

MERRILL LYNCH & CO., INC.

The do-it-yourself model of investing centered on Internet trading should be regarded as a serious threat to Americans' financial lives; this approach to financial decision-making doesn't serve clients well, and it's a business model that won't deliver lasting value.

—John L. (Launny) Steffens, Merrill Lynch & Co., Inc.
CEO, U.S. Private Client Group, September 1998

“So, what do you think? Are you ready to try something new, or are you going to stick it out at as a broker at Merrill and see what happens to you next? You’ve already lost business; it’s only a matter of time before your income suffers.” The words rang in Aaron Nathan’s ears. It was a question he had been contemplating for weeks following lunch with his old friend and mentor, Alison Connor. Several years ago, when on-line trading first gained in popularity, Alison had left Merrill to become an independent financial consultant. Ever since then, she had been encouraging Nathan to leave Merrill and “try something new.”

The pressure had intensified with Merrill’s decision in June 1999 to offer all of its clients on-line trading at a cost of \$29.95 per trade. Although some of Nathan’s wealthier and more active clients had earlier access to on-line trading, now the service was available to everyone...from the elderly Mrs. Greenburg with her multiple trusts, to the Spencer family with their modest but steady contributions to the kids’ college education and retirement accounts. And Nathan was already seeing the impact of on-line trading on his book of business. A number of his more active and independent clients had already migrated to low-cost competitors like E*Trade. Some had only shifted a portion of their assets...they still relied on him to look after the bulk of their assets, to provide advice as well as access to IPOs (initial public offerings) and Merrill’s top research picks. Others, like Ken Evans, transferred entire accounts to the on-line firms. Those losses had to be replaced...at least now, he had something to offer his clients in the way of on-line trading. The question was, “Could he manage to make on-line trading work for both his clients and his income?”

For the short term, Nathan’s income was safe. In an effort to help with the transition, for the 18 months following the December launch of ML Direct, Merrill would compensate him as if his

clients' on-line trades had generated their normal broker-assisted commissions. That, of course, would not last, and Nathan was determined before his time ran out to figure out the best way to position himself for a future that would include low-cost on-line trading.

On-line Brokerage

On-line stock trading traced its roots to as early as 1983, according to E*Trade Group, but it was the commercialization of the Internet in the mid-1990s that sparked the real growth and democratization of on-line investing. In just four years, on-line accounts had grown from a base of none to approximately 5.4 million, representing almost \$400 billion in assets.¹ (**Exhibit 1**) According to market forecasters, those numbers were just the beginning. On-line accounts and assets were expected to increase by as much as sevenfold during the next four years. Although many investors still traded stock the old-fashioned way through brokers, on-line investors, including aggressive day traders, made up for their relatively small population with increased activity and volume. The result, according to U.S. Bancorp Piper Jaffray, was that on-line trading represented 43% of all retail equity trades in 1999 up from 27% in 1998.

Two of the early purveyors of on-line trading were Charles Schwab, a discount broker with branch offices worldwide, and E*Trade, a firm dedicated to the e-business model of on-line trading. Ranked as numbers one and two in the industry by U.S. Bancorp Piper Jaffray, they provided 22% and 15% respectively of the approximate 807,000 on-line trades made each day. Although the two firms competed heavily on-line, they followed two separate business models: bricks and clicks versus clicks alone.

The Charles Schwab Corporation

Charles Schwab established itself as a discount brokerage firm with one branch office in Sacramento, California, in 1975, when brokerage commissions were first deregulated. By the end of 1999, the firm had 340 branch offices around the world and \$725 billion in assets. Over the years, the firm had acquired a reputation as an innovator. First, Schwab offering on-line trading in 1985 with a proprietary trading system called The Equalizer. The firm's electronic brokerage service, e.Schwab, was established 10 years later in 1995. Originally, only customers who opened separate e.Schwab accounts could trade on-line at a price of \$39 per trade, a 50% discount from standard fees. But by January 1998, every Schwab customer had access to on-line trading through www.schwab.com at the reduced price of \$29.95. The firm no longer distinguished "e-business" from its core business. Instead, Schwab emphasized its accessibility through any medium—Web, phone, or branch office.

¹ Estimates vary widely. Gomez Advisers' estimates are about twice those of Forrester Research. Some of the difference is attributable to how a firm defines an on-line account. Some firms count only active accounts with trading activity. Others include any account that has access to on-line information and trading.

