Merrill Lynch

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Fund Manager Survey

"It may be capitulation, Jim, but not as we know it"

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Highlights of this Issue

US stocks: the rot may have stopped

Perceptions of US equities are still negative, but the rot may have stopped. 29% of the panel believe the US still has the worst outlook for corporate profits (36% in July); 31% still think it has the worst quality of earnings (34% in July); 52% see it as relatively the most overvalued market (57% in July). Although the US equity market remains the market that investors would most like to underweight, that position is not quite as widely held as it was in July.

Sector rotation: let's get defensive

Fund managers have lost faith in the recovery. Growth expectations, profit expectations, and price expectations are all lower. Global EPS growth is now predicted at 7% compared with 10% in July. They may not be discounting recession but they certainly are not banking on economic recovery. Asset allocators closed their overweight positions on basic materials, general industrials and resource stocks. The net preference favouring cyclicals over defensives shifted markedly from +59% in July to a mere +16% in August.

"It may be capitulation, Jim, but not as we know it"

A record net 34% of the panel think that global equity markets are undervalued, compared with a net 29% in July. 42% think that equities are undervalued by at least 10%. Only 35% think that equities are fairly valued. What did surprise us is just how low cash levels still are. The average cash balance of the panel fell to 4.7% from 4.8% in July. No sign of high cash balances sitting on the sidelines waiting to be put to use in an undervalued market. A third of the panel are still looking for double-digit equity returns.

Merrill Lynch Stock Market Conditions (SMC) Indicator falters

Despite an 8% decline in the Dow Jones index compared with the July fieldwork, the ML Stock Market Conditions (SMC) Indicator faltered in August to stand at 14.9, down from 15.6 in July. Looking at the four elements that make up the SMC indicator, the biggest uplift came from a major improvement in interest-rate prospects. This helped neutralise a major deterioration in profit expectations. And a modest improvement in equity valuations neutralised a slight deterioration in investor sentiment.

See the August 2002 results in English at:
http://online.tnsofres.com/Multimedia/ml/august2002_os.htm
and in Japanese at:
http://online.tnsofres.com/Multimedia/ml/august2002_djj.htm

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All tables are sourced ML Fund Manager Survey unless otherwise noted

Refer to important disclosures at the end of this report.

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Highlights

Stock Market Conditions (SMC) Indicator Fell to 14.9 (July 15.6)

In March 2002 we introduced a new framework for analysing our Fund Managers Survey when we launched the ***Merrill Lynch Stock Market Conditions (SMC) Indicator****. This consists of four distinct components, each one created from up to five questions from the questionnaire. The first is a profit-expectations component; the second assesses the prospects for interest rates (a proxy for liquidity conditions); the third looks at equity valuations, while the fourth tracks investor sentiment. These four components are then equally weighted to create an overall composite indicator that we hope captures the tone of each month's survey. For further details, see our methodology note of 8th March, or* *turn to page 20 of this report.*

Despite an 8% decline in the Dow Jones index compared with the July fieldwork, the ML Stock Market Conditions (SMC) Indicator faltered. **According to the August survey, the investment climate took a marginal turn for the worse, with the SMC indicator falling from 15.6 in July to 14.9 in August**.

Looking at the four elements that make up the SMC indicator, the biggest uplift came from a major improvement in interest-rate prospects. This helped neutralise a major deterioration in profit expectations. And a modest improvement in equity valuations neutralised a slight deterioration in investor sentiment.

Profit-Expectations Component Fell to +23.3 (July +47.9)

Investor expectations for corporate profits took a major turn for the worse. Although a majority of this month's panel still expects the global economy to improve over the next 12 months, the net balance banking on recovery slumped from 76% in July to 43% in August.

At the same time, investors have become more cautious in their outlook for industrial commodity pricing and less upbeat about corporate profits growth. The average estimate for global EPS growth over the next 12 months slumped from 10% in July to 7% in August.

Investors seem to be 'throwing in the towel' on top-line sales growth. 65% of respondents now see cost cutting as the most positive contributor to global earnings going forward compared with 48% in July. Balance sheet rebuild remains investors' top priority, with half the panel insisting companies should use cash flow to repay debt

Despite the more gloomy macro backdrop, investors have not given up on cyclicals completely – indeed a majority of the panel still prefer cyclical sectors to defensive ones, but the net preference for cyclicals did shift markedly from +59% in July to a mere +16% in August.

Interest-Rate-Prospects Component now -1.9 (July -25.1)

Interest rate fears evaporate. With growth slowing, fears about the outlook for core inflation have evaporated, as have fears of higher short-term interest rates. Yield curve slopes are expected to remain this positively sloped for the next 12 months. More people now think monetary policy is too restrictive than think it is too stimulative – but note that 76% of those questioned think policy is 'about right'. No panic calls for lower short rates in this survey.

Equity-Valuations Component Up to +27.7 (July +25.8)

A record net 34% of the panel think that global equity markets are undervalued, compared with a net 29% in July. Only 35% think that equities are fairly valued. 42% think that equities are undervalued by at least 10%. The mean deviation from fair value rose from 6% in July to 8% in August – by the far the biggest deviation since we started to ask the question back in April 2001.

But what is most surprising this month is just how low cash levels are. The net balance overweight cash in fact fell this month (21% compared with 23% in July), while the average cash balance fell to 4.7% from 4.8% the previous month. No sign of high cash balances sitting on the sidelines waiting to be put to good use in an undervalued market.

Investor-Sentiment Component Declined to +10.6 (July +13.9)

Some signs this month that investor sentiment is capitulating – well just a little bit. The net balance of fund managers thinking that equities will be higher a year from now fell from 74% in July to 62% in August. But a third still anticipate double-digit returns, and only a quarter thinks the equity market will be flat-to-down. This is hardly the stuff of capitulations. What is more, 61% think it unlikely that bonds will do better than equities over the coming year; three months ago, 67% held that view.

People have become slightly more reluctant to 'Buy on the Dips'. In the event of a 10% fall in the market over the next three months, 69% said they would buy the market ... a month ago, 79% said they would be buyers. Interestingly, almost a third said that they would look to sell if the market rose 10% over the next three months.

Two sentiment indicators puzzled us this month. Despite the sell-off in the market, investors have not become noticeably more risk averse. For the second month running, the net balance of respondents with a lower-than-normal level of risk in their portfolio stood at 20%. What was also surprising in such a volatile equity environment was that investors had resisted pressure to shorten their investment time horizon.

Regional Preferences

Perceptions of US equities are still negative, but the rot may have stopped. 29% of the panel think the US still has the worst outlook for corporate profits (36% in July); 31% think it has the worst quality of earnings (34% in July); 52% still see it as relatively the most overvalued market (57% in July). Although it remains the market that investors would most like to underweight, there has been a significant improvement in perceptions – particularly at the expense of Japan.

Perceptions of other regions have begun to change too. There were increased signs of scepticism about the outlook for eurozone corporate profits. There was also a slight increase in the perceptions that Japanese equities were maybe relatively expensive, and that Emerging Markets were not so cheap.

Currency Outlook

A majority of fund managers still think that the dollar – and to a lesser extent – the yen are overvalued. They continue to perceive the euro as undervalued. Looking ahead, 60% of investors still favour the euro, and 44% are still wary of the dollar. 36% of those questioned prefer to be long-euro-short-dollars – interestingly that's down from last month's 45%. It could just be that attention is starting to shift away from dollar-euro back towards the Japanese Yen. For the second month running 20% of our panel say they would like to be long-euro-short-yen.

What Asset Allocators Think

Asset allocators – who make up 60% of the total sample – now have a much more neutral position on equities and bonds. The net balance overweight equities fell from 42% in June to 11% in August. In a new question this month we asked asset allocators what equity weighting they would recommend for a global balanced fund. The mean weighting was 51%, but we were amazed how flat the distribution was over a range from 40% to 60%.

