokyo and Osaka

Five ETFs sponsored by three Japanese firms tracking home-grown indices launched in mid-July on the Tokyo Stock Exchange and the Osaka Securities Exchange. Two ETFs based on the Nikkei Stock Average 225 and sponsored by Nomura Asset Management Co and Daiwa Asset Management Co will trade on the OSE. Two other Nomura/Daiwa-sponsored ETFs based on the Topix, Japan's S&P 500 equivalent, will trade on the TSE. The fifth ETF, which will track the Nikkei Stock Average 225, will trade on the TSE; it is sponsored by Nikko Asset Management Co.

Concurrently, the Financial Services Agency, Japan's regulatory body, also approved US-sponsored ETFs based on Japanese indices. Barclays Global Investors will launch two ETFs: one based on the Nikkei Stock Index 300 and the other on the S&P/Topix 150. And State Global Advisors will launch two ETFs: one based on the Nikkei Stock Average 225 and the other on the Topix. These four are expected to trade on the TSE and to be launched shortly.

Nomura and Daiwa will not charge administration fees to holders of ETF accounts. BGI and SSgA have yet to determine the fees for their ETFs. The new products will be launched as part of the emergency economic package announced by the Japanese government in April as part of its attempt to revitalize the Japanese stock market.

Bank of New York to launch ETFs

The Bank of New York filed an exemptive application in May with the Securities and Exchange Commission to list seven ETFs based on the bank's ADR indices. The proposed ETFs will not focus on specific countries, but rather on themes, such as developed or emerging markets and regional Euro largecap, according to Joe Keenan, vice president of worldwide ETF product development for the Bank of New York.

Interestingly, these indices are not composed exclusively of BONY issues; they also include JP Morgan and Citibank issues. Keenan said that the indices are divided fairly equally among the three banks because each index is market cap driven and many international companies have spread their business among the various players.

Similar to all other ETFs, these proposed BONY products will offer broad exposure at a relatively nominal expense. And compared with other ETFs offering international exposure, these will probably have a cost advantage because they will trade US securities.

BGI rolls out three more ETFs

Barclays Global Investors has begun trading three new iShares on the Amex: iShares Russell Midcap Growth Index Fund (ticker: IWP), iShares Russell Midcap Growth Index Fund (ticker: IWP) and iShares Russell Midcap Value Index Fund (ticker: IWS). These three ETFs follow hard on the heels of three launched on the Amex, which track the Goldman Sachs networking, semiconductor and software indices; the tickers are IGN, IGW and IGV, respectively.

The iShares Russell fund series now totals 12, which also include funds that track the Russell 1000, Russell 2000 and Russell 3000 indices, along with each of their corresponding value and growth indices. Watner Stott Bear Specialist, LLC, will be specialists for the new products.

The Russell Midcap, a capitalization-weighted index, consists of 800 of the smallest companies in the Russell 1000; the Russell Midcap Growth Index (a subset of the Russell Midcap) comprises the midcap growth sector of the US equity market—about 50% of the total market cap of that index; and the Russell Midcap Value Index (also a subset of the Russell Midcap) encompasses the midcap value sector of the US equity market and also represents about 50% of the Russell Midcap.

CBOE launches new S&P 100 option

The Chicago Board Options Exchange has just launched XEO, a new S&P 100 Index option. XEO has European-style exercise options, which means the option may be exercised only during a specified period just prior to expiration. XEO will be cash settled, and may be exercised only at expiration. CBOE created XEO in response to customer requests for an S&P 100 Index option that does not carry the possibility of early assignment.

NYSE sweetens the deal

The New York Stock Exchange will waive all fees when it begins unlisted trading in the top three ETFs—QQQ, Spider and Diamonds—on July 31. The NYSE will not charge transaction fees to any constituent for the first three months of trading. Specialist firms will also waive commissions during this period. After three months, customer agency trades are expected to remain free of exchange transaction charges, while member firm proprietary trades and specialists are expected to be subject to competitive exchange fees.

In response, the American Stock Exchange, which now trades the most ETFs worldwide, is officially reevaluating its ETF fee structure, according to an Amex spokesman. However, ETF sources said that the Amex has already agreed to suspend its fees for the top three funds, and will begin doing so shortly.

Specialist Spear, Leeds & Kellogg will make markets in QQQ for the NYSE, and Bear Hunter Structured Products Trading will do so for the Spider and Diamonds.

