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CORPORATE PARTICIPANTS

Mitchell Caplan *E*TRADE FINANCIAL Corporation - CEO*

PRESENTATION

Operator

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

(CALL IN PROGRESS) Generally, what are we seeing that is happening in the industry? What are the trends? And then, secondly, the Company update -- how do we fit in, based on those trends, as well as the financials that surround our performance over these last couple of years and then going forward? A quick update on where we are on integration with the two deals we announced last year, both Harrisdirect and BrownCo. And then, finally, a close just on the 2006 guidance that we just established in last December.

A couple points -- one is ultimately, I think, as you step back and the goal is to build a franchise over the long term, over five to ten years, there are really two things that ultimately make a successful franchise. One is what's happening in the industry? What are the trend lines? Do you believe you are participating in the growth area? And then, specifically, you overlay your business model in that environment, and it gives you the ability to take market share in ways, as I said, a growing market and therefore had really, really supercharged growth.

So as we look at the industry today, it's changed dramatically from five years ago, when many people in our space would be defined as online trading. And that was really the way in which the businesses were defined. Then they moved to online brokerage. And now, today, they really are evolving as online financial service businesses. They are truly companies, and certainly I believe that we are taking advantage of this opportunity, where what you're looking for is the opportunity to connect with a retail customer as they think about their financial services needs. And so, how can you provide them solutions? And the opportunity is to look at whether or not, within financial services as a large global marketplace, and typically grows at a relatively slow or stagnant rate, best GDP or a little beyond, what is the growth avenue within that pie?

And as we look at the secular trends, one of the things that is really interesting is you look at share moving from all the offline to online. And in the early days, again, when you thought about the industry, often we thought about share moving offline to online around trading alone. So we would step back and we would say, what's the opportunity? And as many of you know, it was very, very quick. So you sort of went from a 0% adoption rate of online trading to a 30% adoption rate in a very quick amount of time. And then it backed off to 10, 12%.

But while that was happening, you've actually seen other financial service products and solutions -- whether it's cash management, whether it's credit, including margins or mortgages or HELOCs -- and also asset-gathering initiatives all moving online. And you've seen a much more steady growth rate with those types of products and solutions over these last five or six years, as it has evolved from much more of an adoption online than the traditional offline players.

The second thing that's happening is you see an immense growth in the industry in those customers who have between 50 and $500,000 in assets. That really has been the fastest-growing area in bulk. Although there is more wealth growing at the very high end, it's with a much smaller number of customers. So when you look at the real growth opportunities, it has really been in the 50 to $500,000 range.

And what we have discovered is, as you think about this customer, they are incredibly concerned with value. And the reason that they are concerned with value is many of them are rebuilding some wealth that they lost, or they are building wealth for the first time for their future. And it matters to them to really be able to engage and connect in a way in which it's completely clear what the value proposition is back to them as the consumer.

And at the same time that this is happening, and you're going through literally the greatest generational transfer of wealth that we've ever seen, the people are inheriting wealth often in not massive amounts, but in that 50 to $500,000 range. And many of the bulge bracket firms that we, in our space in online financial services or online asset gathering, are competing with the bulge bracket firms. Many of the bulge bracket firms are coming to the realization that, based on their cost structure, they just cannot afford to compete in the space.

So they are either withdrawing or they are, in many instances, moving customers to call centers. And so it really is causing a lack of goodwill and a disenfranchisement with that bulge bracket firm with respect to the customers. So we, like many of our direct competitors, are experiencing very dramatic growth in customers and in all of the key measures for our business model, as a result of taking share from the bulge bracket firms today.

Finally, as I was speaking about, the key differentiator today -- and, I believe, going forward -- is a value proposition where literally, when the business model was about online trading alone or it was about online banking alone, it was very hard to have a differentiator other than price. Today, what you see in our space -- and particularly, I believe, with our model and our customer base -- is price is important. You have to prove to that customer why there is value. Your cost structure is lower, and so you're taking a part of the return and giving it back to that customer. That's a great thing.