There is still widespread underweighting of US equities, but it is not quite as extensive as it was last month. The overweight stances on eurozone equities and global emerging markets are broadly unchanged. The latter is quite surprising / impressive in the light of the crisis in Latin America and setbacks in Korea and Taiwan. Asset allocators remain neutral on Japan, and have adopted a more neutral stance on UK equities too.

Asset allocations are now much more defensively positioned. The net balance overweight the basic materials sector plunged from 35% to 10%. Resources and general industrials saw a similar shift. The consumer staples and healthcare sectors on the other hand saw increased exposure. But the most startling development was the closing of the underweight on global telecom stocks, where the net balance underweight fell from 47% in July to 28% in August. Maybe this was on the back of management change, a stepping back from 3G, the first hints of consolidation and the prospect of regulatory change. Asset allocators remain neutral on global financials and firmly underweight technology.

Asset allocators expectations for the medium-term returns that can be reasonably expected from financial assets fell further from 6.6% in July to 6.4% in August.

ML Stock Market Conditions (SMC) Indicator

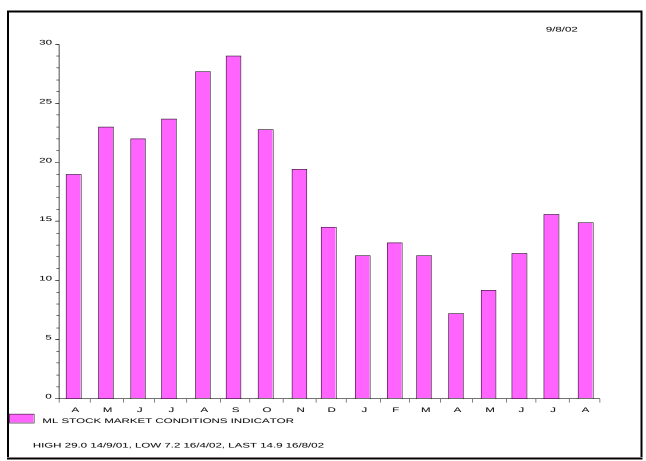
Components of the SMC:	Aug-02	Jul-02	Jun-02	May-02
Profit Expectations	23.3	47.9	51.0	50.0
Interest Rate Prospects	-1.9	-25.1	-32.7	-31.3
Equity Valuations	27.7	25.8	15.9	4.8
Investor Sentiment	10.6	13.9	15.0	13.3
ML SMC INDICATOR*	**14.9**	**15.6**	**12.3**	**9.2**

Market Fundamentals During Survey Fieldwork

Average Level of:	1/8-8/8	4/7-11/7	6/6-13/6	2/5-9-5
MSCI World Equity Index ($)	190.9	212.7	223.6	232.7
Dow Jones Industrial Avg	8384	9070.1	9583	10004
US Long Bond Yield (%)	4.3	4.7	5.0	5.1
CRB Index	209.9	211.3	201.7	198.9
US Dollar Trade Wgt Index+	114.3	112.4	116.6	119.6

* See Table 43 on page 20 for more information on the Merrill Lynch SMC Indicator. + 1990 = 100. Source: Merrill Lynch, Datastream.

Chart 1: ML Stock Market Conditions Indicator



Source: ML Fund Manager Survey

Have you Visited the Web Site?

We do recommend that you take a look at the Taylor Nelson Sofres web site that displays the results from the latest survey (see the hyperlinks on the front-page cover of this report). The results site not only has a geographical breakdown of the responses to the survey, but also 'slices and dices' the survey by type of institution, by investment style and by strategy style (country vs. sector). It also features the results from the *regional* questionnaires.

1. Profit Expectations

This section includes the questions that are related to the profits component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

Only a net 43% think the economy will strengthen over the next year

Table 1: How do You Think the Global Real Economy Will Develop Over the Next 12 Months?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Get a Lot Stronger	5	12	17	14
Get a Little Stronger	59	73	70	74
Stay the Same	15	7	8	8
Get a Little Weaker	18	7	4	4
Get a Lot Weaker	2	1	0	1
Net Balance	**43**	**76**	**83**	**83**
DK/Refused (%)	1	0	0	0

Expectations for commodity prices have been scaled back – a net 36% expect prices to rise, the lowest since November 2001

Table 2: In 12 Months' Time Do You Think That Industrial Commodity Prices Will Be . . .

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
A Lot Higher	2	8	7	9
Slightly Higher	52	67	71	68
Unchanged	24	15	15	18
Slightly Lower	18	7	5	4
A Lot Lower	1	1	0	0
Net Balance	**36**	**67**	**73**	**72**
DK/Refused (%)	2	3	1	2

A net 60% expect the prospects for profits to improve

Table 3: Do You Think the Prospects for Corporate Profits Growth Will...

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Improve Strongly	13	23	27	26
Improve Slightly	62	65	62	63
Remain Unchanged	10	5	5	6
Deteriorate Slightly	13	4	4	4
Deteriorate Strongly	1	1	0	1
Net Balance	**60**	**83**	**85**	**85**
DK/Refused (%)	1	0	1	0

7% eps growth is expected over the next year

Table 4: What is Your % Forecast for Global EPS Growth Over the Next 12 Months?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Minus 25% or less	0	0	0	0
Minus 20%	0	0	0	0
Minus 15%	1	1	0	0
Minus 10%	5	1	1	1
Minus 5%	2	1	2	2
Zero	7	3	1	2
Plus 5%	28	19	18	18
Plus 10%	32	37	33	33
Plus 15%	15	22	25	23
Plus 20%	3	9	11	10
Plus 25% or more	0	1	2	2
Average EPS Growth Forecast	**7**	**10**	**11**	**11**
DK/Refused (%)	6	5	8	8

Table 5: Comparing Fund Managers' Earnings Expectations (Across the Columns) with Fund Managers' Expectations for Equity Returns over the Next 12 months (Down the Rows)

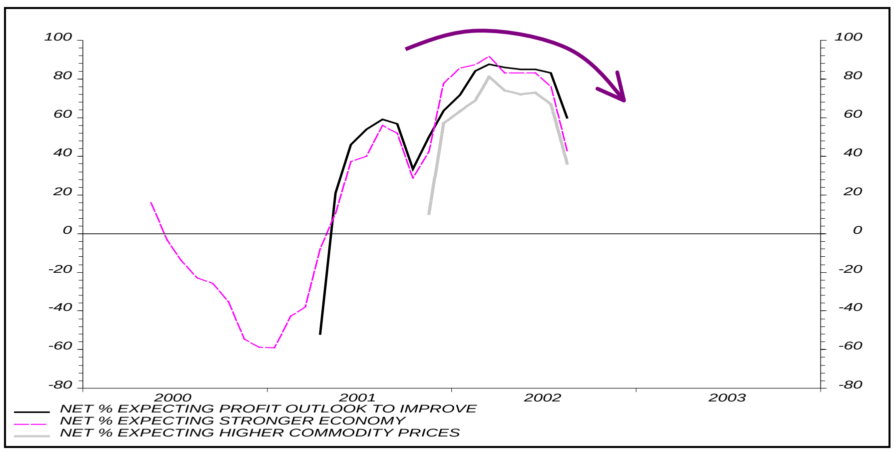
Earnings expectations (see Table 4) and Expected Returns (see Table 21)	-25% or less	-20%	-15%	-10%	-5%	Zero	+5%	+10%	+15%	+20%	+25% or more	DK	Total
Much Higher (positive double digit returns)							5	13	10	3		1	**32**
Slightly Higher (positive single digit returns)			1	1		3	16	17	4			3	**45**
Unchanged						1	5	1	1			1	**9**
Slightly Lower (negative single digit returns)				1	2	1	3	1					**9**
Much Lower (negative double digit returns)				2		1	1					1	**4**
Don't know												1	**1**
Total	**0**	**0**	**1**	**4**	**2**	**7**	**30**	**32**	**15**	**3**	**0**	**6**	**100**

