



PRECISION ECONOMICS, LLC

NYSE Specialists' Profitability

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The NYSE and NASDAQ

NYSE Market Markers

- The New York Stock Exchange (“NYSE”) is served by seven trading specialist firms that “make markets” for companies whose shares are listed on the exchange.
- Five of the seven are within the operations of publicly held corporations or are themselves publicly traded.

Specialist Firms	Public?
LaBranche & Co. LLC	Yes
Spear Leeds & Kellogg Specialists	Yes
Fleet Specialist, Inc.	Yes
Van der Moolen Specialists USA	Yes
Bear Wagner Specialists LLC	Yes
Performance Specialist Group, LLC	No
Susquehanna Specialists, Inc.	No

Source: Available at http://www.nyse.com/pdfs/specialist_list.pdf.

NYSE Specialist Statistics

- The NYSE specialists trade 2,557 listed common stock securities (as of May 5, 2003).

- LaBranche and Spear Leeds & Kellogg Specialists trade the largest number
 - La Branche lists 581 (22.7 percent)
 - Spear Leeds lists 568 (22.2 percent)

- Distribution across the specialists with respect to volume is similar to that seen across the 250 most active stocks
 - Performance and Susquehanna constitute approximately 2-5 percent of volume by share and dollar
 - LaBranche, Spear Leeds, and Fleet make up approximately 70 percent of these volume measurements.

Source: Available at http://www.nyse.com/pdfs/specialist_list.pdf.

NYSE Specialist Statistics

Specialist Firms	Percentage Share of:			
	Common Stocks	250 Most Active	Share Volume	Dollar Volume
LaBranche & Co. LLC	22.7%	26.8%	28.2%	26.8%
Spear Leeds & Kellogg Specialists	22.2%	22.8%	21.2%	23.4%
Fleet Specialist, Inc.	16.8%	21.2%	18.8%	20.4%
Van der Moolen Specialists USA	14.7%	10.8%	12.1%	11.1%
Bear Wagner Specialists LLC	13.3%	14.8%	15.7%	14.8%
Performance Specialist Group, LLC	5.5%	0.0%	1.3%	1.3%
Susquehanna Specialists, Inc.	4.8%	3.6%	2.8%	2.2%

Source: Available at http://www.nyse.com/pdfs/specialist_list.pdf.

NASDAQ Market Markers

- NASDAQ has over 400 market-making firms.
- The average NASDAQ stock has over 10 competing market makers.
- NASDAQ network incorporates other trading systems such as ECNs (Electronic Communications Networks).
- With the advent of NASDAQ's SuperMontage, NASDAQ itself operates as an all-electronic automated market in a manner almost identical to ECNs.

Source: "Market Mechanics: An Educator's Guide to U.S. Stock Markets," available at <http://content.nasdaq.com>.

NASDAQ vs. NYSE

- As stated by Deutsche Bank, “The NYSE and the Nasdaq are fundamentally opposite organizations: the NYSE is a floor-based auction market, the Nasdaq is an electronic dealer-driven market.”
(“The U.S. Exchanges,” Deutsche Bank, June 12, 2002.)
- NASDAQ covers a much smaller market capitalization than NYSE. The NYSE lists most companies with large market capitalization.
- NASDAQ operations are more computerized/automated than the NYSE.
 - NYSE floor receives more than 80 percent of the stock orders on its listed companies.
 - NASDAQ has seen its trading via ECNs increase from approximately 10 percent in 1996 to 49 percent by August 2002.

Source: Available at <http://www.marketdata.nasdaq.com>.



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Analysis of NYSE Specialists' Profitability

NYSE Specialists' Profitability

- “Anyone familiar with the year-in, year-out profitability of specialist firms knows the answer to this riddle [why NYSE seats cost \$2 million]: The floor is a very profitable place to be.”
(Selway, James, “Five Myths About Listed Trading,” *Transaction Performance*, Spring 2002.)
- Available Profitability Figures for Specialists from 10-K:
 - LaBranche is essentially only a trading specialist operation.
 - Fleet and Van der Moolen participate in other lines of business; however, they do report revenue and net income on their trading specialist operations.

Sources: Available at <http://www.edgar-online.com>, <http://www.vandermoolen.com> & <http://www.bankofengland.com>.

NYSE Specialists' Profitability

- For full year 2002, these specialists earned net income (pre-tax) that is approximately 35-60 percent of their revenues in the most recent full fiscal year, with Van der Moolen at the high end of the range at 61.0 percent.



