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ETF assets stay level through volatile 1Q

By Philip Scipio

At first glance, first quarter performance data for exchange-traded funds look great, considering that blue chip stocks traded near bear market territory and technology stocks set records for losses. The total amount of money invested in ETFs, including HOLDRs, at the end of the first quarter was \$69.1 billion, down about 1.7% from the \$70.3 billion in invested assets at the end of the fourth quarter. Eliminate the assets in Merrill Lynch's HOLDRs and the figure is essentially breakeven at \$65.1 billion at the end of the first quarter compared with \$65.3 billion at the end of the fourth quarter—a not inconsiderable feat given the condition of the broader markets.

HOLDRs saw a nearly 20% erosion of assets during the quarter, falling to \$4.0 billion from \$5.1 billion at the end of the fourth quarter. This give-back accounted for \$1.1 billion of the \$1.2 billion in combined losses by ETF and HOLDRs products for the quarter.

Fourteen of the 16 HOLDRs currently trading have been around long enough to make quarter-over-quarter comparisons. Of those 14, a dozen lost assets in the first quarter. The 8▶

A fund of ironies

By Marsha Zapson

The New York Stock Exchange at the beginning of April announced that it would soon begin trading ETFs on the basis of unlisted trading privileges. The white shoe exchange thus broke the gentlemen's agreement that had existed for decades between itself and the American Stock Exchange, in which both had implicitly agreed not to poach on each other's turf.

Even though the exchange had expressed its intent to seek UTP on ETFs last December, its announcement still caught industry experts by surprise. "It's a stunning policy reversal," says Herb Blank, a QED International principal. The NYSE had vehemently opposed UTPs, he says, and had publicly contended for years that these privileges undermined and fragmented the market.

Trading the top three

The NYSE will soon begin offering the top three most traded and well-known ETFs: QQQ, Spider and Diamonds. According to a NYSE spokesman, this is one phase in a multifaceted ETF initiative.

Whether through UTP or "organic development and growth," says the NYSE spokesman, the exchange has committed itself to ETFs. It is developing indices as part of its ETF strategy, and is currently creating a TMT (technology, media, telecommunications) index on which an ETF will be based. Looking forward, the exchange plans (as part of its listing initiative) to list an ETF based on the recently launched FTSE/Xinhua China 25 Index.

Interestingly, the NYSE's history with ETFs goes back to 1996 when the now-defunct country baskets unsuccessfully traded there for about nine months. In early December 2000, the NYSE began trading the iShares Global 100 (see *ETFR*, January 2001, page 3). As of mid-April, the iShares Global 100 [ticker: IOO] ranks among the top 20 domestic ETFs, with a volume of about 159,000 and assets about \$101.7 million.

With the exception of that product, and one listed on the Chicago Board of Options Exchange (see *article on page 4*), issuers have not listed on the NYSE, preferring instead the Amex. Now, however, by seeking UTP on the more active ETFs, the NYSE places itself squarely in the ETF business—or at least is perceived to do so.

While the NYSE will make money executing its UTPs, its revenues are not going to increase dramatically. Its 3,000 listed companies, with a total market capitalization of \$18 trillion, trade more than one billion shares per day in equities. Ironically, the largest stock exchange in the 9▶

The case for derivatives

By Marsha Zapson

Theoretically, if a futures contract existed on every ETF sector in the marketplace, the spread would decrease and participation in the less active ETFs would increase, says Erik Liik, a managing director of the American Stock Exchange.

"In the case of the Spider, the market makers typically use the futures market to price the ETF and hedge their positions," says Richard Redding, director of index products at the Chicago Mercantile Exchange, an innovator in stock index

futures. "The customer goes to his broker, the broker goes to the market maker for the Spider, for example, and that market maker is basing his price on the S&P futures and/or hedging his ETF position."

The CME has been having record high volumes in futures recently, says Redding. In fact, trading volume during the exchange's first quarter was the highest in its history, with 92.7 million contracts changing hands and a volume that rose by 56.3% over the previous quarter.

"And because there's a symbiotic relationship between futures and ETFs, the volume of both products, over time, has been increasing," he says.

A plethora of options

The more options or flexibility market makers have, the more liquidity they can use to facilitate trading of ETFs, says Alex Budny, a Lehman Brothers researcher. The variety of transactions available to the market maker allows him to make a competitive marketplace, which results in a lower bid/ask spread.

"If a market maker wasn't sure how to hedge against the trade, or provide a buy and sell on a particular ETF, their pricing

would produce a much wider bid/ask spread," says Budny. "But market makers know they can transact futures at a very inexpensive level and that they can either use futures or the underlying cash, meaning the stocks in the index, to keep the market in line," he says.

Market makers use futures to lay off risk, says Mike Crinieri, vice president and head of ETFs at Goldman Sachs. "Different investors use futures contracts for different reasons, but they are used very heavily by the ETF market makers," he says.

While the sector products would not warrant futures contracts, the larger benchmark indices all have futures on them, he says. Those with futures include the Nasdaq, the S&P, the Russell 2000, the Mid Cap S&P and the Dow Jones.

"Before ETFs were introduced, futures were one way investors could get exposure to indices easily," says Crinieri. Futures are still very popular, but it's the top few that are the most liquid, he says. "There's a pretty drastic drop in liquidity below the most traded contracts, which include the S&P 500 or the Nasdaq 100. There just aren't as many people trading them, not as many looking there for index arbitrage."

Index arbitrage desks are constantly seeking small differences between where the futures are trading and where the underlying index is trading. "They'll trade a basket of stocks against the futures to try to capture any small inefficiencies in the market," says Crinieri.

"Market makers are always trying to keep the relationship between the ETF, the underlying index and the future in line," says Anthony Spina, principle and co-head of ETF trading for Wolverine Trading LP. For example, if QQQ shares are bought, that purchase will generally cause the QQQ market makers to buy Nasdaq 100 futures, he says. "That QQQ buy will translate into a futures buy and a cash buy, which moves the market up correspondingly. It's a constant push and pull relationship."

In flux

The push-pull relationship that exists between futures and its index carries over into the options market as well. While the options market is similar, it's also a little different, says Redding. "The market makers that I know primarily use futures not options because, depending on the options' characteristics, they may not move perfectly in line with the ETF," he says.

(It should be noted that only a handful of ETFs have options at this time, and that options can be made on either the ETF or its index, whereas futures can be made only on the index.)

All the instruments—be they cash, the index, futures or options—affect one another. Spina explains: If a customer sells call options on the QQQ, that causes market makers to sell Nasdaq futures or Nasdaq cash. "If the futures or cash go down, that causes the QQQs to decrease because of the arbitrageable relationship between product groups," he says.

Options are also a means to enhance returns on ETFs by writing calls against them, says Joe Stefanelli, executive vice president

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There’s a
symbiotic relationship
between ETFs
and futures
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Options on ETFs trading on the Amex: first quarter 2001

Symbol	Name	1Q Volume	Avg Daily Volume
QQQ	Nasdaq 100 Share	11,192,020	180,516
XLK	Technology Sector	38,141	615
MDY	MidCap SPDRs	32,662	527
IWB	Russell 1000 Index	24,034	388
XLY	Cylical/Transportation Sector	10,579	171
XLF	Financial Sector	10,421	168
IWM	Russell 2000 Index	5,473	88
IWO	Russell 2000 Growth	4,799	77
XLP	Consumer Staples Sector	4,440	72
XLB	Basic Industries Sector	2,469	40
FFF	Fortune 500 Index	2,349	38
XLE	Energy Sector	1,869	30
FEF	Fortune e-50	1,058	17
IWN	Russell 2000 Value	861	14
XLV	Consumer Services Sector	747	12
XLU	Utilities Sector	696	11
XLI	Industrial Sector	276	4
TOTAL		11,332,894	182,789

Source: American Stock Exchange.

of derivatives at the Amex. If that call is exercised, the ETF itself would be delivered. "It's not a cash settled product, it's a physically settled product," he says. "On the other hand, if the market looked uncertain, you could always hedge the ETF by buying puts. When you have an ability to hedge a product, thereby enhancing returns, it certainly makes it more attractive."

The Amex, second only to the Chicago Board of Options Exchange in options volume, has been setting records for its options contracts. In mid-April, the Amex traded 1.8 million contracts in a single day, and its option volume has more than doubled in the past two years, up 60% in 2000.

Options on QQQ were introduced by the Amex the same day QQQ began trading. Many observers attribute some of the success of both products to the simultaneous launch. During 2000, QQQ options were the most actively traded options on

the Amex, and of all the options traded on the nation's five options exchanges, QQQ ranked as the second most active.

According to the Amex, of the 17 options on ETFs, the most active remain options on QQQ. Those options account for roughly 15% of daily options volume on the Amex, although on some days that share shoots up to 20%. Every once in a while, the iShares Russel 100 (ticker: IWB) gets active, but that's sporadic, says the Amex.

