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To all of you who have asked for my help in finding a job on Wall Street, I want to apologize for my delay in getting back to you.

I do have an excuse though, -- as most of you realize Wall Street is not an altruistic place. So when you asked for our assistance in the late fall, the Street was in the midst of its annual bonus season. This is a period of the year when the finance careers are made or ended, annual compensation is determined and the partners of the Wall Street's firms find out if their "option" has been picked up for another year.

Well, the good news is that Sanford Bernstein decided to keep me around for a little longer and when the year end bonuses were awarded at year end I certainly had nothing to complain about. So now I have some time to turn to your concerns – finding a position on the Street. Please see the attached tongue-in-cheek "How to Guide" to Wall Street Careers.

Regards

Brad Hintz
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Sanford C. Bernstein

A "How to" Guide to Wall Street Careers.

Wall Street is one of the most misunderstood areas of the U.S. economy. Underwriting, M&A, Risk Arbitrage, Proprietary Trading, Equity Block Desks, IPOs and Follow-Ons, Equity Program Desks, Prime Brokerage, High-Yield Bonds, Research Sales are all terms that even the most devoted MBA student finds somewhat baffling. Frequently, when I meet with MBA students and ask them about their aspirations on The Street, they mumble something about investment banking and then unknowingly say something about the industry that is either very outdated or simply untrue.

Well, Wall Street isn't just investment banking and getting a job on Wall Street is not like any other experience that you will have. It's not like interviewing for a job at a consulting firm, or trying to get a position in a training program in an industrial company or talking with a bank about a lending job. Your professors and placement offices are likely to be "in the dark" about how to get a job on the Street.

So as the Securities Industry Analysts at Sanford Bernstein, Todd Buechs (USNA, Tuck and Goldman Sachs) and Brad Hintz (Purdue, Southern California, Wharton, Morgan Stanley and Lehman) have attempted to draft a totally unvarnished "How to Guide to Wall Street Careers." We hope that this guide will help an undergraduate or MBA to first determine if Wall Street is for him or her and, if they decide to pursue a life on Wall Street, will help them to successfully navigate the first couple of interviews.

Part One – Life on Wall Street

I'm Not a Preppie – I Don't Go to HBS.[1] Can I Still Get to "The Street"?

For those of you who are not attending one of the "target" MBA or undergraduate schools that the investment banks recruit at, getting a job on "The Street" may seem like an impossible quest. However, just because you don't have an undergraduate degree from one of the eight Ivies, Stanford or Chicago or do not have an MBA from HBS, Stanford, Wharton, UCLA, Chicago, Columbia, Tuck or Darden doesn't mean that Wall Street is not in your future.

Modern Wall Street is no longer an aristocracy of well-connected, arrogant preppies, rather today it is a true meritocracy of highly motivated, highly intelligent and remarkably commercially driven professionals. If you have these characteristics and have the chutzpa to pursue a position with no concern about being rejected innumerable times – then Wall Street has a career for you. But getting that first job will be difficult – you have to rely <u>on your own initiative</u> and to work diligently at finding that first opening.

This means that you cannot rely completely on your placement office for the job. You will have to find contacts, write many letters, make innumerable telephone calls and

[1] Harvard Business School.

prepare yourself with the discipline of an Olympic athlete for each interview. You will have to learn the jargon of the Street, the industry issues and the culture of each company that you are attempting to get into. This is not an impossible challenge – just "a boatload" of work.

And will they hire you? Absolutely. The Street is looking for all kinds of people with diverse backgrounds, but above all the Street is looking for intelligent, innovative and motivated new talent.[2]

Excuse Me, but I am an Ivy-leaguer…Does That Mean that I Don't Have An Advantage?

Not at all – Having one of these elite pedigrees is all the better for you.

Your first advantage is that the companies actually come to your school and your placement office may not be in the dark. So you can, and should, go to all the company meetings and presentations put on by Goldman Sachs, Morgan Stanley, Merrill Lynch, UBS, Deutsche, Lehman, Bear Stearns, JP Morgan and Bank of America when they come to campus. You can easily take notes at the presentations, you can collect names of executives and you can quickly write them letters telling them of your interest in their companies, commenting knowledgeably on their speeches and explaining your undying admiration for the capital markets.

Your second advantage is that the alumni of Harvard, Princeton, Columbia, Penn, Stanford, Chicago, Dartmouth, Cornell, Williams, Phillips Academy, Exeter, the Latin School, St Paul's and Lawrenceville (to name a few), are very well represented on the Street. So use your graduate school, undergraduate school and prep school's alumni lists to contact people on the Street and ask for their help and support. Write often and write early.

Third, you probably know how to "act the act" and "walk the walk" of Wall Street. Unlike many of your competitors, you know what color suit to buy, how to tie a 'half - Windsor" knot in your tie and what style shoes and shirts that executives wear. You know what sports and conversation topics are considered acceptable, you read the latest trade articles and the Wall Street Journal / Investor's Business Daily and you know people who are or have worked in finance and you have at least a working knowledge of the financial services industry.