On the other hand, equally as important today is not only the return that you get in terms of price, but also functionality and service. All three of those are key. And so, when you think about functionality, it can be the technology; it's really the product and the functionality around that product stand-alone and as it integrates with other products within the system, as well as service levels and, ultimately, pricing.

So here's our business model. So we believe, again, that there's this opportunity going forward to take advantage of the growth sector within financial services, which is the shared movement from offline to online, and specifically as you think about first and foremost a customer who is building wealth between 50 and 5,000. At the center of our business model, in particular, as you overlay that against the opportunity, we start with a global retail customer.

One of the things that I'm most pleased with as a team is that over these last couple of years, we have been able to take our international operations, which once upon a time had been losing as much as 50 or $60 million, to now being profitable 30 or 40 million. In the scheme of hundreds of millions of dollars of net income, is it a big percentage? No. But if you look at the trendline, it's dramatic and we believe there's a huge opportunity, particularly as you differentiate us against many of our competitors, as you look at the international marketplace, because the same things are happening all over the globe.

You start with that global retail customer. You want to connect with them not the way we used to in the old days, around trading, not the way we used to when I ran the bank many years ago, around banking. But rather, you want to start with an asset-driven customer, somebody who is building wealth. And as you connect with that customer and you spend your marketing dollars to engage, that customer will have a propensity to trade -- some more actively than others. We are clearly seeing that they have a propensity for a return on cash, and they are looking for cash management solutions which have a value proposition.

That's a big part of what we launched about 18 months ago, and you have seen really very dramatic and rapid growth in our model around the cash management solutions to retail customers. Then you look at assets, bringing in more assets; we're growing assets faster than almost anybody. Again, it's a small number, but our growth rate was pretty extraordinary in '05, and we are bouncing up upon about 200 million in assets so far, total customer assets as we exited last year. And assets can be in the form of mutual funds, EPS -- again, where we can drive a value proposition to that customer. We rebate half of the 12b-1 City that we receive because our costs are lower.

And then finally, on credit, thinking about that customer not the way we used to in bank and brokerage, and providing them a credit product in brokerage in the form of margin and a credit product in the bank in the form of mortgages or home equity lines of credit but rather, today, thinking about total credit solutions and being able to generate for those customers a real optimal return by giving them the lowest possible borrowing cost within the system.

And around the global retail customer, we have an institutional business. It's simply a wrapper. The whole part of the institutional and point of the institutional business is to create leverage, to drive more profitability out of the retail behavior that we are seeing. So, going forward, we will continue to focus on that leverage.

And then finally, around both of those businesses, you have an integrated back office. We have driven ourselves to the point where, rather than having multiple back offices within brokerage and multiple back offices within bank, and that even having just singular back offices within those two businesses, we have retail and institutional today as the key drivers of our business. And we are operating on virtually one integrated tech platform, one integrated back-office operational platform and then the same thing is true with service. And it allows you to be much more efficient, so that the next incremental dollar of revenue has a very high operating margin and drops to the bottom line.

So one of the things we talked about, certainly in '05 as we exited and we were looking forward in '06, is that we would be moving more and more in the direction of becoming agnostic as to the next financial transaction that our customer participates, whether it's a dollar of cash, a dollar of credit, a dollar of assets or trade, because by utilizing common platforms and back offices, it puts us in a position where the next incremental dollar can be as high as 80 or 85% in op margin.

So, a minute ago, I was talking a little about retail and institutional and how you drive the value. So you're starting again with that global customer. Retail we talked about the touch points.

