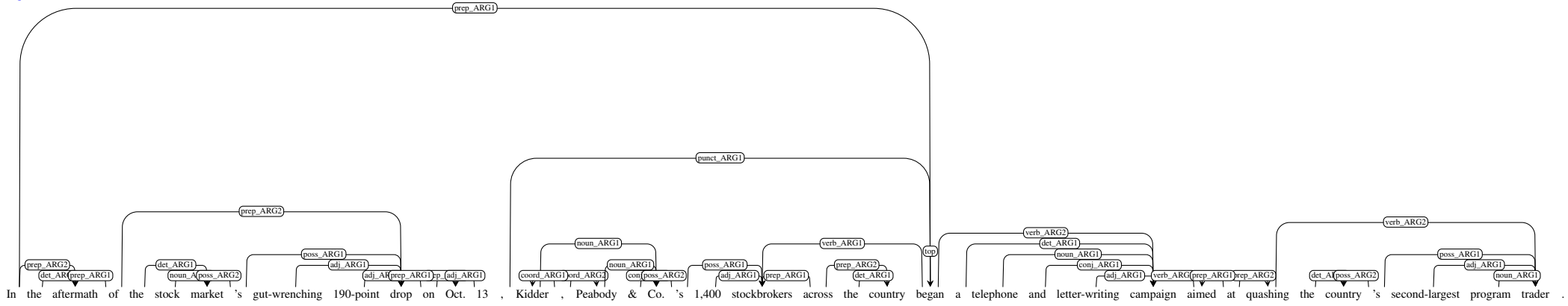
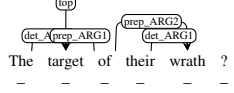


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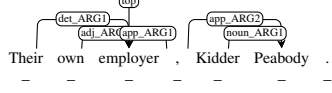
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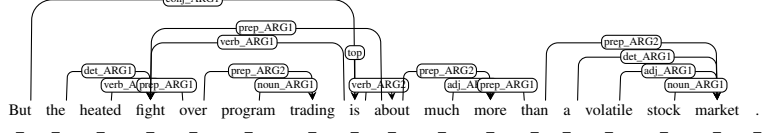
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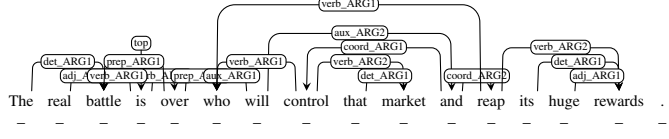
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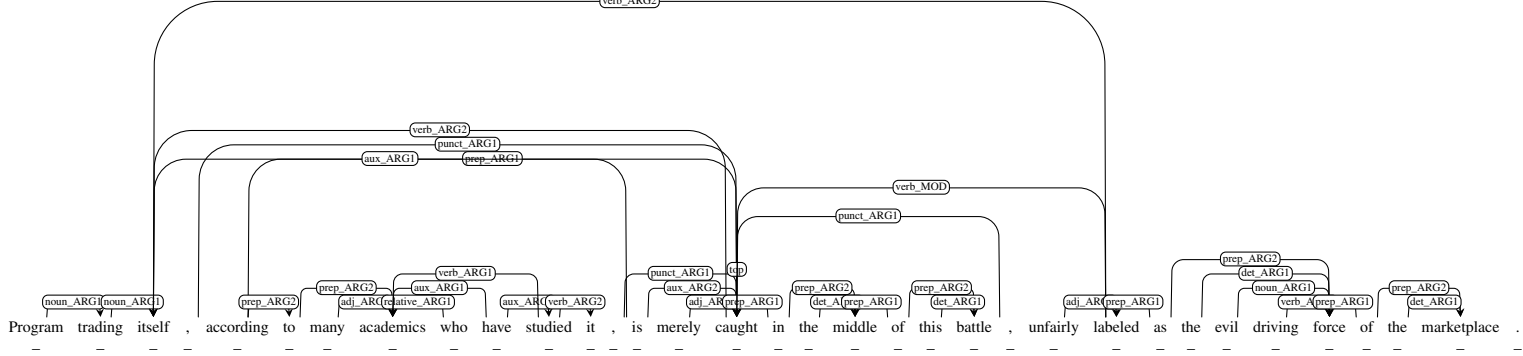
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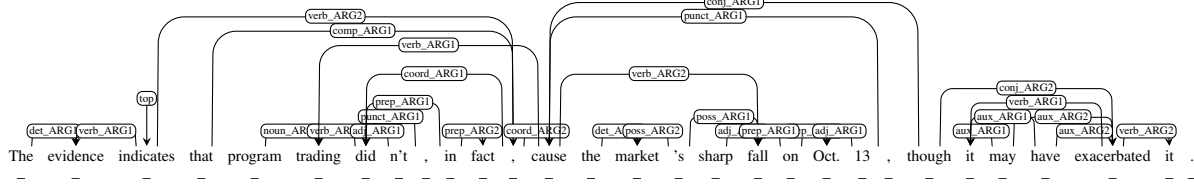
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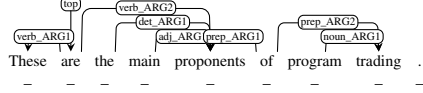
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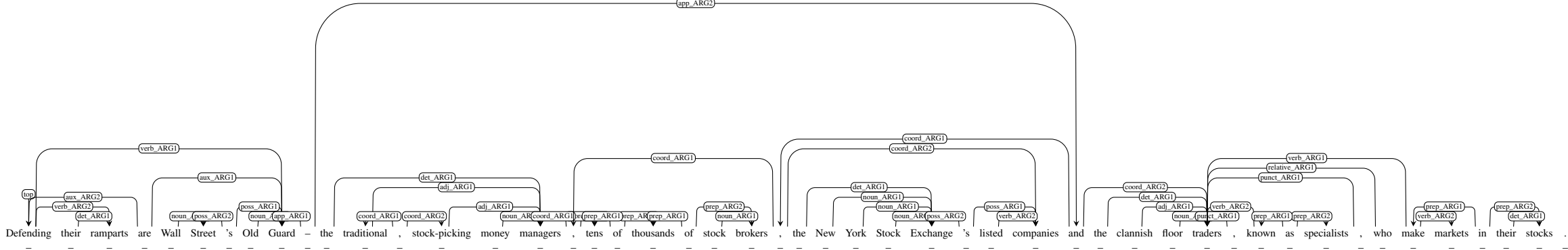
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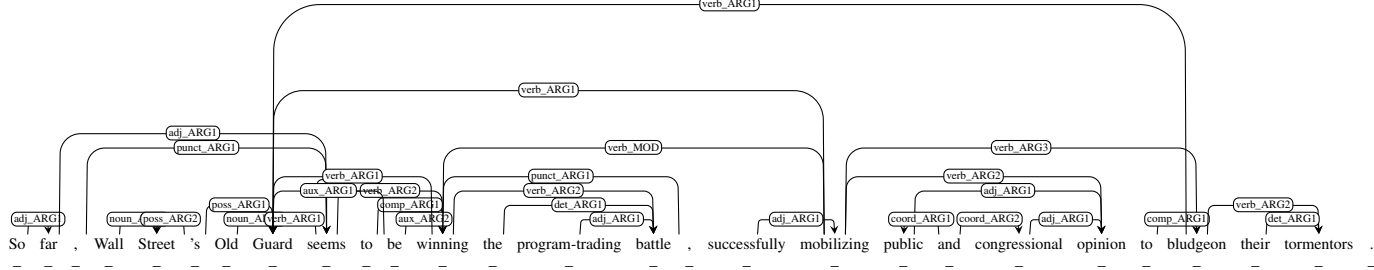
[20118010]



[20118011]



[20118012]



[20118014]

Stung by charges that their greed is turning the stock market into a gigantic crapshoot , almost all the big investment banking houses have abandoned index arbitrage , a common form of program trading , for their own accounts in the past few days .

[20118015]

A few , such as giant Merrill Lynch & Co. , now refuse even to do index arbitrage trades for clients .

[20118016]

The Old Guard 's assault on program trading and its practitioners has been fierce and broad-based , in part because some Old Guard members feel their very livelihood is at stake .

[20118017]

Some , such as traditional money manager Neuberger & Berman , have taken out national newspaper advertisements demanding that market regulators " stop the numbers racket on Wall Street " .

[20118019]

Charles Wohlseter , the chairman of Contel Corp. who is rallying other CEOs to the anti-program trading cause , says he has received " countless " letters offering support .

[20118021]

Kill it , " he says .

[20118022]

Wall Street 's New Guard is n't likely to take all this lying down for long , however .

[20118023]

Its new products and trading techniques have been highly profitable .

[20118026]

Even some members of the Old Guard , despite their current advantage , seem to be conceding that the future belongs with the New Guard .

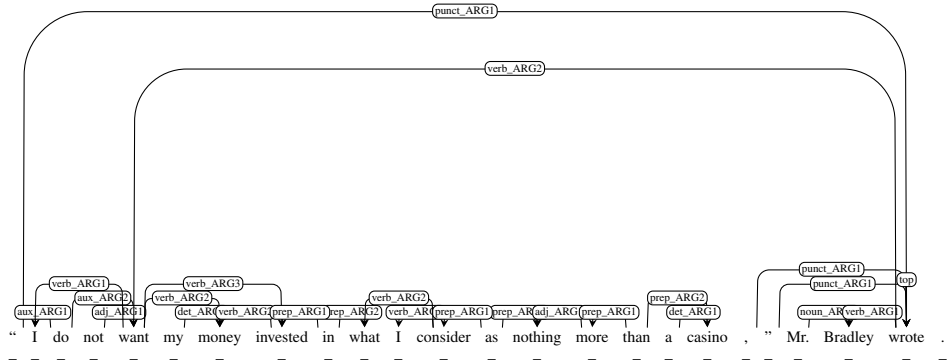
[20118028]

He sold his exchange seat and wrote a bitter letter to Big Board Chairman John J. Phelan Jr. in which he said the Big Board is too focused on machines , rather than people .

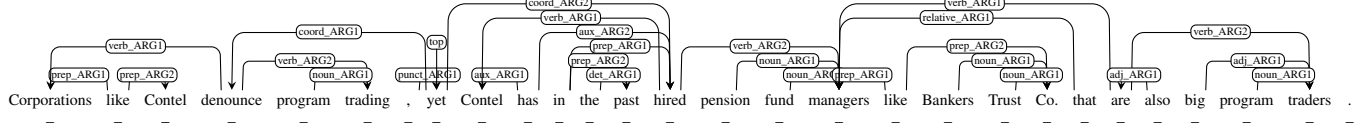
[20118029]

He said the exchange is " headed for a real crisis " if program trading is n't curbed .