Managers expect lower costs – not higher volumes to be the major contributor to earnings

Table 6: What Do You See as the Most Positive Contributor to Global Corporate Earnings Over the Next Twelve Months?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Higher Volumes	29	47	44	44
Higher Selling Prices	3	3	5	5
Lower Costs	65	48	47	46
Don't know	3	3	4	5

Chart 2: Outlook for Economic Growth, Profits and Commodity Prices



Most managers want debt repaid rather than capital spending increased

Table 7: What Would You Most Like to See Companies Doing With Cash Flow at the Current Time?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Increase capital spending	15	12	12	-
Increase repayment of debt	50	47	43	-
Increase share buybacks (stock repurchases)	19	18	21	-
Increase dividend payments	14	17	15	-
DK/Refused (%)	3	7	9	-

52% expect cyclicals to beat defensives – the lowest % since April 2001

Table 8: Broadly Speaking, Which Do You Think Will Perform Best Over the Next 12 Months?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Cyclical Sectors	52	76	74	73
Defensive Sectors	36	17	16	16
Net Balance Preferring Cyclicals	16	59	58	57
None/DK/Refused (%)	12	7	10	11

2. Interest Rate Prospects

This section includes the questions that are related to the interest-rates component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

A net 14% expect inflation to be higher in a year – 41% think it will be unchanged

Table 9: In 12 Months Time, Do You Think Global Core Inflation (in year-on-year terms) Will Be . . .

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
A Lot Higher	0	2	3	2
Slightly Higher	35	54	60	62
Unchanged	41	33	26	27
Slightly Lower	21	9	9	7
A Lot Lower	1	1	0	1
Net Balance	**14**	**46**	**54**	**56**
DK/Refused (%)	1	1	1	1

The net balance is negative for the first time in nine months

Table 10: Do You Think That Global Monetary Policy is Currently . . .

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Too Stimulative	6	14	21	20
About Right	76	82	76	76
Too Restrictive	17	4	2	2
Net Balance:	**-11**	**10**	**19**	**18**
DK/Refused (%)	1	1	2	2

26% think rates will be higher in a year . . .

Table 11: In 12 Months, Will Short-Term Interest Rates be . . .

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
A Lot Higher	2	11	10	11
Slightly Higher	46	71	79	82
Unchanged	31	13	8	6
Slightly Lower	20	5	1	1
A Lot Lower	1	0	0	0
Net Balance:	**26**	**77**	**88**	**91**
DK/Refused (%)	0	1	1	1

Managers are split as to whether yield curve slopes will steepen or flatten

Table 12: In 12 Months, Will Global Yield Curves* Be . . .

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
More Positive Sloping	36	25	22	24
Unchanged	22	20	16	20
More Negative Sloping	35	50	57	52
Net Balance:	**1**	**-24**	**-35**	**-28**
DK/Refused (%)	7	5	5	5

* Bond Yields Minus Short Term Interest Rates

3. Equity Valuation

This section includes the questions that are related to the valuation component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

Markets perceived as undervalued . . .

Table 13: Do You Think Global Equity Markets are Currently . . .

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Overvalued	14	16	19	21
Fairly Valued	35	37	44	57
Undervalued	48	45	35	20
Net Balance	**-34**	**-29**	**-16**	**1**
DK/Refused (%)	3	2	2	2

. . . trading at 8% below fair value

Table 14: If You Think Global Equity Markets are Over or Undervalued, by About How Much Would You Say?

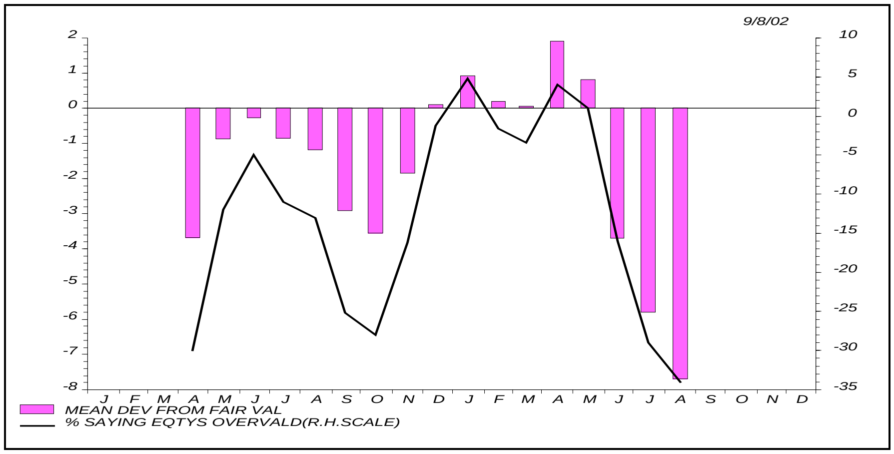
% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
More than 25% overvalued	2	3	1	2
20% overvalued	1	1	2	2
15% overvalued	3	4	3	5
10% overvalued	4	5	9	9
5% overvalued	2	3	3	3
Fair Value	35	37	44	57
5% undervalued	4	5	5	2
10% undervalued	15	18	14	13
15% undervalued	16	13	10	3
20% undervalued	8	6	4	1
More than 25% undervalued	3	1	1	0
Mean Deviation from Fair Value	**-8**	**-6**	**-4**	**1**
Don't Know (%)	3	4	4	2

But 47% expect markets to become less overvalued over the next year

Table 15: Thinking About the Next 12 Months, How Do You See the Valuation of Global Equity Markets Evolving?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Become More Overvalued / Less Undervalued	47	25	24	27
No Change to Current Valuation	16	31	36	42
Become More Undervalued / Less Overvalued	32	20	20	15
Net Balance	**14**	**5**	**4**	**12**
DK / Refused (%)	5	24	20	16

Chart 3: Equity Valuation and Mean Deviation of Equities from Fair Value



The global equity risk premium has remained fairly stable, around 4%

Table 16: Looking Ahead, What Do You Think is the Appropriate Equity Risk Premium With Which To Asses Equity Valuations?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
1% or less	1	0	0	0
2%	2	3	5	2
3%	24	27	28	33
4%	31	31	27	29
5%	17	15	15	13
6%	7	6	5	4
7%	1	1	1	1
8% or More	2	3	1	0
Estimated Global ERP	**4.1**	**4.1**	**4.0**	**3.8**
DK/Refused (%)	16	15	17	18

38% think the markets are undervalued and expect this to correct over the coming year

Table 17: Comparing Current Valuation Assessment (Table 13, across the top) with Valuation Expectations (Table 15, down the side)

	Do You Think Equity Markets Will . . .				
Do You Think Equity Markets Are . . .	Become more overvalued (less undervalued)	Become more undervalued (less overvalued)	No change	Don't Know	Total
Overvalued	2	11	1		**14**
Fairly valued	7	13	14	2	**35**
Undervalued	38	7	2	1	**48**
Don't know		1		2	**3**
Total	**47**	**32**	**16**	**5**	**100**

A net 21% are overweight cash

Table 18: Are You Currently Overweight, Underweight or Neutral Cash Relative to Your Benchmark?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Overweight	33	35	31	27
Neutral	35	39	35	40
Underweight	12	12	15	16
Net Balance Overweight	**21**	**23**	**16**	**10**
Not Applicable/DK (%)	20	13	19	17