But don't let your elite background make you overconfident. Remember, that Wall Street is a true meritocracy, today, and there are no shortage of brains on the Street and many, many of those plebeians from the state universities and public high schools (not to mention the graduates of the Indian Institute of Technology) can "whoop" you[3], quantitatively. While you were studying Art History and Kierkegaard, the state university types were becoming familiar with differential equations and learning about heteroskedasticity.[4] Fifteen years ago on Wall Street this difference wouldn't have been important, but today over half of Wall Street's revenues are coming from the highly

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[2] One note to those who attended non-Ivies; NEVER, NEVER, NEVER apologize about your school.
[3] "To Whoop" is a technical term used on Wall Street.
[4] This is not something that happens among consenting adults – it's a statistics term.

quantitative trading business where the writings of Kierkegaard have only limited application. So over the last ten years, as a senior Human Resource professional at Lehman Brothers told me, the failure rate of Ivy League graduates hired by the Street is roughly the same as those of non-Ivy grads.[5]

Bottom line - you may have an easier time getting your foot in the door but once in the door it is a level playing field.

Don't Expect a Gold Watch at the End of Your Career.

Another important thing to know about the Securities Industry meritocracy is that Wall Street highly rewards its talent, but the Street is not a place for people who are looking for job security and a pension at age 65, or 9 am to 5 pm life styles. No one – let me repeat, NO ONE retires on Wall Street. When Brad joined Morgan Stanley Group in 1985, he was the 32,330th employee since the founding of the firm in the 1930s – ten years later there were only 300 total retirees at Morgan Stanley or less than one percent.

However, you don't have to worry about old Wall Street partners standing on street corners asking for spare change in their threadbare pin striped suits. An average Wall Street partner will make approximately $2 million per year – much more at a Goldman Sachs, somewhat less at a large universal bank such as JP Morgan or Bank of America. This is pretty good pay – on a par with that of CEOs of mid size public companies.

Don't Expect the Career to Be Easy.

Wall Street isn't going to provide an easy life for you. Last month, Brad spent the night in New York City at a hotel near Times Square. He could look into the windows of the Morgan Stanley Headquarters. At 3:00 am in the morning, he awoke to see all the investment banking floors of Morgan Stanley still lighted with large numbers of eager MBAs and earnest undergraduates busily producing analyses, drafting prospectuses and producing "pitch books" for clients.

Frankly, the life of a new securities industry employee – either MBA or undergraduate – is miserable. You will work nights and weekends. If you are in investment banking, you will fly all over the country and will deal with self important clients who want their deals done "yesterday." And, as one new MBA confessed to me, "*you will come home to a microscopic apartment in Manhattan to find the milk in your refrigerator to have turned green from age and spend your free time trying to get your laundry done in preparation for the next business trip*."

You certainly are unlikely to have much of a social life. If you are married, your wife or husband may feel that you have abandoned them. If you are dating, be prepared to be dumped by your significant other after you've cancelled your dinner plans for the fourth

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[5] As a Midwest, populist (who admittedly attended Wharton), I thoroughly enjoyed beating the more arrogant preppies in competition in my first decade on Wall Street. As form of rebellion against the Ivy crowd, I arranged to have the first ten bond certificates that Morgan Stanley Group ever issued to be printed in the "Big Ten" school colors.

time in a week.[6] You will be lucky if you can keep a house plant alive, much less a relationship.

At work, you will attempt to prove that you can spend ungodly hours at your desk on virtually no sleep and still have a sunny disposition in the morning. If you are in investment banking or equity research, most of your dinners will be cold pizza or Chinese take out and eaten at your desks. Your colleagues will be super smart and constantly typing madly on their Blackberries to clients and counterparties and attempting to become "one" with their Excel spreadsheet while speaking of their undying love for investment banking, trading or equity research.

Please, don't believe that you can transcend these norms and carve out some happiness while waiting for the big bucks to arrive - <u>you won't be able to</u>.

Is There Anything Good About Wall Street? Yes, Sometimes It Is Really Fun.

In Investment Banking, the best part of a new hire's early years will be becoming part of a "high powered" deal team. You may meet with the CEO of a major aerospace firm advising on a corporate restructuring. You may fly in a palatial corporate jet to British Columbia to pitch to lumber companies and be whisked around in limousine. You may become a hero because the obscure financial data that you found in an arcane financial filing or the sophisticated analysis you completed became a key factor in a saving an acquisition deal of a major client. And over time, you will find yourself running more and more of the deals you are assigned to

In sales and trading, you may find a previously unidentified arbitrage opportunity that makes the firm substantial profits. Over time, you will be given more and more balance sheet and risk to "play" with and you will be given more challenging products to trade. In sales, you will be given more important clients to "get close to" to or you may be asked to repair a "troubled relationship" with a potentially important client. In derivatives and capital markets, you may find yourself part of a team that designs a new product that becomes front page news in the Wall Street Journal or the Financial Times.