Throughout its history, Schwab continued to innovate and to offer new products and services. In 1992, Schwab introduced the Schwab Mutual Fund OneSource as the industry's first no load, no transaction fee marketplace, offering more than 80 funds from 800 fund families. By 2000, Schwab's mutual-fund assets had grown to \$285 billion, and OneSource offered nearly 1,200 funds from more than 200 fund families, including its own family of mutual funds. Some 500 additional funds were available to clients of Schwab Institutional, a division servicing the 5,600 independent, fee-based investment advisers who managed 10% of Schwab's client accounts and 30% of its assets.

In early 2000, the firm announced the purchase of two firms, U.S. Trust, for \$2.9 billion, and CyBerCorp, for \$488 million. U.S. Trust, a 150-year-old blue chip firm with \$86 billion in assets, offered complete asset management, and tax- and estate-planning services to high net worth (HNW) individuals with an average account size of \$7 million. At Schwab, only 5% of the customers had assets of more than \$1 million and the average account size was a relatively modest \$110,000. CyBerCorp, a young day trading firm in Austin, Texas, offered advanced software technology that automatically routed orders to the execution points offering the best stock prices. Schwab intended to market CyBerCorp's services to its most active traders, who accounted for only 1% of the firm's 6.6 million active accounts and generated as much as 20% of the company's trading volume. It seemed that with two acquisitions, Schwab covered both ends of the investor spectrum.

E*Trade Group, Inc.

E*Trade was founded in 1982 as an on-line quote and trading service to Fidelity, Charles Schwab, and Quick & Reilly. The electronic brokerage firm of E*Trade Securities was established in 1992 and offered on-line investing services through AOL and CompuServe. In 1996, the firm's Web site at www.etrade.com was launched. The firm, with headquarters in Menlo Park, California, and no branch offices for customers, staunchly adhered to its e-business model. Said CEO Christos Cotsakos, "We've got branch offices in 22 million PCs."² By fiscal year-end 1999 (September, 1999), E*Trade had grown to 1.6 million accounts with \$28.5 billion in client assets.

E*Trade's strategy was made obvious by the fact that it offered each new account a free copy of "Boot Your Broker." The chief executive officer (CEO), Christos Cotsakos, had issued the following warning to the full service, full commission brokerage houses: "All those branch offices...are going to become fast-food outlets, so you might want to think about your career choices." E*Trade offered lower commissions (\$14.95 versus \$29.95) and more mutual funds than Schwab. Clients could choose from among 5,000 mutual funds at E*Trade versus less than 2,000 at Schwab. Although E*Trade offered a greater selection of mutual funds, its customers seemed to prefer other assets. At fiscal year-end 1999, mutual fund assets at E*Trade were only \$1 billion.

² Heather Green and Seanna Browder, "On-line Merchants: Cyberspace Winners: How They Did It" (Info Tech Annual Report: The Digital Bazaar), *Business Week* (22 June 1998): 154.

E*Trade courted active traders with Power E*Trade, a service for active investors that featured streaming NASDAQ level II quotes, an enhanced trading desk, and preferred IPO allocations. In 1999, the firm offered clients access to 85 IPOs managed by E*Offering, its affiliated on-line investment bank.

The firm aggressively established alliances to enhance the content of its Web site E*TRADESM as well as to reach new markets (**Exhibit 2**). Its stated goal was to become “the most comprehensive global financial services experience on the Internet.” In January 2000, the company announced plans to offer financial planning services through an agreement with DirectAdvice.com, Inc. Personalized advice would include topics such as how much to save, how to invest in mutual and money market funds available through E*Trade, and how to make asset allocation decisions. Also in January, the firm merged with Telebanc Financial Corporation, a transaction that made E*Trade the first pure-play e-commerce company in the financial services sector combining both on-line banking and brokerage services.

With the passage of digital signatures in June 2000, E*Trade stood to benefit a considerable amount relative to its competition. A digital signature allowed a new account owner to instantly transfer money from a checking account into the newly created E*Trade brokerage account. E*Trade had been offering instant accounts since March 2000 based on a California law, which already recognized digital signatures. A new customer could fill out an on-line application in about five minutes and be approved within one minute of hitting the send button. With digital signatures, the customer could begin trading almost immediately after the approval. The number of instant accounts created was estimated by E*Trade’s chief marketing officer as “in the tens of thousands.”