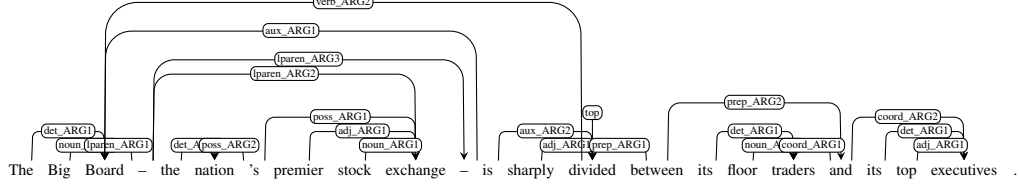
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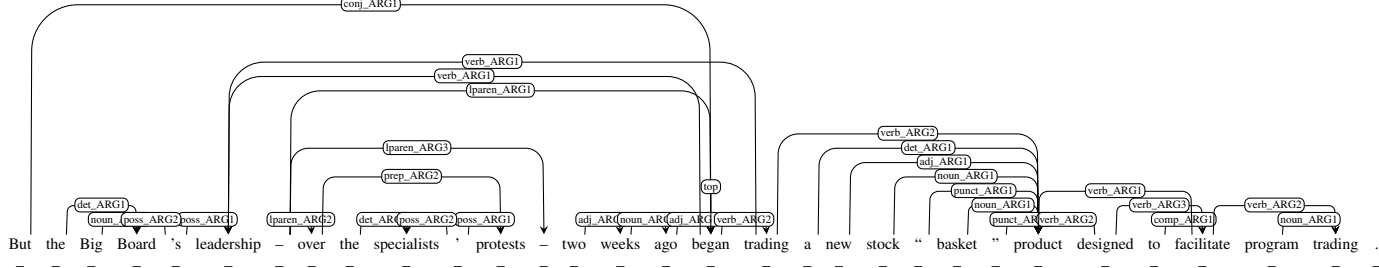
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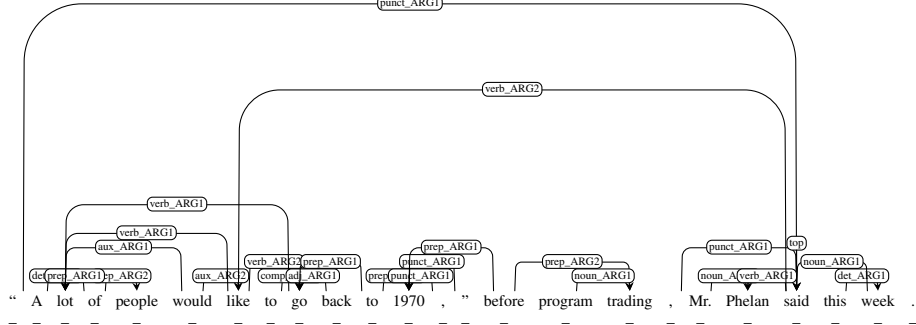
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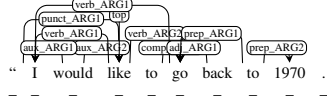
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[20118037]