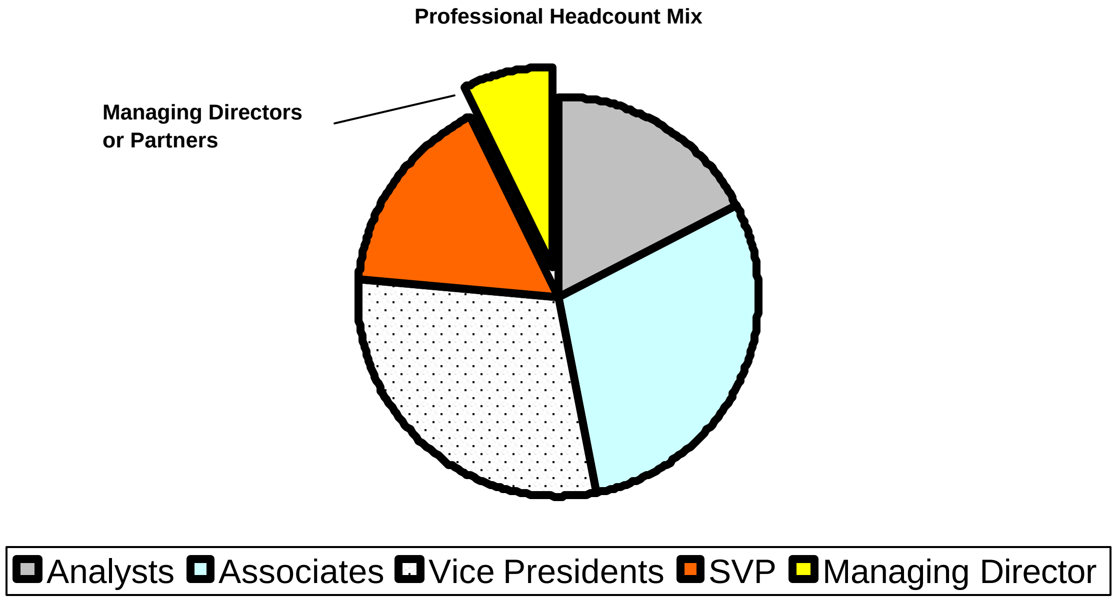
What is the Probability of Success?

Let's be frank, -- the statistics are not in your favor. Wall Street hires the best, the brightest and the most competitive. It reviews its staff relentlessly and cuts the bottom 10% to 15% each year. It maintains an up or out policy (also known as "grow or go" policy), which means that even employees that are performing satisfactorily at their current level will be counseled out of the firm over time if they are viewed as being un-promote able.

In the exhibit below, we have broken out the typical ranks of a 10,000 person, institutional securities firm with approximately 5,000 professionals. Note that only a small portion of the professionals are partners or managing directors and the vast

[6] This means that you should forget those dreams about a "Sex in the City" lifestyle and think of your first couple of years as being imprisoned in a monastery.

majority of professionals are associates and analysts. The MBAs and undergraduates are the heart and soul of the firms on Wall Street but they are also “cannon fodder.”



How Long Does it Take to Make Partner?

It takes about nine to thirteen years for a newly minted MBA, hired as a new associate, to make partner (or managing director or MD). But the process of becoming an MD is arduous. Each year, all employees at all levels are ranked by their seniors, by their colleagues and by their subordinates. They are rated on questions such as -- *“Do clients value their opinion?”*, *“Are they creative?”*, *“Are they rainmakers?”* and *“Are they abrasive and difficult to work with?” or “Are they team players?”*

The annual bonus pool of the firm is allocated based on these rankings. Promotions are given out and associates become Vice Presidents. Vice Presidents become Senior Vice Presidents (or Principals or Executive Directors), and SVPs become Managing Directors. Each year the lower performers are culled from the ranks. Gradually the pool of MBAs left in each graduating class slowly declines as your B-school classmates and colleagues are politely -- but firmly – told, directly or through drastically reduced compensation, that their future belongs elsewhere.

Based on the historical numbers, the probability that an Associate hired after graduate school will EVER become a partner is approximately 5.23%. The probability for an Analyst hired after undergraduate graduation is less than 1%.

Typical Business Unit Staffing By Title
Of an Institutional Brokerage Firm

	Typical Profession Staff for Business Units	Number of Staff	Grow or Go Policy	Bottom 10% to 15%	New Hires - Growth at 8%
	Yr 7 MD	20		5	
	Yr 6 MD	27		7	
	Yr 5 MD	37		10	
	Yr 4 MD	50		13	
	Yr 3 MD	66		15	
	Yr 2 MD	77		18	6
	Yr 1 MD	88		18	7
Promotion	SVP Yr 5	105	10	16	8
Zone	SVP Yr 4	140	25	21	11
	SVP Yr 3	193	50	19	16
	SVP Yr 2	196		20	17
	SVP Yr 1	200		20	16
Promotion	Vice Pres Yr 6	219	15	22	18
Zone	Vice Pres Yr 5	238	15	24	20
	Vice Pres Yr 4	257	15	26	22
	Vice Pres Yr 3	261		26	22
	Vice Pres Yr 2	265		26	22
	Vice Pres Yr 1	270		27	22
Promotion	Associate Yr 4	326	50	33	26
Zone	Associate Yr 3	384	50	38	31
	Associate Yr 2	392		39	31
	Associate Yr 1	400		40	32
Promotion	Analyst Yr 3	150	75	15	12
	Analyst Yr 2	375	225	38	30
	Analyst Yr 1	375		38	30
		5111	**530**	**574**	**400**

But Isn't It Great When You Become a Partner?

Outsiders to Wall Street naively believe that a partner can kick back and enjoy the fruits of his or her position in perpetuity. Well, certainly the compensation system of the Street has been consciously designed to ensure that the lion's share of earnings go to the partners, but it is also designed to ensure that highly talented professionals who aspire to join the partnership level are not discouraged by an ossified partnership that delays the addition of talented new partners forever.

When Brad was named managing director at Morgan Stanley Group, an older partner took him aside and said, …"*The fastest way to leave Morgan Stanley is to become a partner – the average career lifespan of a Managing Director is five years.*" So becoming a partner on Wall Street is a little like being a professional football player – you make a substantial amount of money for a few years but ultimately your contract won't be picked up and you will be forced to leave the team and retire. Recognize and accept this fact before deciding on a finance career – It won't be any different for you.

