

244 Fifth Ave., 2nd Fl., Ste. 2801 • New York, NY 10001 • Tel: (212) 726 1408 • Fax: (413) 215 0880**E*TRADE Group, Inc. (NASDAQ: EGRP)****Increasing Competition and Greater Diversification**
Rating: Maintain ACCUMULATE

August 27, 2000

KEY CONSIDERATIONS

- E*Trade is the 3rd largest Internet-oriented brokerage firm, and is *the* biggest pure-play online personal financial services firm with close to 3 million accounts representing \$65.2 billion in assets.
- After the April 2000 stock market sell-off, overall market volume dropped more than 20%, negatively affecting the online brokerage industry. Although we believe this event to be a rare occurrence, it shows the need for revenue base diversification, especially for online brokers.
- E*Trade is effectively diversifying its revenue base by branching out into online banking, growing internationally, and expanding its set of products and services on its way to becoming the one-stop financial superstore.
- The online brokerage and banking industries are becoming increasingly saturated, with nearly 150 brokers operating online and 10% of all US retail banks currently offering online banking, according to Forrester Research, Inc.
- E*Trade's diversified growth strategy, partially offset by competition in the online brokerage and banking industries, causes us to maintain our ACCUMULATE rating.

Recent Price	\$16.38
52WK Low	\$13.13
52WK High	\$40.00
P/E	N/A
P/Book	2.63
P/Sales	3.62
Market Capitalization	\$4,910 M
Shares Outstanding	299.9 M
Float	16.9 M
Daily Volume	4.09 M
(3-month Average)	

EPS

1997	\$ 0.10
1998	\$(0.01)
1999	\$(0.20)
2000E	\$(0.06)
2001E	\$ 0.28

Financials

Current Ratio	1.12
Total Debt to Equity	1.89
LT Debt to Equity	0.35
Total Cash	\$178.9 M

ONE-YEAR PRICE AND VOLUME GRAPH**COMPANY PROFILE**

E*Trade, a California-based company, is a global leader in online personal financial services. E*Trade's web site offers value-added investing and researching features, and a premium customer service. E*Trade is expanding its global positioning and is already serving customers through branded web sites in Denmark, Korea, Japan, the UK, Sweden, Norway, France, Australia, New Zealand and Canada. E*Trade is committed to providing the most comprehensive financial services experience on the Internet. E*Trade was one of the first pure-play e-commerce company in the financial services sector to combine online banking and brokerage services, and is currently the largest pure-play Internet bank. As of June 30, 2000, E*Trade has nearly 3 million brokerage accounts with \$65 billion in customer assets, and 220,000 banking accounts representing \$7.4 billion in customer assets.

This report was prepared by Julian Khandros and David R. Rivas, Ph.D.

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COMPANY SUMMARY

E*Trade Group, Inc. is a provider of online investing and banking services. For the nine months ended June 30, 2000, revenues rose from \$467.6 million to \$1.01 billion. Net loss applicable to Common before acct. change and extraordinary items fell 6% to \$22.3 million. For the fiscal quarter ended June 30, 2000 revenue totaled \$330 million, with net income of \$5.7 million. Results reflect increased trading volumes, partially offset by higher merger costs (see section entitled RECENT KEY PARTNERSHIPS/ACQUISITIONS). Per share loss for the nine months is \$(0.08) from \$(0.14) one year ago. We expect the upward trend in earnings to continue due to the growth in customer accounts and increasing diversification of E*Trade's revenue base through international expansion and the successful integration of the Company's online banking division.