The average cash balance is largely unchanged from last month

Table 19: Which of the Following Comes Closest to Your Current Cash Position?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
0%	12	13	15	13
2%	25	21	22	28
4%	17	23	22	21
6%	10	12	8	9
8%	5	4	6	7
10%	7	7	8	5
12% or more	10	11	6	6
Mean Cash Balance (%)	**4.7**	**4.8**	**4.4**	**4.2**
Not Applicable/DK (%)	13	10	12	11

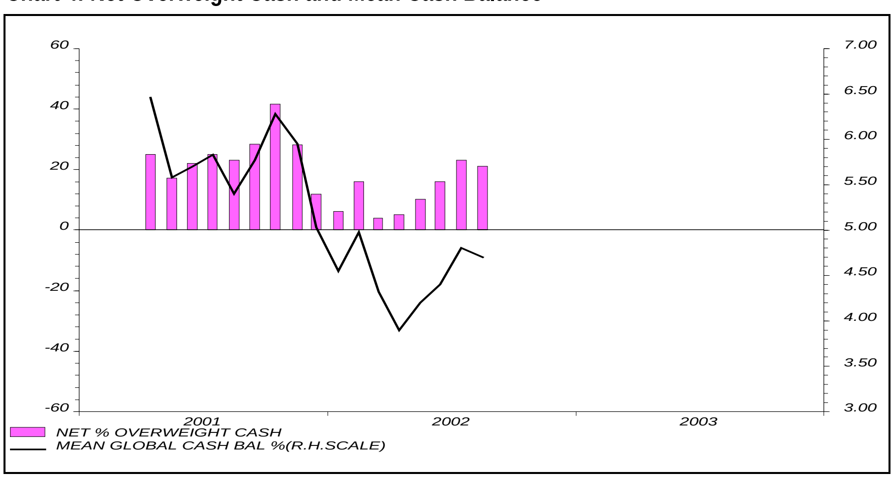
Funds that say they are overweight cash have a balance of over 7%

Table 20: Estimated Cash Balances According to Over/Underweight Stance (June 2002)

% of Fund Managers saying:	Underweight	Neutral	Overweight	NA / DK
0%	14	16	0	25
2%	40	43	10	12
4%	23	20	21	2
6%	6	11	16	3
8%	3	2	12	0
10%	0	5	16	0
12% or more	3	2	24	7
Mean Cash Balance (%)	**3.0**	**3.3**	**7.5**	**0.8**
Not Applicable/DK (%)	11	2	2	51

This table is a cross of Table 18 by Table 19.

Chart 4: Net Overweight Cash and Mean Cash Balance



4. Investor Sentiment

This section includes the questions that are related to the sentiment component of our SMC Indicator. Those questions that are directly included in the indicator are highlighted.

62% expect the markets to be higher in a year – the lowest % in the last year

Table 21: The Merrill Lynch Buy-Side Indicator: In 12-Months' Time, Will Markets Be Higher or Lower Than Now?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Much Higher (ie double digit positive returns)	32	37	30	25
Slightly Higher (ie single digit positive returns)	45	47	52	59
Unchanged	9	6	9	6
Slighty Lower (ie single digit negative returns)	9	6	5	5
Much Lower (ie double digit negative returns)	5	4	3	4
Net Balance	**62**	**74**	**73**	**76**
DK/Refused (%)	1	1	1	1

Most managers think equities are likely to beat bonds over the next year

Table 22: How Likely Do You Think it is That Bonds Will Deliver Better Returns Than Equities Over the Next 12 Months?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Very Likely	8	7	4	4
Fairly Likely	13	10	10	9
Too Close to Call	16	15	20	17
Fairly Unlikely	38	46	44	47
Very Unlikely	23	21	20	20
Net Balance	**-39**	**-49**	**-50**	**-54**
DK/Refused (%)	1	1	2	3

If the market fell 10% from current levels, a net 65% would buy

Table 23: All Things Being Equal, If Global Equity Prices FELL 10% from Current Levels in the next 3 Months Would you be a Buyer or a Seller?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Buy	69	79	78	80
Do neither	24	14	17	14
Sell	3	3	2	2
Buy - Sell Net Balance	**65**	**76**	**76**	**78**
DK/Refused (%)	3	3	4	5

And if equities rose 10%, a net 19% would sell

Table 24: All Things Being Equal, If Global Equity Prices ROSE 10% from Current Levels in the next 3 Months Would you be a Buyer or a Seller?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Buy	13	10	12	7
Do Neither	51	55	55	46
Sell	31	28	28	40
Buy - Sell Net Balance	**-19**	**-18**	**-15**	**-33**
DK/Refused (%)	5	7	5	7

A net 20% have lower than normal risk in their portfolio

Table 25: How Would You Describe the Current Level of Risk in Your Investment Portfolio?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Higher than Normal	15	14	13	14
Normal	46	52	57	60
Lower than Normal	35	33	29	24
Net Balance	**-20**	**-20**	**-16**	**-10**
DK/Refused (%)	4	1	1	1

Overall, managers are satisfied with their strategy, and few plan changes to their strategy

Table 26: How Satisfied Are You With Your Current Investment Strategy?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Satisfied… and no plans to make any changes to my strategy soon	35	41	44	39
Satisfied… but planning to make changes to my strategy soon	37	33	35	40
Dissatisfied… but no plans to make any changes to my strategy soon	14	14	13	12
Dissatisfied… and planning to make changes to my strategy soon	8	7	6	8
% Planning a Change In Strategy	**45**	**41**	**41**	**47**
% Satisfied With Strategy	**72**	**75**	**78**	**78**
Don't know	6	5	3	2

A net 18% have a "shorter than normal" time horizon

Table 27: How Would You Describe Your Current Investment Time Horizon?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Longer than normal	12	9	9	10
Normal	54	59	62	63
Shorter than normal	31	31	28	27
Net Balance	**-18**	**-22**	**-20**	**-17**
DK/Refused (%)	3	1	1	1

5. Regional Preferences

This section includes the questions that are related to regional rotation. These questions are not included in the SMC Indicator.

Managers see the profit outlook as best in the Emerging Markets . . .

. . . Worst in the US – although the Eurozone is increasingly seen as having a poor profit outlook

Table 28: Where is the Outlook for Corporate Profits Most / Least Favourable?

	% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Most	US Corporate Profits	20	18	19	22
	Eurozone Corporate Profits	15	14	17	16
	UK Corporate Profits	8	6	3	4
	Japanese Corporate Profits	13	16	16	13
	Global Emg Mkt Corporate Profits	35	37	39	39
	DK/Refused (%)	10	9	6	6
Least	US Corporate Profits	29	36	32	25
	Eurozone Corporate Profits	21	14	13	9
	UK Corporate Profits	5	10	11	13
	Japanese Corporate Profits	23	22	26	38
	Global Emg Mkt Corporate Profits	7	3	5	3
	DK/Refused (%)	15	15	14	12

Quality of earnings seen as best in the UK

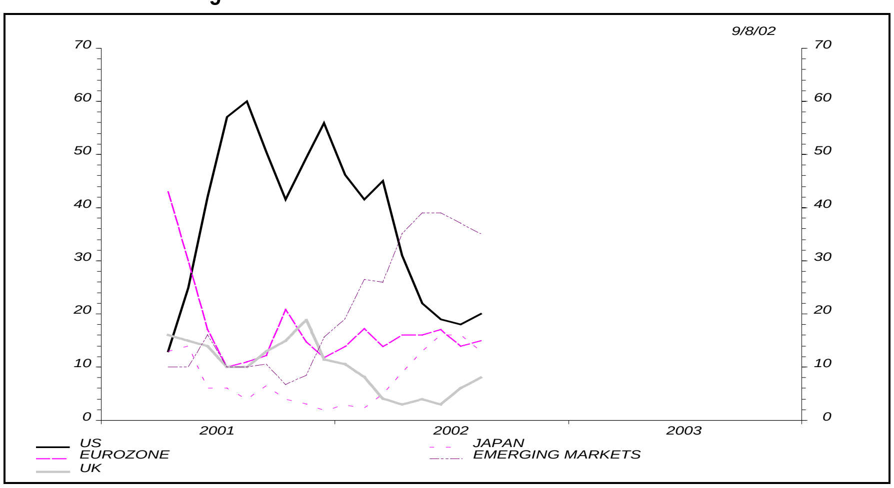
Quality seen as worst in the US

Table 29: In Which Region is the Quality* of Earnings the Best / Worst?

	% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Best	US Equities	19	19	26	33
	Eurozone Equities	21	22	20	20
	UK Equities	36	35	32	31
	Japan Equities	6	3	5	2
	Global Emg Mkt Equities	6	7	5	6
	DK/Refused (%)	13	14	12	9
Worst	US Equities	31	34	27	17
	Eurozone Equities	4	4	2	2
	UK Equities	0	1	0	1
	Japan Equities	25	28	36	45
	Global Emg Mkt Equities	25	24	25	24
	DK/Refused (%)	14	11	10	10

* Quality in terms of volatility, predictability and transparency.

Chart 5: In Which Region is the Profit Outlook Most Favourable?



Refer to important disclosures at the end of this report.

US Equities seen as most overvalued . . .

. . . Emerging Markets seen as most undervalued

Table 30: Which of the Following Equity Markets is Most Overvalued / Most Undervalued?

	% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Most Overvalued	US Equities	52	57	60	63
	Eurozone Equities	6	6	6	3
	UK Equities	5	8	4	5
	Japan Equities	15	11	11	11
	Global Emg Mkt Equities	7	5	5	4
	DK/Refused (%)	15	14	13	14
Most Undervalued	US Equities	11	9	9	5
	Eurozone Equities	18	18	19	17
	UK Equities	13	7	5	7
	Japan Equities	14	19	22	21
	Global Emg Mkt Equities	30	36	34	38
	DK/Refused (%)	14	11	11	13

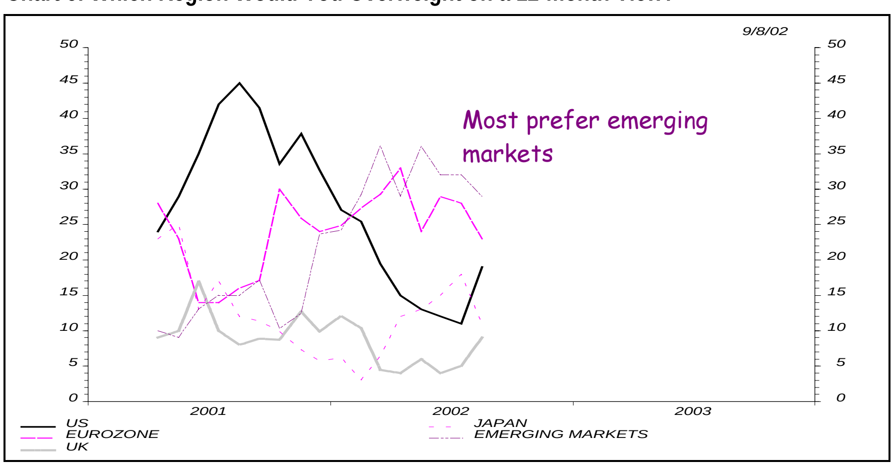
Managers would overweight the Emerging Markets on a 12 month view . . .

And most would underweight the US!

Table 31: Thinking About Regional Rotation Over the Next 12 Months, Which Region Would You Over/Underweight?

	% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Overweight	US Equities	19	11	12	13
	Eurozone Equities	23	28	29	24
	UK Equities	9	5	4	6
	Japan Equities	11	18	15	13
	Global Emg Mkt Equities	29	32	32	36
	DK/Refused (%)	9	6	7	8
Underweight	US Equities	43	57	51	43
	Eurozone Equities	11	9	7	4
	UK Equities	6	8	7	11
	Japan Equities	20	15	18	26
	Global Emg Mkt Equities	10	4	7	5
	DK/Refused (%)	11	8	10	11

Chart 6: Which Region Would You Overweight on a 12-month View?



Net 43% think the USD is overvalued

Net 24% think the Yen is overvalued

Net 36% see the Euro as undervalued

Table 32: Based on Current Fundamentals, Do You Think the Following Currencies Are . . .

	% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
US Dollar	Overvalued	54	54	65	65
	Fairly Valued	25	27	21	19
	Undervalued	11	11	8	7
	Net % Saying Overvalued	**43**	**43**	**57**	**58**
	Don't Know	11	9	5	10
Japanese Yen	Overvalued	34	42	36	36
	Fairly Valued	38	34	43	40
	Undervalued	10	9	11	8
	Net % Saying Overvalued	**24**	**33**	**25**	**28**
	Don't Know	18	14	10	16
Euro	Overvalued	10	7	6	4
	Fairly Valued	34	34	22	19
	Undervalued	45	51	66	66
	Net % Saying Overvalued	**-36**	**-44**	**-60**	**-62**
	Don't Know	12	8	6	11

Chart 7: Favourite Currency

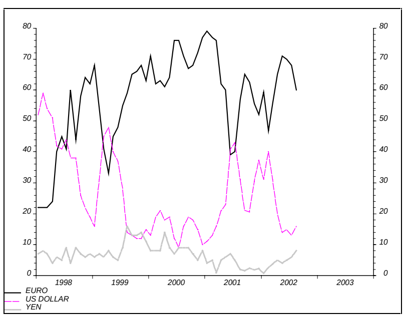


Table 33: Which is Your Favourite / Least Favourite Currency Over the Next 12 Months?

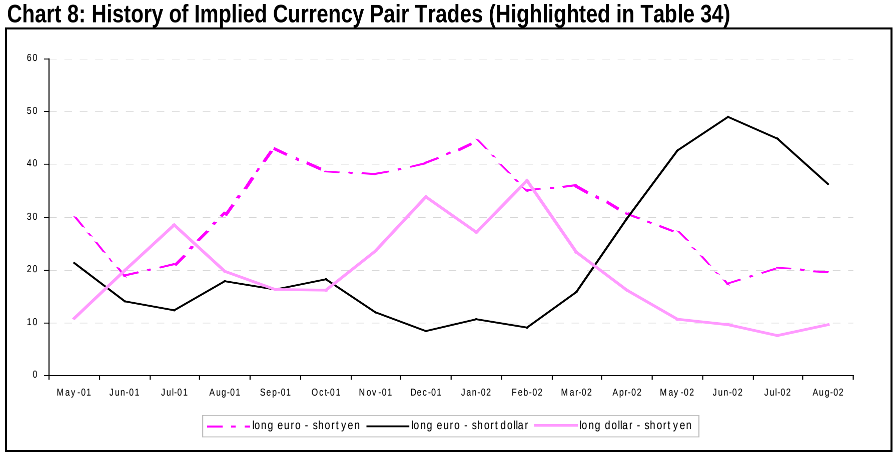
	% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Favorite	US Dollar	16	13	15	14
	Euro	60	68	70	71
	Japanese Yen	8	6	5	4
	None of the above/DK/Refused (%)	16	13	10	11
Least Favorite	US Dollar	44	54	55	46
	Euro	9	5	5	4
	Japanese Yen	30	29	28	38
	None/DK/Refused (%)	18	12	12	12

Table 34: Implied Currency Pair Trades (August 2002)

	Least Favourite Currency (ie short)				
Most Favourite Currency (ie long)	**US Dollar**	**Euro**	**Yen**	**None/DK**	**Total**
US Dollar		5	10	1	16
Euro	36		20	4	60
Yen	5	3			8
None of the Above / Don't know	2	1	1	12	16
Total	44	9	30	17	100

Most managers are long euro, short dollar, but this pair trade has been reduced

Chart 8: History of Implied Currency Pair Trades (Highlighted in Table 34)



Refer to important disclosures at the end of this report.