Chinese ETF to trade in NY next year

The FTSE/Xinhua China 25 Index launched its US dollar-denominated version on the NYSE at the end of the June. FTSE/Xinhua Index Ltd, the joint venture company created by FTSE and Xinhua Financial Network, is currently seeking a sponsor for an ETF based on the US version of the index; two potential sponsors have emerged, according to sources. The goal is to list the ETF on the NYSE in the first quarter of 2002.

The calculation of the US dollar version will be based on the ADR prices for the index constituents co-listed in the US on the NYSE, utilizing proprietary FTSE methodology. Ten component companies representing 49% of the index's market cap were listed on the NYSE as of April 5.

The constituents are classified by sector definitions of the FTSE Global Classification System, and are adjusted for free float and subject to liquidity screens. The index is capped so that no individual company is excessively weighted, and funds tracking the index comply with European and 12▶

◀11 North American market regulations.

Local Indian ETF set to start

An ETF based on the National Stock Exchange of India S&P CNX "Nifty" 50 Stock index is to be launched by Benchmark Asset Management, a new Indian funds management company. But Sanjay Malik, head of derivatives at broker eMecklai, thinks success for Indian ETFs will be limited, at least for now. "In an emerging market like India, the best opportunities will still be stock specific and not the index, which over the long term has provided negative returns," he said.

The Unit Trust of India, one of India's largest funds managers, announced plans last November to launch India's first ETF based on the Bombay Stock Exchange's 30-stock Sensex index. However, the *Economic Times* reports that the product is being reworked on a daily rolling settlements basis, instead of the weekly settlement that was initially mooted.

After the IPO, the minimum lots in Benchmark's ETF will be 10,000 units, with each unit representing 1/10th of the Nifty value. The scheme will operate as an open-end fund available for sale and repurchase daily. The total expense ratio is to be 0.7% for a fund $22 million. Benchmark will outsource its custody, fund accounting, and registrar and transfer agency functions to ABN-AMRO Bank, according to the *Economic Times*.

Vanguard plans second VIPER

The Vanguard Group plans to launch its second ETF shortly, pending Securities and Exchange Commission approval. The firm filed an amendment with the SEC on June 29, seeking to add a class of VIPERs (Vanguard Index Participation Equity Receipts) to its Extended Market Index Fund, which will track the Wilshire 4500 Completion Index. The new VIPER will be the only ETF in the industry to track the Wilshire 4500 Completion Index.

The Extended Market Index Fund, which was introduced in 1987, tracks the Wilshire 4500 Completion Index of small- and midcap stocks; it includes all the stocks in the Wilshire 5000 Index, minus those in the S&P 500. On May 31, Vanguard launched its first ETF (ticker: VTI) tracking the Wilshire 5000 Index. VTI has an expense ratio of 15 basis points, making it one of the cheapest ETFs on the market.

Vanguard had originally planned to roll out its VIPERs in May 2000, some of which were based on Standard & Poor's indices. But Vanguard and S&P became locked in a legal dispute that effectively stymied the VIPERs launch for one year and halted Vanguard's plans to launch ETFs based on the S&P 500 and other S&P indices. The lawsuit was settled at the end of April 2001.

Barclays offers three Goldman ETFs

Barclays Global Investors has rolled out three more ETFs: iShares Goldman Sachs Networking Index Fund, iShares Goldman Sachs Semiconductor Index Fund and iShares Goldman Sachs Software Index Fund. The new ETFs, which will trade on the Amex, will increase BGI's inventory of ETFs to 64. As of May 25, BGI's ETFs had some $10.3 billion in assets.

Europe: A bird's eye view

By Marsha Zapson

As ETFR goes to press, 38 discrete ETFs are trading in Europe, with about $2.9 billion invested across all, according to Deborah Fuhr, vice president and head of ETFs for Morgan Stanley & Co International Ltd. Consider that last year Europe had but six, and the growth of its market is impressive.

In fact, 54 ETFs are listed and trading in Europe, because many of those 38 are traded on multiple exchanges, says Fuhr. And that number will soon increase. The next wave of Europe-based products will be launched in September, including State Street Global's MSCI sectors and Merrill Lynch's FTSE Global sectors, she says.

Of the seven most actively traded ETFs, EuroStoxx—because of the number of EuroStoxx products—heads the list. The DJ Euro Stoxx 50 has $530 million in open interest, the Master Share CAC about $388 million, Xmtch on SMI about $388 million, the Master DJ Euro Stoxx about $232 million, the DAX EX about $202 million, the DJ Stoxx 50 about $193 million and the FTSE 100 about $178 million, says Fuhr.