The institutional connection to retail is simple; there are really three parts of our institutional business. The first one is balance sheet management. It is managing a balance sheet which is driven by retail consumer behavior. So, as our customers engage with us around cash and they give us more of their cash in the system -- whether it's traditionally what would be viewed as banking or brokerage, it doesn't matter -- it goes onto the balance sheet as a liability. To the extent that we engage with our customers around credit, whether it's margin or mortgage or home equity line of credit, we put it on the balance sheet as an asset. And today, the balance sheet management group is managing about a $40 billion balance sheet. I think, as we have guided for 2006, we would expect that enterprise balance sheet to be anywhere between 41 and 44 billion. And the goal is for them to generate superior risk-adjusted returns controlling credit and interest rate risk, based on the engagement with that retail customer.

The other two businesses in institution are simply global sales and trading and market-making. And what we are trying to do is optimize one of the assets that we have, which is retail order flow. So, as we learn about that retail customer and they are generating order flow for us, whether it's on the asset side or on the pure trading side, we are able to utilize that in a way in which we can package it from a global sales and trading perspective, pre-trade analytics, post-trade analytics or on the market-making side, internalizing about 50% of our order flow. And again, it drives superior returns for us, because you're using the same back-office platforms.

One of the things I'm most pleased about is from 2001. I got involved with E*TRADE in about 2000, when I sold the bank which I had started in '89 to E*TRADE, then the brokerage. And you can see even in 2001, one of the most significant drivers was, without a doubt, where we were with respect to retail commissions. Today, we are at or under 20%. And if you actually trended back before 2000, you would have seen retail commissions be as high as 75 or 80% of revenue. We are now running at about 20%. What we are experiencing is net interest income, which comes from engaging with this investing base customer, bringing in their cash and bringing in their credit. That's generating over 50 or 51% of revenue today.

What we've done in the process is not only drive growth in revenue, but also drive growth in op margin pretty consistently by driving the top line. Typically, our goal is to drive revenue year over year on an organic level, independent of acquisitions, about 10 to 15% top-line. And our goal is to drive bottom-line EPS about 20% a year. And so, obviously, the incremental difference is the leverage. It's just continuing to have lower cost structure and moving more revenue through that platform at a lower cost structure to really drive performance.

And you can see -- I can remember in 2003, when we said our long-term goals not only were to be at this 10 to 15% top-line growth and 20% bottom, but to be at a 40% op margin. And I remember, when we first talked about it two or two-and-a-half years ago, people thought it was a pipedream, because we were in the mid-20's. And we just exited Q4 at 43%, and we have guided, as you see here, for 2006 about 43%. I didn't think that structurally it was possible for us to get to a 50% op margin; but, clearly, based on what we are experiencing in terms of size and scale, we are moving rapidly in that direction.

A couple other questions that often come out of managing a balance sheet, whether you are in a brokerage business, whether you are in a banking business, asset -- wherever you are, to the extent that you're managing a balance sheet -- is what happens to the economics of your business in a rising rate environment, and particularly in a rising rate environment with a flattening yield curve. And what you can see, if you go back to '04, to '05 -- but even if you trended back beyond that, what you would see is Fed funds are clearly up dramatically. The spread between the two [intends] are down. So obviously, you're seeing a tremendous compression in spread or a flattening of the yield curve, so it's literally rising and then flattening from its normally steeper position. And yet, during that same period, we have been able to dramatically grow the spread or the enterprise spread within the business.

The primary driver for that has been the growth in cash. So as we've been able to connect with customers and drive really very strong growth in cash, it is a much lower cost of funds. And it has been extremely helpful to us in order to be in a place where you can see the growth in the enterprise spread. And so you're growing both the spread, as well as the size of the balance sheet, and together it has dropped to a place where you have your net interest income over 50 or 51% of total revenue.

So the product that we launched -- we talked about it at analyst day, which was just about a year ago, coming on a year, was E*TRADE Complete. And the vision behind Complete was it would be the embodiment of everything that we had been building for customers. And the goal was to step back and say, as you look at every one of our products for a retail customer -- non-institutional but retail -- around investing, cash, credit or trading, that each of them stand-alone have value. So can you put any one of those products up individually to the competition, and you believe your price, your functionality and your service is superior? And if the answer to that is yes, it's great. And if the answer is no, we exited the businesses.