CONCERNS FACING E*TRADE & THE INDUSTRY

Short-Term

- **Market Volume Volatility**

A significant portion of E*Trade's revenues in recent years has been from online investing services, and we expect this business to continue to account for a significant portion of the Company's revenues in the foreseeable future. Like other financial services firms, E*Trade is directly affected by economic and political conditions, broad trends in business and finance and changes in volume and price levels of securities and futures transactions. The US securities markets are characterized by considerable fluctuations and a downturn in these markets could adversely affect E*Trade's operating results. A significant downturn in the US securities markets most recently began in March of 2000, as a result of which the volume of trading has decreased industry-wide and many broker-dealers, including E*Trade, have suffered financial losses. When trading volume is low, operating results may be adversely affected because overhead remains relatively fixed. Severe market fluctuations in the future could have a material adverse effect on E*Trade's business, financial condition and operating results. Withstanding such market fluctuations requires a more diversified revenue base.

- **Interest Rate Uncertainty**

The results of operations for E*Trade Bank depend in large part upon the level of its net interest income, that is, the difference between interest income from interest-earning assets, such as loans and mortgage-backed securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Many factors cause changes in interest rates, including governmental monetary policies and domestic and international economic and political conditions. A rise in market interest rates could reduce the value of E*Trade Bank's financial assets, including fixed-rate investments, mortgage-backed and related securities and mortgage loans, as well as E*Trade's overall profitability.

Long-Term

- **Possible Tighter Government Regulation**

The online brokerage industry may be subject to additional regulation as the market for online commerce evolves. Federal or state authorities could enact laws and regulations dealing with issues such as user privacy, pricing, content and quality of products and services, affecting the business or operations of firms in the industry.

As required by the Gramm-Leach-Bliley Act, the SEC and OTS have recently adopted regulations on financial privacy, taken effect in July 2000, that require E*Trade Securities and E*Trade Bank to notify consumers about the circumstances in which they may share consumers' personal information with unaffiliated third parties and to give consumers the right to prohibit such information sharing in specified circumstances.

Although E*Trade already provides such opt-out rights in its privacy policies, the regulations will require the Company to modify the text and the form of presentation of its privacy policies and to incur additional expense to ensure ongoing compliance with the regulations.

In addition, several recent reports have focused attention on the online brokerage industry. For example, the New York Attorney General carried out an investigation of the online brokerage industry and issued a report in November 1999, citing consumer complaints about delays and technical difficulties conducting online stock trading. SEC Commissioner Laura Unger also issued a report in November 1999 on issues raised by online brokerage, including suitability and marketing issues. The US General Accounting Office issued a report to certain Congressional Requestors citing a need for better investor protection information on brokers' Web sites. Increased attention focused upon these issues could adversely affect the growth of the online financial services industry, which could, in turn, decrease the demand for E*Trade's services or could otherwise have a material adverse effect on the Company's business, financial condition and operating results.

E*Trade recently announced that it has established a government affairs group to work closely with federal, state and local officials and key government regulators on the full range of policy issues facing the online financial services industry.

- **Rising Competition**

As mentioned briefly before, the online brokerage industry is becoming increasingly crowded, with a larger number of players vying for customers from the same investor pool. The online banking industry is also becoming saturated. According to Forrester Research, 68% of the top 50 US banks offer online banking, as do nearly 10% of all US retail banks. Also, various companies that were not traditionally considered players in the banking industry are increasingly offering many of the online banking services, like online bill-pay, money management, insurance, loans, etc.

We are also concerned about the industry-wide pattern of rising customer acquisition costs. For the fiscal 3Q2000 E*Trade's cost per new account equaled \$286, compared to \$246 for the fiscal 3Q1999—an increase of 16%.