Five European exchanges trade ETFs: Euronext Amsterdam has two primary listings and 12 total that are trading, the Deutsche Börse 16 primary and 16 trading, the London Stock Exchange 11 primary and 13 trading, Euronext Paris seven primary and nine trading, the Swiss Exchange one primary and three trading, and the Swedish Exchange one and one.

Interestingly, the QQQ and the Spider are trading in Europe. Although they are not technically exchange listed, they are priced on European exchanges and trade in euros, says Fuhr. The Spider was launched on January 24 in Munich, and the QQQ was launched in Stuttgart on January 24 and on the LSE on June 11.

Fuhr compares the cross-listing of QQQ and Spider to the iShares trading in Singapore. In both cases, the ETFs trade unofficially, thereby neatly skirting country-specific prohibitive regulations, says Fuhr. In Europe, for example, US mutual funds can be listed but not marketed.

The average volume—and there are many days when the QQQ and Spider don't trade—since launch for the QQQ on the LSE is 100, and in Stuttgart, it's 702; and for the Spider, it's 69. The one that has the most trading and consistency of trading is Stuttgart, says Fuhr. The QQQ trades there almost everyday, whereas the others are pretty sporadic.

Clearly, innovation in ETFs and investment management in general is shifting to Europe, says Jim Pacetti, principal of New York-based ETF International Associates Inc. "Europe could potentially surpass the US in ETF assets if the products catch on at the retail level for the various retirement schemes."

And because of retrenchments in the American economy, US sponsors are not looking to spend capital in developing US ETFs, he says. In comparison, European sponsors do have resources and can launch product in three to six months. "In Europe, the regulatory scheme is more conducive to product development," says Pacetti. "Sponsors can get the product out quickly without incurring a high burn rate."

According to Fuhr and others based in Europe, retail investing is on the rise. Sponsors, broker-dealers and the like are all noting increased retail interest, in part because ETFs can be bought in small quantities or incorporated into retirement accounts.

EXCHANGE-TRADED FUNDS
Week ending July 20 2001

Major market indices

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
Nasdaq 100 Index Tracking Stock	QQQ	24 910 140	534 950	22 350.21	41.65	41.78	(0.31)	(3.48)	(28.65)	(57.20)
S&P 500 SPDR	SPY	5 448 720	245 527	29 809.43	121.34	121.42	(0.07)	(0.74)	(7.01)	(16.93)
DJIA Diamonds	DIA	896 280	24 001	2 540.27	105.80	105.84	(0.04)	0.11	(0.26)	0.27

iShares Dow Jones series

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares DJ US Basic Materials	IYM	2 180	350	13.86	39.77	39.94	(0.43)	0.89	2.13	
iShares DJ US Chemicals	IYD	4 920	400	16.99	43.35	42.99	0.84	2.60	0.10	
iShares DJ US Consumer Cyclical	IYC	3 980	600	35.83	59.55	59.50	0.08	(1.13)	7.00	(4.92)
iShares DJ US Energy	IYE	14 040	1 100	54.19	48.22	48.21	0.02	(1.99)	(11.83)	4.50
iShares DJ US Financial	IYF	4 680	800	66.59	83.42	83.71	(0.35)	(0.87)	(3.65)	12.36
iShares DJ US Financial Services	IYG	900	400	38.23	95.21	95.84	(0.66)	(0.82)	(3.13)	9.63
iShares DJ US Healthcare	IYH	13 440	2 200	136.60	61.65	61.76	(0.18)	2.54	(14.07)	(2.72)
iShares DJ US Industrial	IYJ	800	950	49.50	51.70	51.83	(0.25)	(1.05)	(8.30)	(15.93)
iShares DJ US Internet	IYV	20 380	1 050	16.47	15.89	15.84	0.32	(9.20)	(48.59)	(78.34)
iShares DJ US Non-Consumer Cyclical	IYK	2 420	450	18.83	41.60	41.84	(0.57)	1.07	(3.79)	(1.38)
iShares DJ US Real Estate	IYR	16 420	800	65.51	81.81	82.08	(0.33)	0.11	9.08	17.03
iShares DJ US Technology	IYW	14 200	1 750	98.47	57.00	57.10	(0.18)	(3.06)	(23.55)	(55.92)
iShares DJ US Telecommunications	IYZ	7 040	1 450	54.55	37.94	38.07	(0.34)	1.17	(1.90)	(36.64)
iShares DJ US Total Market	IYY	6 560	1 150	64.47	56.11	56.22	(0.20)	(0.12)	(8.37)	(18.63)
iShares DJ US Utilities	IDU	1 360	550	41.78	77.84	77.90	(0.08)	(1.23)	(11.14)	13.54