As the accompanying table indicates, total options traded on the Amex during the first quarter were 11,332,894, and average daily volume for that period was 182,789. The most active options are clearly those on QQQ, with 11.2 million; the SpiderTechnology [ticker: XLK], with 38,141; and the MidCap Spider [ticker: MDY], with some 32,000. On average, the Amex is doing 150,000 to 200,000 per day in ETF options. ↕

ETFs vs futures

For the investor interested in a buy-and-hold strategy, the futures contract can be more expensive than an ETF, says Lehman's Budny. As an example, he compares the three instruments tracking the S&P 500, the two ETFs mirroring the index—the Spider and the iShares S&P 500 Index Fund—and a futures contract on the index.

The cost of the ETF is due to the advisor fee, and the cost of the future is due to the roll cost. The ETF fee—a combination of management, distribution and other fees—for S&P-based products are some of the lowest in the ETF arena. The iShares carries a nine basis points fee, the Spider, 12 basis points.

Because of roll risk, futures contracts have become increasingly more expensive in recent years, he says. When comparing the cost of a futures contract with the Spider, for example, there's a known and fixed cost with the ETF, and a variable cost with the futures contract.

In a recent research report comparing S&P 500 index futures with the Spider, both of which can be executed in a single trade, Budny writes "that over the last year the long

futures position is a more expensive alternative than the long S&P 500 ETF position. The comparative investment costs in our analysis of a one-year investment horizon is 30 basis points for the futures position and 22 basis points for the ETF position."

One chart in the report, which is included here, shows how much more expensive it has become to roll futures. The average line where the rolling one month average crosses at the zero mark and edges into the positive indicates that futures contracts have become more expensive.

Since August 1996, the roll cost has almost always been positive, with the latest roll cost (June to September 2000) being as high as 40 basis points. "The calendar spread of 25 basis points (annualized) is the average daily roll cost in the four weeks leading up to contract expiration measured over the last four quarters," he writes.

"It used to be that you actually gained by rolling your futures," says Budny. "Then they rolled what is called cheap, now they're rolling rich; this means you incur a cost to roll futures." Budny attributes this change to the fact that many

investors are long futures contracts, and the market knows it. "When investors go in the same direction, the roll risk can become more expensive."

The investment horizon seems to be the deciding factor in purchasing either the ETF or the futures contract, he says. The shorter the holding period, which eliminates the need to execute calendar trades, the more an investor will be able to take advantage of the futures' low execution cost. However, for the longer term investment, the ETF, with its fixed costs, are cheaper, he says.

The S&P annualized calendar spread

Source: Lehman Brothers.

CBOE: Playing to its strengths

By Elise Coroneos

ISHARES S&P 100 INDEX FUND [OEF]

Current size	1.5 million shares
Launch Date	October 27, 2000
Average Daily Volume	8,098 (since inception)
Value of trading	\$522, 143 million (average daily since inception)
Each share	\$63.18

Service Providers

Administrator	Investors Bank & Trust Co
Investment Advisor	Barclays Global Fund Advisors
Distributor	SEI Investments Distribution Co
Index provider	Standard & Poor's

The components of the top 10 stocks as at April 24, 2001

	Weightings (%)
Stocks	(%)
General Electric Co	7.2
Microsoft Corp	5.0
Exxon Mobil Corp	4.9
Pfizer Inc	4.5
Citigroup Inc	3.9
Wal-Mart Stores Inc	3.9
American International Group Inc	3.2
Intel Corp	3.1
Merck & Co Inc	3.0
AOL Time Warner Inc	3.0
Top 10 stocks	41.63%
Next 20 stocks	31.77%

In 1973, the Chicago Board Options Exchange became the first exchange to launch listed options, and in 1983 it was the first to trade index options. Today, the leadership position of the CBOE in the world of index options is unparalleled, with the exchange trading approximately 90% of the index options market share across all US exchanges.

Last year, spurred by a desire to capitalize on their natural strength in index options and a desire to take a bite out of the success of its chief rival, the American Stock Exchange, the CBOE increased its repertoire of investment instruments to include exchange-traded funds. The CBOE began trading ETFs with the launch of the iShares S&P 100 index fund on October 27, 2000. The fund, which has a ticker symbol of OEF, is one of only two iShares not traded on the Amex. The other is the iShares S&P Global 100, which trades on the New York Stock Exchange (see related story on page 1).

The iShares S&P 100, which trades exclusively on the CBOE, can be created and redeemed only in creation units of 50,000 iShares each, with all transactions of less than 50,000 shares taking place in the secondary market. Its expense ratio is 0.20%, with the price of each share close to 1/10th the level of the S&P 100. "We had this iShare S&P in the works for quite a long time," says Matt Moran, vice president of institutional marketing at the exchange. "The research on it was done several years ago, but it was just a function of finding the most opportune time to list the fund."

So far, the highest trading volume for any one iShares product has been for the iShares S&P 100, which recorded a single-day trading volume of 174,600 shares on March 22 this year. The top 10 industry groups listed in the fund are technology (38.9%), financial (14.2%), capital goods (12.1%), consumer cyclical (9.3%), health care (7.6%), energy (5.8%), consumer staples (5.1%), communications services (3.4%), basic materials (1.6%) and utilities (1.2%).

To date, the CBOE has developed its exchange-traded funds business around its existing strengths, indices based on index options already listed on the exchange. In the case of the iShares S&P 100, the fund's underlying index is the S&P 100 [ticker: OEX], which was originally listed in the exchange as the CBOE 100. Its name was changed to the S&P 100 after a licensing agreement was struck with Standard & Poor's.

Other related ETF products trading on the CBOE include options on the iShares S&P 100 as well as options on the Nasdaq 100 Index Tracking Stocks (QQQs). The trading of options on the iShares S&P 100 Index Fund started on February 7 this year, and trading on the QQQ on February 27.

These are standardized put and call options, which allow investors to participate in or fine-tune the performance of their existing ETFs. They can be used as strategic instruments with which a call can be sold against an exchange traded fund or by simultaneously purchasing the ETF and writing a call on it.

Options on an iShare S&P 100 can also be used as a hedge

on an ETF position currently being held. By purchasing a put option, investors can hedge their position against a downturn in the market. If you are neutral or moderately bullish, calls can be written against a long position. Furthermore, options on the iShares S&P 100 can be used as a hedge against an S&P 100 index position, since both contracts are based on the same index.

Exchange dynamics

At the moment, although a number of different exchanges in the US are trading ETFs, it is really a two horse race between the Amex and the CBOE, according to Moran.

Since launching options on the Nasdaq-100 Index Tracking Stocks just eight weeks ago, the exchange has attracted an overall volume market share of 32%, thereby cutting into what had been the Amex's market share monopoly. This success, according to Moran, is due the ability of the market makers to create deep and liquid markets.

Wolverine Trading LP, a CBOE market-making firm since 1994, is the designated primary market maker for the funds. The firm has more than 40 market-makers on the CBOE, trading in more than 300 classes.

Their ability to create deep and liquid markets is in part due to the exchange's range of Nasdaq-related products that allow it to distribute risk, according to Jim Harkness, Wolverine Trading's chief operating officer. "Other exchanges try to do this," he says, "but the size of our firm and the coverage of all the Nasdaq index options that we trade really allows us to distribute risk better than others in the industry."

Index options trading at the CBOE has steadily increased in volume over recent months, thanks mainly to the index options on QQQs. These are 1/40th the value of the Nasdaq index. In March, the exchange's total volume of index options, including options on exchange-traded funds was up 64% compared to February. "Options on the QQQ volume in March were around 103,000, and in April it is already around 120,000," says Harkness, "so from our point of view this has been a tremendous success."

Other related index option Nasdaq products trading on the CBOE include the full size option on the Nasdaq 100 [ticker: NDX], which is 100 times the value of the Nasdaq index level; and the mini-Nasdaq [ticker: MNX], which is 1/10th the value of the Nasdaq 100. "What we provide investors is the opportunity to participate in different types of products, all with the same exposure and the same coverage," says Harkness. "It is just the notional value that is different."

A big hedge fund needing very large notional value coverage, says Harkness, would trade the full size Nasdaq 100 index option, which has a large notional value relative to the other Nasdaq instruments available on the exchange, allowing them to trade fewer contracts.

On the other hand, the index based on the QQQ is a smaller product designed for the retail market. The mini-Nasdaq has a combination of both retail and institutional clients, although its slightly larger notional value relative to the QQQ limits the number of retail customers able to participate.

In terms of index options, the CBOE is by far and away the

leader when it comes to the time and effort spent to line up exclusive indexes and licensing rights, says Moran. The CBOE is the only exchange that trades options on many of the leading indices including the S&P 500, the Dow Jones Industrial Average and the leading small cap benchmark, the Russell 2000.