What Happens to Those Securities Industry Employees that Don't Make Partner?

Once again, no one should loose sleep over the hundreds of MBA's and undergrads who cycle through Wall Street and leave before becoming partners. They typically end in corporations as Treasurers or CFOs, in private equity firms as merchant bankers or venture capitalists or in asset management firms or hedge funds as portfolio managers. The network of Wall Street contacts that an associate builds and the Rolodex of clients that a Wall Street professional has, makes an exit relatively painless. While the skill sets that associates and vice presidents learn on the Street, in terms of analytical discipline, deal making, negotiations and investment decision making are readily transferable to other fields.

And What Happens to Partners At the End of Their Career?

Well, the smart ones take their earnings and do something else. They "self actualize" as Maslow would say. We have seen former partners go into teaching, into the ministry, go back to school for an architecture degree or a Chinese history PhD and adopt a gaggle of children and become "professional" Dads. Some enter allied fields; like hedge fund management, merchant banking, even securities regulation and equity research. Some do charitable work by sitting on the boards of non-profits and serving on investment committees of pension plans and endowments. Others do totally off the board things like becoming a professional poker player, designing jewelry or running for public office.

The sad ones are the "Old War Horses" who cannot accept the fact that its time to do something else. They begin a process of moving from firm-to-firm, spiraling ever downward, first to the lesser brokerage firms, then to the commercial banks then to the foreign banks until there is no place left to go. It is sad to watch.

The important thing is that if you make it to partner, you will have the financial capability to retire early (45-55) and do whatever you want for the rest of your life.

Can You Explain How Compensation Works on Wall Street?

In a commercially oriented environment (See Footnote 2) one would expect that junior employees would be taken advantage of by senior employees. This is not the case on The Street. Certainly the greatest percentage of the total dollars in the compensation pool is allocated to the partners, but the volatility of earnings also rises at higher levels in the firm.

A typical brokerage firm sets its compensation accrual at 50% of its net revenue.[7] Base salaries paid by the company are relatively modest, with a typical partner making $165,000 per year in base compensation. This leaves a large pool of accrued, but not paid compensation, to be allocated as the company gets to year end.

There is a ritual that occurs at each brokerage firm in October of each year in which the individual business units submit their requests for bonuses to senior management arguing

[7] Net revenue is gross revenue less interest expense.

that their business unit deserves most of the compensation and other business units deserve very little. Management reviews the requests, adjusts them to reasonable levels and allocates the compensation for year end bonuses to each business unit.

The annual bonus can be anything from 75% of base salary for an analyst to 10-12 times base salary for a managing director. The bonuses are designed to make the employees "rich but illiquid." In other words, a portion of the bonus (up to 40% for an MD) is paid in restricted securities that cannot be sold for five years. This keeps employees working hard to reach that point when the securities can be liquidated and he or she can "really start spending."

The bonus pool varies with the performance of the company. In bad years Managing Director compensation can decline by 60%-70%. The volatility of lower ranked professionals is much, much less. As a rule, the companies recognize that the younger associates and vice presidents represent the "seed corn" of the companies and will sacrifice Managing Director's earnings to maintain the annual compensation levels of younger staff.[8]

Part 2 – Finding a Job

Hey, You Still Haven't Told Me How to Find a Job. Should I Write HR at the Companies to Get an Interview?

For God's sakes don't write HR. As Clint Eastwood said in Dirty Harry, "*Personnel is for Idiots.*" This is particularly true for Wall Street.

Wall Street firms are not organized like General Electric or Hewlett Packard. In traditional companies, like these, candidates are interviewed, Human Resources manages this interview process and candidates that are turned down for a position are written-off, permanently. This centralized command and control structure means that if you are turned down, you can forget all hope of getting an offer in the near term.

But this is not true with Wall Street. Wall Street firms are not organized like monolithic corporate pyramids with a strong CEO and imperial corporate staff groups at the center. Rather their organization resembles eleventh century France – a relatively, weak central king, supported by staff groups that have little power, surrounded by powerful and always bickering business units. This means, of course, HR doesn't carry the same weight in an investment bank or brokerage and can be bypassed by candidates aspiring for Wall Street jobs. While these firms do have recruiting efforts, many an opportunity was found by resourceful applicants that directly approached a business unit when applying for a position.

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[8] Don't mistake this for altruism. The only reason that a young MBA will work weekends and nights, miss dates with his or her significant other and skip vacations is that the partnership is viewed as both valuable and attainable. The firm's know this and will throw Managing Directors "overboard" to keep the young MBAs pulling in their harnesses.

Wall Street's Lack of Organization Combined with its High Turnover Presents an Advantage to MBAs Looking for Positions.

Because individual business units (and in many cases individual MDs or trading desks) are the decision makers for hiring, prospective new hires can apply again and again and again at a company. One turn down does not eliminate a candidate from future consideration in another business unit in another department of the business unit or even on a different desk within the Department. So an MBA can attempt to land a job with the high yield trading desk of the Fixed Income divisions, with the High Yield research department, with the emerging market trading desk, with the private placement desk and with the equity research department all at the same time. No one will ever know – and even if someone does find out, the feudal organization structure of today's Street means that they couldn't care less.