The possibility of an even larger merger existed for E*Trade. During 1999 and early 2000, numerous suitors, including securities firm Goldman Sachs, insurance company AIG, and commercial bank Wells Fargo, had held potential merger talks with the company. Most recently, the financial services firm American Express had been in negotiations to purchase the on-line broker. Talks reportedly broke down over price and cultural incompatibility.

On-line Industry Trends

Other major on-line-trading competitors included Fidelity, the mutual fund giant; DLJdirect, an arm of securities firm Donaldson Lufkin Jenrette; TD Waterhouse Group, the on-line brokerage arm of Canada’s Toronto-Dominion Bank; Datek; and Ameritrade. Together, the top seven firms in the on-line industry held 85% of the market. Each sought to carve out a niche for itself in on-line trading and many spent heavily—as much as \$100 million a month, resulting in acquisition costs of \$100 to \$300 per account. Not all the advertising was worthwhile. Ameritrade, for example, was an aggressive competitor that advertised heavily to promote its brand. Its irreverent commercials featuring a character named Stuart had been broadcast more than 4,500 times and developed a cult following. Unfortunately for Ameritrade, some market studies found that many potential customers associated Stuart with rival E*Trade.

Barely five years old, on-line trading was changing at Internet speed, and the rapid growth attracted hordes of competitors. By early 2000, more than 100 firms offered on-line trading, and the list grew daily. The increased competition from so many new entrants fueled a price war that steadily decreased the average on-line commission from as high as \$60 in 1996 to \$15.75 by 1997. Commissions stabilized at the \$15.75 level for a year or two, but now a new price war had erupted for active traders. In February 2000, Schwab lowered its commissions for active traders to E*Trade's standard price of \$14.95. E*Trade responded by offering rebates to active traders that would result in effective commissions of \$4.95 per trade, a price lower than Ameritrade's rock-bottom commission of \$8 per trade.

Not everyone courted the active trader or charged commissions. In a bid to acquire assets rather than active traders, American Express offered investors with assets of \$100,000 or more free on-line trading for trades of up to 3,000 shares. Clients with \$25,000 in assets could buy up to 3,000 shares with no commission; while selling generated the company's standard \$14.95 commission. The new offer discouraged heavy day traders by imposing a commission on on-line sells whenever a client issued a same-day buy-and-sell order of the stock.

Competition for investors was not limited to rival on-line brokers. Financial portals such as Yahoo!Finance and Microsoft Intuit's Quicken.com competed with brokerage firms for the attention of on-line investors by offering advice, stock quotes, research, and portfolio tracking services. Some portals had become intermediaries, providing hyperlinks from the portal to the broker-dealer. A number of brokerage firms had entered into cobranding arrangements with portals, paying either a flat up-front fee or a per-order "connection" fee for each order transmitted by an investor who hyperlinked from a portal to a broker-dealer. In 1998, Ameritrade, DLJdirect, E*Trade, and Waterhouse Securities each signed \$25-million advertising contracts with AOL. Merrill Lynch paid an undisclosed amount to be the "premier financial provider" on Microsoft's MoneyCentral site. The up-front fees did not always lead directly to increased business, and a number of firms decided against renewing their contracts. A marketing study had shown that most consumers who managed their money online, preferred portals over brokerage sites. For example, 32.5% reported AOL Personal Finance as their most frequently chosen site for the purpose of managing their financial information (**Exhibit 3**).

The issue of compensating portals was complicated by the U.S. Securities and Exchange Commission's (SEC) regulations, which had yet to catch up with the Internet's technology. Most on-line merchants entered into revenue-sharing agreements with portals whereby the on-line merchant would pay the portal a fee for every completed transaction generated by the portal's site. Although the SEC allowed broker-dealers to pay a portal a flat fee based on orders transmitted, they currently could not pay based on the number of accounts opened, which was their preference. According to current regulations, a referral fee paid to a portal based on the number of new customer accounts resulting from the hyperlink would be considered transaction-based compensation. Receiving transaction-based compensation would make the portal a broker-dealer (broadly defined as any person, other than a bank, engaged in the business of effecting transactions in securities for the account of others), and the portal would be required to register as such with the SEC.