According to Harkness, this depth of coverage will continue to allow the CBOE to maintain deep and liquid markets for ETF investors looking for notional value coverage. "We've been able to take what's been successful on another exchange, and provide trading expertise as well as the crowd of other market makers who participate with us to make a deep and liquid market," says Harkness.

Selling the differences

When it comes to exchange-traded funds, the CBOE is quick to emphasize the differences between it and the American Stock Exchange. According to Moran, these differences essentially boil down to one thing: the number of market makers on any one product. "We have the largest number of market makers," says Moran. "For any of our products, we have between 15 to 100 people pricing that one product. This is compared to the other exchanges where they may have one or two people pricing that same exact product."

With price discovery being executed by a large number of individuals, investors benefit because they get what is perceived as the best price possible at that moment, he says. This high level of liquidity thereby allows for a large number of people to assume large amounts of risk as opposed to a few people being able to assume that same level of risk.

In terms of the future, Moran says the CBOE is committed to competing for market share with the American Stock Exchange, while not compromising its unique position as the premier options exchange. He says that the exchange has experienced a real shift in trading volume market activity from equity options to index options over the last year, indicating the increased popularity of index related products and ETFs in particular. So far this year, trading in index options has increased in volume by 58% compared to the same period last year, with equity options losing ground.

This is a marked turnaround from the bull market of the past few years, when the exchange experienced an increase in trading for equity options at the expense of index options. "Investors are now looking more at broader-based coverage, risk management, sectors and hedging," he says.

With economic indicators suggesting that another investor boom market may be some time away and investors increasingly eager to spread their risk, says Moran, the CBOE is looking to expand its range of exchange traded funds in the near future.

"We have talked to a tremendous number of firms all who are creating their own exchange traded funds based on either their benchmark or an existing benchmark. Basically, we are looking for an index which has a natural user. I foresee a lot more of these ETFs being listed on the CBOE offering great advantages to customers, institutional and hedge fund traders." ❖



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Portfolio company sues Merrill over inclusion in HOLDR

By Philip Scipio

Merrill Lynch—the firm that claims it has patent-protected intellectual property with the creation of its HOLDRs—is being sued by a small San Francisco-based software company that wants out of Merrill's B2B Internet HOLDR. In a complaint filed in US District Court Northern District of California on April 10, Agile Software Corp says it wasn't asked whether it wanted to be included in the product, finds the expense related to being included stifling and wants out.

The proposed class action has been filed by Cotchett, Pitre & Simon against Merrill Lynch, Pierce, Fenner & Smith, Inc on behalf of publicly traded companies that do not want their stocks included in HOLDRs because of the "burdensome expense" of communicating with and servicing shareholders. After it was placed in Merrill's B2B Internet HOLDR, the number of Agile shareholders went from about 15,000 to nearly 65,000, many of whom owned a mere four shares of Agile stock, according to the suit.

This is the middle of proxy season, and for a company like Agile—which reported a first quarter loss of \$35.2 million, or \$1.14 a share, on revenue of \$32.2 million with negative cash flow and is trading at the low end of its 52-week trading range of \$9 to \$98—any extra expense can be "devastating to the budget." Agile says it had to spend an extra \$88,000 to communicate and service its shareholders as a result of being included in the HOLDR.

The suit, as described by plaintiff's counsel, is "an action to protect the economic viability of Silicon Valley early-stage public companies, fledgling companies, cash-tight companies, and emerging businesses in America."

Those in the industry familiar with the case don't like Agile's chances for winning. "Is an analyst that recommends a stock to be held responsible for increasing that company's shareholder base and therefore liable for the cost of communication with them?" one observer asks.

Merrill Lynch believes that it will prevail and that the suit is without merit, according to spokesman Joe Cohen. Cohen says the firm also does not plan to pull Agile Software or any of the other companies out of the HOLDR products because of issues raised in the suit and doesn't have an obligation to get permission from portfolio companies before adding them to a HOLDR.

Seeking class status

Though not named as plaintiffs in the suit, several other firms in the B2B HOLDR easily fall into the category of cash-tight companies. The initial minimum market cap requirement for companies in the B2B HOLDR was \$450 million. Compare this with the Internet HOLDR: One of the first HOLDRs to get approval from the Securities and Exchange Commission, it required that each constituent company have a minimum market capitalization of \$1 billion.

“
Defendants
reap profits,
companies
shoulder the expenses

”

While Agile's market cap is more than \$880 million, eight of the 16 companies remaining in the B2B HOLDR have market caps substantially lower. All eight have market caps below \$225 million, and three have market caps below \$50 million. Two of these firms have only one share in the B2B HOLDR. The suit seeks to include every company in all 16 HOLDRs.

Among other things, the suit is asking the court, one, to interpret federal regulations regarding the dissemination of shareholders materials and disclosures to determine whether there is an obligation to disseminate materials to HOLDRs

investors, and two, to determine who is responsible for the expense: Merrill Lynch, which the suit argues has a contractual obligation to investors in their HOLDR products, or the portfolio companies.

These issues arise with HOLDRs because, unlike mutual funds and standard ETFs, HOLDRs grant investors ownership rights in each individual stock, including voting rights and dividend rights, the suit explained.

"The portfolio companies did not participate in the development or establishment of HOLDRs and did not give approval to have their securities placed in the HOLDRs," and shouldn't bear the expense of communicating with the added shareholders. "Prior to HOLDRs, such depository receipt trusts were not allowed to be traded on any national securities exchange unless the portfolio companies gave their prior approval. Merrill entered into a relationship with the American Stock Exchange and the Amex changed its rules in order to permit the public trading of HOLDRs."

The Amex has also been named as a defendant in the suit as has the Bank of New York, custodian for the B2B HOLDR. HOLDRs are like American Depositary Receipts in that they are trusts that hold a portfolio of securities and issue depository receipts to their investors. But unlike ADRs, which are typically used to allow non-US companies to trade on US exchanges, HOLDRs don't seek permission of the portfolio companies. The non-US companies in ADRs are also typically exempt from US securities regulations regarding shareholder communications.

The suit claims that Amex historically did not allow ADRs to trade unless the underlying company agreed to participate, but changed its rules to benefit Merrill.

At the core of the suit, Agile argues that Merrill promises investors in HOLDRs that they will receive all shareholder materials, including proxy statements and annual reports to each of the portfolio companies. "While defendants reap fees and profits from HOLDRs securities they have created and sold, the portfolio companies are being required to shoulder the expenses," the suit says.

"Tens of thousands of individual shareholders each purchasing only four shares of Agile stock would simply not occur but for the HOLDRs," the suit says. "It is unheard of." ❖

ETF assets stay level through volatile 1Q

Biotech HOLDR took the biggest hit, shedding \$568.5 million in the quarter to finish with \$1.1 billion, down from \$1.7 billion at the end of the fourth quarter.

The volatile first quarter also took a toll on the Pharmaceutical HOLDR, which lost \$310.1 million to finish with \$476.7 million, down from \$786.8 million at the end of the fourth quarter. The Internet B2B HOLDR gave up \$166.6 million, ending the first quarter with \$92.7 million. And the Internet Infrastructure HOLDR parted with \$88.6 million to end the quarter with \$75.5 million.

It wasn't all bad news for HOLDERS. The Semiconductor HOLDR added \$245.8 million, and the Software HOLDR added \$11.2 million. And the new entries to the HOLDR lineup made a relatively strong bow. The Oil Services HOLDR ended the quarter with \$145.2 million, while the Europe 2001 HOLDR had \$54.9 million.

iShares S&P 500 steps up

While assets for index shares (ETFs excluding HOLDERS) was relatively unchanged from the fourth quarter of 2000 to the first quarter of 2001, more than half of the 78 products with comparable fourth quarter assets took a hit in the first quarter.

Forty-one index shares lost assets in the first quarter. The ETF bellwether S&P 500 SPDR gave up \$439 million, ending the first quarter with \$25.0 billion in assets, down from \$25.5 billion at the end of the fourth quarter. The Nasdaq-100 lost \$769 million to end the quarter with \$22.8 billion, down from \$23.6 billion in the fourth quarter.

The iShares S&P 500 product increased assets in the quarter and surpassed the DJIA Diamond as the fourth largest ETF for the first time. The iShares S&P 500 added more than \$550 million, ending the first quarter with \$2.9 billion, up from \$2.3 billion in the fourth quarter. The Diamond lost about \$204 million in the first quarter, finishing with \$2.1 billion, down from \$2.3 billion in the fourth quarter.

The S&P 400 Midcap SPDR gave up \$405 million to end the first quarter at \$3.5 billion, down from \$3.9 billion at the end of the fourth quarter. The iShares S&P Midcap 400 gave up \$60.6 million, ending the quarter with \$156.0, down from \$216.5.

iShares shine in 1Q

ETFs enjoyed some bright spots during the first quarter. Including the iShares S&P 500, 34 index shares added assets during the period, three were flat, and five new funds made their entries.