NYSE Specialists' Profitability

Specialist Name	Pre-tax profit (Millions) (2002)	Revenue (Millions) (2002)	Pre-Tax Profit/Revenues
LaBranche & Co. LLC	\$166.1	\$452.8	36.7%
Fleet Specialist, Inc.	\$169.2	\$325.0	52.1%
Van der Moolen Specialists USA	\$153.5	\$251.5	61.0%
Total	\$488.8	\$1,029.3	47.5%

NYSE Specialists vs. Industries

- In comparison to the 35-60 percent pre-tax margins of the NYSE specialists:
 - The total pre-tax margin earned in SIC 6211 (Security Brokers, Dealers, and Flotation Companies) was 9.7 percent in the year ended March 2002.
 - Firms in SIC 6282 (Investment Advice) earned pre-tax margins of 14.5 percent in the year ended March 2002.
 - Each of the SIC codes classified as “Finance and Insurance” earned pre-tax margins below those of the NYSE trading specialists.

NYSE Specialists vs. Industries

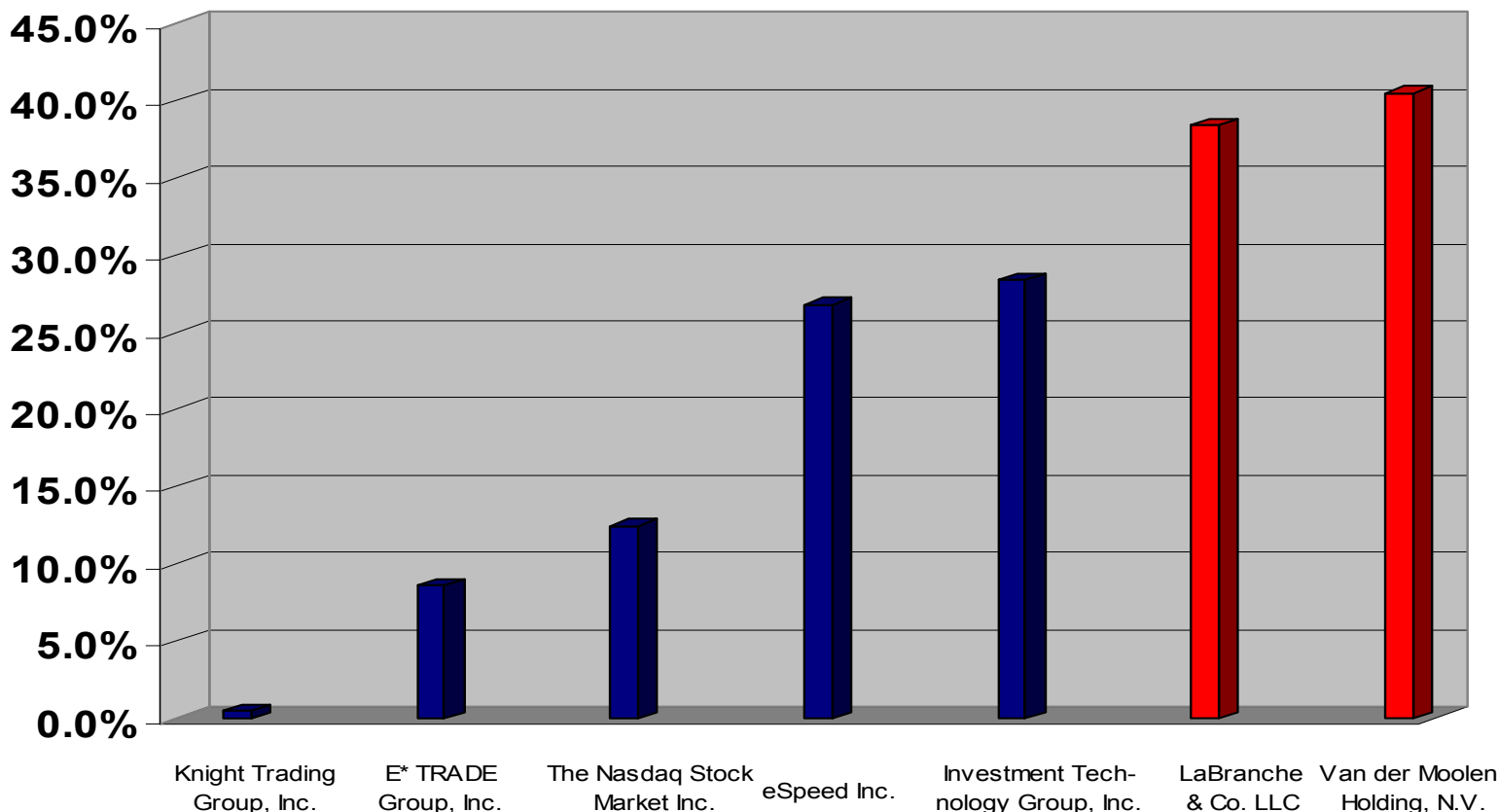
Financial SIC Codes (FYE 3/02)	Profit Margin
SIC #6211 Security Brokers, Dealers, & Flotation Companies	9.7%
SIC #6282 Investment Advice	14.5%
Range of Other SIC Codes	2.4%-19.9%
Average for NYSE Specialists	47.5%