Because most navigational portals such as Yahoo! followed an advertising business model, many broker-dealers saw them as a means of marketing and distribution. Yet some saw portals such as Quicken.com as a threat to the broker-client relationship. Quicken originated as a bill-paying software program created by Intuit. The firm developed and sold both bill paying and tax preparation software and pursued the potential of the Internet with new technologies aimed at transforming the consuming task of data entry into quick and easy decision-management activities. As the popularity of its programs grew, the firm continually expanded to meet its customers' needs. The result was that Quicken file formats became the de facto standard for presentation of statement information over the Internet. The open financial exchange (OFX) technology developed by Intuit, Microsoft, and others allowed investors with multiple brokerage accounts to manage their finances on an Internet portal rather than on a Web site run by an on-line broker. The result provided greater convenience for consumers while creating exceptional "stickiness" for the portal—a development that concerned broker-dealers who feared the loss of control over the client relationship.

At first, full-service brokerage firms seemed to pay little attention to on-line trading. Merrill Lynch launched Merrill Lynch On-line (www.mlol.ml.com) in November 1996 to provide research and account access to clients, but the firm was slow to embrace the idea of on-line trading. In fact, in September 1998, John L. "Launny" Steffens, CEO of Merrill's U.S. Private Client Group, gained notoriety both inside and outside the industry for saying publicly that on-line trading threatened Americans' financial health. Privately, the old-line brokerage firm could not ignore the on-line movement. Brokers were losing commissions, assets, and customers to firms with on-line-trading capabilities. Even before his infamous quote, Steffens had approved a new position in the company to examine Merrill Lynch's on-line-trading options.

Merrill Lynch & Co., Inc.

Merrill Lynch & Co. Inc., was established in 1940 when Charles Merrill, an investment banker, teamed up with Edmund Lynch, a soda fountain equipment salesman, to form a brokerage firm dedicated to "Bringing Wall Street to Main Street."³ The firm flourished, and by the end of 1999 had 14,200 financial consultants in 950 offices around the globe and client assets of \$1.7 trillion.

Merrill Lynch segmented its business into two areas: Wealth Management and the Corporate and Institutional Client Group (CICG). Its wealth management services included retail brokerage, cash management accounts, and mutual funds and were subdivided further into three groups: U.S. Private Client, International Private Client, and Merrill Lynch Asset Management. **Exhibits 4 and 5** show the firm's revenue sources according to business segment and type of revenue for the past five years. According to Bear Stearns, wealth management accounted for about half of Merrill Lynch's 1999 earnings, of which about 10% was from the mutual fund or asset management business.

³ Joseph Nocera, "Main Street Broker," *Time* (7 December 1998): 98.

On the corporate and institutional side, the firm offered trading, investment banking, mergers and acquisitions, government bonds, and clearing services. CIGC was divided into three areas: Global Clients, Global Client Businesses, and Regions. Global Clients included Institutional Client and Investment Banking, and competed with investment-banking firms such as Goldman Sachs. Global Client Businesses included Debt and Equity Markets, which included trading, syndication, and securities-clearance services. Regions provided CIGC with a strong presence to meet client needs in specific geographical areas, including Europe, Asia/Pacific, Japan, Canada, Latin America, Australia/New Zealand, and the Middle East and Africa. Efforts to expand the business overseas had paid off. The firm had been a leading underwriter of global debt and equity for more than 10 years, and more than half of Merrill's CIGC revenues and about one-third of total revenues came from outside the United States.

On June 1, 1999, Merrill announced its plans for ML Direct (www.mldirect.ml.com) with two pricing options. Clients could pay \$29.95 for each unassisted on-line trade, or they could sign up for the Unlimited Advantage account that offered unlimited trades, research, and broker assistance for an asset-based fee. **Exhibit 6** shows the pricing schedule for an Unlimited Advantage account. With the introduction of Unlimited Advantage, a Merrill Lynch customer could choose between several options:

1. Maintain her current account and pay the financial consultant the current brokerage commission for making each trade authorized.
2. Maintain her current account, but do her own trading online at \$29.95 per trade.
3. Open an Unlimited Advantage account, pay a fixed asset management fee, but pay no commissions for the trades executed by her financial consultant.
4. Put a portion of her funds into an Unlimited Advantage account to use for frequent trading and keep the balance in a regular account for infrequent trading.