The total assets in Barclays' iShares S&P product offerings grew by more than \$923 million in the first quarter to end the period with \$4.2 billion. Total assets in Barclays' iShares Russell product offerings grew by more than \$674 million in the first quarter to end the period with \$2.2 billion. And total assets in the iShares MSCI product lineup fell \$237 million to end the quarter with \$1.6 billion.

The iShares Russell 2000 fund gained \$319.2 million in the quarter, ending with \$714.0 million. The iShares Russell 2000 Value fund gained \$111.6 million to end the quarter with \$273.8 million. The iShares Russell 1000 Growth fund 12▶

Top 25 ETFs and HOLDERS Ranked by Size

1Q Rank	4Q Rank	Name	Symbol	Net Asset Value	Shares Outstanding	Approx Net Assets
1	1	S&P 500 SPDR	SPY	116.24	215,426,012	\$25,042,184,917
2	2	Nasdaq-100 Index Tracking Stock	QQQ	39.22	581,050,000	\$22,791,128,442
3	3	S&P 400 MidCap SPDR	MDY	84.34	41,999,637	\$3,542,319,104
4	5	iShares S&P 500	IVV	116.24	24,750,000	\$2,876,940,000
5	4	DJIA DIAMONDS	DIA	98.88	21,601,275	\$2,135,840,625
6	6	Biotech HOLDERS	BBH	114.00	9,713,300	\$1,107,316,200
7	7	Select sector SPDR-Technology	XLK	24.84	41,350,003	\$1,027,041,244
8	11	iShares Russell 2000	IWM	89.81	7,950,000	\$713,989,500
9	10	Select Sector SPDR-Financial	XLF	26.57	26,850,929	\$713,457,860
10	14	Semiconductor HOLDERS	SMH	41.49	13,532,100	\$561,446,829
11	9	iShares MSCI-Japan	EWJ	10.20	54,601,000	\$556,930,200
12	8	Pharmaceutical HOLDERS	PPH	95.70	4,981,000	\$476,681,700
13	15	iShares Russell 3000	IWV	63.69	6,100,000	\$388,509,000
14	21	iShares S&P 500/BARRA Value	IVE	59.31	6,200,000	\$367,722,000
15	12	Telecommunications HOLDERS	TTH	51.41	6,731,100	\$346,045,851
16	13	Market + 2000 HOLDERS	MKH	65.35	4,542,700	\$296,865,445
17	28	iShares Russell 2000 Value	IWN	116.50	2,350,000	\$273,775,000
18	17	Select Sector SPDR-Energy	XLE	30.79	7,050,012	\$217,102,102
19	23	Select Sector SPDR-Consumer Staples	XLP	24.88	8,550,065	\$212,754,807
20	34	iShares Russell 1000 Growth	IWF	50.99	4,100,000	\$209,059,000
21	32	iShares S&P SmallCap 600	IJR	101.51	2,050,000	\$208,095,500
22	20	iShares Russell 1000	IWB	61.10	3,400,000	\$207,740,000
23	16	Broadband HOLDERS	BDH	24.35	8,478,900	\$206,461,215
24	29	iShares Russell 1000 Value	IWD	56.18	3,400,000	\$191,012,000
25	19	Internet HOLDERS	HHH	34.95	5,209,900	\$182,086,005

◀¹ A fund of ironies

world is placing itself in a new peer group of regional exchanges that already trade ETFs on an unlisted basis, such as the Chicago, Boston and Pacific exchanges.

But the NYSE will not lure order flow on brand name alone. In the trading of a high volume security such as the QQQ, price and execution quality are what matter. If the NYSE can compete on that basis, it will attract some percentage of the order flow. "The name of the game in exchanges is volume," says one industry observer.

For the NYSE to attract order flow, it is going to have to make a fair and orderly market, and in theory keep the market as tight as the Amex—or tighter, says the observer.

Watching order flow

"In terms of order flow, we'll be watching it very closely," says Bob Rendine, senior vice president of corporate communications for the Amex. "We've got a good critical mass of product here. There are 100 or so ETFs trading about \$70–80 billion in invested assets. It's too early to say whether the NYSE will take order flow away; it's possible that the entire pie will expand."

All the exchanges globally are trying to reinvent themselves. "The attraction of the ETF structure for the Amex is obvious, and the Amex has latched onto ETFs for its future life blood," says Joe Keenan, vice president of worldwide ETF product development for the Bank of New York. "There's going to be continued competition for anything that can be listed or unlisted and traded. And certainly the Chicago, which has the largest UTP business, shows that it's eager to do whatever it takes to get order flow."

At the end of last year, the Amex had close to 70% of the market share in the QQQs, according to that exchange, and in March 2001, it still had about 60% of the volume. That month, according to the Chicago, no one venue had more than 40% of the total trade distribution in the QQQ.

The QQQ is an interesting product because its trading pattern fluctuates, says Bill Barclay, senior vice president of product and development at the Chicago Stock Exchange. Nobody at this point is truly the primary market, he says. Chicago, which trades the most ETFs (about 80) after the Amex, fluctuated anywhere from 12% to 27% in March in trades for QQQ, according to Barclay.

"The NYSE's trading of ETFs might cut into our market share, but I'm not convinced of that," he says. "We get a lot of order flow from the retail side, from online broker/dealers, and many of those customers are used to the very rapid turnaround time, the immediate execution they get here."

But the Chicago as well as the other regionals pay for order flow. To date, neither the Amex nor the NYSE does so. Although a NYSE spokesman said his exchange doesn't anticipate that changing, it's a situation the Amex is tracking closely, says Rendine. "We will not allow outside factors to influence where orders go without matching them competitively." According to

Rendine, a decision on payment for order flow will be made within the next month.

“
The NYSE's
trading of ETFs
might cut into
our market share
”

Stealing market share

In addition to the Amex and the regionals trading the QQQ, electronic communications networks are also trading the product. The two largest, Island ECN, Inc and Instinet Corp, account for some 80% of the total ECN market share, says Island. Island, which has been trading the Qs for about six months, has seen its QQQ volume steadily rise. The majority of traders in its QQQs are hedge funds and program traders, says the firm.

According to Island, it had 0.9% of the total market trades in October 2000; by March, its market share had increased to 10.2%. During April, Island was trading about 10 million QQQ shares per day.

The QQQ daily tops Island's 20 most frequently traded stocks; it's one of the most actively traded stocks in this system (as it is in the world). By comparison, on April 19, for example, Island traded 12.6 million QQQ (while the Amex traded 109.0 million), and 7.4 million of Cisco.

Island also shows an order book, and lists the bid/ask as well as the number of shares. While Island doesn't show orders for 100,000, it does show 100, 500, 1,000, 5,000 and 30,000 shares executed. Here's another venue that's suddenly garnering 10 million shares.

"The truly remarkable story is how often we have the best quote in the Qs," says Andrew Goldman, Island's vice president of corporate communications. He says that Island has the best quote in the Qs over 60% of the trading day.

By dividing the trading day into seconds, and using publicly available trading data, Island looks at each second throughout the day to determine which venue has the best quote, he says. "As soon as an order is sent to hit a bid or list an offer, it's gone. Within four milliseconds, a buy or a sell can be executed at the price shown on the screen."

Goldman says that Island makes 75/1000ths of a penny per share per trade, which is charged back to the broker dealer. "It's razor thin margins, and the only way we can prosper is volume, volume, volume. We do about 400 million shares per day."

The industry observer suggests that "the NYSE is probably seeing this QQQ volume on Island alone and scratching its head. If you just look at the NYSE's equities, it has lost a lot of order flow to the regionals and ECNs over the last decade or so. I've always laughed, because here's the Amex with the most actively traded stock by far—the QQQ trades 90 million shares on any given day—and the NYSE has IBM and AOL."

And perhaps one final irony is worth noting. All the regional exchanges applied for and received licenses to trade the underlying indices of their respective ETFs; and the NYSE will follow suit. Its agreements with Dow Jones, Standard & Poor's and Nasdaq will, in all likelihood, be pro forma. But the NYSE and the Nasdaq? Surprising indeed. ❖

ETFs queued up at INDEXCHANGE

Munich-based INDEXCHANGE Investment AG on April 6 launched its fifth ETF, the NEMAX 50EX, based on the NEMAX 50 index. The fund, whose first trading day was April 11, is sponsored by HypoVerenissbank and Merrill Lynch. It trades in the euro on the Deutsche Börse. The Bloomberg ticker is NMKXEY GY. The new fund joins ETFs already trading: DAX EX, Dow Jones STOXX 50 EX, Dow Jones Euro STOXX 50 EX, and SMI EX.

INDEXCHANGE plans to launch nine other ETFs shortly, all to trade on the Deutsche Börse. The first, the MDAX EX, were launched on April 25; the eight sector funds (including telecommunications, technology, healthcare and banks), will launch on May 3.