And then we said we want to make sure that we don't force the customer to take something; we allow the customer to choose what they want. So if they want to engage with us around one product, it's fine. If they want to engage with us around two, three or four, it's better for us, but it's also better for the customer. And they see that return in the form of value, not only functionality and a higher level of service, because of the increased engagement, but also economically. Each time they engage with us around a different product, there is a higher return associated for that retail customer.

So you can see at the center of it is the Complete view. If you choose to have an E*TRADE Complete account, you can go online and you see your account; it's effectively a mini balance sheet for a retail investor. You see all of your assets and all of your liabilities, and you can import information from businesses other than E*TRADE so that, again, it gives you a complete and holistic view of your total assets and liabilities.

Then around it, you've got a lot of the functionality -- the quick transfer, moving money from within E*TRADE outside and back in -- we see about two for one coming in -- as well as within E*TRADE, in terms of any of the products and services. With it comes a credit/debit card which gives you access to cash out of this account anywhere, for free of charge. And then finally, we have been launching a lot of the security initiatives this last year around the RAS token, as well as we just launched our complete protection guarantee last week.

And then, the drivers around the products were initially the Intelligent Cash Optimizer -- so we launched it about a year ago. And it effectively tells you within the system the best place to put your excess cash to generate the highest return for you, based upon your liquidity needs.

We are launching in Q1 the Intelligent Loan Optimizer or Lending Optimizer. It will be doing effectively the same thing, and I'm quite convinced, when you look at the numbers, that a big part of the driver of the significant growth you have seen in cash from our retail customers came at the time that we launched and continued to market and invest in the Intelligent Cash Optimizer. The Lending Optimizer will do exactly the same thing. Are you better off, if you want to lower your borrowing costs, to have a product in margin, in mortgage, in home equity line of credit or in a securitized credit card?

So as you step back and you look at the success we've experienced, you can see '03, '04, '05. We're marching nicely. In terms of assets per customer, we're up to about 51 or $52,000. We had experienced an absolute low in about 2000 or 2001 of about 17, 16,000. So, as we have transformed the model and focused on the investing-based customer, you can see a steady march in progression in terms of average assets.

And also, products per customer are growing -- 1.7, 1.9, 2.1. And because of the size of the institution, each incremental movement in products per customer has a very significant, almost an exponential impact on both revenue and profitability. And you can see it as you look at the revenue and profitability from '03 to '05 by simply moving from 1.7 to 2.1 in terms of products per customer.

So 2005 was really a very strong year for us; I was very pleased. We as a team, I think, executed on all cylinders. We had record revenue as a company of about 1 billion 7. We had record net income of about 430 million. Op margin was a record. EBITDA was a record. Across the board -- and the nice thing is, as a management team, we have experienced in these last three years -- we have pretty consistently experienced record years every single year. So '03 was better than '02, '04 was better than '03, '05 was better than '04. So I really believe that as a team, we have been able to execute on this model, and really deliver value to the consumer, but also value in the form of returns to the shareholder.

Last thing is, as many of you know, we did complete the acquisitions of both Harrisdirect and Brown, and we did it in a reasonably short timeframe. Both of them came really on the heels of one another, starting in about August or September. So in a short time period, we looked at both deals, negotiated them, signed them, announced them and went out and funded. We raised about 2.2 or $2.3 billion in about a nine-week window, and ultimately closed on Harrisdirect before the end of the year and Brown, as well.

So as you look at the revenue growth just in '04 versus '05, you can see 15% growth. Our goal, as I said to you, was always to be at 10 to 15% top-line growth. You can see pretax segment income up 31%, so it exceeded the goal of about 20%. And a big part of that is because you are seeing costs coming down, more revenue moving over, a lower-cost platform. And so you're seeing the exponential growth there.