6. Asset Allocation

This section includes the questions that are related to asset allocation, equity allocation and sector preferences. These questions are not included in the SMC Indicator.

In the charts, the bars represents the net percent of managers that are overweight (i.e., overweight minus underweight) while the lines represent the net percent planning to increase their exposure (i.e., increase minus decrease).

Assets: Current Position & Future Intentions

Equities

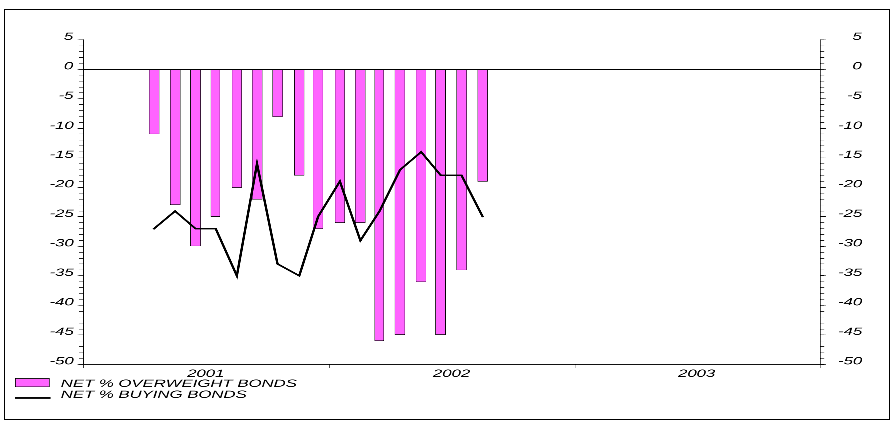
% saying	Aug	Jul	Jun
Overweight	40	48	58
Underweight	29	26	16
Net Overweight	**11**	**22**	**42**
Increase	45	41	43
Decrease	11	7	5
Net Increase	**34**	**34**	**38**

Chart 9: Equities

Bonds

% saying	Aug	Jul	Jun
Overweight	23	15	11
Underweight	42	49	56
Net Overweight	**-19**	**-34**	**-45**
Increase	10	10	8
Decrease	35	28	26
Net Increase	**-25**	**-18**	**-18**

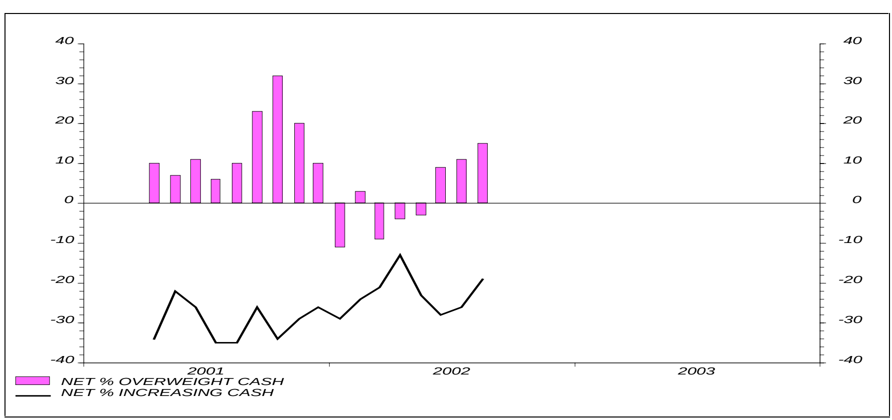
Chart 10: Bonds



Cash

% saying	Aug	Jul	Jun
Overweight	33	31	29
Underweight	18	20	20
Net Overweight	**15**	**11**	**9**
Increase	8	4	4
Decrease	27	30	32
Net Increase	**-19**	**-26**	**-28**

Chart 11: Cash

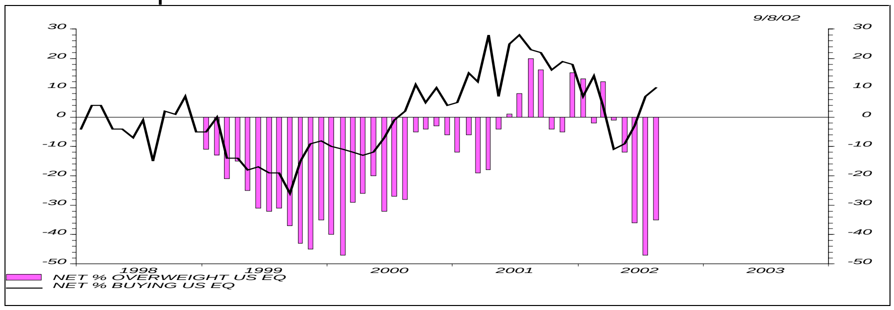


Equity Allocation: Current Position and Future Intentions

US Equities

% saying	Aug	Jul	Jun
Overweight	21	14	20
Underweight	56	61	56
Net Overweight	**-35**	**-47**	**-36**
Increase	24	22	17
Decrease	14	15	20
Net Increase	**10**	**7**	**-3**

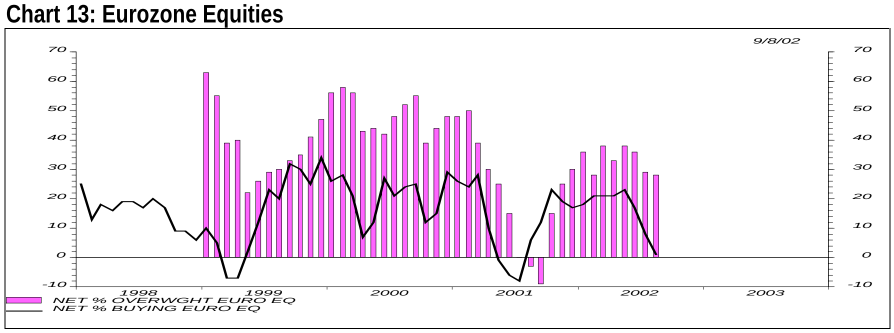
Chart 12: US Equities



Eurozone Equities

% saying	Aug	Jul	Jun
Overweight	49	48	52
Underweight	21	19	16
Net Overweight	**28**	**29**	**36**
Increase	20	22	28
Decrease	19	14	11
Net Increase	**1**	**8**	**17**

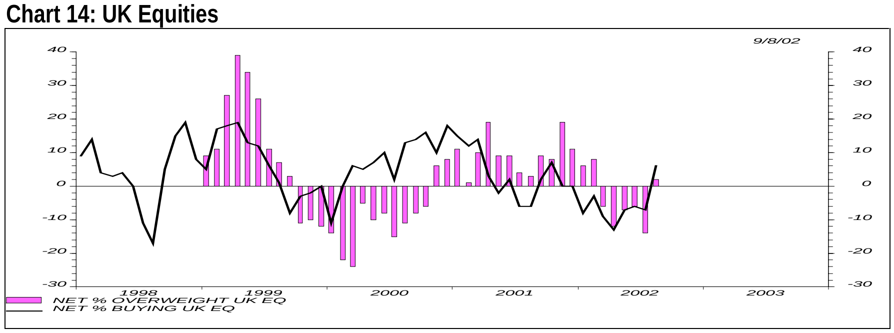
Chart 13: Eurozone Equities



UK Equities

% saying	Aug	Jul	Jun
Overweight	28	21	22
Underweight	26	35	28
Net Overweight	**2**	**-14**	**-6**
Increase	20	12	10
Decrease	14	19	16
Net Increase	**6**	**-7**	**-6**

