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Economic outlook for 2000:
Slower growth, one way or another.

by
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The U.S. economy remained strong in 1999, a lot stronger than just about anyone expected.

Real Gross Domestic Product, the inflation-adjusted aggregate measure of output of goods and services, rose an estimated 4%, compared to 4.5% in 1997 and 4.3% in 1998.

Growth is slowing, to a certain extent, because labor market constraints are becoming more binding. The unemployment rate edged down to 4.1% in October, the lowest level since 1970. The number of unemployed individuals fell nearly 8% year-over-year. The level of marginally attached workers, those who want jobs but are not officially counted as "unemployed," also fell.

Continued on page 6

1099 mailing schedule.

by
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1099 Tax Reporting
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Although we rely on outside sources to create Composite Statement 1099 Forms, our intention is to complete the mailings by January 31, the Internal Revenue Service-imposed mailing deadline.

The information provided in client statements is accurate as of the mailing date; however, the information may change as we receive additional information from the securities' issuers.

Accordingly, and in compliance with IRS regulations, the following timetable indicates when we can expect to mail additional or corrected forms:

- Corrected Raymond James Composite Statement of 1099 Forms by February 28.
- Corrected Heritage Family of Funds 1099-DIVs and 1099-Bs by February 28.

Continued on page 4

SEASON'S GREETINGS AND BEST WISHES FOR A HAPPY, HEALTHY AND PROSPEROUS NEW YEAR.

2000 could be year of change for exchanges.

by
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Listed Trading
Raymond James & Associates

The first year or two of the new millennium could bring considerable change to the investment industry as regulators and broker/dealers work to implement decimalization, extended trading hours and one-day settlement of trades.

Decimalization, which will allow investors to bid in one-cent increments, as opposed to the current 1/16, is scheduled to be phased in during the coming summer and fall.

Initially, 30 stocks will be traded on a test basis at $.05 increments beginning July 3.

If successful, the $.05 increment trading will be expanded to all stocks in August and move to $.01 increments in the fall.

The benefit to investors will be tighter spreads and a more controlled market. However, in order to handle the changeover, the investment industry, including exchanges and broker/dealers, will have to undergo considerable computer reprogramming, right on the heels of Y2K, and expand the capacity of its electronic communication networks.

Extended trading hours is another change whose time has come.

Originally scheduled for the

Continued on page 4

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Is it different this time?

by
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The number of Internet users will increase from 142 million worldwide in 1998 to an estimated 502 million worldwide in 2003. That's 72 million "adds" per year or 197,000 a day!

With numbers like these, the Internet has been heralded as the greatest innovation in history, a statement with which we take issue since its "footings" began around 1455 C.E.

Indeed, higher civilization first emerged at the close of the fourth millennium B.C.E. in Mesopotamia with the Sumerians, who developed the first efficient writing system. The Sumerians were absorbed into the Babylonian civilization, as was their writing system, and the first information revolution began.

The Sumerians' clay writing tablets, however, were breakable and bulky. It took another 2000 years for the Egyptians to turn the papyrus plant into a paper-like material, which still had a tendency to crack, but made long-distance communication possible for the first time.

The Greeks, who made parchment from stretched animal skins that could be folded, overcame the disadvantages of papyrus, hence the development of books. However, it took a monk more than two months, and many sheep, to copy one manuscript, making said book an expensive luxury item.

Around 1455 C.E. all of that changed when Johannes Gutenberg invented the printing press, with movable metal type, which was/is by far the most important innovation in history.

The impact of Gutenberg's invention led to an information revolution, as it cut the cost of producing an additional copy of text by at least 99%. The result was that by 1500 C.E. Europe had produced about 10 million copies of some 35,000 different titles at affordable prices.

This staggering accomplishment represented more material than was produced since the Sumerians invented the clay tablet writing system! Thus began the Renaissance, and with it the Scientific Revolution of the 16th and 17th centuries, upon which the Industrial Revolution of the late-18th and 19th centuries was based.

Printing solved the problem of accurate and cost-effective information recording, which permitted the passing on of information from one generation to another. It also laid the groundwork for the newspaper revolution of the late-17th and early-18th centuries. This clearly advanced the dissemination of information leading to the scientific advances of the 19th century.

Samuel Morse's invention of the telegraph in 1837 was followed by Alexander Graham Bell's first telephone in 1876. Then Marconi's radio communication led to commercial broadcasting and, subsequently, the television revolution, which ushered in computers, software programs and the Internet.

But all the groundwork was laid by Gutenberg's invention, which dramatically changed the world and fostered the first communication revolution.