HKEx to list iShares

Hong Kong Exchanges and Clearing will list iShares MSCI Taiwan Index Fund and iShares MSCI South Korea Index Fund on May 2. These will be the first ETFs in Asia after the exchange's Hong Kong Tracker Fund and will be introduced under a "trading only" arrangement. They will be launched just two days before Singapore Exchange's cross-listing of nine ETFs with Amex.

HKEx's ETFs will be traded in US dollars on its Automatic Order Matching and Execution System to facilitate market making. Brokerage commissions will be negotiable (currently brokerage for shares is fixed), transaction costs will be comparable to share trading and there will be no stamp duty, says the exchange. Settlement will be T+2, also the same as stocks, and settlement will be scripless.

iShares MSCI Taiwan Index Fund under Hong Kong's management will be a blow to Singapore Exchange. SGX lists futures contracts on the MSCI Taiwan index, and would have secured synergies by listing an iShares MSCI Taiwan. Instead, it managed to secure only the iShares MSCI Singapore ETF.

SSgA slates 14 European ETFs for May . . .

State Street Global Advisors will introduce 14 new European-based ETFs, starting in May: 10 European sector ETFs tracking MSCI indices, an MSCI large cap fund and a small cap pan-European fund, an MSCI UK fund and an ETF based on the Amsterdam Exchange Index, the AEX.

"We're looking to launch these products around May 2001," said Gus Fleites, an SSgA principal. "But we're still trying to figure out if it's going to be a big bang, or if they're going to be gradually offered over a few weeks."

All the funds will be listed on Euronext, the first pan-European exchange that merged the Paris, Brussels, and Amsterdam exchanges. The AEX will initially be listed in Amsterdam and the others in Paris. "But in three or four months, it will not make a difference; the ETFs will all trade on one platform," said Fleites. In addition, since the American Stock Exchange has recently allied itself with Euronext and Singapore, it is conceivable that these ETFs will be available to US and other investors in the near future.

The ETFs will be based on the following MSCI European indices: consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology,

material, telecommunication services and utilities.

. . . and three Asian ETFs for June

State Street Global Advisors plans to launch three Asian ETFs in June. One will be listed on the Singapore Exchange and will track the Straits TIMES Index, and the other two will be listed on the Australian Exchange and track the ASX S&P 200 Index and the ASX 50 Index, respectively. The products will be in the 20 to 30 basis point range.

According to SSgA principal Greg Ehret, these products are designed for Asian markets and will be marketed and traded in Asia. In Singapore, the product will appeal, in particular, to the institutional and insurance marketplace; in Australia, ETFs are a natural extension of a market that has been investing in indices since 1991.

ETFs will begin trading in Singapore

ETFs and HOLDRS listed and trading on the American Stock Exchange will be listed and begin trading on the Singapore Exchange on May 4, according to the Amex. The announcement results from an agreement signed last June between Amex and SGX to create a joint trading platform for ETFs in Asia. Under the agreement, a joint venture company based in Singapore and owned equally by both exchanges is being created to promote ETFs and HOLDRS in Asia.

SGX will list and trade the S&P 500 SPDRs, DIAMONDS, iShares S&P 500, iShares MSCI Singapore, iShares S&P Europe 350, iShares Dow Jones US Technology, Internet Architecture HOLDRS, Biotech HOLDRS and Europe 2001 HOLDRS.

The products will be cleared and settled through the Depository Trust Co and the Central Depository (Pte) Limited, SGX's subsidiary responsible for securities clearing, settlement and depository service. The AMEX and SGX ETF trading network is fully fungible, and will settle on T+3 in US dollars.

Bombay exchange to launch ETF

The Bombay Stock Exchange plans to launch the Sensex UTI Notional Depository receipts Scheme, benchmarked to the 30-scrip BSE Sensitive Index (Sensex). The ETF is currently in its quiet period, and no further information was available.

IBT buys BGI's custody division

Boston-based Investors Financial Services Corp, of which Investors Bank & Trust is a wholly owned subsidiary, has assumed the operation of Barclays Global Investors US asset administration unit. The financial details of the transaction were not disclosed. IBT is the custodian for all BGI's iShare ETFs, which currently total 77 out of a total 110 worldwide.

BGI's asset administration unit, with some \$473 billion in assets as of March 2001, provides custody, accounting, administration and other back office functions. The unit will become part of IBT, and when the transaction becomes official in second quarter 2001, will boost Financial Services Corp's assets to over \$787 billion and the number of NAVs calculated daily to 2,200.

Although as part of the deal, Financial Services will assume some 275 professionals as well as sophisticated technology

platforms, the unit will remain based in Sacramento, California, thereby giving Financial Services a West Coast presence.

AXA offers three ETFs on Paris exchange

At the end of April, Paris-based AXA IM launched three ETFs on the Paris Stock Exchange. The three new ETFs are based on the Dow Jones Global Titans, the Dow Jones Euro Stoxx 50 and the Dow Jones Stoxx 50.

AXA chose the two Stoxx indices (which were created in conjunction with Dow Jones) because they are blue chip indices, and are composed of the 50 leading companies in the Eurozone and in Europe, respectively, says an AXA spokesman. The DJ Global Titans was chosen because it offers exposure to the 50 most prominent companies worldwide. In addition, the Global Titans, which is published by Dow Jones daily, 24 hours per day, will serve as the underlying index to futures contracts on Eurex. These contracts will launch simultaneously with the ETF launches.

The three ETFs will be listed on the Euronext Paris platform and Lyxor's CAC40. Price at launch will be 1/1000th of Stoxx indices and 1/10th of DJ GT index.

Tracker Fund fattens HK's coffers . . .

The Hong Kong Tracker Fund [TraHK] has made a profit of HK\$1 billion (US\$128 million) for the local government. TraHK raised HK\$119 billion (US\$15.2 billion) from an IPO in November 1999 and subsequent sales of TraHK units through a tap mechanism, according to Hong Kong Financial Secretary Donald Tsang. The amount is more than the HK\$118 billion spent by the government to support the Hong Kong stock market in August 1998 at the height of the Asian financial crisis.

The result is being keenly noted by several Asian governments—including those in Japan, Taiwan and Thailand—which are considering similar ETFs as a means to offload equity portfolios that were built over recent years to support their sliding markets.

. . . which gives Japan a bright idea

In a move reeking of desperation rather than practicality, Japan's government is turning to ETFs. It plans an investment entity to buy "cross-held" shares owned by Japanese banks, with the shares then being offloaded into the market through an ETF styled on the Hong Kong Tracker Fund [TraHK].

The move is the latest attempt to ease selling pressure on the beleaguered Japanese stock market, allowing its government to continue evading the real issue of the country's underlying economic difficulties. Because of new mark-to-market accounting rules introduced on April 1, banks that have substantial shareholdings in listed companies (the so-called cross-held shares) are under pressure to offload these investments. According to *Jiji Press*, Japanese banks have around ¥40 trillion (US\$320 billion) in cross-held shares.

The proposed investment institution is expected to absorb ¥10 trillion of shares that would otherwise be sold by the banks directly on the market. But "tying ETFs to the solution

for the current problems in Japan may be premature," said Mark Roberts, product strategist with Barclays Global Investors Services in Japan.

Roberts said that Japanese bank assets to be disposed of do not necessarily correspond to any known index. In addition, many of the shares may be illiquid, creating difficulty for a subscription/ redemption process that will be required for an ETF to succeed. However, the ETF proposal, if approved by parliament later this year, may pave the way for more soundly ETF initiatives in Japan by creating the necessary regulatory structures.

FXI unveils China-focused index

In mid-April, the FTSE/Xinhua Index Ltd (FXI), a Hong Kong incorporated joint venture between the FTSE and the Xinhua Financial Network, launched the FTSE/Xinhua China 25 Index, a capped tradable index featuring the largest, most liquid Chinese equities available to international investors. In the USA, subject to regulatory approvals, an ETF on the new index will list on the NYSE.

The index, which comprises the largest and most liquid Chinese equities, is intended to cater for fund managers and investment banks wanting to create ETFs, index-linked funds and derivatives. Mark Makepeace, a director at FXI, said this index is the first in a series of real-time Chinese indices for domestic and overseas investors to be launched over the next few months.

FTSE and Hong Kong's *Xinhua Financial News* created a Chinese focused joint venture company called the FTSE/Xinhua index in December 2000. Xinhua also launched its Xinhua Composite index of 400 Chinese companies last year. Much of the recent corporate activity to form alliances with Chinese financial and information companies comes as China draws closer to joining the World Trade Organization.

ETFs on hold in Thailand

ETFs in Thailand appear to be on hold, following pressure by the local Association of Investment Management Companies and the Association of Securities Companies to delay the launch. The Bank of Thailand, the country's central bank, and the Securities Exchange Commission, are supporting the establishment of two ETFs, based on offshore indices, to be listed on the Stock Exchange of Thailand. The plan is to enable local asset management firms and individual investors to have international exposure through the domestic bourse.