iShares MSCI series

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares MSCI-Australia	EWA	21 760	6 200	58.22	9.46	9.39	0.75	0.11	(0.42)	(8.57)
iShares MSCI-Austria	EWO	1 800	1 400	11.54	8.25	8.25	0.00	3.77	9.08	5.37
iShares MSCI-Belgium	EWK	160	840	9.86	11.60	11.76	(1.36)	1.93	(9.02)	(13.89)
iShares MSCI-Brazil	EWZ	2 160	1 250	16.26	12.66	12.91	(1.94)	1.61	(23.27)	
iShares MSCI-Canada	EWC	6 780	2 700	29.97	11.20	11.10	0.90	(1.75)	(16.26)	(29.90)
iShares MSCI-EMU	EZU	9 400	1 600	92.16	58.34	57.72	1.07	0.36	(20.35)	
iShares MSCI-France	EWQ	8 900	3 201	61.65	19.21	19.29	(0.41)	(0.72)	(22.19)	(29.31)
iShares MSCI-Germany	EWG	32 360	7 801	125.91	16.09	16.22	(0.80)	(0.68)	(17.49)	(28.04)
iShares MSCI-Hong Kong	EWH	17 220	5 926	57.72	9.72	9.74	(0.21)	(2.11)	(15.48)	(27.81)
iShares MSCI-Italy	EWI	2 520	1 950	34.36	17.51	17.65	(0.79)	0.06	(22.61)	(26.65)
iShares MSCI-Japan	EWJ	261 480	58 201	555.82	9.56	9.52	0.42	(2.35)	(13.59)	(29.50)
iShares MSCI-Malaysia	EWM	17 780	16 050	77.52	4.60	4.83	(4.76)	2.22	(9.15)	(24.77)
iShares MSCI-Mexico	EWW	21 600	2 500	38.88	15.65	15.48	1.10	1.29	17.55	(5.06)
iShares MSCI-Netherlands	EWN	2 440	1 301	24.13	18.45	18.59	(0.75)	(1.86)	(18.68)	(23.58)
iShares MSCI-Singapore	EWS	13 320	9 900	50.19	4.97	5.08	(2.17)	(3.31)	(23.54)	(32.15)
iShares MSCI-South Korea	EWY	7 100	1 800	22.99	12.86	12.76	0.78	(1.83)	4.98	(37.27)
iShares MSCI-Spain	EWP	3 260	1 275	26.05	20.49	20.49	0.00	2.45	(10.67)	(19.47)
iShares MSCI-Sweden	EWD	1 180	825	10.68	12.80	12.93	(1.01)	(2.07)	(28.39)	(50.05)
iShares MSCI-Switzerland	EWL	5 700	2 501	33.34	13.40	13.35	0.37	2.92	(20.30)	(15.41)
iShares MSCI-Taiwan	EWT	41 700	10 450	88.72	8.53	8.50	0.35	(7.28)	(19.25)	(49.76)
iShares MSCI-UK	EWU	60 300	7 801	118.34	15.22	15.14	0.53	(0.98)	(13.65)	(17.10)

iShares Russell series

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares Russell 1000	IWB	37 720	4 350	277.57	64.12	64.01	0.17	0.00	(8.20)	(17.96)
iShares Russell 1000 Growth	IWF	46 240	7 300	392.81	53.68	53.89	(0.39)	(1.31)	(16.83)	(39.54)
iShares Russell 1000 Value	IWD	73 320	7 650	447.53	58.61	58.80	(0.32)	(0.17)	(1.74)	7.30
iShares Russell 2000	IWM	160 960	12 900	1 254.40	97.00	97.15	(0.15)	(0.82)	1.82	(5.53)
iShares Russell 2000 Growth	IWO	95 440	5 200	308.10	59.40	59.26	0.24	(1.57)	(7.40)	
iShares Russell 2000 Value	IWN	80 560	3 650	462.71	126.80	126.54	0.21	0.48	10.54	
iShares Russell 3000	IWV	18 340	11 300	754.05	67.09	66.92	0.25	0.15	(7.00)	(17.03)
iShares Russell 3000 Growth	IWZ	10 320	500	21.54	43.15	43.08	0.16	(0.96)	(16.57)	
iShares Russell 3000 Value	IWW	2 520	500	37.37	74.79	74.73	0.08	(0.13)	(1.70)	
iShares Russell MidCap Index	IWR		2 150							
iShares Russell MidCap Growth Index	IWP		2 150							
iShares Russell Midcap Value Index	IWS		2 150							