This organization structure combined with the high (15-20%) turnover of personnel due to the up or out policy on Wall Street means that every department and EVERY business unit of EVERY firm is ALWAYS hiring new young staff members to fill their ranks. So MBAs and undergraduates looking for a job on Wall Street should view themselves not as supplicants, respectfully asking some pompous HR interviewer to consider them for job, but rather they should think of themselves as "cat burglars" trying every window and door at a brokerage firm until they find one that is open. We would encourage you to go directly to the business units, to bypass HR and to tell the business unit head how much (for example) you want to be a "repo trader" or a "restructuring team member" or "an equity capital markets professional." With a little luck they will ask to speak with you. And let me assure you that if you try enough windows and doors – you will get in. Whatever the case, networking is definitely the key and no opportunity should be neglected.

So Todd and I believe that you should begin writing the Heads of desks or departments and former alumni in the various equity, investment banking, fixed income, commodities and currency trading, equity research, fixed income research and asset management divisions at each of the firms. Collect the names of the division heads as well as their subordinates from the annual report or from the "2003 Securities Industry Association Yearbook." Do it today and do not be discouraged. And always follow up. The Street is notorious for not getting back to applicants – don't let them forget you.

I Only Want to Work At Goldman Sachs (or Morgan Stanley or Lazard)

Good luck then – You've just virtually assured yourself that you will <u>not</u> get a job on Wall Street. Unless you are related to J.P. Morgan, himself, you should use a shotgun approach to finding a job on the Street, not a rifle shot approach of targeting just one firm. Apply to all the firms and all the boutiques and see what happens. There is a lot of randomness in Wall Street's chaotic recruiting process.

You should also recognize that there is a unique personality to every firm on Wall Street and unless you fit the mold that they are looking for, you won't get in or you won't stay for long. So joining a Wall Street firm is like joining a college fraternity or an eating club. Like fraternities, you should make sure that you have checked out the culture before accepting an offer because you are going to be spending a lot of time with your new colleagues over the coming years – You should try to make sure that you can stand them.

Here is one observer's view of the personalities of the Wall Street firms[9] --

- Goldman Sachs is a way of life. It has a tight culture focusing on excellence and bottom line performance and adheres to the up-or-out theory on employee retention. Goldman has a real willingness to take measured risk to make money. Goldman wants self confident, somewhat arrogant professionals who will "drink the Goldman Kool-Aid" and become part of the firm culture by buying into its values. Those who don't drink the Kool-Aid" leave Goldman relatively quickly.

- Morgan Stanley's Institutional Businesses has a culture of commitment to clients, excellent execution, and strongly held belief that "Abrasive employees will not be tolerated." Morgan encourages a self effacing attitude by their employees and an understated demeanor. It tries to avoid the creation of "Stars" and the dissension that "Stars" create. The company ranks its staff with discipline that at times appears compulsive and rhetorically asks its employees – *"What have done for me lately?"*

- First Boston, by comparison, historically encourages the creation of "Star" investment bankers and traders and has a culture of elitism that can at times be difficult for newcomers to take. If anyplace in modern finance can be characterized as the "old" Wall Street – First Boston is it.

- Merrill Lynch is by far the most corporate of the cultures. Historically MER was a wonderful place for its employees and was referred to internally as "Mother Merrill." This has certainly changed under the company's current chairman, Stan O'Neal, who has imposed a long delayed "grow or go" culture in the company and a much, much tougher focus on earnings and resource use by the business units. Nevertheless both current and former employees of Merrill continue to speak very highly of the firm as a non-elitist company, dedicated to "doing it right the first time" that has a "very nice" culture.

- Citigroup's culture is a "take no prisoners" meritocracy. Citigroup allows and in fact encourages its employees to compete openly. There will be internal battles that lead to the equivalent of "sword fights in the hallway" and management will "sweep the bodies of the fallen out over the weekend." Citigroup is a tough place. If you have "sharp elbows," Citigroup could be your new home.

- J.P. Morgan is an amalgam – too many cultures have been brought together and the new JPM culture has not yet emerged – it's no longer the elite, meritocracy of the Morgan Bank, the bumbling aristocracy of Chase Manhattan, the plebian, Spartan culture of Chemical or the also-ran, complacent culture of Manufacturers Hanover. Quo vadis, JPMorgan?

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[9] Frankly, I'd love to hear your perceptions of the cultures.

- Lehman Brothers has a culture of an elite fraternity; with great loyalty among employees and a bit of an "us against them attitude." It is very, very commercially oriented, rewarding its employees generously for the earnings that they bring in (i.e. you eat what you kill) and believes that it is perfectly appropriate for its staff to practice self-promotion and to act in their self-interest. Lehman employees typically "love" their company. Lehman has one of the strongest management teams and arguably the most capable CEO on Wall Street.

- Bear Stearns is the most bottom line oriented brokerage firm. Expense control, limited risk taking and bottom line profit management are the name of the game. It is perhaps the most entrepreneurial of the brokerage group. Bear has a history of hiring "street smart employees." It doesn't value elite pedigrees and breeding, it values commercial success. Employees reportedly are able to negotiate their own deals with the company and are monitored carefully to see how they do. If they succeed, they thrive at BSC, but if their performance lapses they move on. For fifteen years BSC has had posted the highest ROE of any securities firm. Tough, self starters tend to be very happy at BSC.

Industry Growth Presents an Opportunity for MBA and Undergraduates Too!