The other thing that's important to us is for a while, back in 2000/2001/2002 timeframe, anybody in our space -- in the sort of Internet online space, however you want to define it -- your multiples and ultimately your market cap were driven by purely by account growth. And I think many of us today have learned that not all accounts are created equal, not all accounts generate revenue and profitability, and not all accounts generate revenue and profitability in the same way.

So our internal goal is to look at our own customer base and create more value, and also to grow by marketing to this investing-based customer, as we think about assets and asset gathering, in a way in which it can drive better metrics.

So if you look at '04 to '05, the assets per account were up 49%. Cash was up 28%. Trades were up 9%. Good, but no longer the significant driver of our income statement that it used to be, given that it's now, as I said, only 20% of revenue. Debt was up dramatically; a lot of that was as a result of the acquisitions that we did. Revenue and segment income -- so you can see all the leverage that we are seeing. And that is one of the things we now hold ourselves accountable to, which is ensuring that the quality of the accounts that we are bringing in are superior to those that we have or that are leaving.

Let me give a quick update on both Harris and Brown. Harrisdirect ended up closing about three months earlier than we had originally guided. I think we announced the deal in August, in the summer. We expected that at that point, we wouldn't close until the very end of 2005. We closed three months earlier, ahead of schedule. So it was great.

We actually just completed the conversion in mid-January. When we announced the deal, I think we talked a little bit about accounts, we talked about assets, we talked about cash, we talked about margin, balances and about trading volumes. And when we ended up closing the transaction, every single one of those was at or better than when we had announced the deal back in August. So the trendline was improving, actually, for the core Harrisdirect business.

We have, through this conversion process, definitively -- we talked about it on the earnings call -- hit some bumps in the road. We are still experiencing attrition below 4% right now in accounts. And what you are seeing when you look at all the other key metrics which drive the revenue and profitability -- we have actually seen virtually no attrition. They are all higher than they were pre-conversion.

Part of it was I think that as we went through this conversion on Harrisdirect, we ended up with some vendor-related issues. Doesn't matter; we are totally accountable and responsible. The experience drove a lot more call volume than we would have expected, seven times normal. We were not prepared for it, and we have since literally reached out to virtually every customer that we can at Harrisdirect, apologized, explained, said we're sorry, explained it was our fall, dealt with them in terms of assigning RMs, and also making accommodations, which we had originally built into our marketing dollars. So I feel quite good now that we are through it, and post-conversion, what we are seeing with respect to both attrition of accounts and all the other metrics.

It was really a tough conversion, principally because we were moving from one platform of Pershing to ADP. And so it necessitated us, in order to not go dark, to ultimately run two totally separate, independent conversions -- one for trade date and one for settlement date.

As we go through Brown, which we have indicated we expect to have happen at the beginning of Q2, it will clearly be a lot easier because the conversion is from ADP to ADP. So the back-office process is significantly easier than what we just went through. And as we have not yet converted, we haven't seen all of the final attrition numbers through conversion, but we're experiencing -- we are running at about 6% on accounts, not surprising given that we had always anticipated that the Brown customers, to the extent that they were going to attrit would attrit earlier on, on announcement or even closing. Given who they are as a customer base, they were more likely to react much more quickly.

And as you look at all of the key drivers, again, whether it's assets or margin or trading or cash, every single one of those at closing was at or better than when we announced the deal. And today they have also improved consistently across the board. So we've seen zero attrition in any of the drivers that ultimately deliver revenue and profitability.

2006, the court growth plan, totally independent for us of integrating Harrisdirect, which are crucial, is to continue to broaden the customer relationships by launching the Intelligent Lending Optimizer, as we talked about; grow assets, focusing on our serious investor, just as we did in '04, began to do in '04 and certainly as we did in '05. Within the trading arena, we have been very focused on growing option volume. I think we were up 26% growth rate in option quarter-over-quarter, between Q3 and Q4. Grow cash balances -- as we have seen, I think we brought in somewhere in the neighborhood of 1 billion 8 or 1 billion 9 net of cash from our customers just in the last two quarters of the year. So it's a pretty strong growth rate off of the base. Continue to grow these credit originations with our retail customers through this Lending Optimizer and finally, just continue to work on servicing the customer and really strengthening our service infrastructure.

