

### Demand drivers of equity research

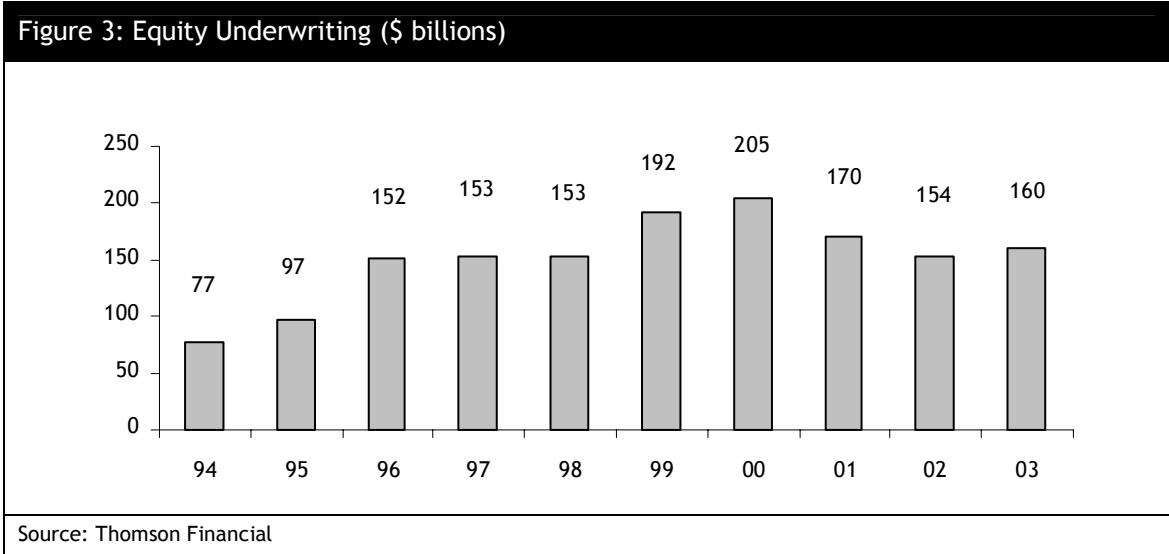
As discussed previously, equity research helps both investors and corporations by facilitating price discovery and improving market efficiency. Therefore, a shift in market activity (e.g. trading volumes and market capitalization) affects both the utility, and the demand, for equity research. The key drivers of demand of equity research include:

- ◆ Increased underwriting activity: Demand for information and analysis about the new securities
- ◆ Increased trading volumes and market capitalization of US companies: Demand for identification of newer investment opportunities
- ◆ Increasing investor participation: Increasing the number of consumers of research

Over the years, the US financial markets have steadily expanded, both in terms of newer securities and increased trading. An increasing number of individual and institutional investors have looked upon the equity markets as a credible source of investment.