What we have tried to show is that the information/communication revolution has been taking place over thousands of years. Gutenberg's invention, however, was the lynch pin that accelerated the information transfer process, bringing about the Age of Enlightenment. This led to one scientific development after another – communications, the telegraph, the telephone, the radio, fiber optics, the fax, cell phones, computers, etc.

All of these technological inflection points were accompanied by boom/bust cycles in their respective stock markets. Radio Corporation of America (RCA) is a great example, as it rose from approximately $10 per share in 1927 to a "mania high" of $114 per share in 1929, only to collapse to $2.50 per share by 1932. We can document that radios were as popular in the 1920s as computers are today. RCA was a true high-tech stock in its era, just like many of today's Internet issues.

What should not be forgotten is that every successful technology eventually becomes a commodity type of product.

Telephones, radios, televisions. all were high-tech products that eventually became commodities. In each case, investors overlooked the threats caused by the entry of new competitors and consequently obsolescence.

As in past technology booms, investors tend to underestimate competition from new entrees and better products. Furthermore, Wall Street tends to underestimate the impact of excess capacity . . . falling product prices . . . and the subsequent profit squeeze. Even legendary Bill Gates has suggested that only one out of 10 Internet companies will survive the test of time.

With many of the major mutual funds, driven by the momentum "performance derby," currently loaded with these Internets, what happens if the "worm turns" and they decide to *sell 'em*?

So, where do we go from here?

Well, a mania is a mania is a mania . . . and when it will end is anyone's guess. In the 1980 oil stock mania, oil was allegedly on its way to $100 per barrel, according to the gurus of the day. Similarly, the Japanese market (Nikkei) was "cheap" at 39000, according to many market mavens in 1989, right before it lost 50% of its value.

Manias tend to work both ways. On the one hand, they create a demand for the product, but on the other hand, they tend to reduce the length of the product cycle.

Consider this, a century ago it might have taken years for a new entree to enter a market where attractive profit opportunities existed due to poor

communications. Today, with instant communications, the situation is different. The flood of new Internet initial public offerings is a testament to this. Also remember that the longer a mania lasts, the lower the quality of the new issues becomes.

The fundamental difference between past high-tech manias and now is that previously the U.S. stock market was relatively inexpensive.

Currently, that is not the case. The Dow Jones Industrial Average has roughly quintupled since the low in 1990, while the Nasdaq is up nearly tenfold. Additionally, technology, and particularly the Internets, have outperformed the market by a wide margin, as they became the "only game in town." In the past, such widespread popularity of a group in an extended market has seldom paid off.

Is it really different this time? We are skeptical.

Consistent with this, we advise participants to protect their profits in many of the Internet issues, preferring the ancillary plays. Business-to-business (B2B) applications over the Internet should thrive, as should e-Health, since health care is different from other industries due to third-party payors, non-competitive/non-efficient seeking entities, highly fragmented, price-insensitive consumers, information-sensitive consumers and government regulation. We think companies playing to this space can dramatically improve efficiencies in the healthe care complex.

With these thoughts in mind, we wish you a momentous millennium. ■

Statement enhancement . . .

The realized gain/loss section of client account statements will be expanded to include the cusip or symbol beginning with the March statement, continuing quarterly and for November statements. ■

New Private Mortgage Insurance laws benefit consumers.

by
Theresa Schefstad
President,
Raymond James Bank, FBS

Private Mortgage Insurance has enabled hundreds of thousands of people to become homeowners without the traditional 20% down payment required by most lenders.

This insurance protects the lender against loan defaults and makes mortgage financing more accessible to buyers with smaller down payments.

PMI rates vary depending upon the down payment.

A new federal law enacted on July 29 requires lenders to cancel the PMI when the homeowner's equity position reaches 22%, and gives homeowners the right to request cancellation when the equity reaches 20%.

An increase in the borrower's equity position can occur through regular monthly payments, additional payments to principal by the borrower and/or an appreciation in the property value due to market conditions, reducing the loan-to-value percentage.

As with most consumer laws, there are conditions to consider.

The 78% level (22% equity) is based upon the original valuation of the property. On a 95% loan-to-value 30-year fixed rate mortgage with normal monthly payments, the loan will not reach its 78% equity position until late in the 13th year.

Mandatory cancellations of PMI pertain only to those loans originated after July 29 and require an acceptable payment history.

Lenders look to PMI for default protection and are under no obligation to cancel the insurance on a delinquent loan.

The law does allow the homeowner to petition for the cancellation of the PMI if the equity position reaches 20% through voluntary principal reduction or local market appreciation. Petitioners under this scenario should be prepared to pay for a new appraisal and, generally, cancellation will not be permitted unless the loan was originated at least two years prior.