iShares Sectors

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares Nasdaq Biotech	IBB	104 180	1 800	158.47	86.65	86.84	(0.22)	(2.64)		
iShares Cohen & Steers Realty Majors	ICF	1 660	500	42.31	84.75	84.76	(0.01)	0.53		
iShares GS Networking	IGN	20 120	2 150	80.56						
iShares GS Semiconductor	IGW	102 240	2 150	151.68						
iShares GS Software	IGV	12 200	2 150	101.03						

iShares Sectors *(continued)*

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares GS Technology	IGM	30 260	2 200	118.87	54.09	54.03	0.11	(4.83)		
iShares GS Consumer Industries	Launch date to be announced									
iShares GS Cyclical Industries	Launch date to be announced									
iShares GS Financials	Launch date to be announced									
iShares GS Healthcare	Launch date to be announced									
iShares GS Natural Resources	Launch date to be announced									
iShares GS Utilities	Launch date to be announced									

iShares S&P series

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares S&P 500	IVV	141 880	21 600	10 500	121.25	121.39	(0.12)	(0.61)	(7.23)	(17.06)
iShares S&P 500/Barra Growth	IVW	20 020	4 000	243.32	60.85	60.83	0.03	0.23	(10.61)	(32.97)
iShares S&P 500/Barra Value	IVE	25 240	7 100	2 800	60.48	60.42	0.10	(1.10)	(3.95)	2.18
iShares S&P MidCap 400	IJH	23 060	3 100	316.05	101.92	101.94	(0.02)	0.09	(0.92)	2.03
iShares S&P MidCap 400/Barra Growth	IJK	18 040	950	108.59	114.42	114.29	0.11	0.95	(7.61)	
iShares S&P MidCap 400/Barra Value	IJJ	12 840	2 000	180.62	90.45	90.31	0.16	(0.23)	6.38	
iShares S&P SmallCap 600	IJR	94 520	3 800	428.68	112.99	112.81	0.16	0.26	4.76	8.17
iShares S&P SmallCap 600/Barra Gwth	IJT	4 640	650	49.03	75.53	75.43	0.13	(0.34)	(3.65)	
iShares S&P SmallCap 600/BarraValue	IJS	17 100	1 850	155.92	84.30	84.28	0.02	0.58	9.83	
iShares S&P 100 Index Fund	OEF	38 320	3 850	241.90	62.64	62.84	(0.32)	(0.38)	(8.93)	
iShares S&P Global 100 Index Fund	IOO	27 180	900 000	55.04	61.19	61.15	0.07	(0.02)	(11.70)	
iShares S&P Europe 350 Index	IEV	19 520	2 950	178.15	60.67	60.40	0.45	(0.54)	(20.14)	

iShares Fixed Income

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
iShares 1-3 Year Treasury Index	Launch date to be announced									
iShares 7-10 Year Treasury Index	Launch date to be announced									
iShares 20+ Year Treasury Index	Launch date to be announced									
iShares Treasury Index	Launch date to be announced									
iShares Government/Credit Bond Index	Launch date to be announced									

Merrill Lynch HLDRs

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
HOLDRS Biotech	BBH	732 800	11 650 600	1 605.45	117.75			0.99	(30.86)	(37.37)
HOLDRS Broadband	BDH	98 760	8 477 700	158.70	19.88			(4.42)	(56.35)	(79.63)
HOLDRS B2B Internet	BHH	60 040	14 853 300	82.29	4.98			(14.43)	(72.04)	(89.84)
HOLDRS Europe 2001	EKH	2 860	491 900	35.37						
HOLDRS Internet	HHH	98 280	4 578 600	206.36	40.75			(6.21)	5.30	(65.27)
HOLDRS Internet Architecture	IAH	39 500	3 538 900	147.15	39.61			(4.97)	(31.14)	(60.33)
HOLDRS Internet Infrastructure	IIH	54 880	8 400 900	92.91	8.28			(16.36)	(62.58)	(87.00)
HOLDRS Market 2000	MKH	18 700	3 539 900	238.38	65.86			(0.17)	(12.49)	
HOLDRS Oil Services	OIH	661 240	2 820 000	214.26	64.10			2.15		
HOLDRS Pharmaceutical	PPH	106 220	5 397 500	560.26	99.90			5.10	(11.90)	4.60
HOLDRS Regional Bank	RKH	6 220	1 190 000	141.55	116.97			(0.96)	(1.39)	21.58
HOLDRS Retail	RTH	13 920	602 400	59.04						
HOLDRS Semiconductor	SMH	1 313 520	13 106 800	577.35	44.60			(2.30)	(8.98)	(50.24)
HOLDRS Software	SWH	121 640	3 373 800	185.19						
HOLDRS TeleBras	TBH				42.08			5.49	(40.96)	(56.97)
HOLDRS Telecommunications	TTH	55 080	6 828 100	335.26	52.90			1.34	(0.06)	(27.60)
HOLDRS Utilities	UTH	40 840	3 539 800	363.75	104.62			(2.68)	(12.36)	14.94
HOLDRS Wireless	WMH	21 060	1 598 200	96.76	64.07			0.74	(22.94)	