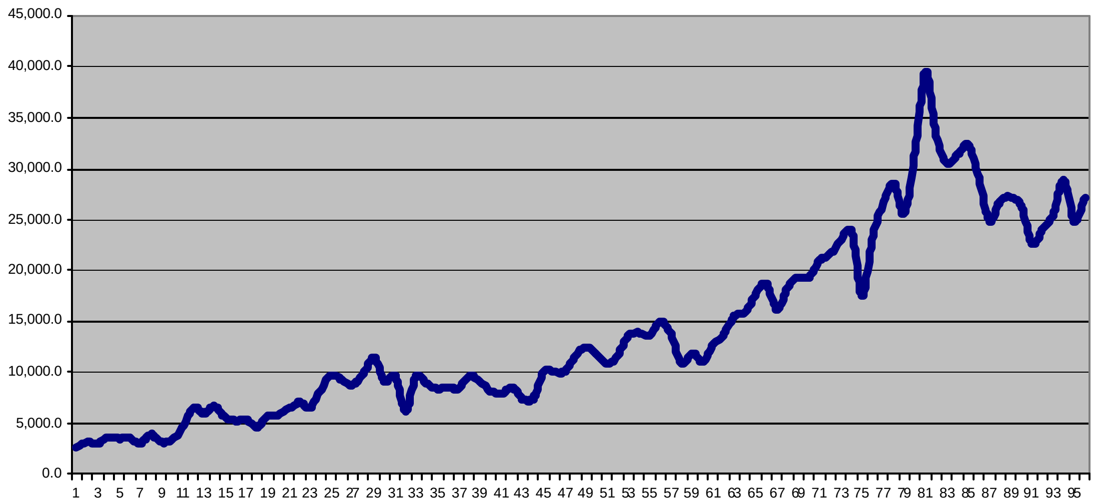
Unlike much of the manufacturing sector in the U.S. economy Wall Street is a business that is growing. Unlike much of the technology sector the U.S. securities industry is steadily profitable.

For the last 23 years the U.S. securities industry has grown its revenues at a CAGR of 10%. Over the last 13 years the growth rate has been over 9%.

How can an industry grow this fast? -- Simple, by disintermediating the commercial banks, the savings and loans, the insurance companies and asset management firms. Delivering financial products via capital markets is much more efficient than delivering them via the balance sheet intensive approach of the other financial institutions. So although the U.S. economy has grown at a much slower rate than the growth rate of the brokers, the securities industry has been able to achieve its success by taking an important part of its growth from the rest of the financial services sector.

This means that as the industry has been practicing its, "up or out" and "cull the bottom 10% of herd" management policies, it is also desperately hiring new employees to support this 8% to 10% revenue growth.

US Securities Industry
Net Revenue 1980-2003



Source: SIA Database

This growth rate, of course, provides additional opportunities for new employees.

How Do I Learn About Wall Street to Prepare for Interviews?

The easiest way is to take a capital markets and an investment course in school. Read academic research written by Jaffe and by Sam Hayes. But in addition to academic courses you need to regularly read industry newspapers and technical journals to gain a better understanding of the industry. Among the best daily publications are the Capital Markets sections of the “Wall Street Journal” and the London “Financial Times.” Among the monthly publications that MBAs should be reading are: “Investment Dealers Digest,” “Bloomberg Capital Markets” and “Institutional Investor Magazine.” There are certain weekly publications that are worth reading; Corporate Financing Week, Wall Street Week, Merger Week and Private Equity Week. In addition you should request my research. Among the analysts who cover Wall Street are also Guy Moskowski at Merrill Lynch (ranked #1 by Institutional Investor) and Glenn Schorr at UBS (ranked #2).

Additionally, we offer the following suggested reading list:
<u>The Fast Track</u>, by Mariam Naficy
<u>Monkey Business</u>, by John Rolfe, Peter Troob
<u>Reminiscences of a Stock Trader</u>, by Edwin Lefevre
<u>When Genius Failed : The Rise and Fall of Long-Term Capital Management</u>, by Roger Lowenstein
<u>Liar's Poker: Rising Through the Wreckage on Wall Street</u>, by Michael Lewis

How Do I Build a Rolodex of Contacts?

The simple answer is “collect names relentlessly.” Ask alums for contacts. When you talk to someone on Wall Street, don’t end the conversation without asking for a few other names to contact. Collect names from your reading of industry publications. If you see that some executive has been promoted on Wall Street, write a congratulatory note and send a resume. If you see that someone has been interviewed for an article in the Journal or the FT, send a note (written – not e-mail!) acknowledging his comments and including your resume. Write papers on the industry and "interview" industry professionals to help you in your academic research. At every opportunity collect names and write, write and write some more notes and send your resume with each one. Use a saturation bombing technique for sending your resume out. Remember, this is a very disorganized industry with decentralized hiring and firing power at the business unit level. To get a job, one must build links to the business units and keep your name and your resume in front of the decision makers.

How Do I Follow Up On Letters?

Call and write more letters is the simple answer here. Call and leave a message, call and "schmooze" the assistant who answers. Call again and again. Write another letter acknowledging how busy the contact is and ask for a time to speak on the phone.

Visit New York[10] and set up meetings. Call and tell contacts that you will be in the city and ask for a meeting. Call while you're in New York and ask if you can drop by for some "advice." As Churchill said "*Never Give Up*!"

I Don't Want to Work in New York. Can Still I Have a Wall Street Career?

No. – Certainly you can have a "Wall Street" career if you want to work in London or in Tokyo but in the U.S., you are stuck with New York City.