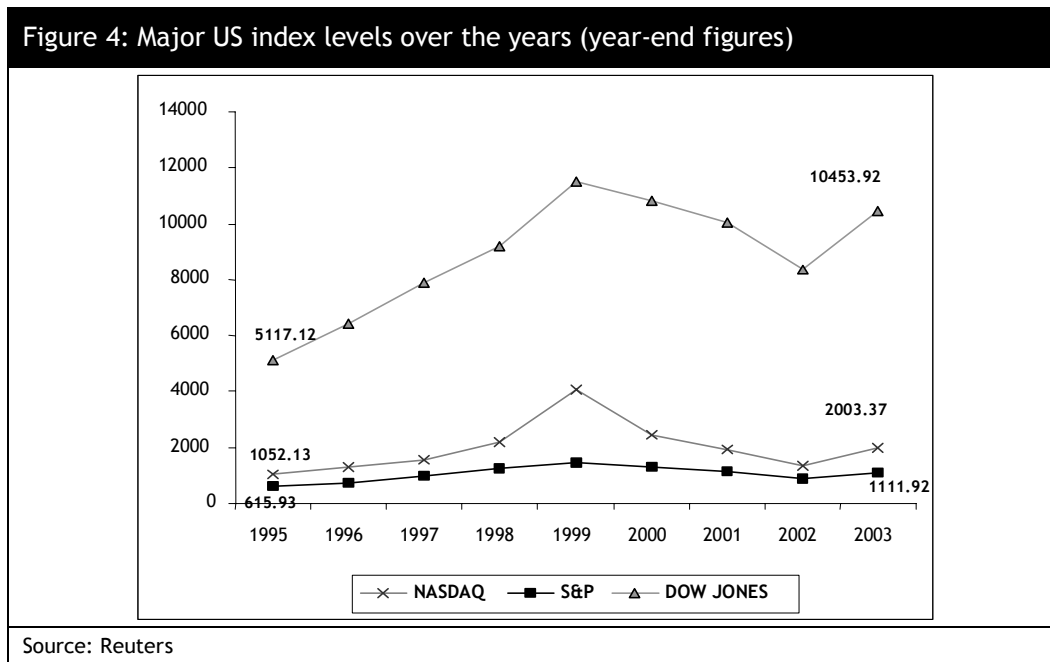
#### Increased underwriting activity

According to projections, the value of all US corporate underwriting (equity and debt) was \$2.9 trillion in 2003, 12% above the \$2.6 trillion raised in 2002. The equity underwriting volume, which is a small subset of the total, is expected to be \$160 billion, which is 4% above the \$154 billion underwritten in 2002. Figure 3 below depicts this increase in total underwriting volume from 1994 to 2003.

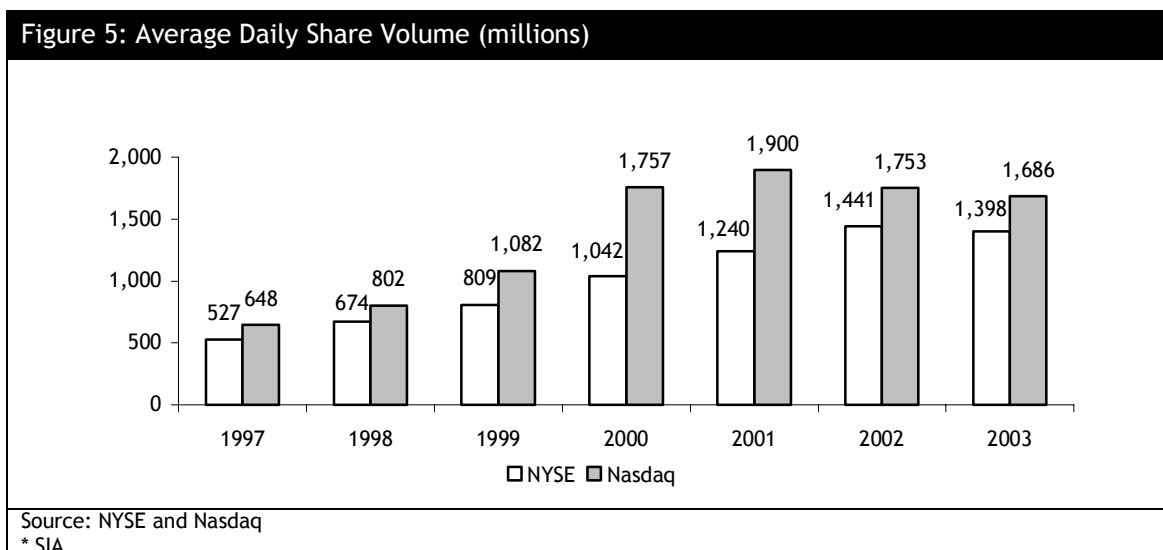


## Increased trading volumes and market capitalization of US companies

After enduring a 3-year losing streak, the US stock market rebounded in 2003. The Nasdaq Composite surged 44% in the year after declining nearly 32% in 2002. The S&P 500 and the DJIA increased 24% in 2003 after dropping 23% and 17%, respectively, in 2002. Although the indexes remain well below their highs in 2000 (as shown in figure 4 below), over a longer term, we cannot but notice the systematic increase in the index levels, which is an indication of the steady growth in the market capitalization of US companies.



The increase in the market capitalization of Corporate America has been accompanied by a corresponding increase in share trading volumes. Figure 5 gives a broad overview of the steady increase in share volumes between 1997 and 2003. The market has seen an almost three-fold increase in the volume of shares traded during the period.