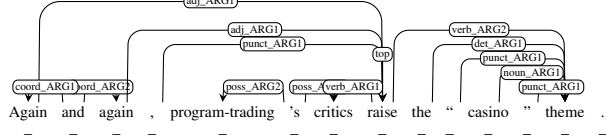
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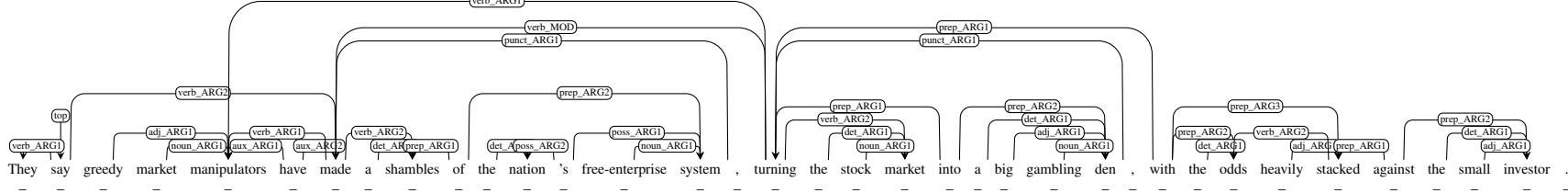
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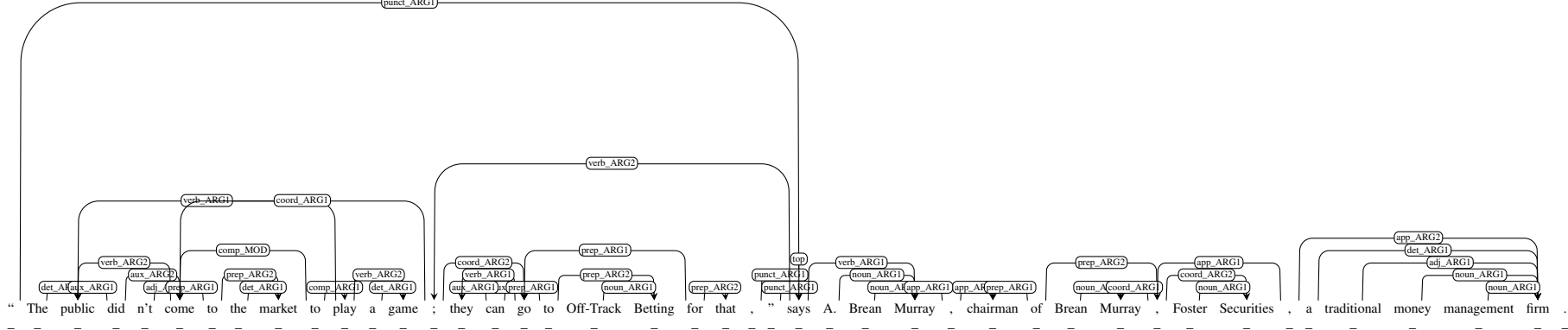
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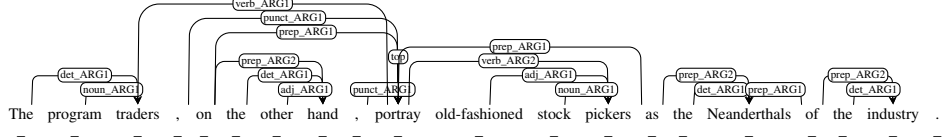
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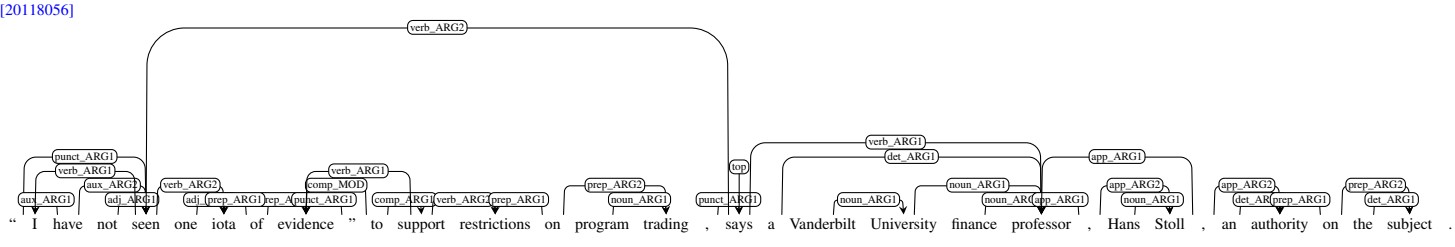
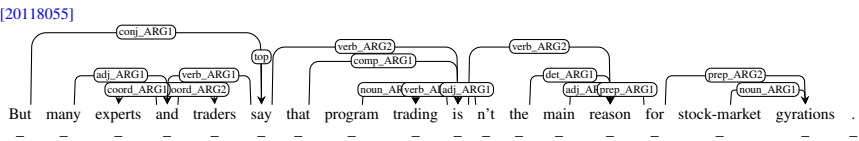
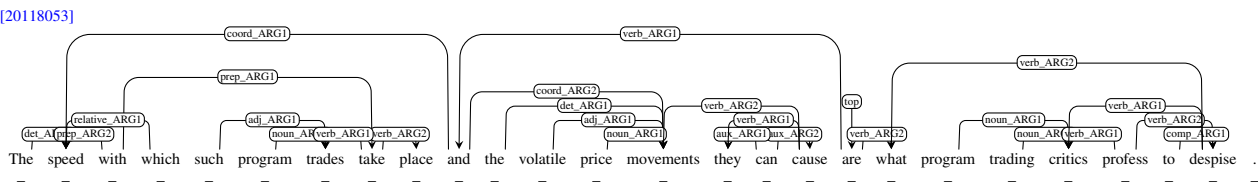
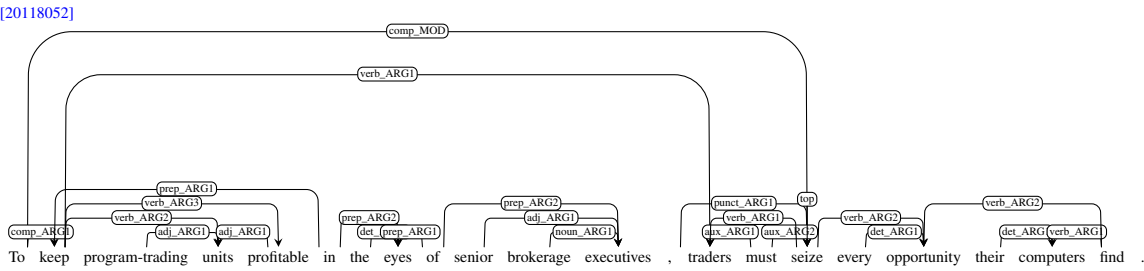
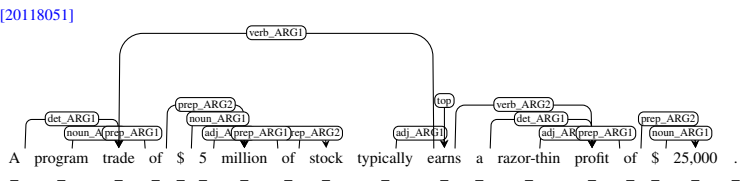
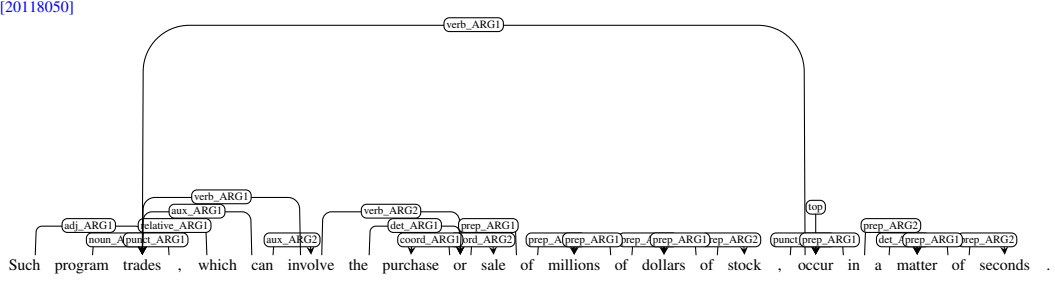
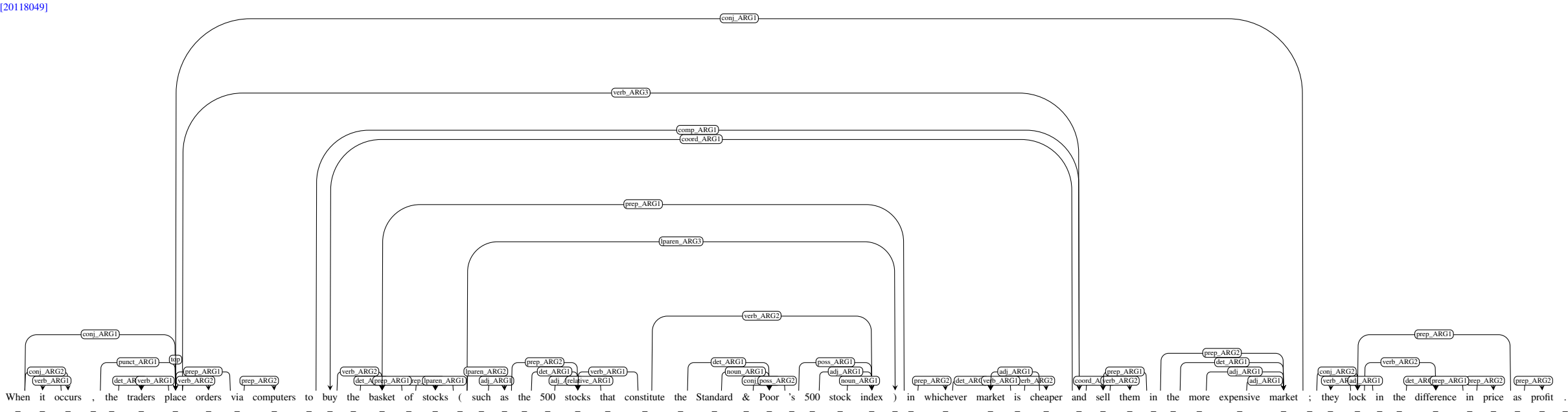
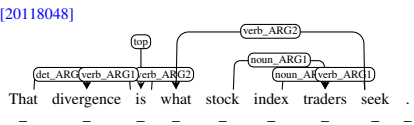
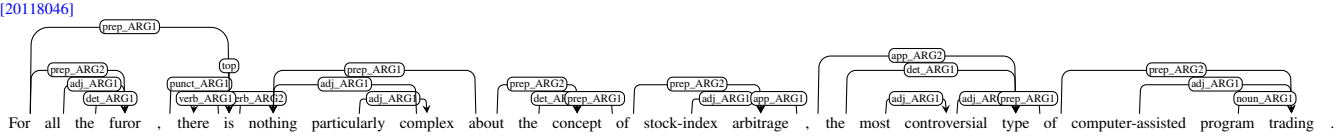
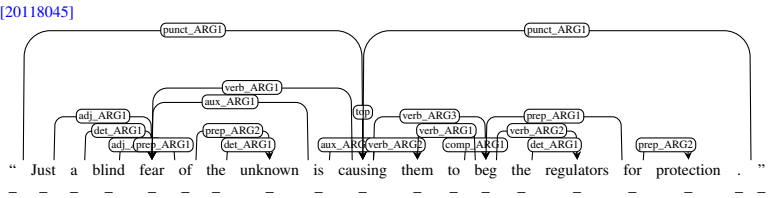
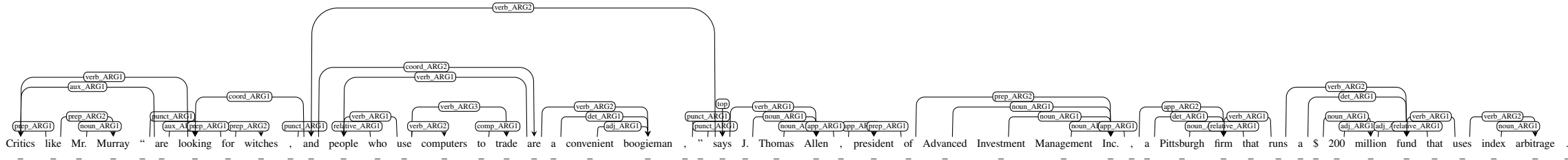
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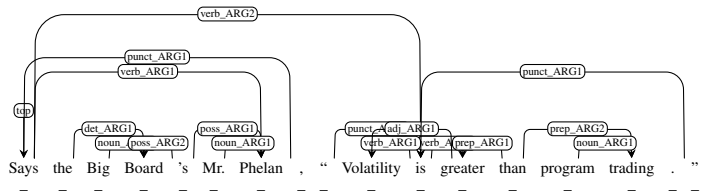
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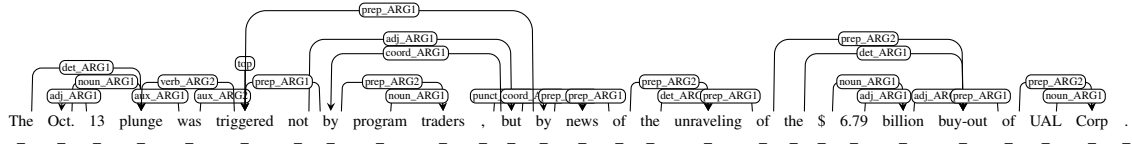
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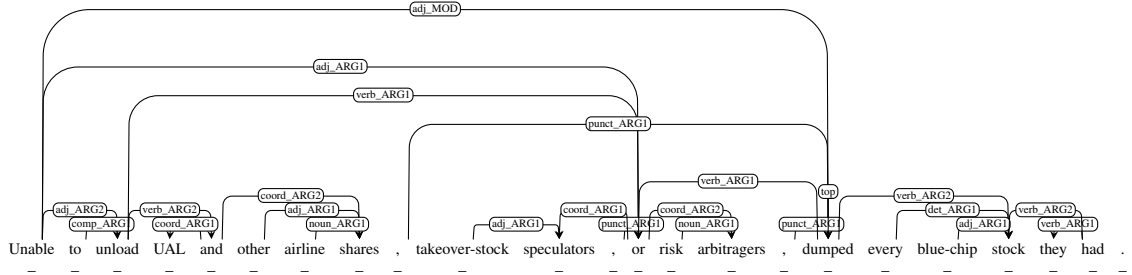
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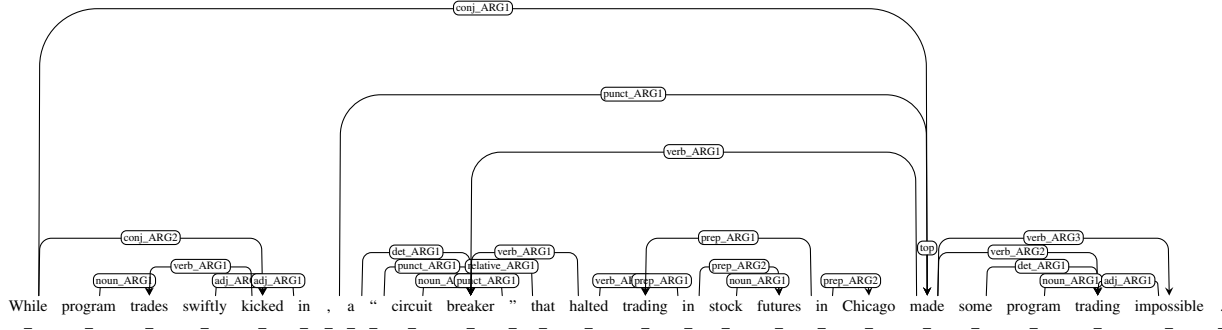
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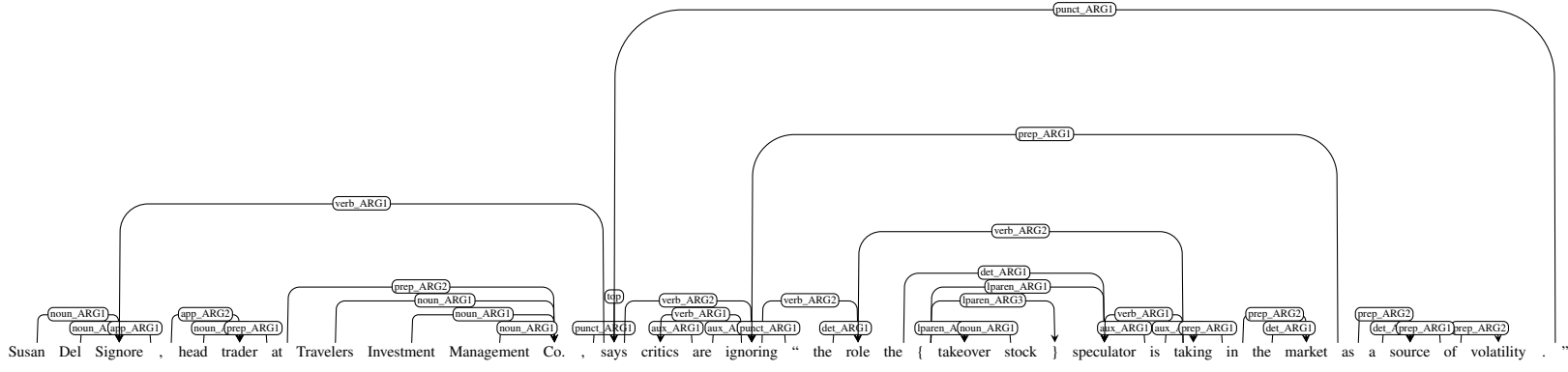
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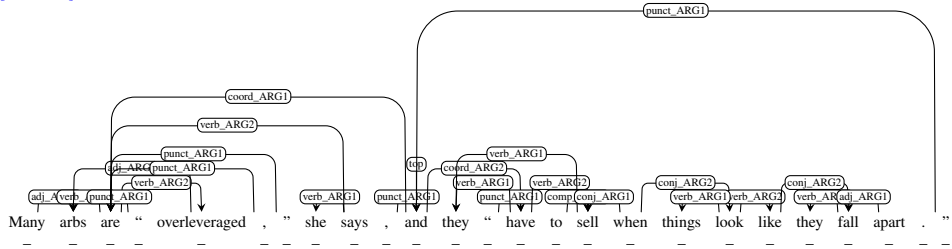
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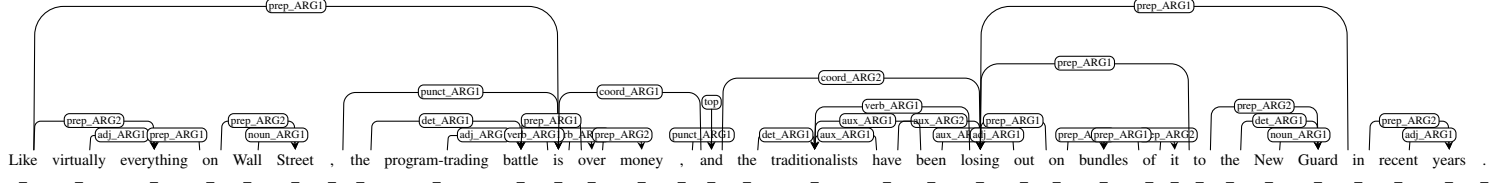
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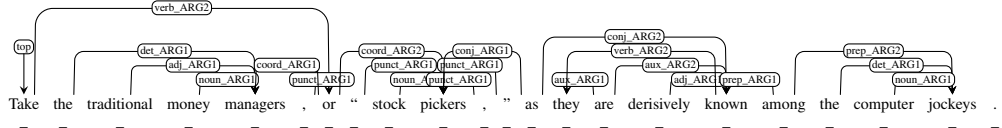
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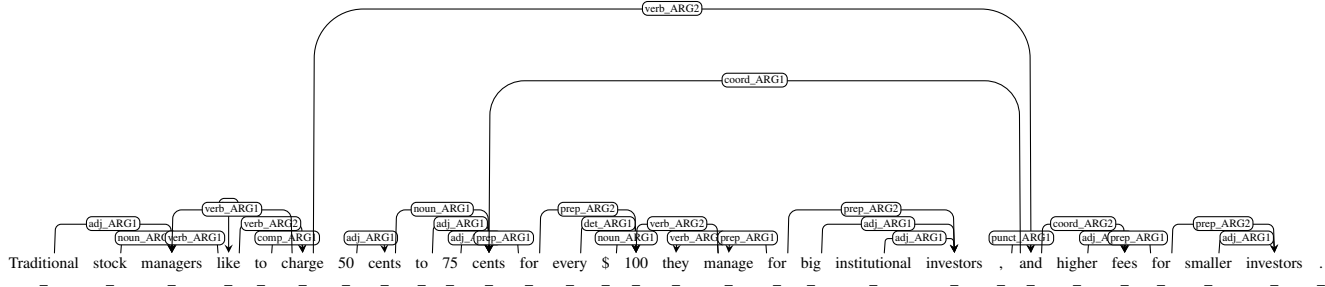
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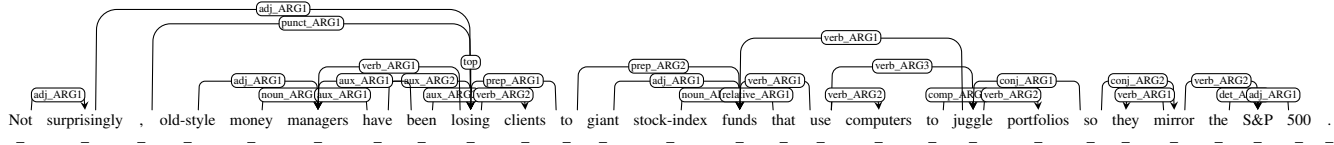
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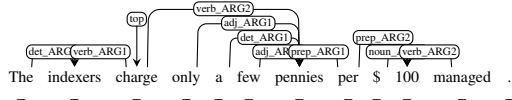
[20118065]



[20118066]



[20118067]



[20118068]

[20118069]

Today , about \$ 200 billion , or 20 % of all pension-fund stock investments , is held by index funds .