MAJOR ONLINE BROKERS

Exhibit 1

Source: Gomez Advisors, Inc. and BizRate.com

	EGRP	AMTD	DIR	SCH	TWE	NDB	Datek
Stock Screening Tool	No	Yes	Yes	Yes	Yes	Yes	Yes
Ability to buy IPOs at offering	Yes	No	Yes	Yes	Yes	No	No
24x7 access to live trading/customer service rep.	Yes	Yes	Yes	Yes	Yes	No	Yes
Unlimited Free Real-Time Quotes	Yes	No	No	Yes	Yes	Yes	Yes
Minimum required to open brokerage account	\$1000	\$500	\$0	\$5000	\$1000	\$0	\$0
Gomez Ranking for MRQ	2	12	4	1	6	7	17
Online Extended-Hours Trading	4:00pm-6:30pm	4:15pm-6:30pm	8am-9:15am, 4:15-7pm	7:45am-9:15am, 4:05pm-8pm	4:30pm-7pm	7:30am-9:30, 4pm-5:30pm	8am-9:30am, 4pm-8pm
Access to ECN	Instinet	Knight	RediBook	RediBook	RediBook	Instinet	Island
Wireless Trading	Yes	Yes	Yes	No	Yes	No	No
Market Orders (minimum)	\$14	\$8	\$20	\$29	\$12	\$14	\$9
Stop and Limit Orders (minimum)	\$19	\$13	\$20	\$29	\$12	\$19	\$9
Banking Services	Extensive	Very Limited	Limited	Extensive	Extensive	Limited	Very Limited
Branch Network	No	No	No	362 Branches	220 Branches	No	No

STRATEGIES FOR GROWTH

- **One-Stop Financial Superstore**

During the third quarter, the Company officially launched E*Trade Bank—formerly known as Telebank—creating one of the first all-electronic banking and brokerage portals that provides customers with integrated functionality. E*Trade customers will be able to complete a full range of transactions online, on one web site – including paying bills, trading equities and purchasing mutual funds, CDs, and fixed-income securities. E*Trade Bank is the nation’s largest pure-play Internet bank. As the first and only pure-play Internet bank to cross the threshold of \$4 billion in retail consumer deposits, it advances in rank to the top 21 federally chartered savings banks based on FDIC data. As the largest Internet-based bank, E*Trade Bank is a cornerstone of the Company’s revenue diversification and global growth strategy. It also provides the Company with the ability to cross-sell banking and brokerage services to its expanding customer base. With the bank now fully integrated into E*Trade’s online investing operations, the Company is creating a powerful, personalized online hub that we believe will greatly contribute to the Company’s strategy of becoming a one-stop-financial superstore.

Exhibit 2	E*Trade Bank		
	June 30, 1999	June 30, 2000	Growth
Total Deposit Accounts	69,332	222,582	+221%
Total Customer Deposits	\$1.6 billion	\$3.9 billion	+141%

Exhibit 3	NetBank		
	June 30, 1999	June 30, 2000	Growth
Total Deposit Accounts	37,206	104,275	+180%
Total Customer Deposits	\$415.5 million	\$808.4 million	+95%

- **Digital Financial Media (DFM)**

On the technology front, E*Trade is advancing its Digital Financial Media strategy—personalized focused digital content strategy—through its E*Trade EveryWhere wireless initiatives, establishing new relationships with leading wireless providers, such as AT&T, Verizon and Sprint, and a strategic alliance with and investment in Everypath to enable wireless information and trading anytime, anywhere and from any device. It is estimated that the potential customer pool for wireless devices and information services has the potential to reach over 41 million customers. We believe that although E*Trade’s competitors already offer or will offer wireless access to their customers, E*Trade will continue to play the role of the leader in the area of wireless service.

- **Global Expansion**

E*Trade continues to aggressively expand its broad international base, launching E*Trade branded services in Norway, Denmark, Japan, as well, as penetrating into the German and South African markets. E*Trade’s international network is the largest of any internet-only competitor. E*Trade UK, a subsidiary of E*Trade Group, more than doubled its total number of accounts in the second quarter. E*Trade Korea, which was unveiled in February, has already registered strong results, adding nearly 15,000 accounts in its first four weeks. E*trade Denmark, which was launched on March 27th, has shown equal momentum, with accounts totaling 5,500. With these additional markets, E*Trade’s branded sites now service ten countries including Australia, Canada, Denmark, France, Japan, Korea, New Zealand, Norway, Sweden, and the UK. We believe that international expansion is crucial to E*Trade’s long-term positioning as a financial superstore. Account retention in the brokerage industry is quite high, and first-comers stand to benefit the most from account and asset aggregation from these new markets.