Asset management firms have been allowed to invest only in the local stock market, and have been suffering losses since the collapse of the Thai equity market following the Asian crisis of 1997/98. However, the Bank of Thailand is permitting ETFs to transfer only Bt2.2 billion (\$50 million) per quarter to foreign markets, in order to limit the selling of baht for US dollars.

The associations believe this is too little to properly diversify risk in overseas markets. The associations also want more than two ETFs, saying that the each of the 14 asset management firms should be allowed to manage its own ETFs. 12▶

◀11 ML slates enhanced index funds

Merrill Lynch in April launched geographically focused enhanced index funds for European institutional investors. The funds, which will focus on the UK, continental Europe, North America and Asia/Pacific, are managed by Merrill's London-based global quantitative team, which is responsible for assets of \$40 billion.

Enhanced index funds aim to achieve higher returns than average index funds by using quantitative stock selection and stock substitution techniques. These techniques take advantage of persistent market anomalies that arise in indices around the globe. According to Merrill, the UK fund's goal will be to outperform its index by 0.5% to 1.0% while maintaining a risk profile similar to conventional index trackers. The funds focused on other regions will aim to outperform their relevant indices by 1.0% to 1.5%.

Merrill says that enhanced index management is a \$340 billion market in the US. And Greenwich Associates reports that 16% of US corporate pension funds and 17% of US public funds used enhanced index mandates within their investment arrangements in 1999.

Although no exchange-traded funds are yet based on enhanced indices, such ETFs are being considered for future development, according to industry sources.

iUnits: all up and running

Barclays Global Investors Canada in March launched its remaining two iUnits, the S&P/TSE Canadian Gold Index Fund (TSE:XGD) and S&P/TSE Canadian Financials Index Fund (TSE:XFN), on the Toronto Stock Exchange. These two—the iGold and iFin funds—join recent iUnits launches begun on February 22 and completed today. The other recently launched iUnits include the i60C, iMidCap, iEnergy and iT funds.

Both new iUnits have management expense ratios of 0.55%, and track their respective sector indices. Each index is a constrained market capitalization-weighted index calculated by S&P in which the weight of any one component is limited to 25%.

The four new sector ETFs join existing i60, iG5 and iG10 iUnits. As of December 31, 2000, BGI Canada had more than \$6 billion in ETFs.

B2B HOLDERS at heart of investor lawsuit

On April 4, two law firms—Lovell & Steward, LLP, and Sirota & Sirota, LLP—filed class action lawsuits on behalf of investors who purchased B2B Internet HOLDERS, a Merrill Lynch, Pierce, Fenner & Smith product. HOLDERS, a form of ETF, is a fixed basket of securities, generally numbering 20, that trade as a single stock.

The complaint alleges that Merrill violated federal securities laws by issuing and selling the B2B HOLDERS (ticker: BHH) pursuant to its launch in February 2000. According to the filing, Merrill failed to disclose to HOLDERS investors that more than 50% of the stocks in the B2B Internet HOLDERS were IPOs underwritten by Merrill and, further, that these IPO prices had been manipulated by a so-called laddering scheme. Laddering is a process in which customers purchase at IPO prices and then make additional purchases at progressively higher prices. It is intended to—and in the case of B2B HOLDERS did—drive up the prices to artificially high levels.

The complaint alleges that Merrill violated the 1933 Securities Act because the prospectus distributed to investors and the Registration Statement filed with SEC in order to gain regulatory approval for the HOLDERS offering contained material misstatements regarding commissions Merrill would receive in connection with the IPO.

◀8 gained \$102.6 million to finish with \$209.1 million. And the iShares Russell 3000 fund ended the quarter with \$388.5 million, having gained \$76.1 million.

The iShares S&P 500/BARRA Value product added \$138.7 million, and finished the first quarter with \$367.7 million, up from \$229.1 million. The iShares S&P SmallCap 600 fund added \$83 million to end the quarter with \$208.1 million.

The iShares S&P 100 Index fund, which began trading in the first quarter, came to the end of March with about \$182 million. Among other new products, iShares S&P 100 Global Index fund contributed \$118.4 million to the total ETF pie in the first quarter. And iShares Nasdaq Biotech ended the period with just under \$100 million.

iShares Cohen & Steers Realty Majors, which was launched in the first quarter, ended with \$39.1 million. iShares DJ US Real Estate product ended the quarter with \$37.6 million, up from \$34.1 million at the end of the fourth quarter. And iShares Goldman Sachs Technology product contributed \$28.5 million to the ETF bottom line in the first quarter.

iShares MSCI France, Germany, Hong Kong, Italy, Malaysia, Singapore, South Korea, Spain, Sweden, Switzerland and UK all lost assets in the first quarter, but none more than iShares MSCI-Japan. The Japan product lost \$93 million to end the

quarter with \$557 million, down from \$650 million in the fourth quarter.

Total assets in State Street's Select SPDRs rose by more than \$211 million. streetTRACKs Dow Jones ended the quarter with total assets of \$110 million, while streetTRACKs Morgan Stanley ended the period with \$62 million.

The Select Sector SPDR-Technology ETF gave up \$47.0 million to end the quarter with \$1 billion, while the Select Sector SPDR-Energy ETF lost \$45.7 million to end the quarter with \$217.1 million.

The Select Sector SPDR-Financial fund added \$209.0 million in the first quarter to end the period with \$713.5 million, up from \$504.0 million in the fourth quarter. The Select Sector SPDR-Cyclical/Transportation product added \$52.3 million to end the quarter with \$120.0 million.

The iShares DJ US Financial sector fund more than doubled assets in the first quarter to \$59.3 million, up from \$21.8 million at the end of the fourth quarter.

The streetTRACKs Fortune 500 Index lost more than half its assets in the quarter to end the period with \$45.6 million, down \$46.8 million. The streetTRACKs Fortune e-50 lost \$42.7 million of its \$49.7 million to end the first quarter with \$7.0 million. ⚡