Until the introduction of ML Direct, only 1% of Merrill's clients could trade online. Under the new plan, all 5 million clients had access to on-line trading. The announcement of the new offering created its own controversy. The financial press reported the firm's on-line plans before management had informed its own employees. In an effort to calm their concerns, Steffens spent two days holding Q&A sessions with brokers, which were broadcast to the entire sales force.

Competitors had a field day noting how quickly Merrill Lynch (ML) had changed its tune regarding on-line trading. Some, including Schwab, were unconcerned about the entrance of yet another new rival. "They're doing what we did in 1995," said David Pottruck, president and co-CEO of Charles Schwab. "They're emulating Schwab 1.0."

In a speech at Salomon Smith Barney's Third Annual Financial Services Conference in late January 2000, Merrill's chair and CEO, David H. Komansky, shed some light on the decision to offer Unlimited Advantage. He told the audience, "The price for advice is about 100 basis points. We know it, the client knows it, and we priced Unlimited Advantage accordingly." Komansky pointed out that the Unlimited Advantage program provided a method to annuitize Merrill's

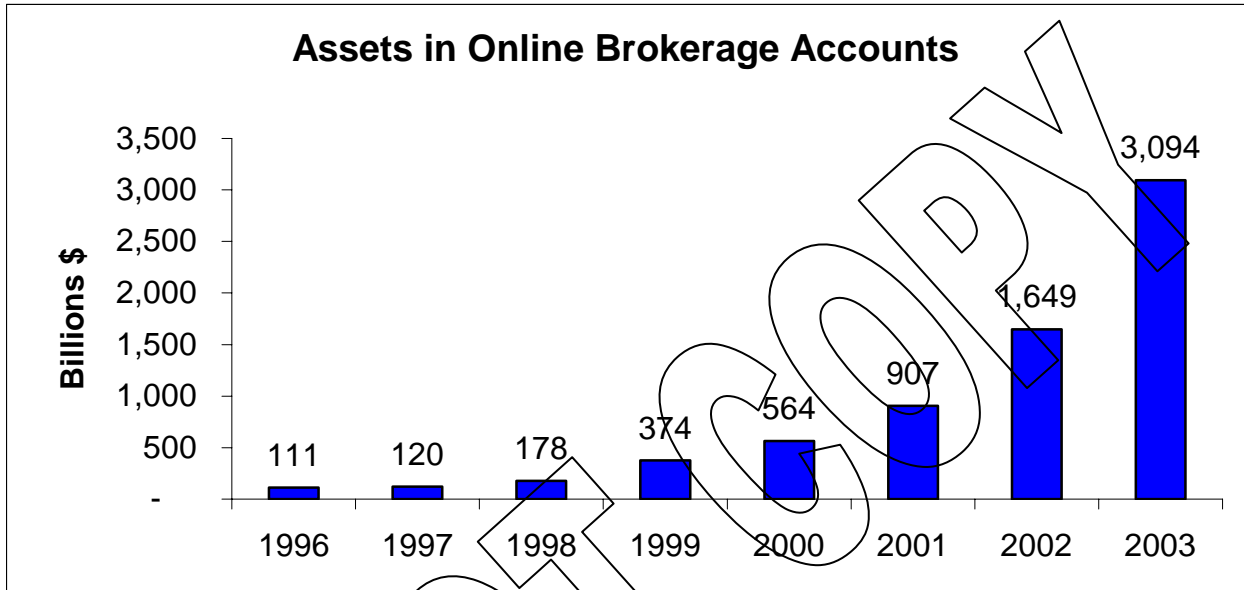
revenues as well as to establish a floor for the firm's velocity (revenues/assets under control), a measure used by analysts to evaluate the retail securities industry. Unlimited Advantage also provided a new prospecting tool for the firm's financial consultants.

In the first six months of availability, the Unlimited Advantage program proved attractive to both Merrill's brokers and clients. At launch time in mid-July, the program attracted 1,000 accounts per day. By January, brokers were opening twice that many, and total assets had reached \$70 billion. Of that total, net new assets in the program were \$9 billion, two-thirds of which came in the fourth quarter. With only \$9 billion in new money, the bulk (86%) of Unlimited Advantage's assets were from within ML. **Exhibit 7** provides a comparison of on-line assets of E*Trade, Schwab, and Merrill.