Global and institutional revenues during the fiscal 3rd quarter were \$34 million. The growth of institutional revenues was especially strong, fueled by the continuing strong results of TIR Holdings. With its global presence and experience, and based on its worldwide account base of more than 600 institutional clients, E*Trade/TIR is playing a key role in building E*Trade's global cross-border trading network, which is expected to launch later this fiscal year. This fully electronic network, the world's first, is currently in beta test. The new service will effectively allow investors to tap the US equities markets and transact in their home currency. Execution, clearing and settlement of the trades will occur simultaneously with the processing of the foreign exchange transactions. E*Trade's exclusive global cross-border trading network may link the top international equities markets worldwide, allowing individual investors to uncover and execute investment opportunities wherever they exist.

- **Strategic Partnerships/Acquisitions**

In an effort to achieve its goal of becoming the most comprehensive global financial services experience on the Internet, E*Trade has made several strategic alliances and acquisitions, which give E*Trade a key competitive advantage in the race to capture and develop the core financial relationships with consumers. Although we are glad to see E*Trade filling in gaps and building on its current infrastructure, we still believe that horizontal integration (i.e. a merger or acquisition of a major competitor) would position the Company much better within the industry.

A great move for E*Trade would be to acquire a brokerage firm that executes trades for customers directly with exchanges or Electronic Communication Networks (ECNs). These firms attract the more-active investors, or "day-traders," who generate a disproportionately large portion of trade-related revenue, compared to the average investor. Studies have shown that the top 1 percent of most-active traders produce nearly 75 percent of total trades. Additionally, hyperactive traders tend to be wealthier than the average investor. Larger account assets tend to result in higher margin revenue for the firm, as well as the potential for larger banking revenue if the firm offers banking services. E*Trade's average assets per account are around \$20,000—much less than its major competitors. Charles Schwab already entered into this area with the acquisition of CyberCorp. However, with E*Trade's stock price near its 52-week low, it is difficult for it to use its shares as currency in a deal. At the very least, we would like to see E*Trade enter into a strategic partnership through which it would leverage another firm's technology to attract these more profitable customers and retain the ones it already has.

Exhibit 4

Average Assets Per Customer Account					
EGRP	AMTD	DIR	SCH	TWE	NDB
\$20,600	\$29,900	\$27,700	\$129,300	\$39,300	\$40,300

RECENT KEY PARTNERSHIPS/ACQUISITIONS

- *eInvesting*: E*Trade acquired Electronic Investing Corporation, a provider of leading edge, dollar-denominated personalized securities portfolios. The potential acquisition is expected to provide customers with greater choice and value by enabling them to create personalized portfolios of securities via the Internet. In addition to individual investors, E*Trade plans to offer the personalized portfolios to independent financial advisors and corporations, who will provide the product to their employees.
- *VERSUS Technologies*: E*Trade entered into a definitive agreement to acquire VERSUS Technologies, Inc.—a Canadian-based provider of electronic securities trading services for institutional and retail investors and owner of the E*Trade Canada license. Through the acquisition of VERSUS, we believe the Company will build on its base of retail and more than 650 institutional clients and be able to incorporate the technology underlying the VERSUS Network, a scalable proprietary electronic trading platform, into its global cross border trading platform, enabling institutions and investment dealers worldwide to route orders globally through its trading networks.