EXCHANGE-TRADED FUNDS

Week ending April 20 2001

Fund Name	Ticker	Volume	Shares (000)	Net assets (\$ million)	Price	NAV	Spread (%)	Return 1 Week	Return YTD	Return 1 Yr
Major market indices										
Nasdaq-100 Index Tracking Stock	QQQ	46 599 800	569 150	27 433.03	48.40	48.20	0.41	13.08	(17.09)	(43.97)
S&P 500 SPDR	SPY	8 652 260	229 826	28 636.32	124.50	124.59	(0.07)	4.75	(4.84)	(12.49)
DJIA Diamonds	DIA	2 967 760	25 401	2 689.20	105.95	105.87	0.08	4.26	(0.39)	(1.15)
iShares Dow Jones series										
iShares DJ US Basic Materials	IYM	3 260	250	9.64	38.85	38.98	(0.33)	2.97	(0.55)	
iShares DJ US Chemicals	IYD	9 800	450	19.00	43.00	42.93	0.16	2.50	(1.11)	
iShares DJ US Consumer Cyclical	IYC	7 020	450	26.68	59.83	59.86	(0.05)	8.31	7.49	
iShares DJ US Energy	IYE	110 040	800	43.11	53.47	53.40	0.13	2.61	(2.47)	
iShares DJ US Financial Services	IYG	13 920	300	28.13	95.05	95.14	(0.09)	4.85	(3.54)	
iShares DJ US Financial	IYF	19 420	750	61.04	82.85	82.71	0.17	4.82	(4.61)	
iShares DJ US Healthcare	IYH	34 200	1 550	92.09	60.42	60.12	0.50	1.55	(15.87)	
iShares DJ US Industrial	IYJ	2 260	450	24.03	53.55	53.72	(0.32)	9.51	(5.06)	
iShares DJ US Internet	IYV	22 560	900	18.86	21.10	21.36	(1.22)	16.57	(31.73)	
iShares DJ US Non-Consumer Cyclical	IYK	2 760	350	13.83	39.65	39.86	(0.53)	1.33	(8.59)	
iShares DJ US Real Estate	IYR	19 120	600	45.27	75.92	75.78	0.18	3.03	0.25	
iShares DJ US Technology	IYW	56 980	1 850	123.41	67.15	66.91	0.36	15.88	(9.94)	
iShares DJ US Telecommunications	IYZ	12 120	1 400	52.72	38.50	38.44	0.16	3.47	(0.67)	
iShares DJ US Total Market	IYY	14 100	1 150	66.10	57.92	57.97	(0.09)	6.16	(5.66)	
iShares DJ US Utilities	IDU	6 540	350	28.93	83.25	83.02	0.28	1.98	(5.51)	
iShares MSCI series										
iShares MSCI-Australia	EWA	15 000	5 200	48.78	9.38	9.42	(0.42)	1.41	(1.26)	(1.85)
iShares MSCI-Austria	EWO	8 480	1 400	11.65	8.30	8.31	(0.12)	0.61	9.74	7.72
iShares MSCI-Belgium	EWK	1 960	840	9.87	11.55	11.74	(1.62)	(2.94)	(9.41)	(6.70)
iShares MSCI-Brazil	EWZ	21 540	1 050	14.43	13.66	13.82	(1.16)	(10.37)	(17.21)	
iShares MSCI-Canada	EWC	7 580	1 600	19.09	11.75	11.94	(1.59)	3.25	(12.15)	(11.96)
iShares MSCI-EMU	EZU	12 120	800	52.27	65.37	65.34	0.05	1.74	(10.76)	
iShares MSCI-France	EWQ	19 240	3 201	69.94	22.00	21.84	0.73	2.56	(10.89)	(14.53)
iShares MSCI-Germany	EWG	63 580	8 401	148.19	17.75	17.68	0.40	2.60	(8.97)	(19.81)
iShares MSCI-Hong Kong	EWH	61 600	5 701	62.20	10.76	10.91	(1.37)	0.75	(6.43)	(10.30)
iShares MSCI-Italy	EWI	27 320	1 950	39.45	20.35	20.22	0.64	3.19	(10.06)	(4.52)
iShares MSCI-Japan	EWJ	571 340	54 001	581.59	10.79	10.74	0.47	2.57	(2.47)	(27.25)
iShares MSCI-Malaysia	EWM	44 000	17 850	75.86	4.11	4.25	(3.29)	0.98	(18.82)	(32.78)
iShares MSCI-Mexico	EWV	49 940	2 900	42.20	14.45	14.57	(0.82)	(3.15)	8.54	(6.86)
iShares MSCI-Netherlands	EWN	3 000	1 601	32.87	20.65	20.52	0.63	1.72	(8.98)	(10.09)
iShares MSCI-Singapore	EWS	24 320	9 900	52.97	5.34	5.35	(0.19)	3.29	(17.85)	(24.63)
iShares MSCI-South Korea	EWY	20 400	1 350	18.00	13.27	13.33	(0.45)	7.54	8.33	
iShares MSCI-Spain	EWP	3 000	1 275	30.55	24.10	23.94	0.67	0.63	5.07	(8.94)
iShares MSCI-Sweden	EWD	2 700	825	12.19	14.84	14.74	0.68	4.65	(16.98)	(44.09)
iShares MSCI-Switzerland	EWL	6 440	2 626	37.97	14.55	14.44	0.76	1.61	(13.46)	(1.62)
iShares MSCI-Taiwan	EWT	59 440	8 800	101.73	11.43	11.56	(1.12)	0.53	8.21	
iShares MSCI-UK	EWU	60 980	7 601	126.18	16.55	16.60	(0.30)	1.53	(6.10)	(11.30)
iShares MSCI-UK	EWU	29 300	8 201	127.53	15.54	15.55	(0.06)	(7.17)	(11.83)	(19.04)
iShares Russell series										
iShares Russell 1000	IWB	15 460	3 700	242.61	65.47	65.57	(0.15)	5.26	(6.49)	
iShares Russell 1000 Growth	IWF	81 620	3 750	217.16	57.95	57.92	0.05	9.48	(10.25)	
iShares Russell 1000 Value	IWD	168 400	4 050	234.62	57.85	57.93	(0.14)	2.39	(3.30)	
iShares Russell 2000	IWM	156 900	7 950	739.83	93.29	93.07	0.24	2.63	(2.35)	
iShares Russell 2000 Growth	IWO	126 600	2 850	167.15	58.74	58.67	0.12	4.33	(8.46)	
iShares Russell 2000 Value	IWN	71 760	2 350	275.73	117.50	117.33	0.14	1.12	2.00	
iShares Russell 3000	IWV	33 460	6 400	436.35	68.30	68.18	0.18	5.53	(5.52)	
iShares Russell 3000 Growth	IWZ	5 020	500	23.02	46.03	46.04	(0.02)	9.49	(11.03)	
iShares Russell 3000 Value	IWW	2 640	450	33.16	73.56	73.68	(0.16)	2.57	(3.69)	
iShares Russell MidCap Index	Launch date to be announced									
iShares Russell MidCap Growth Index	Launch date to be announced									
iShares Russell Midcap Value Index	Launch date to be announced									
iShares Sectors										
iShares Nasdaq Biotech	IBB	14 340	1 300	111.77		85.99		5.19		
iShares Cohen & Steers Realty Majors	ICF	12 980	500	38.93		77.86		1.83		
iShares GS Technology	IGM	231 160	550	35.06		63.75		14.47		
iShares GS Consumer Industries	Launch date to be announced									

Fund Name	Ticker	Volume	Shares (000)	Net assets (\$ million)	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
iShares Sectors (continued)										
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										
iShares S&P 500	IVV	1 027 420	18 950	2 360.79	124.85	124.58	0.22	5.30	(4.75)	
iShares S&P MidCap 400	IJH	66 740	1 950	192.02	98.28	98.47	(0.19)	3.58	(4.61)	
iShares S&P SmallCap 600	IJR	56 740	2 250	236.00	104.80	104.89	(0.09)	2.00	(2.93)	
iShares S&P 100 Index Fund	OEF	10 580	1 500	96.60	64.43	64.40	0.05	5.83	(5.99)	
iShares S&P Global 100 Index Fund	IOO	109 160	1 600	103.43	66.00	65.93	0.11	3.86	(5.13)	
iShares S&P Europe 350 Index	IEV	25 320	2 450	164.76	67.88	67.22	0.98	1.62	(11.36)	
iShares S&P MidCap 400/Barra Growth	IJK	30 400	1 600	178.54	111.74	111.59	0.13	5.74	(9.79)	
iShares S&P MidCap 400/Barra Value	IJJ	12 620	1 000	86.28	86.39	86.28	0.13	2.77	1.34	
iShares S&P 500/Barra Growth	IVW	32 580	2 700	166.94	61.80	61.83	(0.05)	6.77	(9.30)	
iShares S&P 500/Barra Value	IVE	127 020	6 500	406.51	62.50	62.54	(0.06)	3.51	(1.11)	
iShares S&P SmallCap 600/Barra Growth	IJT	23 360	400	28.57	71.70	71.41	0.41	4.35	(8.55)	
iShares S&P SmallCap 600/Barra Value	IJS	9 800	850	65.76	77.70	77.37	0.43	1.92	1.07	
iShares S&P Toronto SE 60	IKC	120	150	7.24	48.45	48.27	0.37	6.60	(6.75)	
iShares Fixed Income										
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										
HOLDRS B2B Internet	BHH	242 640	15 804	113.16	7.16			20.95	(59.80)	(82.28)
HOLDRS Biotech	BBH	682 300	9 753	1 194.72	122.50			6.61	(28.07)	(7.89)
HOLDRS Broadband	BDH	255 940	8 479	252.92	29.83			16.98	(34.51)	
HOLDRS Europe 2001	EKH	5 260	684	53.65	78.45			15.15		
HOLDRS Internet Architecture	IAH	68 320	3 689	188.50	51.10			17.74	(11.19)	(40.68)
HOLDRS Internet Infrastructure	IIH	124 460	7 579	105.27	13.89			27.08	(37.22)	(72.60)
HOLDRS Internet	HHH	133 760	5 158	221.51	42.95			15.15	10.84	(64.76)
HOLDRS Market 2000	MKH	22 760	3 543	251.53	71.00			4.34	(5.84)	
HOLDRS Oil Services	OIH	89 560	1 800	149.40	83.00			(0.53)		
HOLDRS Pharmaceutical	PPH	293 280	5 081	484.71	95.40			(1.24)	(16.14)	2.86
HOLDRS Regional Bank	RKH	16 920	590	66.97	113.50			1.25	(4.82)	
HOLDRS Semiconductor	SMH	1 828 920	14 100	731.06	51.85			11.87	5.82	
HOLDRS Software	SWH	213 840	1 783	102.00	57.20			16.62		
HOLDRS Telecommunications	TTH	62 020	6 352	336.51	52.98			1.30	(0.01)	(34.31)
HOLDRS Utilities	UTH	70 080	581	65.53	112.75			0.89	(6.02)	
HOLDRS Wireless	WMH	52 320	1 199	87.01	72.58			8.73	(13.84)	
Nuveen										
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										
TechIES (Pacific Exchange Tech 100)	Launch date to be announced									
S&P Depository Receipts (SPDRs)										
S&P 400 MidCap SPDR	MDY	912 600	41 999	3 800.49	90.30	90.49	(0.21)	3.50	(4.13)	7.36
SPDR Basic Industries	XLB	32 160	4 550	99.19	21.83	21.80	0.14	2.25	2.38	1.49
SPDR Consumer Services	XLV	6 920	3 800	110.12	28.98	28.98	0.00	6.94	6.37	(1.86)
SPDR Consumer Staples	XLP	23 140	8 500	207.40	24.38	24.40	(0.08)	(0.29)	(14.39)	8.43
SPDR Cyclical/Transportation	XLY	61 840	4 800	130.03	27.11	27.09	0.07	7.28	6.14	(6.39)
SPDR Energy	XLE	61 720	7 000	224.42	32.06	32.06	0.00	1.26	(3.10)	13.77
SPDR Financial	XLF	591 320	28 651	786.18	27.44	27.44	0.00	3.08	(6.98)	17.03
SPDR Industrial	XLI	5 720	2 200	64.50	29.38	29.32	0.20	5.49	(5.71)	3.52
SPDR Technology	XLK	892 260	43 650	1 309.94	30.00	30.00	0.00	13.04	(4.19)	(43.26)
SPDR Utilities	XLU	80 060	2 550	80.58	31.68	31.60	0.25	0.76	(3.86)	19.05