So on the institutional side, as I was saying, three areas -- the balance sheet management is focusing now holistically instead of managing what had been a bank balance sheet, and then separately having a brokerage balance sheet, we have one enterprise balance sheet. We think about it in a totally holistic way. Managing spread around that, optimizing assets and liabilities.

If you look at our balance sheet, you'll see that customer cash, as a percentage of total liabilities, is growing dramatically. It is up. Our goal is to be between 70 and 80%, and we are well on our way there. And the same thing is true on the asset side -- to be able to have loans to customers, as opposed to securities, be between 70 and 80%. And again, as we exited last year, we were well on our way to achieving that goal.

On the market-making side, it's just to continue to optimize the order flow. What's best for the customer -- we've been able to give best execution guarantees now to that customer around trading for two-second execution guarantee, principally as a result of our market-making business. And finally, on sales and trading, using the information that is coming out of that retail customer to drive more revenue and profitability with things like pre-trade and and post-trade analytics.

So finally, '06 -- we gave guidance in December of 2005. We just did our earnings call about a week ago, and we reaffirmed that guidance for 2006. We said on the call, when we were asked about it, that to the extent that we continue to run ahead of plan and we were successful with these integrations around a lot of the attrition metrics and it was appropriate, we would revisit guidance when we did our earnings call for Q2.

You can see that ultimately, what we have guided to in terms of cents and earnings per share is $1.30 to $1.45. That is before one-time costs of about $0.05 that are deal-related in connection with both Harris and Brown. So true GAAP will be about $1.25 to $1.40. But the core business will generate between $1.30 and $1.45 off of $1.12, which we just announced for 2005.

In then, you can see all of the key metrics, whether it's the daily average revenue, trades, margin debt, average commission, the spread or the interest-earning assets show pretty consistent growth but not really significant growth, particularly given the fact that a lot of what is on there is driven by the integration of the two deals.

So with that, I'll turn it over to Q&A.

QUESTIONS AND ANSWERS

Unidentified Company Representative

Thanks, Mitch. And accept my apologies for not being able to introduce you and getting here in time to introduce you. So welcome to our conference. And, Mitch, you have really been a catalyst for industry consolidation in a lot of ways; you closed three deals last year. Your stockholders -- stock was up 40% in '05, 112% since that letter surfaced back in May to Ameritrade. Can you just give us your outlook on consolidation in the industry going forward?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Absolutely. Let me start with the punchline, and then let me back up. Consolidation is going to continue; there's very little doubt in my mind that it will continue. But in building a franchise, one of the things I have to validate to myself -- and as a team, we have to validate to each other -- is that we believe that we can hit those organic growth targets. As we look out, frankly, if we think that we can't grow our top line by the amount, you know, 10 to 15%, and the bottom line by 20 and hit ROEs of 20% and op margins, you know, now mid-40's, we should sell. Because we owe it to shareholders to be a growth company. And if we can't be a growth company, then what's the point?

So as we step back as a team, we are always trying to validate where are the growth opportunities organically? How do you think about that in terms of execution? I think it's what we've done a nice job of, over this last couple of years. You've seen pretty consistent organic growth out of our business.

Then what happens is consolidation can just supercharge it. You add it on. And you shouldn't be consolidating for the sake of consolidating, if your core business isn't successful. You should be selling. And I'm quite comfortable, as you look out over this year, as we look out over the next couple of years, that I see opportunities for us to grow organically at that rate or faster, given what I think is happening from a demographic perspective in the US, and clearly, when you look at the opportunities outside of the US. I think as you know and I said earlier, before you got here, we are the only one who's international at this point. And we are seeing very fast growth in all of our international operations.