Nuveen

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
America's Fastest Growing Companies	Launch date to be announced									
FITRs (Fixed Income Trust Receipts)	Launch date to be announced									

New York Life Investment Managers

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
TechIES (Pacific Exchange Tech 100)	Launch date to be announced									

S&P Depositary Receipts (SPDRs)

Fund Name	Ticker	Volume	Shares (000)	Net assets ($ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
S&P 400 MidCap SPDR	MDY	717 320	45 450	4 253.67	93.45	93.60	(0.16)	0.01	(0.61)	2.23
SPDR Basic Industries	XLB	22 460	4 700	104.90	22.38	22.31	0.31	(0.04)	5.39	16.99
SPDR Consumer Services	XLV	6 720	4 050	116.15	28.83	28.68	0.52	(1.13)	5.86	(1.91)
SPDR Consumer Staples	XLP	21 440	9 750	245.31	25.28	25.17	0.44	4.03	(10.96)	6.10
SPDR Cyclical/Transportation	XLY	25 940	4 950	144.05	29.15	29.10	0.17	1.71	14.36	6.47
SPDR Energy	XLE	222 360	8 200	243.38	29.66	29.69	(0.10)	(0.03)	(9.96)	4.02
SPDR Financial	XLF	112 520	26 101	726.13	27.83	27.82	0.04	(1.10)	(5.31)	8.92
SPDR Industrial	XLI	9 140	2 550	74.51	29.25	29.22	0.10	0.86	(5.95)	(1.36)
SPDR Technology	XLK	288 780	41 800	1 098.92	26.30	26.29	0.04	(3.80)	(16.01)	(52.13)
SPDR Utilities	XLU	17 820	2 500	77.73	31.10	31.08	0.06	(1.68)	(5.01)	15.17