PMI is not a tax-deductible item, unlike mortgage interest. A tax advisor should be consulted prior to making any decision.

If a borrower is paying PMI premiums and the loan was originated prior to July 29, the lender is under no legal obligation to remove the insurance, but most have adopted policies for PMI cancellation similar to the guidelines established by the new laws.

Once the borrower has successfully dropped PMI from the mortgage payment, there are a number of ways to use the saved dollars to improve a financial situation. For example, the borrower can take the funds and apply them to a higher interest rate loan (credit card, unsecured line of credit) to pay it off sooner, possibly saving substantial interest costs. Another alternative is to put those dollars to work in an investment.

A third suggestion is to continue adding the original PMI amount to the monthly mortgage payment, earmarked as an additional principal reduction.

Continued on page 6

Not since 1993 . . .

Beginning February 1, the postage and handling fee (referred to as "Handling" on trade confirmations) will increase from $3 to $4 on all applicable trades. Since 1992 we have been able to hold the fee at $3. Additionally, our commission rates have remained the same since 1994. However, escalating costs, including multiple postage increases by the U.S. Postal Service, have forced the increase. The new rate of $4 remains near or below that charged by most national brokerage firms. If you have any questions, please feel free to contact your Financial Advisor. ■

1099 mailing schedule.

Continued from page 1

- Corrected Raymond James Bank, FSB 1099-INTs by February 28.
- 1099-OIDs for REMIC, CDO and CMO Reporting by March 15.
- Form 2439 (Notice to Shareholders of Undistributed Long-Term Capital Gains) by March 31.

New for 1999 and continuing into 2000, Raymond James is introducing a service designed to make the lives of our clients easier as they prepare their taxes each year. Called "Level 3 Networking," it allows us to share data from mutual fund companies that is reported on client statements and used to generate the tax 1099 reporting form clients receive during the first calendar quarter of each year.

As reported in the Summer edition of *Investment Briefings* Level 3 Networking enables us to provide clients with one consolidated tax report for those participating funds, replacing reports from each mutual fund company.

However, in the year in which an account is networked, the client will receive a 1099 statement from the mutual fund company for the period of time beginning the tax year until the fund's conversion date to Level 3 at Raymond James. From the conversion date until the year-end, the information will appear on the client's Raymond James 1099 statement.

Please feel free to contact your Financial Advisor or our Client Service Department at 800-647-SERV(7378) if you have not received your 1099 Form within five to seven days after the January 31 mailing date or if you have questions. ■

2000 could be year of change for exchanges.

Continued from page 1

fall of 1999, extended hours have been delayed to the first half of 2000.

Even though the New York Stock Exchange and Nasdaq Stock Market will continue to end their trading days at 4 p.m. EST, they, along with other major exchanges, are already making their automated trade reporting and quote systems available for alternative trading systems until 6:30 p.m.

The introduction of a more regulated environment will help protect aftermarket investors by improving price integrity and transparency during the current thinly traded sessions.

This development may hasten the expected increase in aftermarket trading volume since investors will be confident they are receiving the best prices when they execute trades. Yet, despite the improved environment this provides, investors should still be wary of the risks of increased volatility and lack of liquidity that are more prevalent once the traditional trading day is over.

When true extended hours are implemented, we can expect the same auction we now have between 9:30 a.m. and 4 p.m. to continue, after a short dinner break, to about 9 p.m.

Ultimately, there are plans to extend the trading day from 5 a.m. to midnight, if not to a 24-hour schedule, allowing U.S. markets to capitalize on international trading activities.

Within two years, the securities industry plans to move from its current three-day settlement period (T+3) on stock transaction to one-day settlement (T+1).

As with the move in 1993 from five to three days, T+1 would be implemented to create a faster method of obtaining payment for and from trades. This change is required in order to reduce the risk to clearing corporations, their members and public investors inherent in settling securities transactions by reducing the total number of unsettled trades at any given time.

Raymond James, as it has in the past, will be involved wherever possible in planning the course of our industry with the objective of providing a more stable marketplace for all investors. ■

Automatic dividend reinvestment benefits clients.

by
Susan Walzer
Assistant Vice President, Operations & Client Services
Raymond James & Associates

Raymond James Dividend Reinvestment Program allows clients to reinvest dividends automatically and receive additional shares of the companies they own.

Currently, most of the common stocks listed on the New York and American Stock Exchanges or quoted on the National Market System of the Nasdaq are available for the reinvestment program.

Clients can choose to reinvest all of their securities or specific ones.