Ultimately, the Unlimited Advantage program could prove to compromise ML's asset management business, which had grown to include more than \$550 billion under management (**Exhibit 8**). In addition to the more than 100 mutual funds managed by Merrill Lynch Asset Management (MLAM), the firm offered some 1,900 funds from more than 95 fund families. Under the new pricing program, the economic impact of choosing a non-Merrill mutual fund versus an MLAM product was neutral for both the client and broker. Brokers, who were paid based on asset levels, benefited in the long run by recommending funds with the best performance records regardless of the firm's affinity.

On-line trading was not the only change at Merrill Lynch. Executives at the firm had spoken publicly of buying a trust bank, even before Schwab's acquisition of U.S. Trust. More recently, the firm had announced management changes that promoted Steffens to the chair of the U.S. Private Client Group, a move seen by some as a more strategic position. Executive vice president and chief financial officer (CFO) E. Stanley O'Neal was promoted to succeed Steffens as the president and to lead the company's 14,200 brokers. The promotion made O'Neal, who joined Merrill from General Motors in 1986, a leading candidate to succeed Komansky, who was expected to step down in five years. According to securities industry analyst Guy Moszkowski of Salomon Smith Barney, "The biggest obstacle he faces is that brokers aren't happy with the status quo.... O'Neal's got to make on-line work without cannibalizing [traditional] revenue." O'Neal, who never worked as a broker, planned no major changes in his predecessor's strategy, but was committed to increasing the ranks of Merrill's financial consultants. "We need more people—the best we can find."

Exhibit 1
MERRILL LYNCH & CO., INC.



Source: Forrester Research Corp.

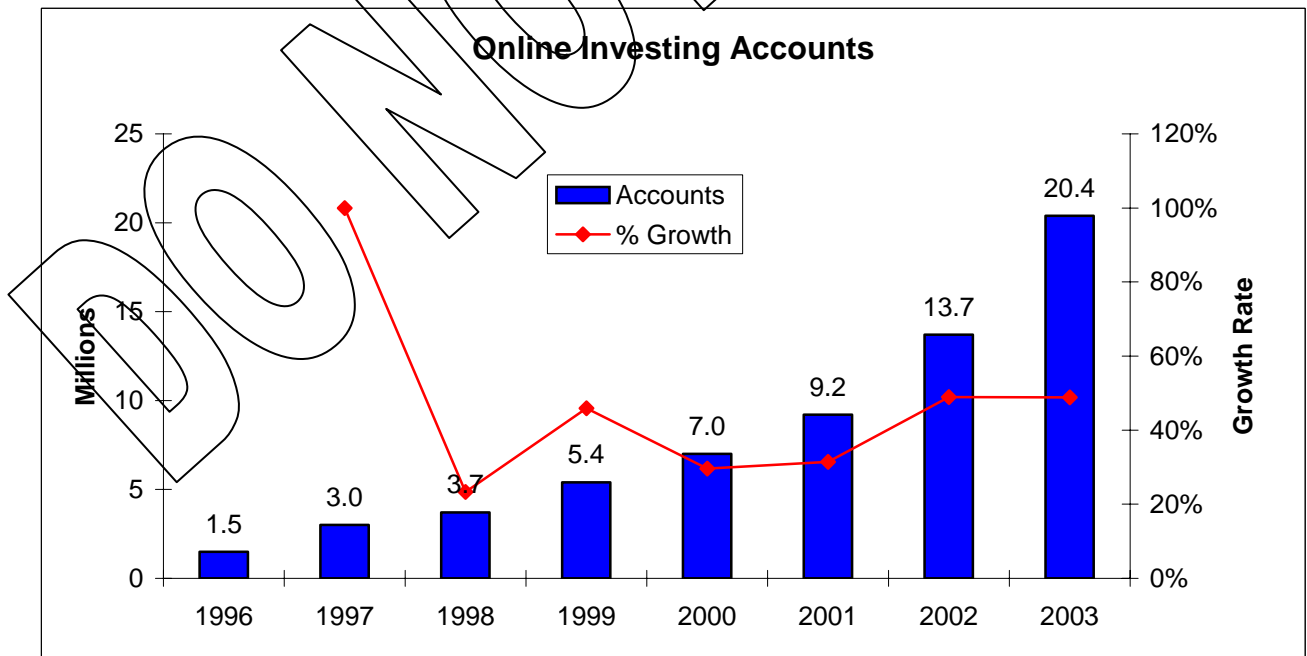


Exhibit 2

MERRILL LYNCH & CO., INC.