Fund Name	Ticker	Volume	Shares (000)	Net assets (million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
streetTRACKS (State Street Global Advisors)										
Dow Jones series										
DJ Global Titans	DGT	3 160	300	20.85	69.55	69.51	0.06	0.07	(9.05)	
DJ US Large Cap Growth	DSG	6 980	100	7.33	73.50	73.30	0.27	(1.41)	(8.55)	
DJ US Large Cap Value	DSV	460	200	25.89	129.67	129.46	0.16	1.38	11.33	
DJ US Small Cap Growth	ELG	540	400	23.34	58.39	58.34	0.09	(0.78)	(20.10)	
DJ US Small Cap Value	ELV	4 220	300	39.14	130.50	130.48	0.02	0.73	(3.59)	
Sectors										
FORTUNE 500	FFF	3 220	550	47.71	86.74	86.75	(0.01)	0.10	(5.60)	
FORTUNE e-50	FEF	440	400	14.85	36.50	37.12	(1.67)	(7.01)	(26.63)	
MS High Tech 35	MTK	1 060	1 250	67.51	53.82	54.00	(0.33)	(4.40)	(19.97)	
MS Internet	MII	380	350	5.62	16.25	16.06	1.18	(8.45)	(41.70)	
Wilshire REIT Index Fund	RWR	800	150	17.98	119.60	119.91	(0.26)	0.95		
VIPERS (Vanguard)										
VIPERS Total Stock Market	VTI	27 620	1 123	124.53	110.97	110.90	(0.06)	(0.47)		
VIPERS Index	VFINX	Launch date to be announced								
VIPERS Small(Cap	NAESX	Launch date to be announced								
VIPERS Growth	VIGRX	Launch date to be announced								
VIPERS Value	VIVAX	Launch date to be announced								
International Exchange-Traded Funds										
Australia (AUD denominated)										
streetTRACKS ASX S&P 200/S&P 50	Launch date to be announced									
Canada (CAD denominated)										
iUnits S&P/TSE 60 Index	XIU		93 809	4 138.95	44.15	44.12	0.07	(1.34)	(16.14)	(32.19)
iUnits S&P500 RSP	XSP		1 294	24.16	18.70	18.67	0.16	(0.27)	(4.35)	
iUnits S&P/TSE Capped 60 Index	XIC		5 333	260.21	48.75	48.79	(0.08)	(1.22)	(3.55)	
iUnits S&P/TSE Canadian MidCap	XMD		1 511	48.14	48.05	48.14	(0.19)	(0.21)	(6.97)	
iUnits S&P/TSE Canadian Energy	XEG		1 500	39.02	26.00	26.01	(0.04)	0.19	(1.55)	
iUnits S&P/TSE Canadian Financials	XFN		1 524	42.79	28.05	28.08	(0.11)	0.54	9.20	
iUnits S&P/TSE Canadian Gold	XGD		1 698	53.97	31.85	31.78	0.22	3.58	23.25	
iUnits S&P/TSE Canadian IT	XIT		1 948	17.89	9.20	9.18	0.22	(5.64)	(12.38)	
SSgA DJ Canada 40 Index	DJF	840	4 738		46.40			1.51		
TD TSE 300 Capped Index Fund	TCF	106 522			29.45			0.78		
TD TSE 300 Index Fund	TTF	8 463			25.14			2.43		
Fixed income										
iUnits Canada 5-year Govt Bond	XGV		2 868	77.29	27.05	26.95	0.37	1.12	2.47	
iUnits Canada 10-year Govt Bond	XGX		2 838	72.90	25.75	25.68	0.27	1.38	0.34	
Europe (Euro denominated unless otherwise specified)										
Deutsche Börse										
DAXEX	DAXEX		2 820	161.77	57.53	57.68	(0.26)	(1.87)		
DJ Stoxx 50 LDRS	EUN1	44 822	5 800	221.64	38.24	38.27	(0.08)	(0.86)	(8.06)	(12.76)
DJ Euro Stoxx 50 LDRS	EUN2	46 419	15 500	617.84	39.56	39.90	(0.85)	(1.19)	(8.50)	(14.08)
MDAX	MDAX		199	9.19	46.21	46.35	(0.30)	(0.68)		
NEMAX	NMKX		2 351	26.01	11.15	11.18	(0.27)	(1.15)		
SMI	SMIE		100	6.94	45.64	46.12	(1.04)	0.55		
DJ Stoxx 50 Ex	SX5P	1 703	3 268	124.48	38.21	38.23	(0.05)	(0.67)		
DJ Euro Stoxx 50 Ex	SX5E	69 081	3 140	124.53	39.60	39.86	(0.65)	(1.22)		
DJ Stoxx 600 Banks	SX7P	88	51	1.85	36.56	36.49	0.19	(0.61)		
DJ Stoxx Euro 600 Banks	SX7E	0	1 601	47.07	29.17	29.48	(1.05)	0.00		
DJ Stoxx 600 Technology	SX8P	2 000	50	1.85	36.18	37.36	(3.16)	(2.28)		
DJ Euro Stoxx Technology	SX8E	115	201	8.60	42.91	43.36	(1.04)	(1.03)		
DJ Stoxx 600 Healthcare	SXDP	2 038	50	2.41	47.98	48.19	(0.44)	(0.71)		
DJ Stoxx Healthcare	SXDE	8 000	50	2.80	55.28	55.67	(0.70)	(2.32)		
DJ Stoxx 600 Telecommunications	SXKP	2 068	58	1.97	34.26	33.87	1.15	(2.05)		
DJ Euro Stoxx Telecommunications	SXKE	0	203	10.11	52.21	50.41	3.57	0.00		
Euronext (Amsterdam)										
streetTRACKS AEX Index Fund	AEXT	15 222	750	41.42	53.70	54.23	(0.98)	(2.22)		
DJ Stoxx 50 LDRS	EUN NA	19 713	4 800	186.14	38.44	38.21	0.60	(2.23)		
DJ Euro Stoxx 50 LDRS	EUE NA	6 172	15 500	627.60	39.65	39.86	(0.53)	(2.35)		
iBloomberg Cyclicals		0	4 200	41.39	N/A	9.76	N/A	N/A		
iBloomberg Financials	IBEF	604	4 200	37.85	N/A	8.88	N/A	(1.63)		
iBloomberg Industrials		3 000	4 200	39.29	N/A	9.26	N/A	N/A		
iBloomberg Pharmaceuticals	IBEP	2	4 200	42.08	N/A	10.08	N/A	(0.18)		