NYSE Specialists vs. Other Similar Firms

- NYSE Specialist Profitability Compared to Peers by Analysts: Jefferies & Company—January 23, 2003.

Company	Pre-Tax Margin
Knight Trading Group, Inc.	0.5%
E*TRADE Group, Inc.	8.6%
The Nasdaq Stock Market Inc.	12.5%
eSpeed Inc.	26.8%
Investment Technology Group, Inc.	28.4%
LaBranche & Co. LLC	38.4%
Van der Moolen Holding, N.V.	40.5%

NYSE Specialists Pre-Tax Margin vs. Peers in 4th Quarter, 2002



Source: "Knight Trading Group, Inc.," Jefferies & Company, Update-January 27, 2003.

Acquisitions of Specialists

- Tangible assets generally provide a relatively modest profit margin.
- Higher profit margins are generally associated with the ownership of valuable intangible assets (*e.g.*, market position, intellectual property, etc.).
- Analyzed the terms of the acquisitions of trading specialists in the past few years to assess their level of non-routine (intangible) profit being earned.
- Consistent with previous findings, trading specialist acquisitions include significant intangible value.

Acquisitions of Specialists

Acquisition	Acquirer	Acq. Price (\$M)	Goodwill (Intangible) /Acq. Price
Robb Peck McCooley Financial Serv.	LaBranche & Co. LLC	439	102.1%
Wagner Stott Mercator, LLC	Bear Sterns Companies Inc.	625	61.9%
Scavone, McKenna, Cloud & Co.	Van der Moolen Specialists	48	98.7%
Stern & Kennedy, LLC	Van der Moolen Specialists	26	72.5%
Spear, Leeds & Kellogg, L.P.	Goldman Sachs Group Inc.	5,750	69.6%
Fagenson, Frankel & Streicher	Van der Moolen Specialists	76	89.9%
Webco Securities, Inc.	LaBranche & Co. LLC	50	57.5%
Henderson Brothers Holdings, Inc.	LaBranche & Co. LLC	228	89.7%
Total			81.2%

Source: "Van Der Moolen Holding, NV," Jefferies & Company, Inc., December 7, 2001.

Note: Three specialist acquisitions were removed due to lack of information.