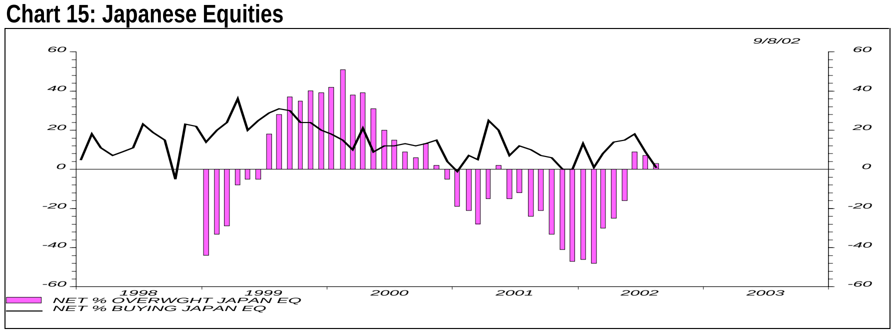
Chart 14: UK Equities



Japan Equities

% saying	Aug	Jul	Jun
Overweight	32	31	35
Underweight	29	24	26
Net Overweight	**3**	**7**	**9**
Increase	19	20	26
Decrease	18	11	8
Net Increase	**1**	**9**	**18**

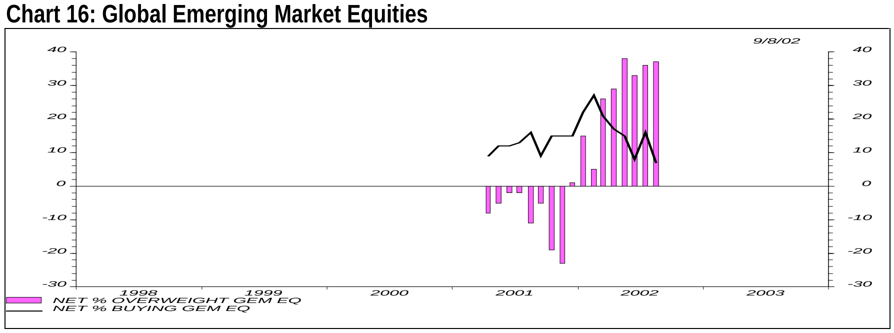
Chart 15: Japanese Equities



GEM Equities

% saying	Aug	Jul	Jun
Overweight	46	46	45
Underweight	9	10	12
Net Overweight	**37**	**36**	**33**
Increase	15	22	16
Decrease	8	6	8
Net Increase	**7**	**16**	**8**

Chart 16: Global Emerging Market Equities



Refer to important disclosures at the end of this report.

Global Sectors: Current Position

Large tech underweight

Nearly neutral on financials

Now a net 17% are overweight staples

Reduced telecom underweight

Reduced overweight Basic Materials

Underweight utilities

Table 35: How Are You Currently Positioned in the Following Global Sectors Relative to Your Internal Benchmark?

% of Fund Managers saying:		Aug-02	Jul-02	Jun-02	May-02
Technology	Overweight	14	10	14	15
	Neutral	24	30	24	23
	Underweight	44	44	44	44
	Net Overweight	**-30**	**-34**	**-30**	**-29**
	NA / Don't Know	18	16	18	18
Financials	Overweight	26	27	38	40
(Banks, Insurance, Life	Neutral	31	35	31	30
Assurance)	Underweight	25	21	12	14
	Net Overweight	**1**	**6**	**26**	**26**
	NA / Don't Know	18	17	19	16
Consumer Staples /	Overweight	37	30	27	24
Healthcare	Neutral	25	28	25	32
	Underweight	20	25	29	27
	Net Overweight	**17**	**5**	**-2**	**-3**
	NA / Don't Know	18	17	19	17
Telecoms	Overweight	12	4	9	7
	Neutral	29	28	22	22
	Underweight	40	51	51	54
	Net Overweight	**-28**	**-47**	**-42**	**-47**
	NA / Don't Know	19	17	18	17
Resources	Overweight	33	41	34	33
(Energy, Mining)	Neutral	27	31	31	33
	Underweight	23	10	16	17
	Net Overweight	**10**	**31**	**18**	**16**
	NA / Don't Know	17	18	19	17
Basic Materials	Overweight	33	46	45	44
(Chemicals, Forestry and	Neutral	26	25	20	27
Paper, Construction &	Underweight	23	11	16	12
Building Materials)	**Net Overweight**	**10**	**35**	**29**	**32**
	NA / Don't Know	18	18	19	17
General Industrials	Overweight	32	40	40	44
(Aerospace & Defense,	Neutral	30	31	27	31
Diversified Industrials,	Underweight	19	11	13	9
Engineering & Machinery)	**Net Overweight**	**13**	**29**	**27**	**35**
	NA / Don't Know	19	18	20	16
Utilities	Overweight	14	12	9	10
(Electricity, Gas Distribution,	Neutral	25	26	25	29
Water)	Underweight	43	45	46	44
	Net Overweight	**-29**	**-33**	**-37**	**-34**
	NA / Don't Know	18	17	20	17
Cyclical Services	Overweight	33	34	37	38
(Retailing, Media,	Neutral	30	33	30	33
Transportation)	Underweight	19	17	14	12
	Net Overweight	**14**	**17**	**23**	**26**
	NA / Don't Know	18	16	19	17
Consumer Goods	Overweight	24	31	35	25
(Autos, Household Goods)	Neutral	35	29	27	41
	Underweight	23	22	19	18
	Net Overweight	**1**	**9**	**16**	**7**
	NA / Don't Know	18	18	19	16

Global Sectors: Future Intentions

8% would like to increase tech exposure . . .

. . . and 9% would like to increase telecom exposure

8% want to reduce their exposure to materials

7% want to reduce consumer goods exposure

Table 36: In Which Global Sector Would You Most Like to Increase or Decrease Your Exposure?

% of Fund Managers saying:		Aug-02	Jul-02	Jun-02	May-02
Technology	Increase	19	21	26	26
	Decrease	10	9	16	13
	Net % Increasing	**8**	**12**	**10**	**13**
Financials	Increase	18	18	18	20
(Banks, Insurance, Life	Decrease	22	24	13	12
Assurance)	**Net % Increasing**	**-4**	**-6**	**5**	**8**
Consumer Staples /	Increase	16	14	13	9
Healthcare	Decrease	16	14	18	19
	Net % Increasing	**0**	**0**	**-5**	**-11**
Telecoms	Increase	16	7	4	9
	Decrease	7	9	6	12
	Net % Increasing	**9**	**-2**	**-2**	**-4**
Resources	Increase	1	7	5	7
(Energy, Mining)	Decrease	4	5	8	6
	Net % Increasing	**-3**	**1**	**-3**	**1**
Basic Materials	Increase	1	3	3	5
(Chemicals, Forestry and	Decrease	10	6	9	9
Paper, Construction & Building Materials)	**Net % Increasing**	**-8**	**-3**	**-6**	**-4**
General Industrials	Increase	10	11	11	11
(Aerospace & Defense,	Decrease	2	1	3	2
Diversified Industrials, Engineering & Machinery)	**Net % Increasing**	**8**	**10**	**8**	**9**
Utilities	Increase	10	4	1	3
(Electricity, Gas Distribution,	Decrease	9	17	12	17
Water)	**Net % Increasing**	**1**	**-13**	**-10**	**-14**
Cyclical Services	Increase	5	13	13	7
(Retailing, Media,	Decrease	10	4	5	4
Transportation)	**Net % Increasing**	**-4**	**9**	**9**	**3**
Consumer Goods	Overweight	1	1	4	4
(Autos, Household Goods)	Neutral	8	10	11	4
	Underweight	**-7**	**-8**	**-7**	**-1**

Note: Data is rebased to exclude those who "Don't Know" or refused the question. In this question, managers can choose two sectors only.