I'm a "dyed in the wool" Midwesterner. I'd love to work in Chicago. I have second home in Tucson. I'd also love to work in the Southwest. I used to live in Pacific Beach in California, so I'd also love to work in San Diego. These dreams may never come true for me.

Unfortunately it's a pipe dream to believe that you can have a successful Wall Street career without spending a large part of your time in the New York Metropolitan area.

Recruiting - a Private Hell

Once you have an interview the unpleasant process of interviewing will begin. This process will be a private hell. As you go into a Wall Street interview, your palms will be sweaty and your shirt collar will feel tight. You will feel awkward wearing a navy blue "interview" suit. You will find it unpleasant trying to convince interviewers that you are a desperate A-type, over-achiever who has wanted a career on the Street since childhood. Regrettably, you will face dismissive smiles from unfeeling interviewers and inevitably many rejection letters.[11]

During the interview process you should remember that your goal in an interview is to simply get to the next round. The trick in a brokerage interview is to avoid mistakes.

[10] Yes, you will have to pay your own way for the first trip.
[11] I had ten job offers when I left business school. To get this total I also received 44 rejection letters or "ding letters" as we called them. My favorite ding letter was from Pepsi Cola Treasury Staff which ended with the closing "*Have a Pepsi day.*"

They are looking at you to find a way to reject you – don't give it to them. Be earnest. Be well groomed. Carry an expensive pen and a leather portfolio. Use their jargon. Don't expose any weaknesses or any insecurity. And most importantly, study up on the company you are speaking to so that you can avoid making statements such as telling Greenhill that *"I'm impressed by your underwriting strength,"* or telling Merrill Lynch that *"You have a world class fixed income division."* Neither statement is true – Greenhill doesn't underwrite and Merrill isn't a particularly powerful fixed income house. The only way to avoid a mistake is to study the industry – Study, study and study.

You should attempt to look like a "Wall Streeter" for the interview. Dress like the people in the companies' annual reports. This will be expensive and for many of you quite alien. Get used to it, if you really want a Wall Street job.

Finally, expect the interview process to go on forever. It took me thirteen trips from Houston, Texas to NYC to be hired as a Vice President at Morgan Stanley & Co. You will get to know the hotels in New York City quite well during this process.

Part 3 - The Jobs – Investment Banking, Trading and Research

What is Investment Banking?

Investment banking is a generic term for a number of activities; client coverage, debt underwriting, equity underwriting and mergers and acquisitions advisory.

Client Coverage. Perhaps the easiest activity to understand in investment banking is client coverage. In a client coverage role, an investment banker serves as a salesman, a baby sitter to unsophisticated clients, a confidante of uncertain CEOs and a CIA agent. He or she maintains a banking relationship with a major client (say IBM or Pepsi). The client coverage banker inserts himself in company activities becoming aware of every deal that the client may conceivably want to do. Needless to say, not every client wants this close of a relationship, so the challenge for the banker is to get as close as possible to a CEO so that the company's executives view the banker as a trusted colleague. As an Investment Banker once told me *"I know I've done a good job if a client asks me which university his only daughter should attend."*

By being close to the company, the coverage banker knows when to bring in deal teams of other specialist to pitch a new financial transaction to the company.

These deal teams that the coverage banker brings in to meet with the client come is several "flavors"; equity capital markets teams, debt capital markets teams and mergers and acquisitions teams.

Equity Capital Markets. Equity capital markets (ECM) teams are responsible for underwriting new equity securities. The most profitable equity underwriting is an Initial Public Offering or IPO. The underwriter typically gets 7% (or 700 basis points) for underwriting a new equity issue. The ECM team will take an IPO client in hand and draft an S-1 filing to allow the company to go public and a preliminary prospectus (or red herring) The deal team will perform "due diligence" to ensure that everything included in the prospectus is true and will price the deal when the SEC approves the transaction.

Secondary or follow-on issues of equities generate fees of 350 basis points. Follow –on deals are done for companies that are already public – that is, companies that have previously completed an IPO. Convertible bond underwritings generate fees of 250 to 300 basis points. Convertibles are typically done for financially weak companies who wish to raise financing at low cost when other market sources are unavailable.

Virtually all equity underwriting activity is profitable to a brokerage firm.

The leading underwriters of equities are Morgan Stanley, Goldman Sachs, Citigroup, Merrill Lynch and UBS. The leading IPO underwriters are Morgan Stanley, Goldman Sachs, Credit Suisse First Boston, Merrill Lynch and UBS.

Global Equity Underwriting	Deals	$ MM	% Vol
Morgan Stanley	189	54,881	9.62
Goldman Sachs	198	53,589	9.39
Citigroup	278	48,691	8.53
Merrill Lynch	198	44,233	7.75
UBS	247	39,482	6.92
JP Morgan	191	32,839	5.75
Deutsche Bank	155	29,806	5.22
Credit Suisse First Boston	146	27,074	4.74
Lehman Brothers	136	25,576	4.48
Nomura	176	16,543	2.9
Subtotal	1,559	372,715	65.3
Total	5,242	570,754	100

Source: Dealogic

IPO	Bookrunner Parents	Deal Value $(m)	%Share
1	Morgan Stanley	$12,405	14.0
2	Goldman Sachs	$8,542	9.6
3	UBS	$6,331	7.1
4	Credit Suisse First Bost	$5,531	6.2
5	Merrill Lynch	$5,196	5.8
6	Citigroup	$5,148	5.8
7	JP Morgan	$4,317	4.9
8	Nomura	$3,630	4.1
9	Deutsche Bank	$3,296	3.7
10	Lehman Brothers	$2,774	3.1
	Subtotal	$57,171	64.3
	Grand Total	$88,901	100.0

Source: Dealogic

Debt Capital Markets. Debt capital markets (DCM) deal teams manage the issuance and pricing of debt issues. Unfortunately DCM activities are not uniformly profitable. A large high quality company can drive a very hard bargain when negotiating for a debt deal - so hard a bargain that the brokerage firm will actually loose money.