[20118070]

The new Wall Street of computers and automated trading threatens to make dinosaurs of the 49 Big Board stock-specialist firms .

[20118071]

These small but influential floor brokers long have earned fat returns of 30 % to 40 % a year on their capital , by virtue of their monopoly in making markets in individual stocks .

[20118072]

The specialists see any step to electronic trading as a death knell .

[20118073]

And they believe the Big Board , under Mr. Phelan , has abandoned their interest .

[20118075]

Meanwhile , specialists ' trading risks have skyrocketed as a result of stock-market volatility .

[20118076]

" When the sell programs hit , you can hear the order printers start to go " on the Big Board trading floor , says one specialist there .

[20118078]

No one is more unhappy with program trading than the nation 's stockbrokers .

[20118079]

They are still trying to lure back small investors spooked by the 1987 stock-market crash and the market 's swings since then .

[20118080]

" Small investors are absolutely dismayed that Wall Street is stacking the deck against them , and these wide swings are scaring them to death " says Raymond A. Mason , chairman of regional broker Legg Mason Inc. in Baltimore .

[20118081]

Stockbrokers ' business and pay has been falling .

[20118082]

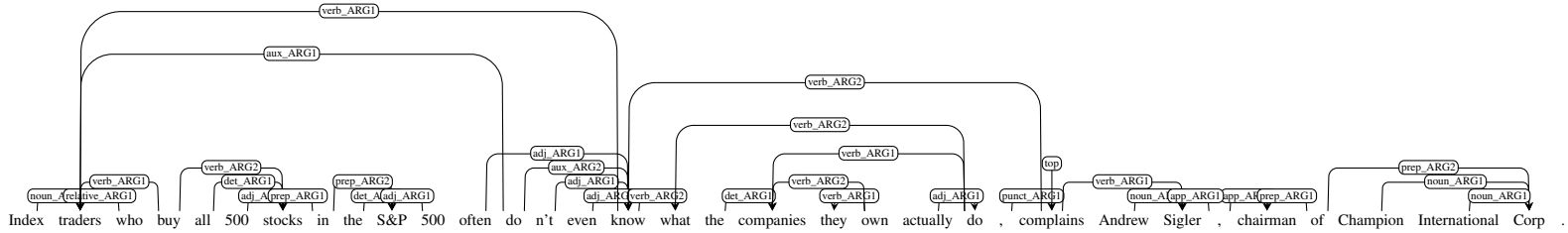
Last year , the average broker earned \$ 71,309 , 24 % lower than in 1987 .

[20118083]

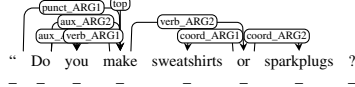
Corporate executives resent that their company 's stock has been transformed into a nameless piece of a stock-index basket .

[20118084]