- *Ernst & Young:* E*Trade offers one of the most feature-packed and easy to use Web sites of all online brokers. E*Trade needs to improve its financial planning and advice offering to round out its appeal to investors. E*Trade's joint-venture with Ernst & Young should fill this void by offering investors personalized advisory services, both electronic and person-to-person. We believe that this advisory capability is key to expanding E*Trade's share-of-wallet with its customers.
- *Card Capture Services:* E*Trade completed the acquisition of Card Capture Services, the largest independent network of centrally-managed automated teller machines in the United States. This network of over 9,000 ATM machines spans domestically across 48 states and in three countries. Through this strategic acquisition and the recent launch of the integrated E*Trade Bank, E*Trade will develop a nationwide network of financial services kiosks to deliver not only deposits and withdrawals, but also much of the educational content and investing tools currently available through its website. By providing a convenient electronic delivery channel that offers both "high touch" and "high tech" benefits, E*Trade Bank is poised to penetrate an increasingly diversified customer base, including the mainstream banking market. We believe that Card Capture Services is an essential, fundamental building block in E*Trade's strategic goal of building assets and making its products and services even more indispensable to customers.
- *Wit SoundView:* E*Trade signed a definitive agreement to form a strategic alliance with Wit SoundView, a subsidiary of Wit Capital Group, to expand participation and access to IPOs, and also gain access to Wit SoundView's 100,000 brokerage accounts. Through this exclusive alliance, E*Trade will be able to expand the products and services it offers its customers, including Wit SoundView's world-class research.
- *Confluent:* In an effort to expand its global strategy to develop powerful, proprietary tools that enable individual investors to manage their personal finances more effectively and conveniently, E*Trade acquired Confluent and its Abrio calendar engine. Together with Confluent, E*Trade will use the Abrio engine to create a highly tailored, personalized, and innovative online product—the Personal Financial Information Manager.
- *TIR Holdings, Ltd.:* Bringing E*Trade closer to its goal to empower individual investors worldwide to realize their financial goals faster and more effectively, E*Trade acquired TIR Holdings, Ltd., an international financial services Company offering multi-currency securities execution and settlement services. The acquisition helped to accelerate the creation of the first global cross-border trading network for online investors, which was launched in Sweden in May 2000, making trading in foreign securities accessible to retail, corporate and institutional investors alike.

VALUATION AND INVESTMENT OPINION

Exhibit 5

August 27, 2000

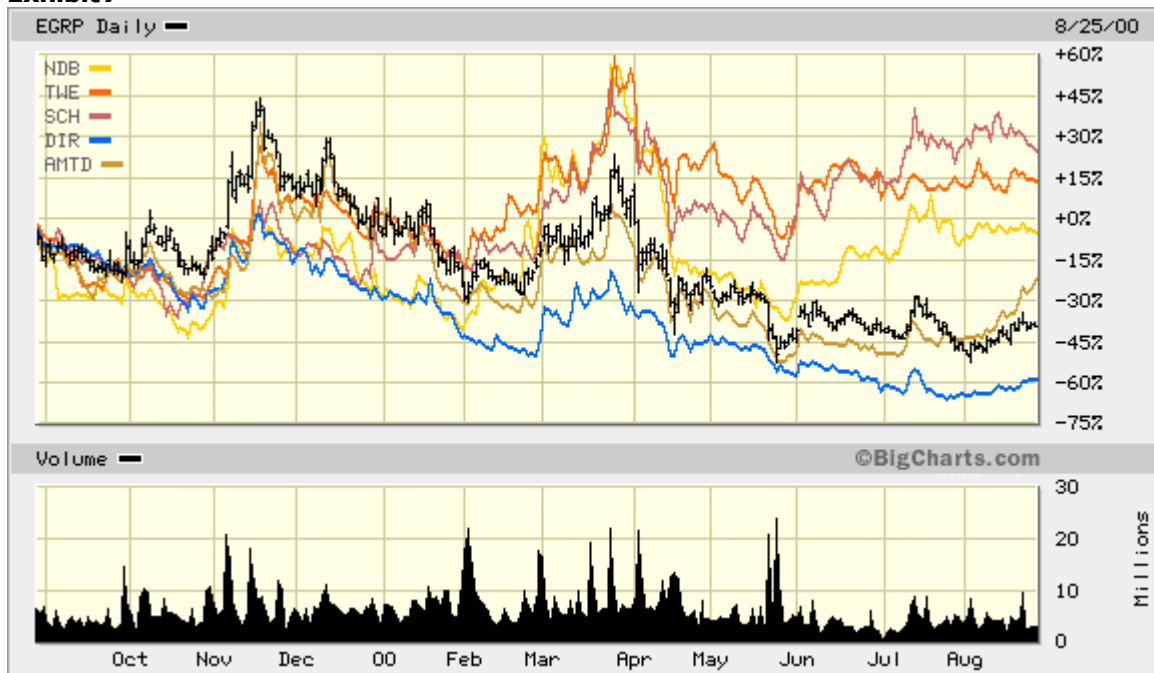
Company	Recent Price	Market Cap. (millions)	Sales (TTM) (millions)	Price/Sales	Price/Accounts	Total Accounts (thousands)
EGRP	\$ 16.38	\$ 4,911	1,357	3.6	1.7	2,944
AMTD	\$ 17.81	\$ 3,121	587	5.3	2.7	1,165
DIR	\$ 7.88	\$ 808	329	2.5	0.8	992
SCH	\$ 35.88	\$ 49,530	5,140	9.3	6.9	7,200
TWE	\$ 18.38	\$ 6,979	1,470	4.5	1.7	4,200
NDB	\$ 34.38	\$ 722	386	1.6	2.9	245
<i>Average</i>	-----	<i>\$ 11,012</i>	<i>1,545</i>	<i>4.5</i>	<i>2.8</i>	<i>2,791</i>