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	840	300	22.07	73.73	73.60	0.18	4.94	(3.90)	
DJ US Large Cap Growth	DSG	700	200	14.39	72.35	71.95	0.56	6.79	(9.98)	
DJ US Large Cap Value	DSV	1 320	100	11.85	118.65	118.54	0.09	2.12	1.24	
DJ US Small Cap Growth	ELG	2 160	400	25.92	64.94	64.79	0.23	14.73	(11.14)	
DJ US Small Cap Value	ELV	1 400	300	38.79	129.55	129.29	0.20	3.52	(4.67)	
Sectors										
FORTUNE 500	FFF	9 120	600	52.92	88.30	88.21	0.10	5.31	(4.15)	
FORTUNE e-50	FEF	2 960	200	8.72	43.80	43.62	0.41	15.57	(11.96)	
MS High Tech 35	MTK	24 920	1 100	69.81	63.30	63.46	(0.25)	12.06	(5.87)	
MS Internet	MII	10 120	250	5.13	20.00	20.92	(4.40)	12.68	(28.25)	
Wilshire REIT Index Fund	RWR	Trading commences Apr-25-2001								
VIPERS (Vanguard)										
VIPERS Index	VFINX	Launch date to be announced								
VIPERS Total Stock Market	VTSMX	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 Index	Launch date to be announced									
streetTRACKS ASX S&P 50 Index	Launch date to be announced									
Canada (CAD denominated)										
SSgA DJ Canada 40 Index	DJF	46 471	5 474		50.75			3.57		
iUnits S&P/TSE 60 Index	XIU	2 418 602	106 529	5 038	47.20	47.49	(0.19)	3.06	(11.03)	(12.19)
iUnits S&P/TSE Capped 60 Index	XIC	189 945	5 112	262	51.10	51.17	(0.14)	3.23	0.69*	
iUnits S&P/TSE Canadian MidCap	XMD	19 289	1 500	76	50.75	50.57	0.35	4.96	(1.84)*	
iUnits S&P/TSE Canadian Energy	XEG	24 452	1 500	43	28.70	28.73	(0.10)	2.68	8.67*	
iUnits S&P/TSE Canadian IT	XIT	51 600	1 500	42	12.15	28.25	0.02	15.17	9.28*	
iUnits S&P/TSE Canadian Gold	XGD	37 672	1 500	18	28.25	12.09	0.50	3.48	15.71*	
iUnits S&P/TSE Canadian Financials	XFN	18 005	1 500	39	25.80	25.90	(0.39)	0.98	0.19*	
TD TSE 300 Index Fund	TTF	47 919			26.85			2.48		
TD TSE 300 Capped Index Fund	TCF	25 484			31.05			3.67		
* Since inception										
Fixed income										
iUnits Canada 5-year Govt Bond	XGV	9 015	2 860	79	27.65	27.63	0.09	0.00	1.28	
iUnits Canada 10-year Govt Bond	XGX	6 589	2 834	74	26.10	26.13	(0.12)	(0.91)	(1.32)	
Europe(Euro denominated unless otherwise specified)										
DeutscheBorse										
DJ Stoxx 50 EX	SX5P	32 210	1 120	42.30	41.89	42.01	(0.29)	0.00		
DJ Euro Stoxx 60 EX	SX5E	152 970	3 140	124.20	43.84	44.04	(0.45)	(0.12)		
DJ Stoxx 50 LDRS	EUN1	7 545	2 800	105.50	41.76	41.68	0.19	(4.95)	(10.32)	
DJ Euro Stoxx 50 LDRS	EUN2	405 216	10 500	415.60	43.87	43.84	0.07	(0.35)	(9.81)	
DAXEX	DAXEX	Data not available at press time								
MDAX EX	MDAXEX	Launch date Apr-25-2001								
NEMAX 50 EX	NMKXEY	Launched Apr-6-2001; data not available at press time								
SMI EX	SMIEX	Launched Mar-22-2001; data not available at press time								
DJ Stoxx 50	SX5P EX	Launch date May-3-2001								
DJ Stoxx Healthcare	SXDE EX	Launch date May-3-2001								
DJ Stoxx 600 Banks	SX7P EX	Launch date May-3-2001								
DJ Stoxx 600 Healthcare	SXDP EX	Launch date May-3-2001								
DJ Stoxx 600 Technology	SX8P EX	Launch date May-3-2001								
DJ Stoxx 600 Telecommunications	SXKP EX	Launch date May-3-2001								
DJ Euro Stoxx Technology	SX8E EX	Launch date May-3-2001								
DJ Euro Stoxx Telecommunications	SXKE EX	Launch date May-3-2001								
Euronext (Amsterdam)										
streetTRACKS AEX Index Fund	Launch date to be announced									
DJ Stoxx 50 LDRS	EUN NA	2 319	2 800	105.90	41.94	41.68	0.62	1.13		
DJ Euro Stoxx 50 LDRS	EUE NA	152 970	10 500	414.90	43.80	43.84	(0.09)	0.02		

Fund Name	Ticker	Volume	Shares (000)	Net assets (million)	Price	NAV	Spread	Return 1 Week	Return YTD	Return 1 Yr
Euronext (Paris)										
Master share CAC 40	CAC FP	329 073	7 646	419.01	54.40	54.8	(0.73)	1.01		
Master DJ Euro Stoxx 50	MSE FP	159 444	4 020	158.80	43.86	44.42	(1.26)	0.16		
DJ Stoxx 50 LDRS	EUN FP	3 820	2 800	105.60	41.83	41.68	0.36	(0.96)		
DJ Euro Stoxx 50 LDRS	EUE FP	72 832	10 500	418.70	44.20	43.84	0.82	0.28		
DJ Global Titans	Launch date to be announced									
DJ Stoxx 50	Launch date to be announced									
DJ Euro Stoxx 50	Launch date to be announced									
OM Sweden (SEK denominated)										
XACTOMX	XACT	4 487	1 700	152.98	89.90	89.99	(0.10)			
Switzerland										
DJ Stoxx 50 LDRS	EUN SW	23 375	2 800	106.20	42.05	41.68	0.89	0.36	(9.97)	
DJ Euro Stoxx 50 LDRS	EUE SW	75 286	10 500	417.70	44.10	43.84	0.59	(0.12)	(9.60)	
United Kingdom (GBP denominated)										
iShares iFTSE 100	ISF	325 425	12 500	120.00	9.65	9.60	0.52			
iShares iFTSE TMT	ITMT	10 945	1 540	15.49	10.03	10.06	(0.30)			
iShares iFTSE ex-UK	IEUR	3 996	1 000	18.07	18.17	18.07	0.55			
iBloomberg Financials	IBEF	31 956	4 200	24.19	5.79	5.76	0.52			
iBloomberg Pharmaceuticals	IBEP	2 637	4 200	24.78	5.92	5.90	0.34			
iBloomberg Technology	IBQQ	14 135	4 200	20.08	4.80	4.78	0.42			
iBloomberg Telecoms	IBET	6 657	4 200	19.45	4.63	4.63	0.00			
iBloomberg products are also listed on Euronext's Amsterdam exchange, denominated in Euros										
Hong Kong (Asset & price values in USD)										
SSgA TraHK	2800.HK	8 661 941	2 523	4 399.43	1.75	1.74	(0.57)			
India (Mumbai Stock Exchange)										
Sensex UTI Notional DRS	Launch date to be announced									
Singapore										
StreetTRACKS Straits Times Index	Launch date to be announced									
South Africa (SAR denominated)										
SATRIX 40	STX40	1 020 299	346 492	2 992.58	8.62	8.64	(0.19)	3.48	13.36	

Volume shows average daily volume for the week ending Apr-20-2001 (20 days avg for TraHK; only 4 trading days on European markets due to Easter Monday vacation Apr-16-2001); **Shares** shows the number of outstanding shares; **Net assets** for AMEX-traded issues are approximations; **Price** shows the closing price on Apr-20-2001. **Sources include** AMEX, Weisenberg/Thomson Financial, Investors Bank & Trust, State Street Global Advisors, MAR research and other sources.



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