Table 37: What Equity Weighting (in %) Would You Recommend in a Global Balanced Fund at the Current Time?

% of Fund Managers saying:	Aug-02
25% or less	6
30%	4
35%	6
40%	10
45%	8
50%	13
55%	10
60%	13
65%	8
70%	7
75% or more	6
Mean Weight (%)	**51**
DK / Refused	8

Returns on Assets

Table 38: What Kind of Nominal Returns Do You Think Can Be Reasonably Expected From Global Financial Assets Over the Coming Decade?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
4% p.a or less	5	7	4	-
5% p.a.	17	15	14	-
6% p.a.	31	21	20	-
7& p.a.	24	29	30	-
8% p.a.	14	16	17	-
9% p.a.	3	3	4	-
10% p.a. or more	1	3	3	-
Expected Return	**6.4** ←	**6.6** ←	**6.7**	**-**
DK / Refused (%)	5	6	8	-

Refer to important disclosures at the end of this report.

7. Demographic Data

Table 39: Number of Respondents

No. of Fund Managers (by region):	Aug-02	Jul-02	Jun-02	May-02
US Specialists	38	38	41	41
Eurozone / Pan-European Specialists	67	65	68	71
UK Specialists	19	19	21	25
Japan Specialists	22	17	23	24
Asia Pacific Specialists	25	24	22	17
South Africa Specialists	14	18	15	18
Global Specialists	93	88	83	87
None of the Above	14	10	9	10
Total Number (all regions)	**292**	**279**	**282**	**293**

Table 40: Position / Institution / Approach to Global Equity Strategy

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Are you a . . .				
Chief Investment Officer	15	16	15	17
Global Asset Allocator/Strategist	26	27	29	27
Portfolio Manager	50	50	49	49
Other	9	7	7	7
Which of the Following Best Describes the Type of Money You are Running?				
Institutional Fund	60	59	62	63
Hedge Fund	5	7	4	5
Retail Fund	25	28	27	25
Other	10	7	7	8
Are You Predominately Using A Country or Sector Approach in Your Strategy?				
By Country/Region	31	33	28	28
By Global Sector	33	35	39	40
Pure Stockpicking	21	22	21	19
None of the Above / Don't Know	15	11	13	13
Which Best Describes Your Investment Style / Process?				
Growth	26	30	28	-
Value	23	23	24	-
Neither	51	47	48	-

Table 41: What is the Value of Funds Under Your Direct Management?

% of Fund Managers saying:	Aug-02	Jul-02	Jun-02	May-02
Up to $250mn	16	19	16	18
Around $500mn	17	18	16	15
Around $1bn	17	15	16	18
Around $2.5bn	11	11	11	14
Around $5bn	7	5	10	7
Around $7.5bn	4	3	4	3
Around $10bn or more	12	13	12	14
No Funds Under Direct Control	16	17	16	14
Total (USDbn)	**706**	**632**	**711**	**727**

Table 42: Asset Allocators in the Survey

	Aug-02	Jul-02	Jun-02	May-02	Apr-02
# Global Asset Allocators	177	178	170	177	188

This refers to those fund managers who are involved in the **global** asset and equity allocation of their institution.

8. The Merrill Lynch Stock Market Conditions Indicator

The Merrill Lynch Stock Market Conditions (SMC) Indicator is a composite summary measure of our monthly Fund Manager Survey. It consists of four distinct components, which are built up from the responses to the questionnaire. The first is a profit expectations component, the second measures the prospects for interest rates, the third looks at equity valuation, and the fourth tracks investor sentiment. These four components are then equally weighted to create the Merrill Lynch SMC Indicator. For more information, see our Methodology note published on 8 March 2002.

Table 43: An Overall View of the Merrill Lynch Stock Market Conditions (SMC) Index

		What does this tell you about managers' expectations?	Aug-02	Jul-02	Jun-02	May-02
PROFITS EXPECTATIONS	Economic Growth Expectations	+ve score = stronger economic growth	22.6	43.5	50.2	48.0
	Profit Expectations	+ve score = improving profits outlook	35.7	52.4	56.0	54.9
	Commodity Price Outlook	+ve score = rising commodity prices	18.7	36.9	40.1	40.3
	Cyclicals vs Defensives	+ve score = managers prefer cyclicals	16.4	58.8	57.8	57.0
	Total Score	**Overall positive but significantly weaker score than July**	**23.3**	**47.9**	**51.0**	**50.0**
INTEREST RATE PROSPECTS	Monetary Policy	+ve score = monetary policy is too restrictive	11.3	-9.7	-19.1	-18.1
	Short Rates	-ve score = rates expected to rise	-13.1	-43.6	-49.1	-50.8
	Core Inflation Expectations	-ve score = managers expect inflation to rise	-6.3	-23.0	-28.0	-28.8
	Slope of Yield Curve	+ve score = yield curve to steepen	0.7	-24.1	-34.7	-27.6
	Total Score	**Overall negative score means rate outlook deteriorating**	**-1.9**	**-25.1**	**-32.7**	**-31.3**
EQUITY VALUATION	Assessment of Market	+ve score = market seen as undervalued	34.2	28.7	15.7	-0.7
	Cash Positions	+ve score = cash in portfolios, ready to go to work in market	21.2	22.9	16.0	10.2
	Total Score	**Positive score indicates favourable valuation assessment**	**27.7**	**25.8**	**15.9**	**4.8**
INVESTOR SENTIMENT	Current Risk Appetite	-ve score = lack of willingness to take on risk	-20.2	-19.7	-15.6	-9.9
	Time Horizon	-ve score = shorter than normal time horizon	-18.2	-21.9	-19.9	-17.0
	Buyers of the Dips	+ve score = managers would buy a 10% fall in the market	65.4	76.0	75.9	77.5
	Sell on the Rises	-ve score = managers would sell if market rose 10%	-18.5	-18.3	-15.3	-32.7
	ML Buy-Side Indicator	+ve score = expect markets to be higher in 12m	44.4	53.3	50.0	48.4
	Total Score	**Positive score indicates positive sentiment**	**10.6**	**13.9**	**15.0**	**13.3**
	TOTAL SMC SCORE	**Deterioration in SMC**	**14.9**	**15.6**	**12.3**	**9.2**

Source: Merrill Lynch Fund Manager Survey

Intermediate-Term Ratings Distribution: Global Group (as of 05 July 2002)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Strong Buy	521	17.82%	Strong Buy	228	25.94%
Buy	1048	35.84%	Buy	339	38.57%
Neutral	1163	39.77%	Neutral	267	30.38%
Reduce/Sell	193	6.60%	Reduce/Sell	45	5.12%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

In Germany, this report should be read as though Merrill Lynch has acted as a member of a consortium which has underwritten the most recent offering of securities during the last five years for companies covered in this report and holds 1% or more of the share capital of such companies.

The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.

OPINION KEY: Opinions include a Volatility Risk Rating, Intermediate-Term and Long-Term Investment Ratings and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Average, C - Above Average, D - High. INTERMEDIATE-TERM INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Strong Buy (minimum 20% -- more for High Risk securities); 2 - Buy (minimum 10%); 3 - Neutral (0- 10%); 4 - Reduce/Sell (negative return); 6 - No Rating. LONG-TERM INVESTMENT RATINGS, indicators of fundamental company factors demonstrating potential total return for the 3-year period from the date of the initial rating, are: 1 - Strong Buy (aggregate minimum 40%); 2 - Buy (aggregate minimum 20%); 3 - Neutral (aggregate 0-20%); 4 - Reduce/Sell (negative return); 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure); 8 - same/lower (dividend not considered be secure); and 9 - pays no cash dividend.

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