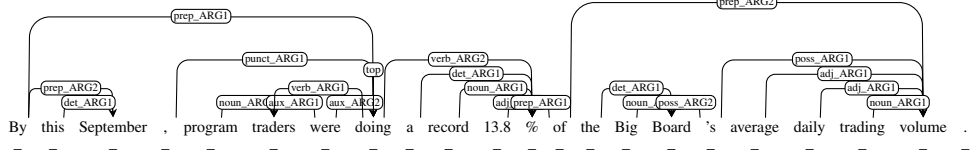




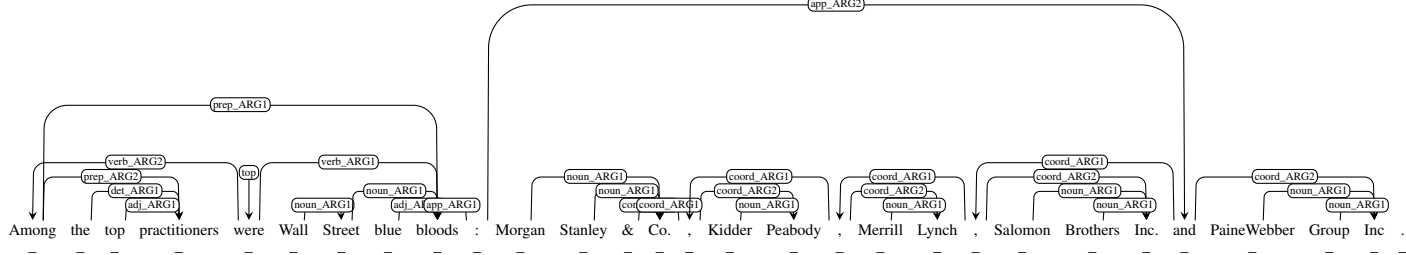
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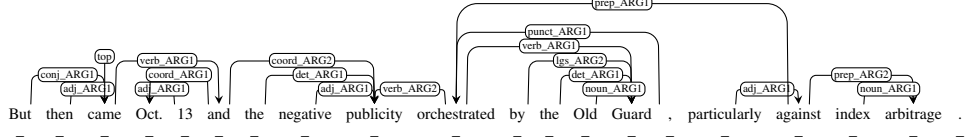
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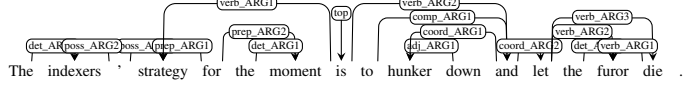
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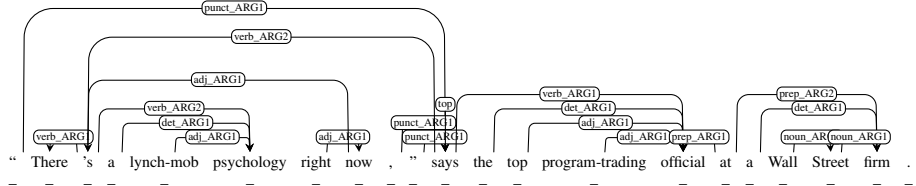
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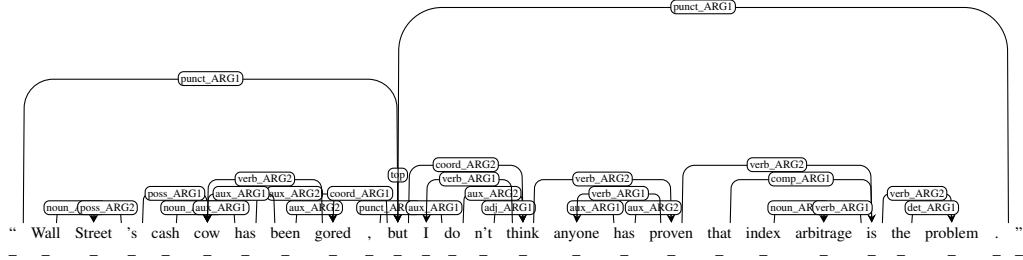
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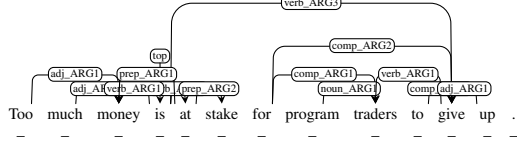
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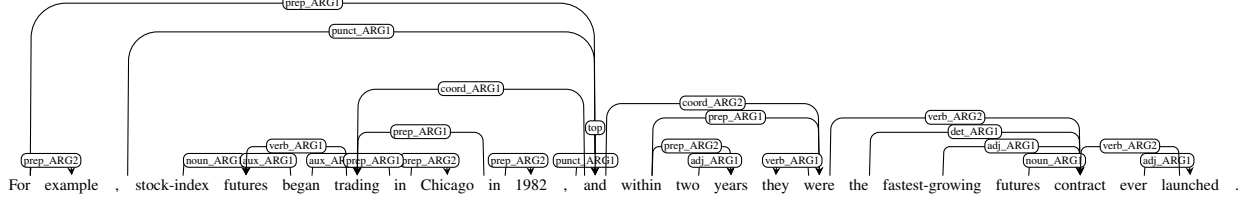
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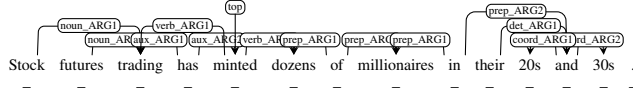
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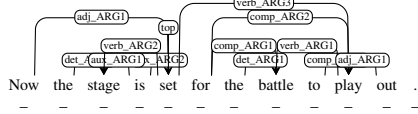
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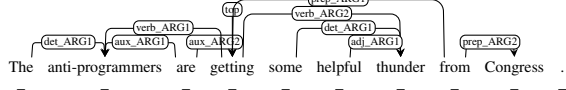
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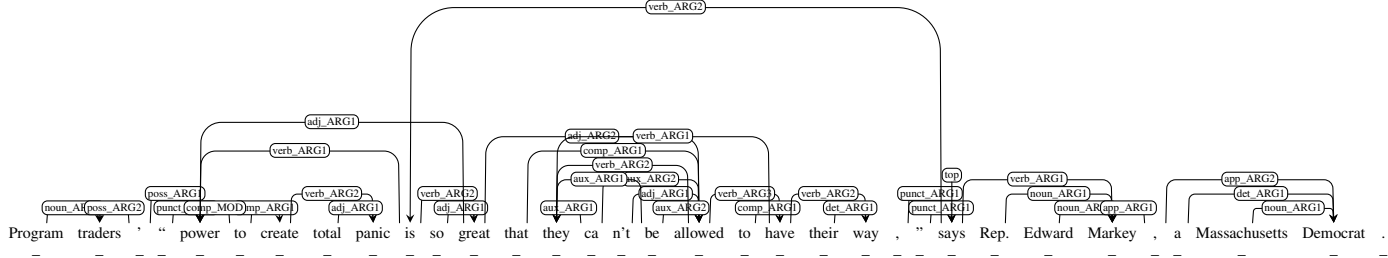
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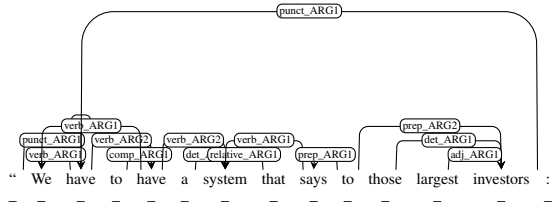
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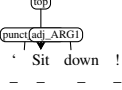
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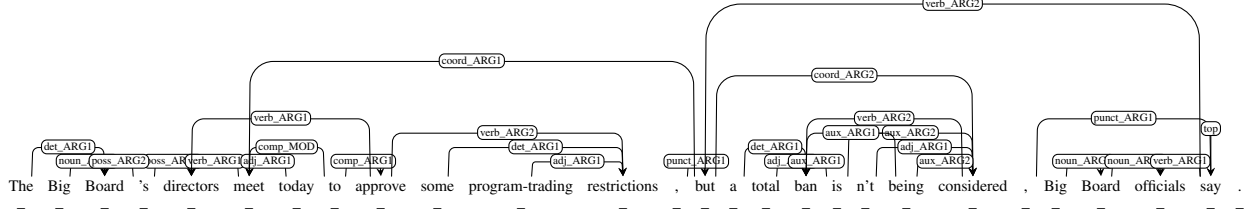
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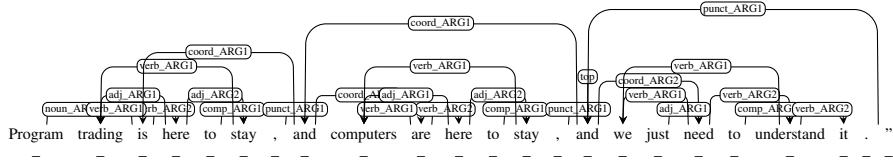
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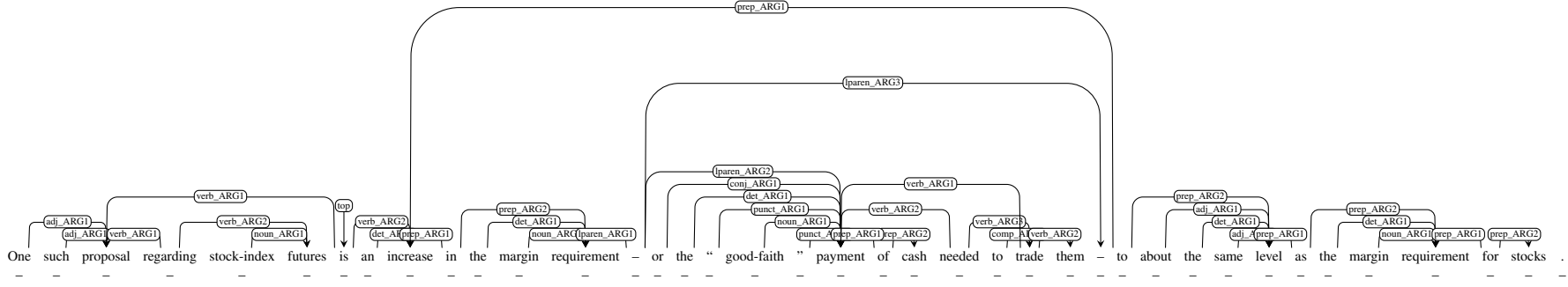
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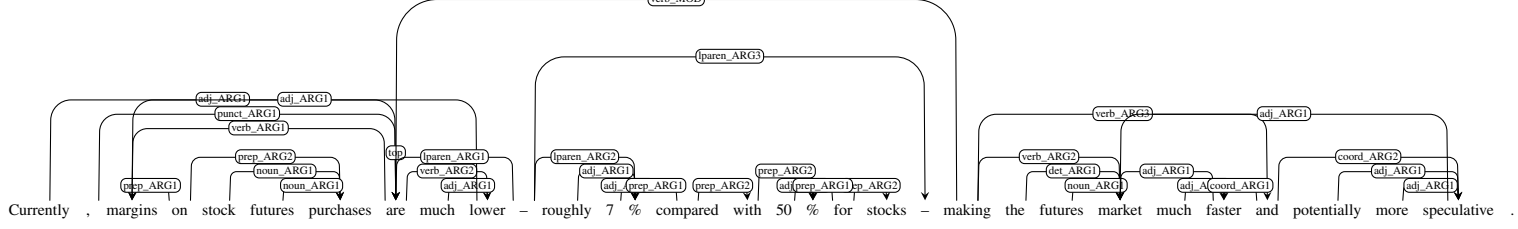
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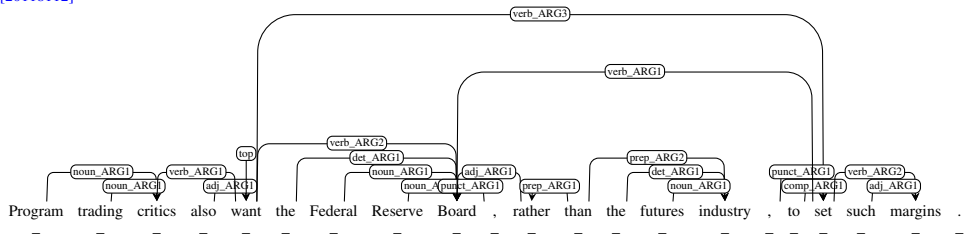
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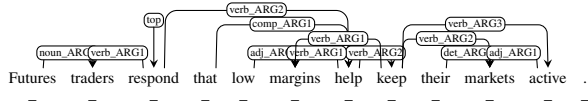
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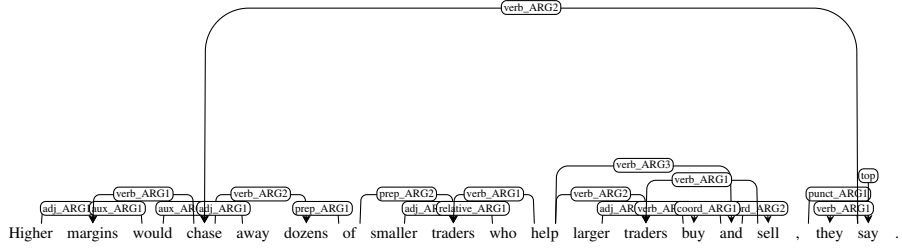
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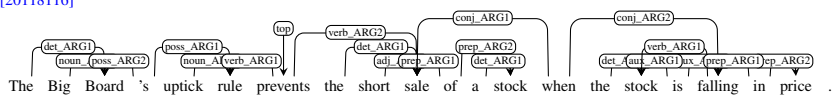
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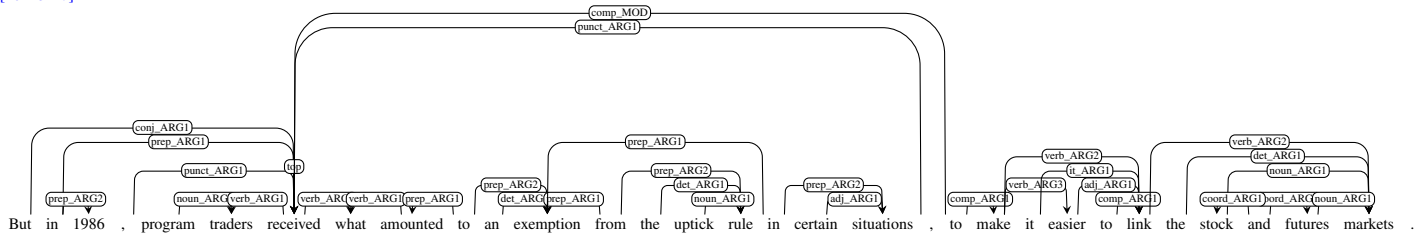
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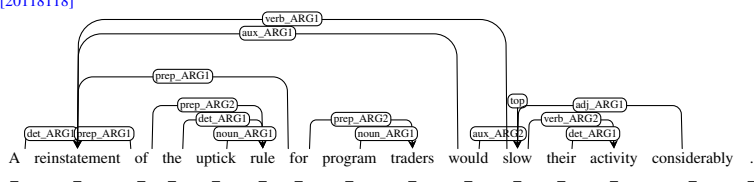
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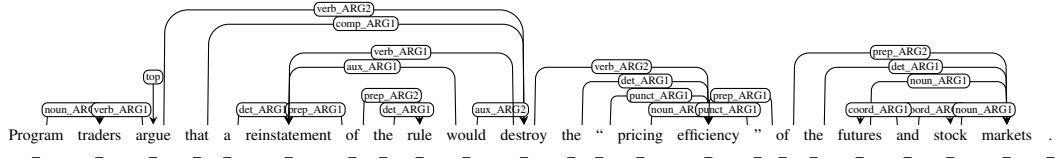
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[20118118]

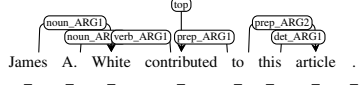


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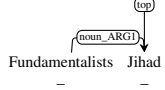