Exhibit 6



IIX: AMEX Internet Index
XBD: AMEX Securities Broker/Dealer Index

Exhibit 7



E*Trade behaves more in tandem with the Broker/Dealer Index than with the Internet Index—an indication of investors' attitude towards the Company. It has underperformed both indices, as well as its major competitors with the exception of DLJdirect. Both Charles Schwab and TD Waterhouse benefited from being the industry leaders and having the most diversified revenue bases (both have a branch network and off-line

accounts). They best withstood the .COM-beating of April 2000, which severely affected the other competitors here, including E*Trade. Excluding Charles Schwab and TD Waterhouse, E*Trade's P/S ratio is in line with its competitors. However, we believe that E*Trade is soundly diversifying its revenue base, unlike Ameritrade, and its valuation should begin to resemble more like those of TWE and SCH. E*Trade should also benefit from its expansion into international markets and its banking division. We revise our account growth projections accordingly:

End of 2000: 3.4 million
2001: 5.7 million
2002: 8 million

We expect Net Revenues for the fiscal 4Q2000 to rebound from the Industry-wide downturn in fiscal 3Q2000 due to a partial bullish rebound in the stock market, as well as a larger customer base and greater diversification. The expected modest improvement in the gross margin is reflective of expected increased trading volumes and the further diversification of revenue streams.

We believe that E*Trade's current strategy of customer acquisition and business diversification should prove itself successful in the long run. Commission revenues as a percentage of gross revenues are expected to decrease as E*Trade continues to execute on cross-selling initiatives across business lines, leveraging its increasingly diversified business model. Customer retention rates within the brokerage and banking industries are quite high, and we believe that as these industries progress through the early stages, customer acquisition and leadership in product offerings is key for long-term success. However, in the short run, this strategy may be rather expensive and put a downward pressure on earnings. We expect EPS for fiscal 4Q2000 to be \$0.02, for a loss of \$(0.06) during FY2000. We expect E*Trade to turn a profit of \$0.28 next year.