NASDAQ and NYSE Spreads

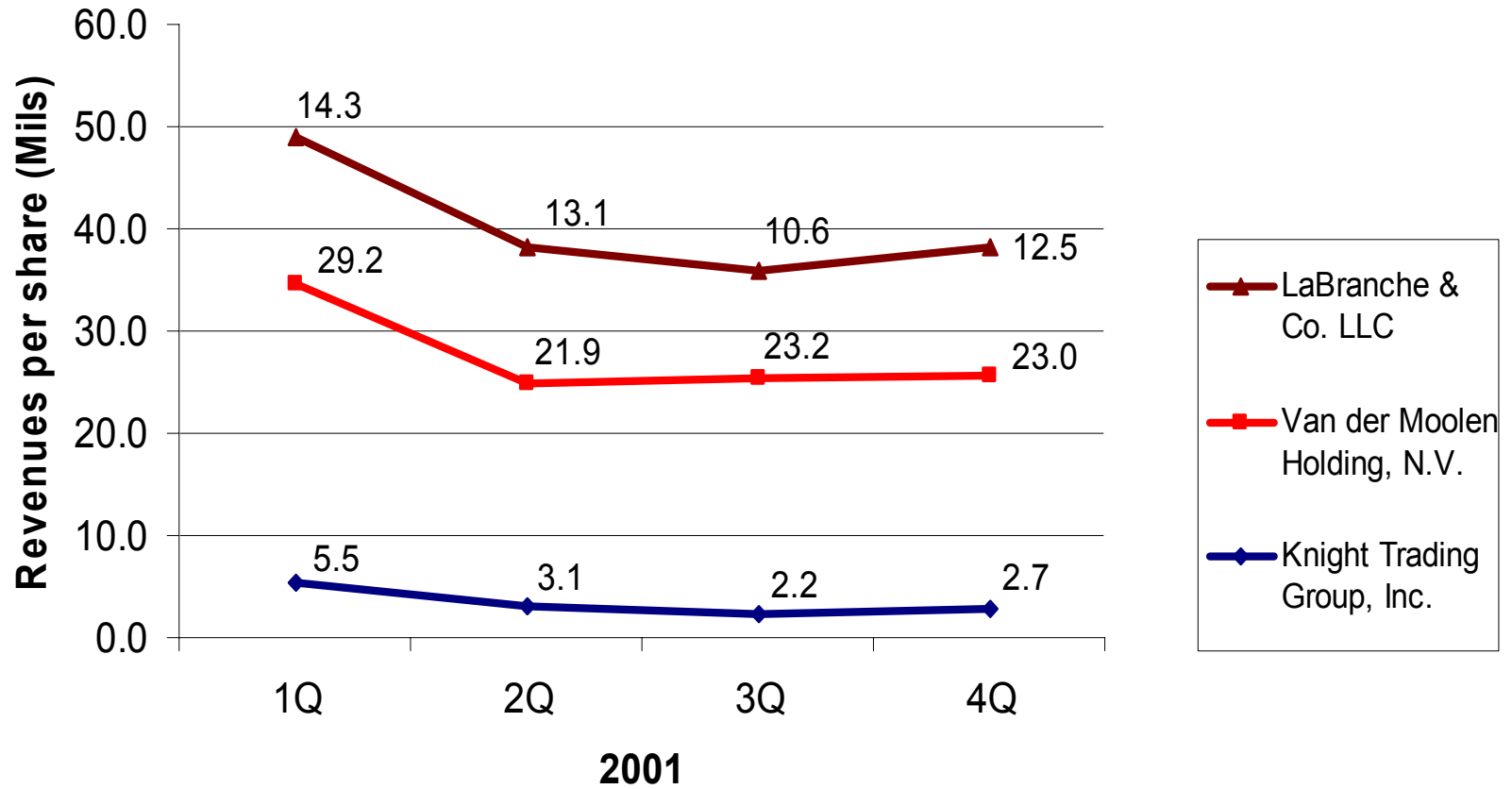
- Recent reports suggest that NASDAQ trades more efficiently than the NYSE. Its effective spread of 1.5 cents is reported to be 40 percent lower than the NYSE.
- Similarly, it is reported to execute 81 percent of trades at the quoted price vs. only 60 percent for the NYSE.
- NASDAQ itself reports similar—slightly more favorable—numbers on S&P 500 stocks: (a) spreads that are 62 percent lower than NYSE and (b) transaction costs that are 56 percent lower than NYSE.

Revenues per Share

- Publicly available information suggests that the market makers of NYSE (specialists) derive more revenue per traded share than the corresponding revenue for the NASDAQ market makers.
- Focusing on the operations that are exclusively/majority in market making, a reasonable comparison is between LaBranche/Van der Moolen and Knight Trading
 - For the full year 2001, Knight's revenue captured per share was 0.3 cents.
 - Van der Moolen's and LaBranche's principal trading revenues per share were approximately 2.4 and 1.3 cents, respectively in 2001.

Sources: "Van Der Moolen Holding, NV," Jefferies & Company, Inc., December 7, 2001 & <http://10kwizard.ccbn.com>

Revenues per Share (Mils) per Quarter 2001



Sources: "Van Der Moolen Holding, NV," Jefferies & Company, Inc., December 7, 2001 & <http://10kwizard.ccbn.com>

Conclusion

- NYSE Trading Specialist Profitability
 - Further research warranted
 - Other measures of profitability (different profit level indicators)
 - Examination of profits of privately held trading specialists
 - Examinations of profits of specialist arms of public companies
 - Initial results from available data
 - NYSE trading specialists are very profitable
 - Trading specialist profits exceed their peers and other publicly traded companies

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Brian C. Becker is the President of Precision Economics, LLC where he specializes in valuation matters. He has written economic reports for a variety of court and public policy settings.

Dr. Becker has published approximately two dozen articles as a supplement to his consulting activities. In addition, he is a frequent speaker before government and private audiences on valuation topics. He has held teaching positions at the Business Schools of The Johns Hopkins University, Marymount University, The George Washington University, and the University of Pennsylvania.

Dr. Becker earned M.A. and Ph.D. degrees in Applied Economics from the Wharton School of Finance of the University of Pennsylvania. He earned a B.A. in Applied Mathematics and Economics from The Johns Hopkins University.