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ETFR

DATABANK

Fund Name	Ticker	Volume	Shares (000)	Net assets (million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
Euronext (Amsterdam) *(continued)*										
iBloomberg Resources		3 000	4 200	41.33	9.50	9.69	(1.93)	N/A		
iBloomberg Staples		0	4 200	41.53	N/A	9.88	N/A	N/A		
iBloomberg Technology	IBQQ	200	4 200	23.86	N/A	5.37	N/A	(6.54)		
iBloomberg Telecoms	IBET	65	4 200	23.05	N/A	5.28	N/A	(4.57)		
Euronext (Paris)										
CAC 40 Master Unit	CAC PA	1 074 173	9 003	445.84	49.51	49.51	0.00	(3.07)	(15.30)	
Master DJ Euro Stoxx 50	MSE FP	837 341	6 670	266.83	40.02	40.00	0.05	(2.39)	(2.08)	
DJIA Master Unit	DJE FP	43 930	1 209	145.97	121.60	120.69	0.75	(1.95)	(5.14)	
DJ Stoxx 50 LDRS	EUN FP	34 690	4 800	186.14	38.40	38.21	0.50	(2.23)		
DJ Euro Stoxx 50 LDRS	EUE FP	10 194	15 500	627.60	39.65	39.86	(0.53)	(2.35)		
Easy ETF Global Titans		34 199	900	30.00	32.15	31.66	1.55	N/A		
Easy ETF DJ STOXX 50	ETE FP	5 700	4 680	18.39	3.94	4.17	(5.52)	(2.20)		
Easy ETF DJ Euro STOXX 50	ETN FP	16 306	4 920	18.58	3.78	3.99	(5.26)	(2.39)		
streetTRACKS MSCI Pan-Euro		38 201	350	39.89	111.3	112.45	(1.02)	(0.63)		
OM Sweden (SEK denominated)										
XACTOMX	Data not available at press time									
Switzerland										
DJ Stoxx 50 LDRS	EUN SW	8 249	5 800	222.72	38.20	38.21	(0.03)	(2.20)	(17.32)	
DJ Euro Stoxx 50 LDRS	EUE SW	23 635	15 500	612.25	40.05	39.86	(0.48)	(2.39)	(16.39)	
XMTCH (CHF denominated)	XMSMI	89 457	6 453	455.30	70.20	70.56	(0.51)	0.57	(3.84)	
United Kingdom (GBP denominated)										
iShares iFTSE 100	ISF	272 107	14 200	123.97	8.76	8.73	0.34	(2.99)	(13.05)	
iShares iFTSE TMT	ITMT	3 624	1 540	10.58	6.85	6.87	(0.29)	(7.56)	(48.73)	
iShares iFTSE ex-UK	IEUR	599	1 000	16.23	16.24	16.23	0.06	(1.16)	(18.65)	
iBloomberg Financials	IBEF	1 237	4 200	22.81	5.51	5.43	1.47	(0.18)		
iBloomberg Pharmaceuticals	IBEP	1 196	4 200	25.87	6.20	6.16	0.65	1.14		
IBloomberg Technology	IBQQ	9 793	4 200	13.78	3.33	3.28	1.52	(4.58)		
iBloomberg Telecoms	IBET	2 775	4 200	13.57	3.23	3.23	0.00	(4.15)		
DJ Stoxx 50 LDRS	EUN LN	N/A	5 800	136.30	23.50	23.35	0.64	(1.08)		
DJ Euro Stoxx 50 LDRS	EUE LN	N/A	15 500	383.63	24.75	24.36	1.60	(0.85)		
Hong Kong (Asset & price values in USD)										
TraHK	2800.HK	3 233 370	2 252 993	27 976.00	12.35	12.42	(0.54)	(3.14)	(18.75)	(31.01)
India (Mumbai Stock Exchange)										
Sensex UTI Notional DRS	Launch date to be announced									
Israel										
TALI 25	TALI	134	75	328.37	1044.00	1041.20	0.27	1.53	(12.55)	(20.18)
Singapore										
streetTRACKS Straits Times Index	Launch date to be announced									
South Africa (SAR denominated)										
SATRIX 40	STX40	1 356 526	361 492	3 022.07	8.36	8.32	0.46	(3.24)	8.43	

Volume shows average daily volume for the week ending Jun-20-200; **Shares** shows the number of outstanding shares; **Net assets** are approximations; **Price** shows the closing price on Jul-20-2001. **Sources include** AMEX, Weisenberg/Thomson Financial, Investors Bank & Trust, State Street Global Advisors, MAR research and other sources.

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