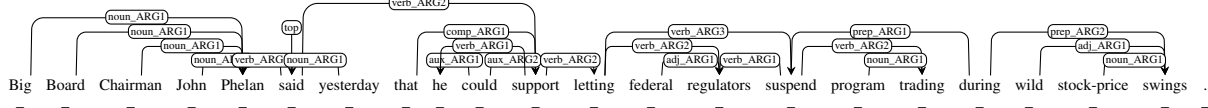
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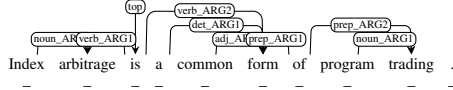
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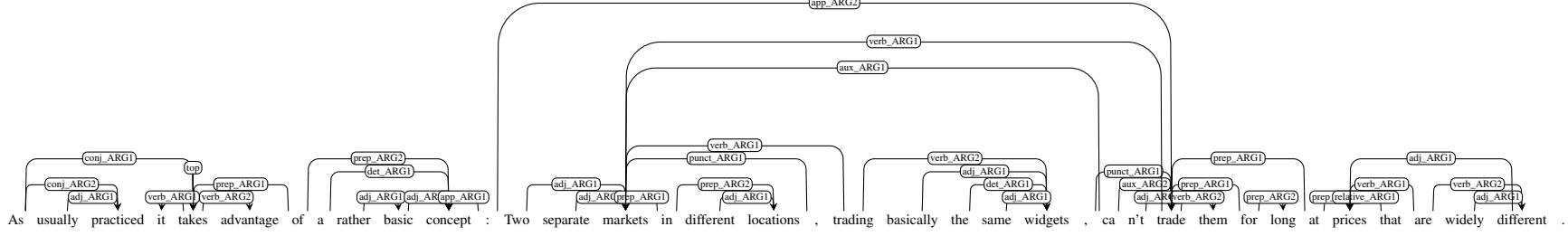
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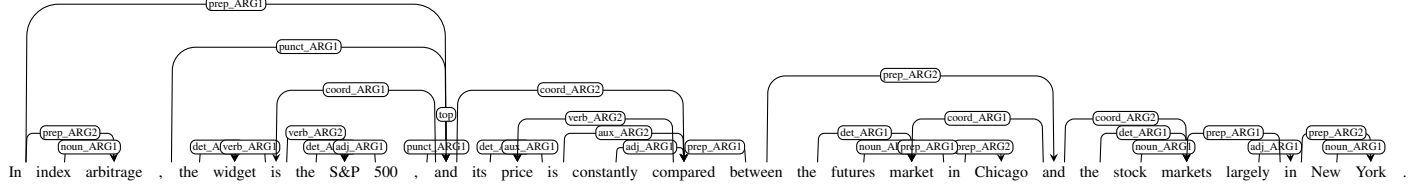
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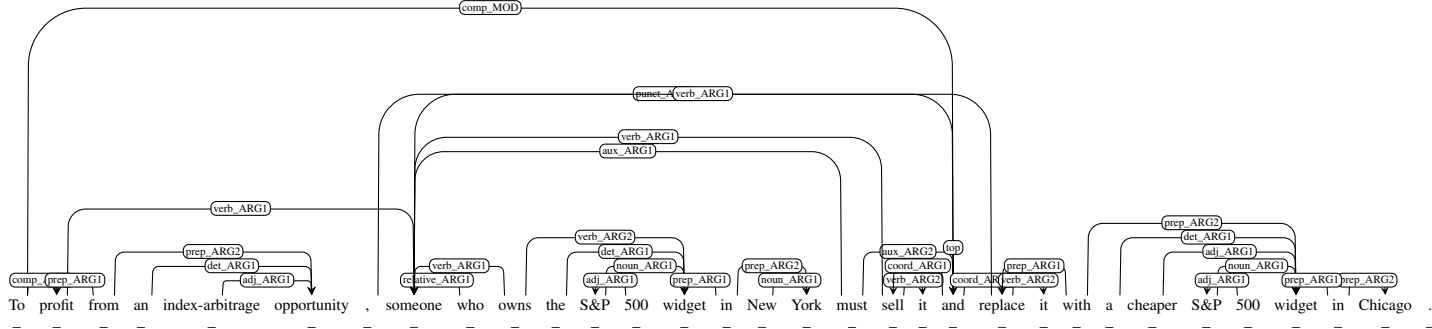
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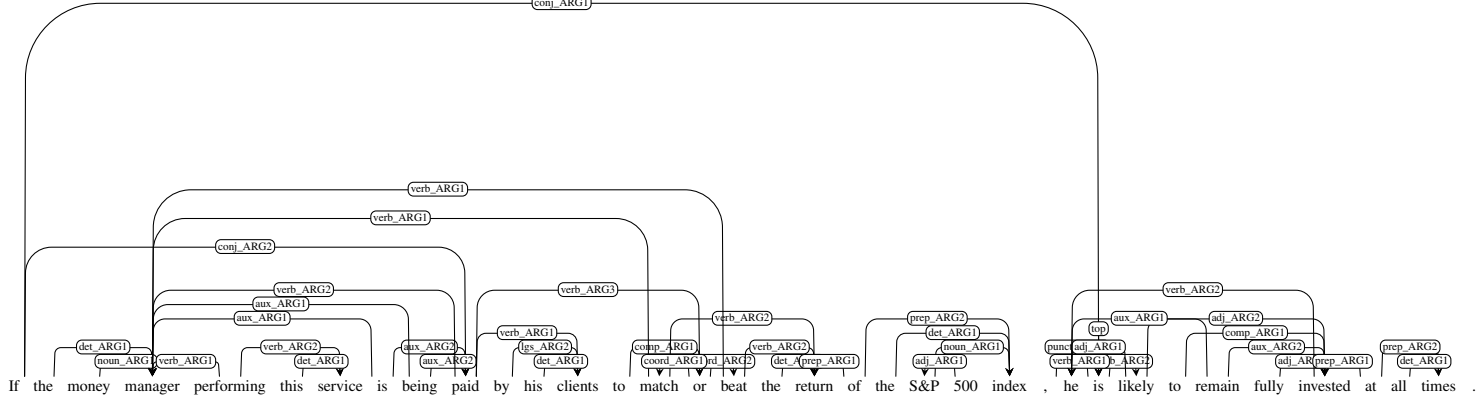
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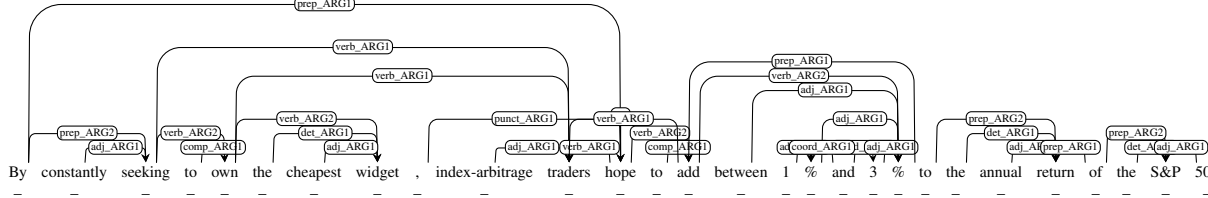
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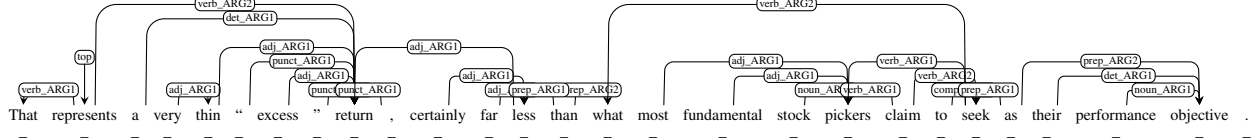
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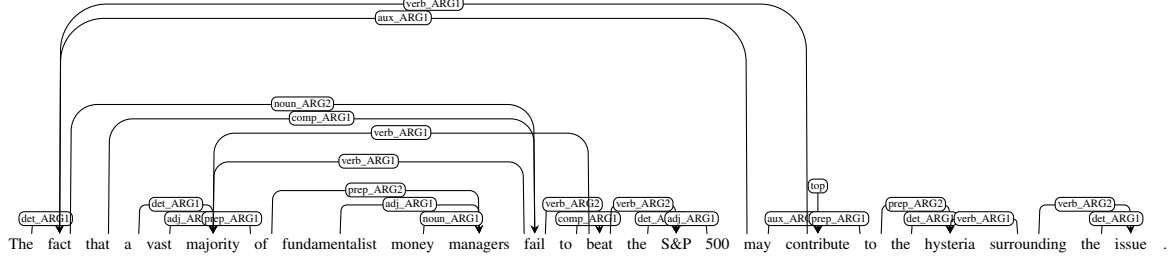
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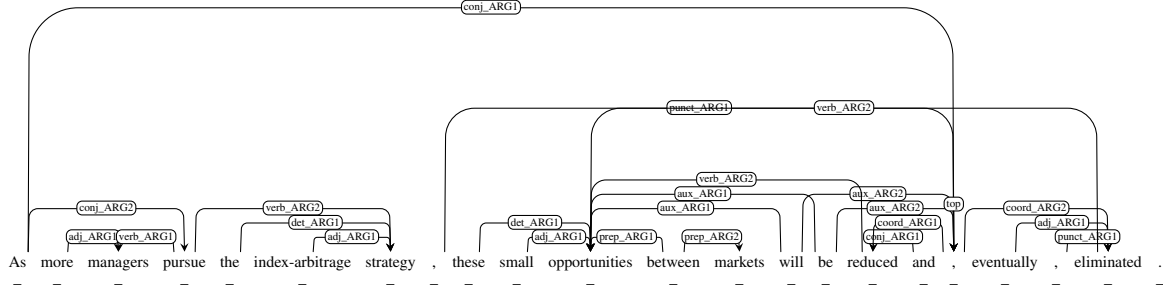
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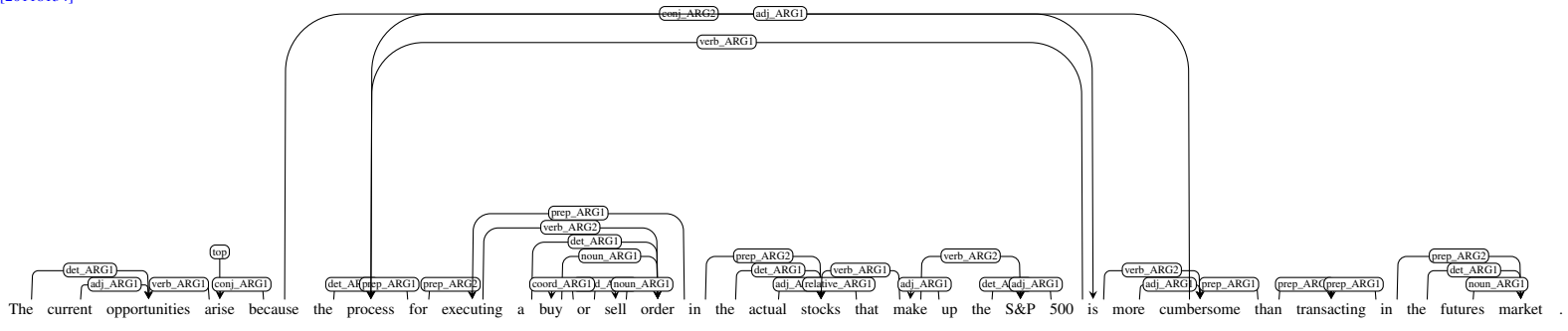
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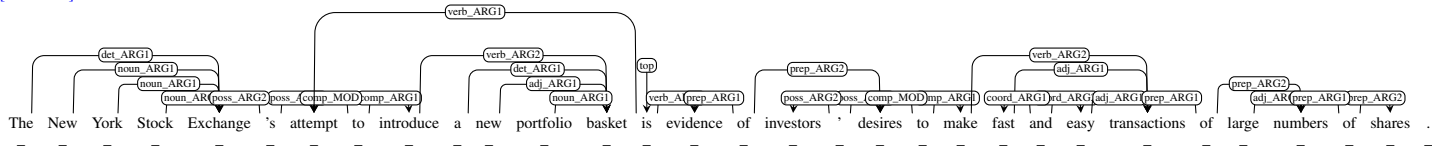
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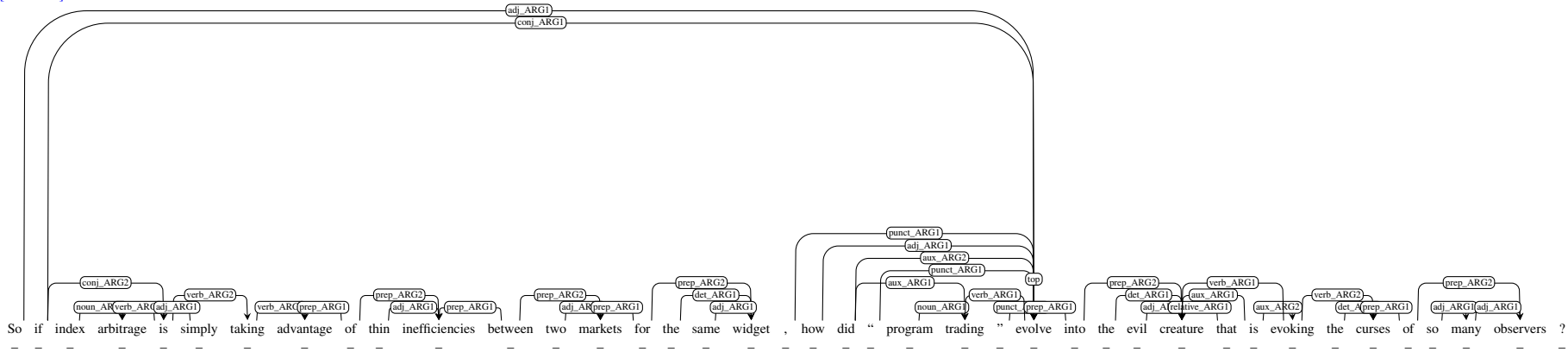
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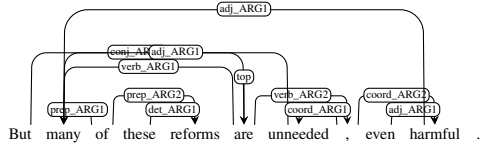
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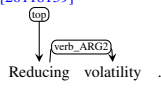
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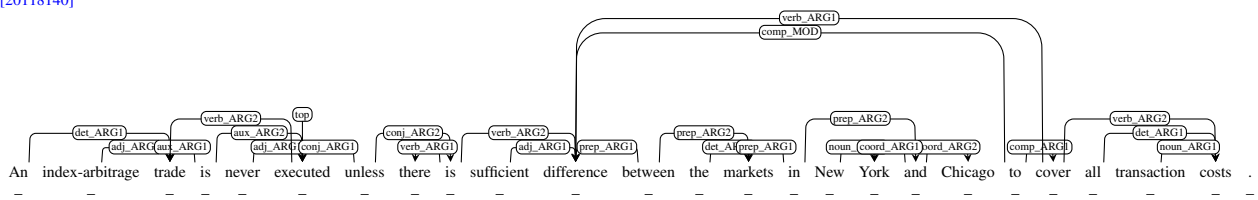
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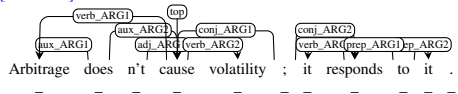
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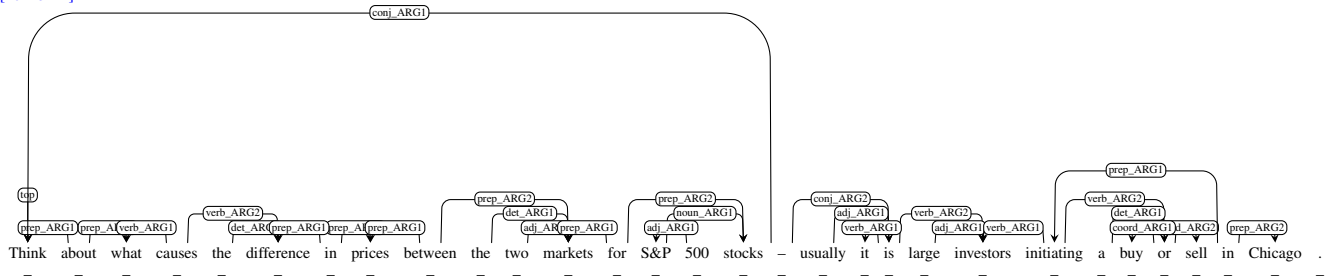
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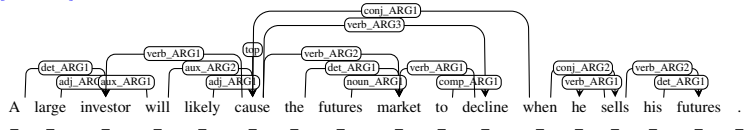