E*Trade Group's Alliances and Investments

<u>Company</u>	<u>Product/Service Offering</u>	<u>% Ownership or Alliance</u>
America On-line	Internet service	Alliance
Archipelago	Electronic communications network	One of four initial investors
BancBoston Robertson Stephens	Research	Alliance
Bond Exchange	Bond trading	Alliance
Bridge Information	Financial news	Alliance
Briefing.com	Research	Alliance
Critical Path	E-mail services	9.9%
Digital Island	Neutral Internet business exchanges	5.6%
DirectAdvice	On-line financial planning services	Alliance
E-Coverage	On-line insurance broker	Investor
E-Loan	Loans	Investor
E*Offering	Investment banking, research	Lead investor
First USA	Credit cards	Alliance
Garage.com	Web-based venture financing firm	Investor
Instinet	After hours trading	Alliance
InsWeb	Insurance	Alliance
Knight Trimark	Clearing service	2.6%
LoanCity	On-line services for mortgage brokers	Investor
Message Media	e-messaging	Investor
Morningstar, Inc.	Financial news/analysis	Alliance
TheStreet.com	Financial news	Alliance
Yahoo!	Internet portal site	Alliance

Exhibit 3

MERRILL LYNCH & CO., INC.

Investors' Use of Portals and Brokerage Sites*

	Frequency Selected by Investors as Preferred Site
America On-line Personal Finance	32.5%
Quicken.com	13.5%
Yahoo! Finance	10.8%
Schwab	6.1%
Fidelity	3.1%

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* Study conducted by Cyber Dialogue and Booz-Allen & Hamilton of 1,000 Internet users in second quarter 1998.

Exhibit 4

MERRILL LYNCH & CO., INC.

Merrill Lynch's Selected Financial Highlights

(in millions of U.S. dollars)				
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Net Revenues				
Wealth management				
Brokerage & lending	\$5,435	\$6,328	\$6,798	\$7,472
Asset management & portfolio services	2,431	3,002	4,777	5,484
Other	<u>118</u>	<u>175</u>	<u>0</u>	<u>0</u>
Wealth Management Total	\$7,984	\$9,505	\$11,331	\$12,956
CICG				
Trading:				
Debt	\$2,072	\$2,242	\$847	\$2,397
Equity	<u>1,658</u>	<u>2,024</u>	<u>2,761</u>	<u>3,638</u>
Subtotal	\$3,730	\$4,266	\$3,608	\$6,035
Underwriting				
Debt	\$489	\$593	\$488	\$450
Equity	<u>587</u>	<u>770</u>	<u>841</u>	<u>1,104</u>
Subtotal	\$1,076	\$1,363	\$1,329	\$1,554
Strategic services	\$430	\$797	\$1,102	\$1,270
Other	<u>401</u>	<u>325</u>	<u>483</u>	<u>469</u>
CICG Total	\$5,637	\$6,751	\$6,522	\$9,328
Corporate*	<u>0</u>	<u>0</u>	<u>(306)</u>	<u>(415)</u>
Net Revenues Total	\$13,621	\$16,256	\$17,547	\$21,869
Net Earnings				
Wealth management	\$855	\$994	\$1,241	\$1,260
CICG	930	1,186	961	1,906
Corporate	<u>(137)</u>	<u>(245)</u>	<u>(943)</u>	<u>(548)</u>
	\$1,648	\$1,935	\$1,259	\$2,618

* Corporate revenues include acquisition-related financing costs for Mercury Asset Management acquired in 4Q97.

Exhibit 5

MERRILL LYNCH & CO., INC.