Clients may sell any shares simply by notifying their Financial Advisors. Any time the full shares are sold, fractional shares in the account will be liquidated at the then-prevailing market price. Proceeds from the liquidation of the fractional shares will be credited to the account.

Dividend reinvestment transactions will appear on the "Your Transactions" section of the Raymond James account statement. The amount of the dividend payment invested and the number of shares purchased, both full and fractional, will be shown. The information may also be obtained from your Financial Advisor.

Clients with Elite Investment Accounts can access the information on the Internet, through Raymond James' site – **www.raymondjames.com** – by going into the Raymond James OnlinePlus folder.

The fee for reinvestment is 3% of each dividend payment reinvested, with a minimum of $1 and a maximum of $50 deducted from the payment. Clients having an Elite Investment Account or a Raymond James custodial account can reinvest at no charge.

To enroll or for additional information, please contact your Financial Advisor and complete the enrollment card. ■

Will the booming retirement crisis fizzle out?

by
Charles Bauder, JD
Vice President,
Financial Planning
Raymond James & Associates

Much was written and debated about the impending retirement crisis facing American society as the baby boomers turned 50.

The general consensus is that the boomers will be worse off than their parents during their retirement years.

According to various studies, the boomers saved less than their predecessors and began a slide in participation and vesting in retirement plans during the 1980s. This trend evolved despite survey results showing more than two-thirds of that generation expected early retirement in the face of a decrease or elimination of their promised Social Security benefits.

Employers didn't appear to be helping much either, as there began a slowing in the growth of defined benefit plans, replaced by 401(k) and other defined contribution plans. Employers effectively began shifting the burden of future retirement dollars to employees.

Given this shift of responsibility and the shaky financial future of the Social Security system, it is no wonder that economists and financial prognosticators forecast rough retirement years for undersaving baby boomers.

However, recent studies have suggested the baby boomers may be responding and could alter these expectations.

During the late 1980s and the 1990s, retirement plan participation and vesting has increased, especially among the women of the work force. Although surveys show only one in five save at the necessary rate to achieve retirement dreams, more than 70% are doing some level of retirement investing. Many also believe that although the boomers have not been the drivers of this unprecedented bull market, they have been the sustainers.

A number of economists believe this trend will continue and, although they may not enjoy the same standard of living as their pre-retirement years, baby boomers will be better off than their parents. The 1999 Retirement Confidence Survey showed that a quarter of the boomers are confident they will live comfortably during their golden years.

Regardless of uncertain government entitlement programs and the threat of a possible lower standard of living, baby boomers will respond, adapt and force change as they have always done.

The typical tripod of retirement income (Social Security, employer retirement plans and personal savings) may well see the addition of a fourth source – retirement employment. Recent surveys also show that one in five boomers would like to continue full-time employment as long as they are able.

This conflict of ideas – working and retiring – may be as much a voluntary move as necessity. Baby boomers will likely refuse to conform to a linear life cycle of education and work followed by retirement. Rather, they will adopt a more cyclical life pattern of alternating periods of retirement divided by periods of education or work during their golden years.

To make this transition easier, the baby boom generation must continue to increase participation in employer retirement plans and IRAs.

In addition, adopting the savings habits of their forebears, along with a sensible investment strategy, will provide even greater security.

Finally, working with an experienced financial professional can help boomers invest and plan for the inevitable changes this generation will continue to face as their mass "retirement" nears. ■

1st quarter economic calendar

by
Scott Brown, Ph.D.
Chief Economist
Raymond James & Associates

January

- 7 - Employment Report for December
- 13 - Producer Prices
  Retail Sales
- 14 - Consumer Prices
  Industrial Production
- 17 - Martin Luther King Jr. Holiday. Markets closed.
- 19 - Housing Starts
- 20 - International Trade
- 25 - Consumer Confidence
- 27 - Employment Cost Index (4Q99) Durable Goods Orders
- 28 - Real GDP (4Q99, advance)
- 31 - Personal Income and Spending for December

February

- 1, 2 - Federal Open Market Committee meeting
- 4- Employment Report for January
- 11 - Retail Sales
- 15 - Industrial Production
- 16 - Housing Starts
- 17 - Producer Prices
- 18 - Consumer Prices
  International Trade
- 21 - Presidents' Day. Markets closed.
- 24 - Durable Goods Orders
- 25 - Real GDP (4Q99, revised)
- 28 - Personal Income and Spending for January
- 29 - Consumer Confidence

March

- 3 - Employment Report for February
- 10 - Producer Prices
- 14 - Retail Sales
- 15 - Industrial Production
- 16 - Housing Starts
- 17 - Consumer Prices
- 21 - Federal Open Market Committee meeting
  International Trade
- 24 - Durable Goods Orders
- 28 - Consumer Confidence
- 30 - Real GDP (4Q99, final)
- 31 - Personal Income and Spending for February

Economic outlook for 2000: Slower growth, one way or another.