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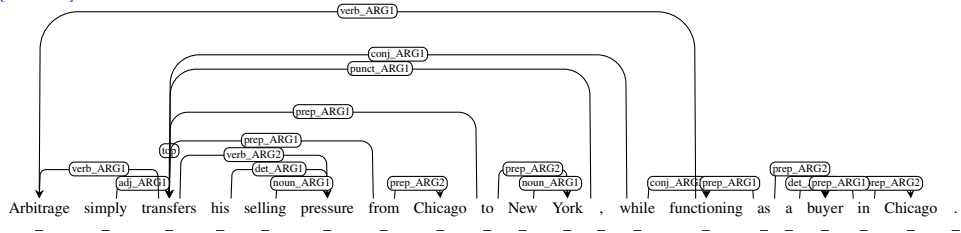
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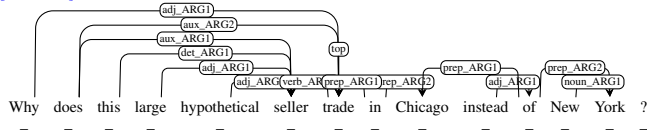
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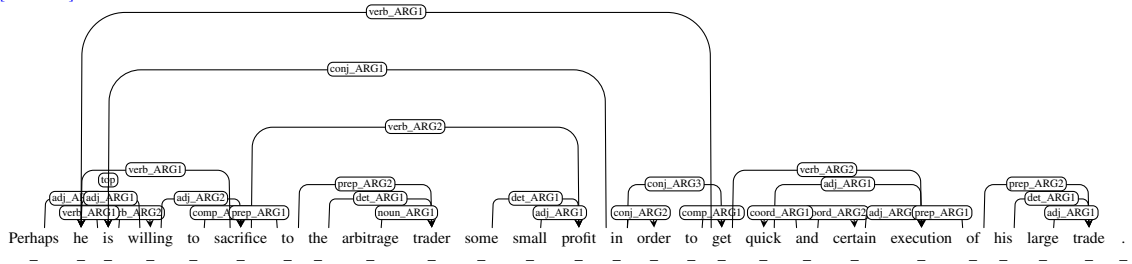
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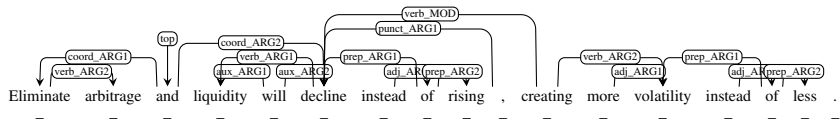
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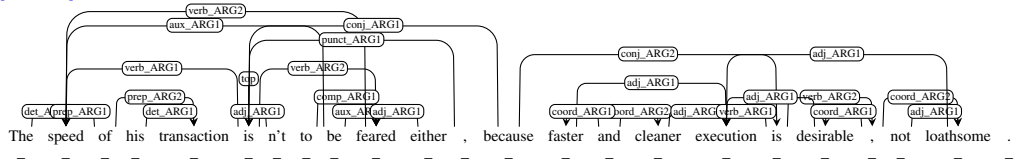
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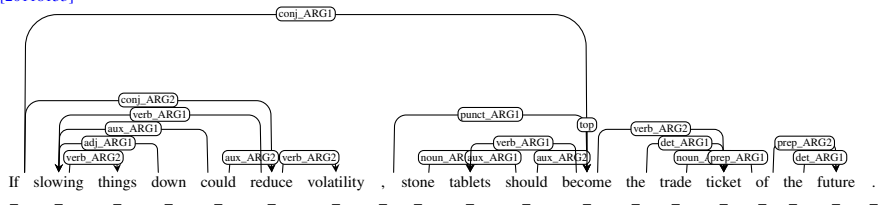
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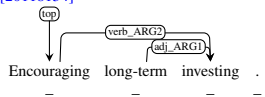
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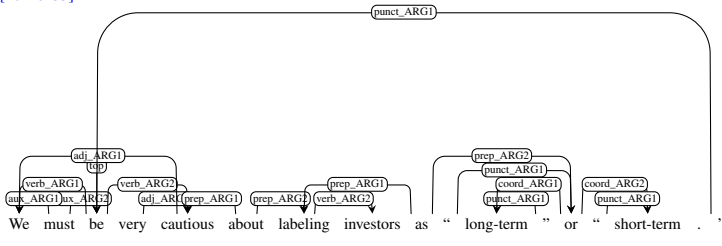
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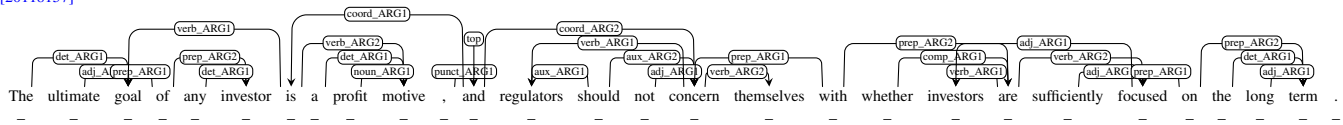
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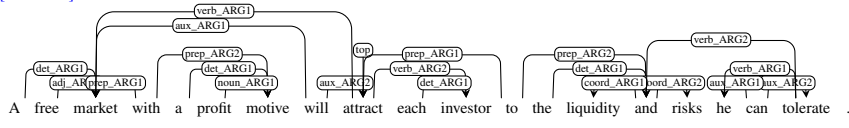
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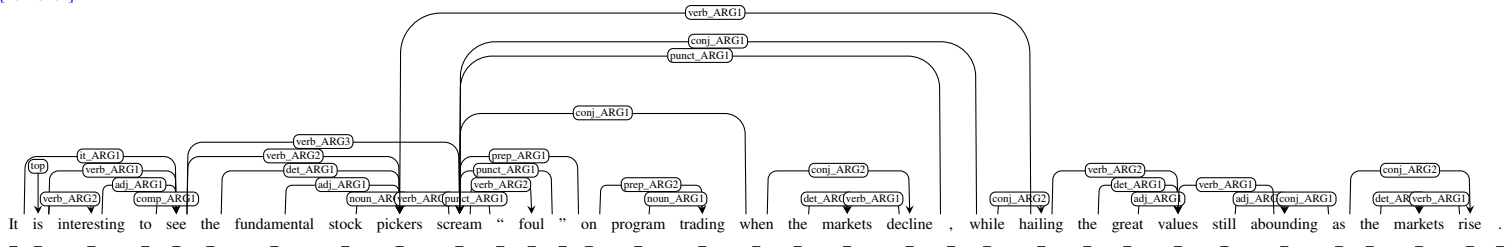
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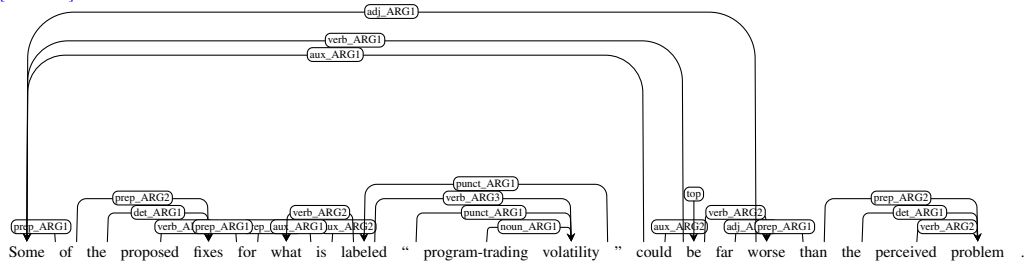
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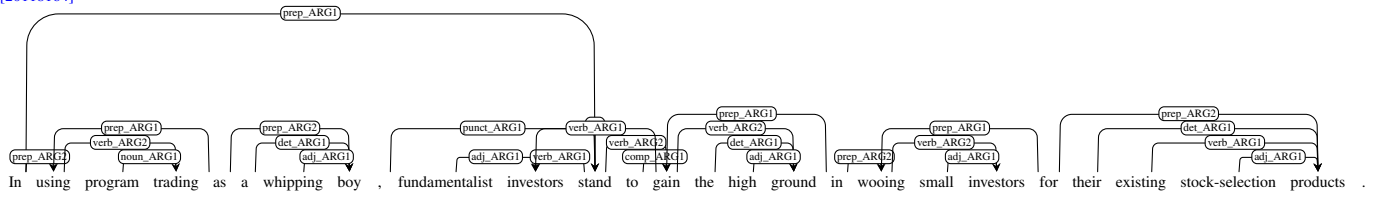
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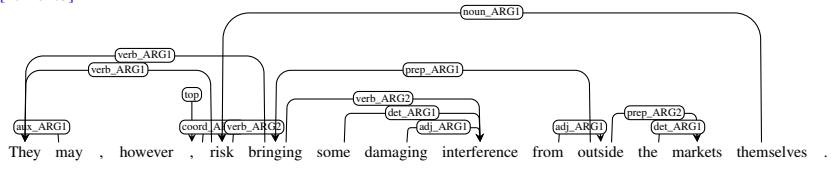
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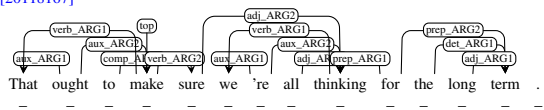
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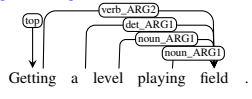
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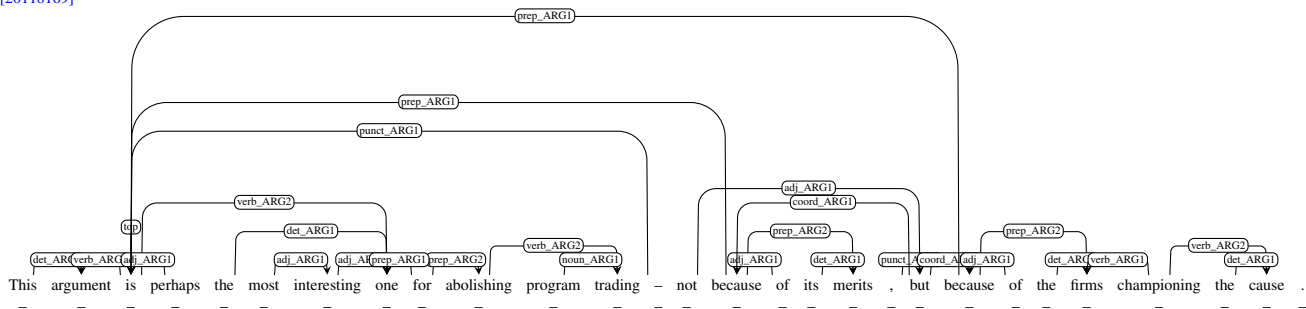
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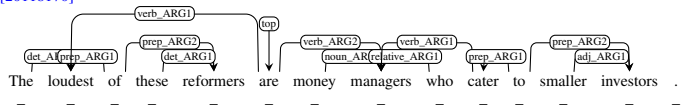
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[2018169]