So, all of that being said, it does make sense to consolidate. Our opportunities, which are interesting because of our business model, are to consolidate with businesses around cash, around credit, around assets or around trading. So again, I believe that we have really interesting opportunities that are just beyond what might be viewed as the traditional space for consolidation. And we can do it both here and internationally. So I would expect that over time, you will see continued consolidation; it makes sense. I think the right thing to do for customers and for shareholders.

Unidentified Audience Member

Could you give us some indication of what you think a reasonable target for products per customer would be, say, three years from now?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Happy to. One of the things that I think is important -- listen, I'd love to see consistency in the definition around products per customer. So in our mind, I will tell you that products per customer have to be something that's going to generate revenue, connected in some way to generating revenue and profitability -- not just a thing, a function, so to speak. It is a thing where you can really connect to revenue and profit. And you can see it based on the growth that we've had in both revenue and profitability over these last two years, simply by going from the 1.6 to 1.9 to 2.1.

The next goal for us along the path is 3. Ultimately, I would just -- if we move to 3, it's pretty impressive if you model it out and see what it means, in terms of both revenue and profitability. And I would suspect, over three to five years, internally, based on our focus with our customers and the kind of -- I don't think that a whole panoply of products makes sense. I think you focus on where you can really create value for the customer. So if, at the end of the day, we could end up at 4, I'd be delighted.

Unidentified Audience Member

Your average asset size of 52,000 -- do you have a window as to whether that's all the money they have? Or are some of those accounts where they are a lot wealthier, and maybe have a traditional brokerage or high net worth relationship, and where you see money continuously flowing in?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Great question. So a couple of things -- one thing is when you looked at E*TRADE of a couple years ago, what frustrated me is when you saw even in the 20's. We knew that we had about 20% of their net worth, 30% of their net worth, on average. So we knew there was a lot of other investable assets that were out there, wherever they may be.

And as we have slowly transformed the business model in a way in which we launched a cash management solution, and now the credit solution, we're definitely seeing growth in share of wallet with our customers. And then, when you looked at the acquisitions of both Harris and Brown, they both came with customer bases that were very strong on the asset side. So again, it was the acquisition of exactly the right kind of customer that we were looking for.

So today, it's increased, but I believe there's still a huge opportunity, because if we've moved from 20 or 30 on the core E*TRADE customer, now maybe we are at 50 or 60. And the idea is to continue to try to offer value to that customer, a reason to come to us, reason to integrate.

Unidentified Audience Member

I think, if I measured correctly, you grew your cash 20% linked-quarter annualized this quarter. To what do you ascribe that success, and how do you continue that?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Yes, we did. And one of the things that we have seen demographically that was really interesting to me is that the behavior of customers in our retail segment and particularly between 50 and 500,000 has transformed dramatically. Now, part of that is because of the business model.

So a couple of years ago, if you looked at the customer and we looked at their assets, and the question was just being asked, and it was 20 or 22,000 or 18,000, and we knew it was 20 or 30% of their net worth, it's because it was the money they were using to trade.

There were others who actually had more assets with us. Many of them lost a lot of money in the bubble. And so as a result, since really 2003, what you have seen is that there has been a slow re-engagement by retail customers around trading and asset gathering. The behavior has been much more conservative.

And what we have also seen is that when you look at the behavior of that customer, they are traditionally keeping between 10 and 15% of their total net worth in cash at all times. You didn't see that in the past.

Now, it may have been true with customers outside of the segment that we were serving then. But when you looked at our customer base, their cash was fully invested. And what we are experiencing is that customers have cash that they sit on, in order to make available for investment at any moment in time, and then there's cash that they view as non-investable, that they just -- and that cash they want a return on. And as we began to really focus on that product, launched the Cash Optimizer with Complete, you have seen very significant response rates.