Although we expect E*Trade to face fierce competition, we expect E*Trade to stay ahead of its closest peers in terms of its set of products and services, as well as in terms of its global strategy. We also believe that much of the current investors' negative sentiment regarding the online brokerage and banking industries is already priced within E*Trade's stock price. We see modest upside to the Company's stock price as it executes its growth strategy. We thus give its stock an ACCUMULATE recommendation.

E*Trade Group, Inc.

Income Statement

Figures in thousands unless noted

	FY1997	FY1998	FY1999	1Q2000	2Q2000	3Q2000	4Q2000E	FY2000E	FY2001E
Net Revenue	156,395	245,317	657,150	267,642	407,430	330,341	414,746	1,420,159	2,440,180
Cost of Revenue	73,381	111,888	292,910	111,507	130,474	124,489	141,014	507,484	829,661
Gross Profit	83,014	133,429	364,240	156,135	276,956	205,852	273,732	912,675	1,610,519
Operating Expenses:									
Selling and Marketing	28,160	71,447	321,620	129,680	177,484	115,081	145,161	567,406	854,063
Technology Development	13,547	33,699	76,878	36,380	42,127	32,526	42,304	153,337	219,616
General and Administrative	16,847	31,048	102,138	42,078	50,225	50,179	64,286	206,768	317,223
Amortization				2,025	5,159			7,184	15,000
Merger-Related			7,174	5,787	24,599	1,133	4,147	35,666	25,300
Total Operating Expenses	58,554	136,194	507,810	215,950	299,594	205,635	251,751	972,930	1,431,203
Operating Income (Loss)	24,460	(2,765)	(143,570)	(59,815)	(22,638)	217	17,834	(64,402)	179,316
Non-Operating Income (Loss)			64,823	54,822	(9,066)	12,776		58,532	32,670
Pre-Tax Income (Loss)	24,460	(2,765)	(78,747)	(4,993)	(31,704)	12,993	17,834	(5,870)	211,986
Income Tax Expense (Benefit)	9,425	(953)	(31,306)	(697)	(8,923)	7,888	11,146	9,414	110,072
Net Income (Loss)	15,035	(1,812)	(52,092)	(4,791)	(23,189)	5,690	6,688	(15,602)	101,914
Fully Diluted EPS	0.10	(0.01)	(0.20)	(0.02)	(0.08)	0.02	0.02	(0.06)	0.28
Diluted Shares Outstanding	143,496	169,791	266,036	282,505	285,004	309,346	318,481	298,834	369,256
Margin Analysis (% of Revenue)									
Gross Margin	53.1%	54.4%	55.4%	58.3%	68.0%	62.3%	66.0%	64.3%	66.0%
Selling & Marketing	18.0%	29.1%	48.9%	48.5%	43.6%	34.8%	35.5%	40.0%	35.0%
Technology Development	8.7%	13.7%	11.7%	13.6%	10.3%	9.8%	10.2%	10.8%	9.0%
General & Administrative	10.8%	12.7%	15.5%	15.7%	12.3%	15.2%	15.5%	14.6%	13.0%
Operating Margin	15.6%	(1.1%)	(21.8%)	(22.3%)	(5.6%)	0.0%	4.3%	0.7%	10.7%
Net Margin	9.6%	(0.7%)	(7.9%)	(1.8%)	(5.7%)	1.7%	2.0%	(1.1%)	4.7%
Growth									
Net Revenue	203.1%	56.9%	167.9%	124.1%	151.8%	77.2%	118.8%	116.1%	71.8%
Gross Profit	344.7%	60.7%	173.0%	232.5%	294.1%	159.4%	60.8%	150.6%	76.5%
Selling & Marketing	270.5%	153.7%	350.2%	216.1%	195.8%	39.7%	5.0%	76.4%	50.5%
Technology Development	385.2%	148.8%	128.1%	149.8%	176.1%	57.4%	60.3%	99.5%	43.2%
General & Administrative	74.4%	84.3%	229.0%	192.8%	177.6%	226.1%	18.4%	102.4%	53.4%