Continued from page 1

Job growth is a good thing, but it's clear that the pace of economic growth over the last few years has been unsustainable, fueled in part by more and more people working. The shrinking pool of available workers was the main reason the Federal Open Market Committee raised short-term interest rates in November.

Given good reports on inflation and productivity growth, the move was politically difficult, seemingly pitting the Fed against American workers, but correct. Growth must eventually slow to a more sustainable pace. The Fed will continue to raise rates in 2000, until the economy slows.

Signs of excessive growth were also apparent in other areas. Most notably, domestic demand outpaced domestic supply, leading to a sharp widening in the trade deficit in goods and services in 1999.

The current account deficit was running over 3% of GDP through the third quarter of 1999. The wider trade deficit is equivalent to the shortfall in domestic savings. That is, dollars spent on imported goods come back partly as foreign purchases of U.S. assets.

Despite the improved budget situation, the United States does not save enough to finance the current rate of investment and must rely increasingly on foreign savings. In the mid-1980s – the last time we had a large trade deficit – foreign savings went to finance the federal budget deficit.

Currently, foreign savings are helping to finance investment. Borrowing from abroad is not necessarily bad. Households and businesses borrow money all the time. The issue is the debt service burden, which isn't particularly onerous – yet. However, the widening of the trade deficit can't go on forever. The easy solution would be an increase in U.S. exports, but this may not be enough. The U.S. savings rate will probably have to increase, meaning that consumption is likely to slow in 2000. In addition, there may be some downward pressure on the dollar.

The Fed's challenge in 2000 will be to institute a soft landing, something it has had difficulty achieving in the past.

The U.S. economy is dynamic. Many jobs are created each year and many jobs are destroyed – while net job gains have been running about 2.5 million per year, initial claims for unemployment benefits are running at 16 million per year. In the manufacturing sector alone, about 10% of jobs disappear every year, never to return.

The process of creative destruction, the economy's ability to reinvent itself continuously, to reallocate resources to their greatest uses, and the flexibility in capital and labor markets, puts the United States at a comparative advantage to other countries.

Still, the Fed may find it difficult to get growth to slow smoothly. The Fed has no official speed limit on growth, though recently revised GDP data suggest that 3.2% growth may be consistent with a steady unemployment rate. Instead, the Fed will react to signs of pressure on resources – prices of raw materials, factory utilization and the unemployment rate.

The year 2000 will also be a challenging year for investors.

Share prices have widely outpaced earnings growth in the last few years.

Despite recent earnings improvement following 1998's global crisis, the eventual slowing in U.S. economic growth will create some pressures. These pressures are likely to be uneven over time and across industries. Investor expectations are likely to undergo some degree of adjustment. Share prices must rise in-line with expected earnings growth at some point.

In addition, the economy will likely be subject to shocks yet unseen. Fortunately, the economy has some level of cushion. Tools are available to prevent a serious downturn. The Fed has room to lower interest rates if needed. The Federal government can cut taxes to stimulate growth.

So while financial markets may be expected to reflect a greater degree of realism, there is still a lot to be optimistic about for the U.S. economy as a whole. ■

New Private Mortgage Insurance laws benefit consumers.

Continued from page 1

The example below shows the dramatic effect this simple step can have on the time frame for paying off a mortgage loan, as well as savings in interest expense.

30-YEAR FIXED-RATE MORTGAGE AT 8%. PMI DROPPED WHEN LOAN-TO-VALUE REACHES 78% AFTER MONTH 154 OF LOAN.

Original loan amount: $150,000*
Down payment: 5% (purchase price/property value = $157,900*)
Monthly PMI amount: $97.50 (first 154 months of loan)
Additional principal payment: $97.50 (beginning month 155 of loan)

The loan would be paid off two years and eight months early and the borrower would save $18,908.08* in interest costs over the life of the loan.

(* All numbers are estimates.)

To determine the specific guidelines for removal of the PMI on your existing loan, contact your current lender. ■

Before making an investment decision, always consult with your Financial Advisor. Articles in this publication are presented to help broaden your perspective on investment opportunities and the investment process. Whether a particular subject is applicable to your situation or not should be determined by you and your Financial Advisor based on your financial objectives, time horizon, risk tolerance and current portfolio structure. For additional information about topics in this edition of *Investment Briefings*, please contact your Financial Advisor today. Thank you. ■