So I think we're really encouraged. Next year, built into our numbers, the growth in cash doesn't look as significant as I would want it to be, because embedded in that are relatively significant attrition rates, I think 15% for both Harris and Brown around cash. To the extent that we don't experience that, then you are not backfilling that, and it will be a good opportunity for us to have even stronger organic growth in cash. But it's definitely a product that has resonated, and it's what gave us the comfort, obviously, to continue to push forward with the leading optimizer.

Unidentified Audience Member

You spoke a few times about asset accumulation, and seemed to imply that that might be a hook to selling some other products and services, including trading. Does that imply that, if you were to make future acquisitions, they would be around asset management, as opposed to the more traditional trading relationships?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

I doubt we would buy a true asset manager. That said, we would absolutely buy somebody who was an asset gatherer. And there's a difference. Ultimately, we do have some asset management products, in the sense that we have branded E*TRADE mutual fund products, but they are all sub-advised -- not a business that we right now believe -- and I think, as a team, one of the things that has been successful for us is we have tried to concentrate and execute on less rather than more. We've probably eliminated more than we have added in these last couple of years.

But I do believe that, as you market to a customer, that the dollars shouldn't be spent on traditional -- I mean, you're going to spend a small percentage on trading and you're going to spend most of your dollars on an investing-based customer. And that investing-based customer will have cash, will have borrowing needs and will have assets.

Unidentified Audience Member

The evolution of the revenue pie has really changed dramatically for the industry and your firm in particular. What are the (indiscernible)? Years ago it was crossing trades and making money from that, and now it's interest income. Is it going to go -- what's the ultimate end? How does this ultimately play out?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Listen, at the end of the day, you can -- I'm not unhappy with where we are now. So 20%, a little sub-20% with respect to retail commissions, over 50 related to interest income and then the balance is really in fees. Now, what would be interesting for any or all of us, and certainly for us, is that you drive more and more fees as a result of engaging with the customer around your mutual -- your asset growth. And that's something that would be really compelling and interesting.

What's nice about that is that, rather than the traditional model, where you're simply getting 30 or 40 basis points all in, from a customer and whenever it may be just from a mutual fund, because of engaging with that customer, not only around assets or not only just simply trading, but also cash and credit, it puts us in a place where, last time I looked, our return -- we basically had a return on assets of 180 basis points? Yes. So it was pretty significant.

But what drove it was going beyond simply the assets and also looking at cash and credit in total. So if you could be there and that would look like ultimately your percentages, it would be great. And then, what will happen is, if you tend to be in a particularly stronger moment in time around equities, you'll see a little bit of growth in that percentage as a percent of revenue, but not because there's a transformation, just because total revenue is up.

Unidentified Audience Member

If your customer has become more conservative, as you see it, how do you explain the increase in margin debits per customer and as you elicit them, increasing 2.5 times over the last year, and your prediction of a bigger increase this year?

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

(Multiple speakers). The margin was really driven by the acquisitions at Harris and Brown. So that's really the thing that drove those numbers on a percentage basis. And when you look at our customers today and you look at margin to total assets, when you look at any of them, they are all significantly down from where they were a couple years ago.

Unidentified Audience Member

(Inaudible question - microphone inaccessible).

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Yes. Oh, yes.

Unidentified Audience Member

(Inaudible question - microphone inaccessible).

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Absolutely. Yes. So a couple of things. One is, as you know, we're just about to launch a lot of research and information. So we'll have five different points of research that are coming out now against our site, which is pretty important, in terms of being able to help them. We have built out relationship managers, we've built out the brand strategy, and even at the high end, the adviser strategy of these couple acquisitions.

But most importantly, I think one of the things that Jarrett drove was getting a health report card of a customer and understanding, on average, as you look at the segments, what is happening to that customer. Are they making or losing money? Because it's really a leading indicator of where you're going. If you had gone back years ago, you would have seen a lot of them were losing. And today, we see that they are all making. So they are being much more prudent in their decisions.

Unidentified Audience Member

(Inaudible question - microphone inaccessible).

Mitchell Caplan - *E*TRADE FINANCIAL Corporation - CEO*

Yes.