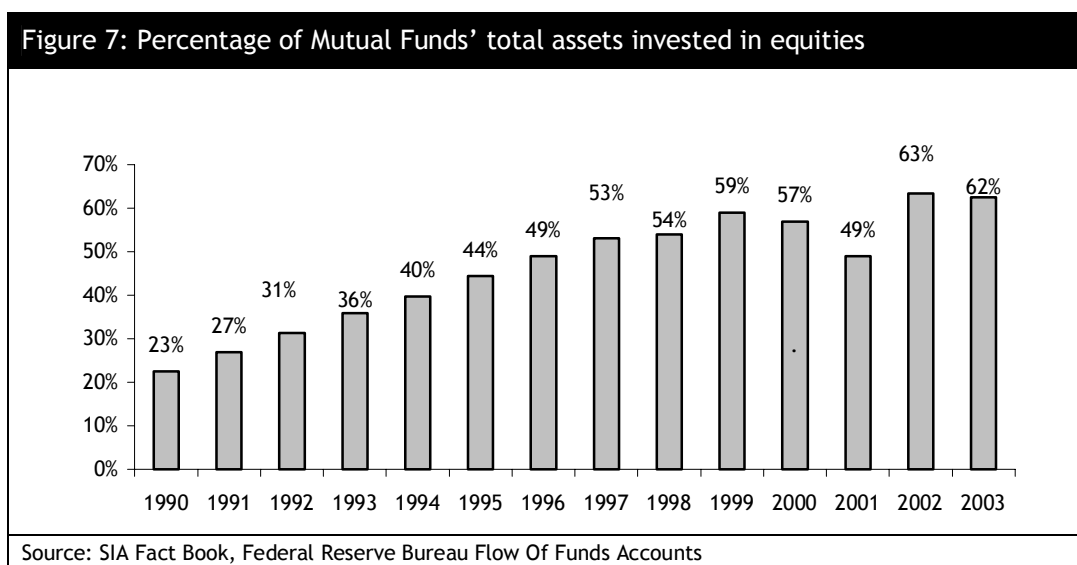
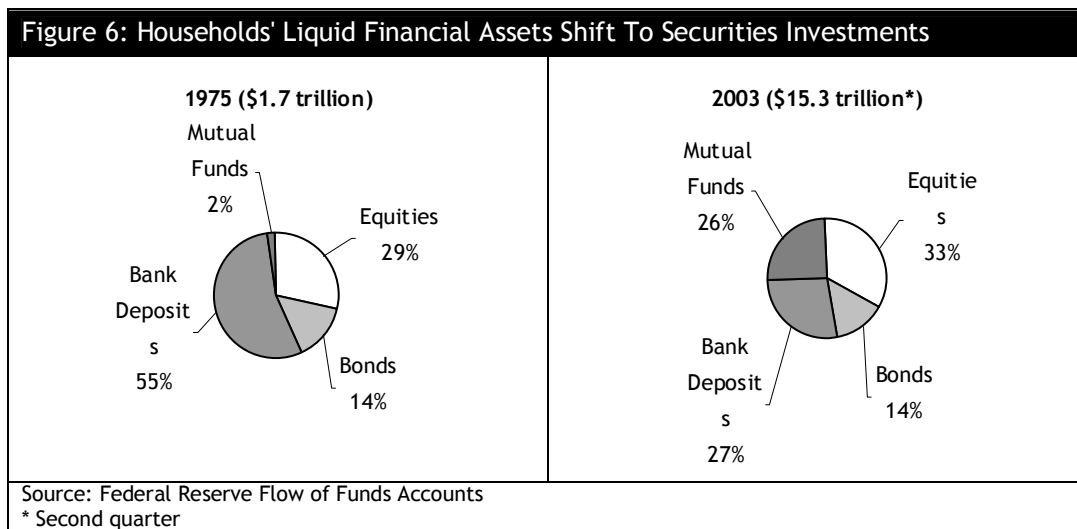


The increasing volumes and capitalization are indicators of a rapid increase in investor interest in the US equity markets. Equity research plays a critical role in channeling this increased interest and identifying the best opportunities to realize value among a wide array of investment possibilities.

### Increasing investor participation in the equity markets

Individual investor participation in equities has risen from 30.2 million individuals in 1980 to 84.3 million in 2002<sup>1</sup> – evidence of increasing investor interest in the US equity markets over the past two decades. US households have steadily shifted their investment from more liquid, less risky financial assets (such as bank deposits) to equities.

In keeping with the trend of greater individual participation in equities, we also notice that a greater share of mutual fund assets are being invested in equities. Figure 6 and Figure 7 below depict this phenomenon of increasing participation in equities by individual investors, both directly and through fiduciaries such as mutual funds:



<sup>1</sup> Source: Securities Industry Association