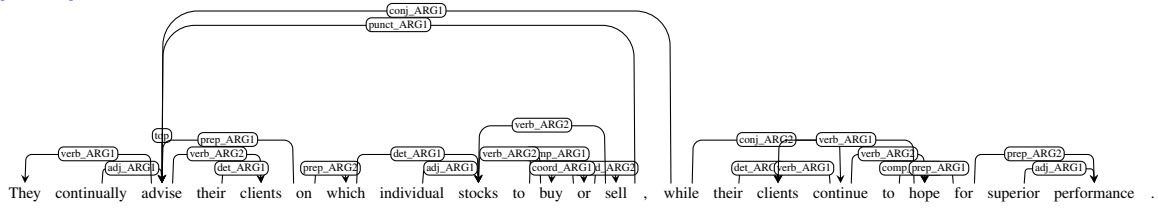


[20118170]



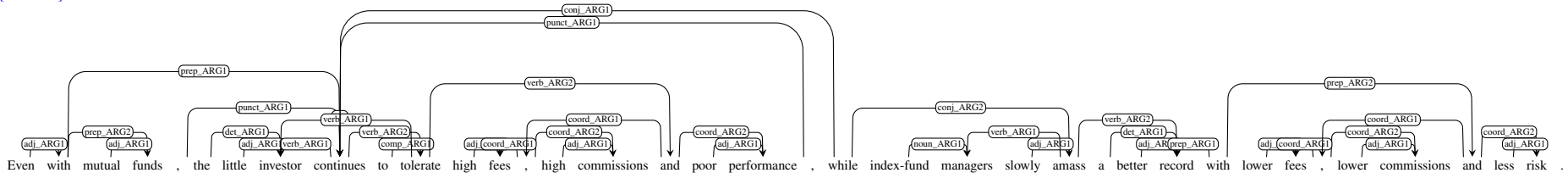
The loudest of these reformers are money managers who cater to smaller investors .

[20118171]



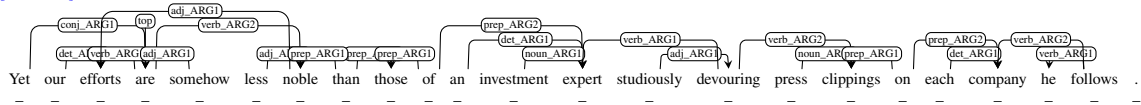
They continually advise their clients on which individual stocks to buy or sell , while their clients continue to hope for superior performance .

[20118172]



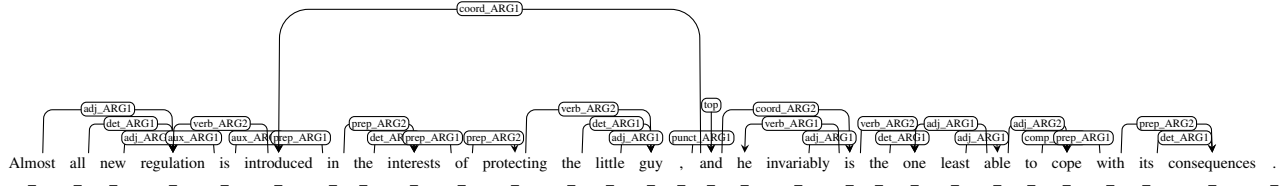
Even with mutual funds , the little investor continues to tolerate high fees , high commissions and poor performance , while index-fund managers slowly amass a better record with lower fees , lower commissions and less risk .

[20118173]



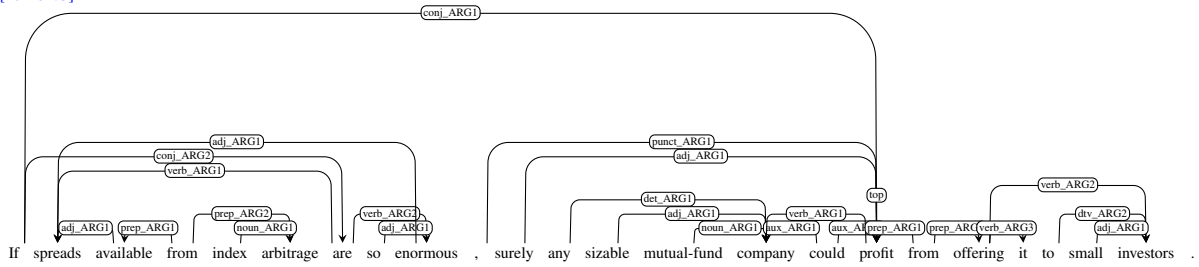
Yet our efforts are somehow less noble than those of an investment expert studiously devouring press clippings on each company he follows .

[20118174]



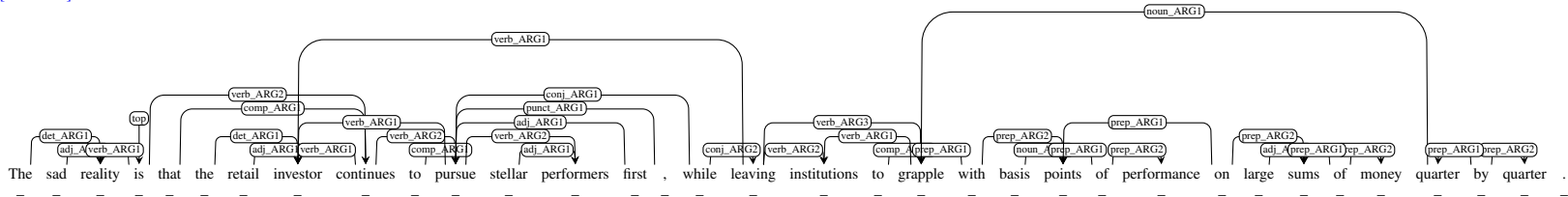
Almost all new regulation is introduced in the interests of protecting the little guy , and he invariably is the one least able to cope with its consequences .

[20118175]



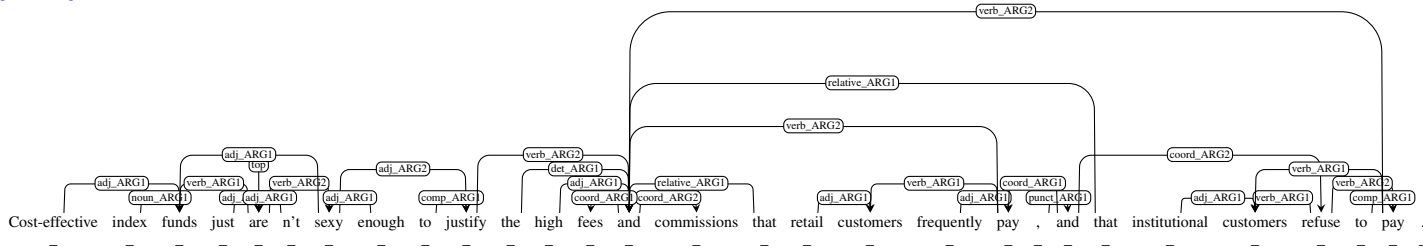
If spreads available from index arbitrage are so enormous , surely any sizable mutual-fund company could profit from offering it to small investors .

[20118176]



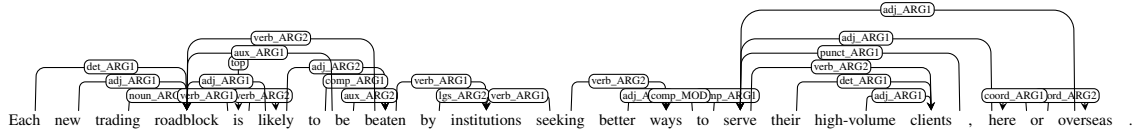
The sad reality is that the retail investor continues to pursue stellar performers first , while leaving institutions to grapple with basis points of performance on large sums of money quarter by quarter .

[20118177]



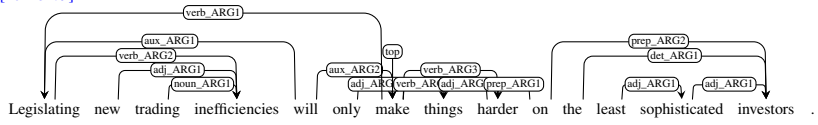
Cost-effective index funds just are n't sexy enough to justify the high fees and commissions that retail customers frequently pay , and that institutional customers refuse to pay .

[20118178]



Each new trading roadblock is likely to be beaten by institutions seeking better ways to serve their high-volume clients , here or overseas .

[20118179]



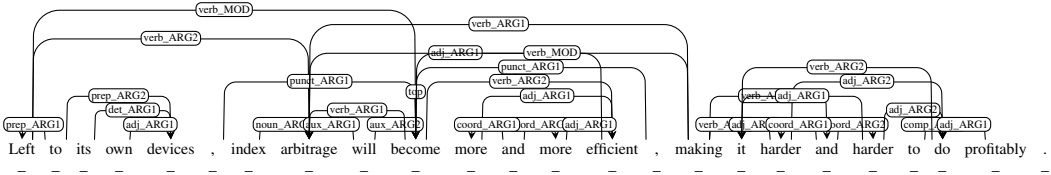
Legislating new trading inefficiencies will only make things harder on the least sophisticated investors .

[20118180]



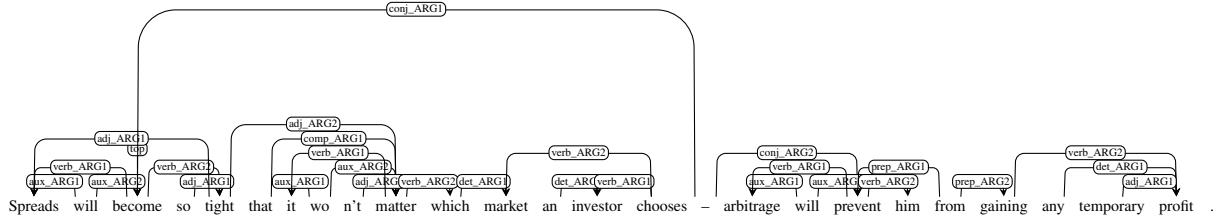
So what is next for program trading ?

[20118181]



Left to its own devices , index arbitrage will become more and more efficient , making it harder and harder to do profitably .

[20118182]



Spreads will become so tight that it wo n't matter which market an investor chooses - arbitrage will prevent him from gaining any temporary profit .

[20118183]