Financial Summaries for 1995–1999 (in millions of dollars, except per-share figures)

	1995	1996	1997	1998	1999
Net Revenues					
Commissions	\$3,308	\$4,085	\$4,995	\$5,799	\$6,334
Principal transactions	2,601	3,531	3,827	2,651	4,361
Investment banking	1,343	2,022	2,876	3,264	3,614
Asset management and portfolio service fees	2,030	2,431	3,002	4,202	4,753
Other	329	519	500	623	720
Subtotal	9,611	12,588	15,200	16,539	19,782
Net interest profit	1,004	1,033	1,056	1,008	2,087
Total Net Revenues	\$10,615	\$13,621	\$16,256	\$17,547	\$21,869
Noninterest Expenses					
Compensation and benefits	\$5,478	\$7,012	\$8,333	\$9,199	\$11,153
Communications and technology	814	1,010	1,255	1,749	2,038
Occupancy and related depreciation	671	742	736	867	941
Advertising and market development	408	527	613	688	779
Brokerage, clearing, and exchange fees	377	433	525	683	678
Professional fees	312	385	520	552	567
Goodwill amortization	19	50	65	226	227
Provision for costs related to staff reductions				430	
Other	700	834	1,098	1,057	1,408
Total Noninterest Expenses	\$8,779	\$10,993	\$13,145	\$15,451	\$17,791
Earnings Before Income Taxes and Dividends on Preferred Securities Issued by Subsidiaries	1,836	2,628	3,111	2,096	4,078
Income tax expense	710	980	1,129	713	1,265
Dividends on preferred securities issued by subsidiaries	0	0	47	124	195
Net Earnings	\$1,126	\$1,648	\$1,935	\$1,259	\$2,618
Preferred stock dividends	48	46	39	39	38
Net Earnings Applicable to Common Stockholders	\$1,078	\$1,602	\$1,896	\$1,220	\$2,580
Per Common Share Data					
Basic	\$2.98	\$4.63	\$5.57	\$3.43	\$7.00
Diluted	2.68	4.08	4.79	3.00	6.17
Book value	16.25	19.24	23.63	26.89	33.20 est.

Note: Certain prior-period amounts have been restated to conform to the current-period presentation.

Exhibit 6

MERRILL LYNCH & CO., INC.

Unlimited Advantage Fee Schedule

<u>Asset-Based Fee</u>	<u>Equity/Mutual Fund</u>	<u>Cash/Fixed Income</u>
For first \$1 million	100 basis points	30 basis points
For next \$4 million	75 basis points	25 basis points
For next \$5 million	50 basis points	20 basis points

- unlimited free trades
- available on-line or through a broker
- minimum fee of \$1,500 per year

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Exhibit 7

MERRILL LYNCH & CO., INC.

Comparison of On-line Accounts and Assets: E*Trade,
Charles Schwab, and Merrill Lynch (as of fiscal year-end)*

<u>E*Trade</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Active accounts	91,000	225,000	544,000	1,551,000
Total client assets (\$ billions)	\$2.6	\$7.7	\$11.2	\$28.0
Average transactions/day	6,148	16,382	27,620	68,484
Number of associates	489	698	954	1,735
Average account size	\$28,571	\$34,222	\$20,588	\$18,053
<u>Charles Schwab</u>				
Active on-line accounts		1,200,000	2,200,000	3,300,000
Total on-line assets (\$ billions)		\$80.8	\$174.1	\$349.0
Average transactions/day		71,800	97,200	163,000
Number of associates		N/A	N/A	N/A
Average account size		\$67,333	\$79,136	\$105,758
Total active accounts	4,000,000	4,800,000	5,600,000	6,600,000
Total client assets (in billions)	\$253	\$354	\$491	\$725
Average account size	\$63,250	\$73,688	\$87,696	\$109,848
<u>Merrill Lynch</u>				
Active on-line accounts				N/A
Total on-line assets (\$ billions)				70
Number of associates				14,200
Average transactions/day				N/A
Average account size				N/A

* Schwab and Merrill Lynch have December fiscal year-end dates. E*Trade uses a September fiscal year-end date.

Exhibit 8

MERRILL LYNCH & CO., INC.

Merrill Lynch Asset Management Group: Assets under Management (in billions of dollars)

	<u>1999</u>	<u>Percentage</u>	<u>1998</u>	<u>Percentage</u>
Retail	290	52	258	52
Institutional	267	48	243	48
Equity	301	54	262	52
Fixed Income	256	46	239	48
U.S.	323	58	298	59
Non-U.S.	234	42	203	41
Total	557	100	501	100

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