As John Mack once said – "*I can get a long line down Sixth Avenue if I sell five dollar bills for four dollars and ninety cents.*" What Mack meant was that market share and profitability in DCM are not synonymous. Investment Grade issuance has an underwriting spread of 50 basis points (i.e. low margin), while high yield has an underwriting spread of 300 basis points (a good margin business).

The DCM team will help a client draft a preliminary prospectus (or red herring) and will price the deal when the deal becomes effective. The deal team will perform due diligence to ensure that everything included in the prospectus is true.

As a general rule, the DCM deals are larger and can be executed more rapidly than the ECM deals. This is because the SEC has simplified the issuance of debt through the use of an S-3 registration. By using an S-3 structure a securities firm can do a "bought deal" by buying the bonds "off the shelf" from an issuing company.

Debt Underwriting	Deals	Amt ($MM)	% Sh
Citigroup	1,620	421,284	7.78
JP Morgan	1,505	353,261	6.53
Morgan Stanley	1,418	348,553	6.44
Deutsche Bank	1,629	324,253	5.99
Lehman Brothers	1,403	320,236	5.92
Merrill Lynch	1,783	314,553	5.81
Credit Suisse First Boston	1,242	311,828	5.76
UBS	1,906	301,820	5.58
Goldman Sachs	736	241,919	4.47
Banc of America	1,778	206,625	3.82
Subtotal	12,994	3,144,332	58.08
Total	27,155	5,413,592	100

Source: Dealogic

The largest debt underwriters are Citigroup, JP Morgan, Morgan Stanley, Deutsche and Lehman Brothers. The largest high yield bond issues are Citigroup, CSFB, JP Morgan, Deutsche and Bank of America.

High Yield Bonds	Deals	Amt ($ mm)	% Vol
Citigroup	147	25,761.91	12.45
Credit Suisse First Boston	142	24,005.17	11.6
JP Morgan	122	20,100.06	9.71
Deutsche Bank	121	19,456.55	9.4
Banc of America	103	15,967.18	7.71
Morgan Stanley	54	11,114.71	5.37
Goldman Sachs	65	10,622.00	5.13
UBS	74	9,557.40	4.62
Lehman Brothers	68	8,720.57	4.21
Merrill Lynch	45	7,178.87	3.47
Subtotal	570	152,484.43	73.66
Total	1,392	207,004.90	100

Source: Dealogic

A high profit specialty area of DCM is mortgage backed securities underwriting – or MBS. MBS can be highly profitable since brokerage firms are able to buy or originate mortgages and then "slice up" the cash flows from these mortgages and turn the cash flows into new bonds. This "slicing up" is a highly quantitative exercise because mortgages can be prepaid by borrowers. This means that there is a high level of "optionality" in mortgages.

Properly done the structuring of a mortgage backed securities can generate revenue of 150 basis points to the brokerage firm. The biggest MBS underwriters are Bear Stearns, Lehman Brothers, UBS, Citigroup and B of A.

Mortgage Backed Securities	Deals	Amt ($ mm)	% Vol Sh
Bear Stearns	160	115,087	11.22
Lehman Brothers	118	89,917	8.77
UBS	107	86,118	8.4
Citigroup	103	81,092	7.91
Banc of America	108	77,363	7.54
RBS	115	63,909	6.23
Credit Suisse First Boston	105	62,744	6.12
Morgan Stanley	79	59,072	5.76
Deutsche Bank	99	54,456	5.31
Countrywide	88	48,106	4.69
Subtotal	988	737,864	71.94
Total	1,352	1,025,720	100

Source: Dealogic

Mergers and Acquisitions Advisory. M&A advisory (M&A) is the most elite area of investment banking. Five or six person M&A teams jet around the globe, buying or selling companies. The pace is frantic and the negotiations are intense.

More importantly though, the fees are huge. Brokerage firms receive approximately 0.35% of the sales price of a company for negotiating the sale and the same fee from the buyer of the asset. The larger the deal, the more money made by the brokerage firm, so this is a very high margin business – there is no capital required, no lending risk, no market risk -- in effect you are selling air.

This is a wonderful business. Margins are high. M&A deals are done so infrequently by companies that they do not maintain an internal knowledge on how to do deals. The average Fortune 1000 company will do a material M&A deal every 3 1/3 years. This means that potential acquirers tend to be price-insensitive and that buyers and sellers tend to choose advisors based on M&A market share and advisor reputation. The largest advisors are Goldman Sachs, Morgan Stanley, Merrill Lynch and Citigroup. The leading market-share positions have remained unchanged for years.

M&A Completed	# of Deals	Total ($mm)	% Vol Sh
Goldman Sachs	276	516,490.77	27.5
Morgan Stanley	286	403,161.31	21.47
JP Morgan	331	368,096.64	19.6
Merrill Lynch	206	348,932.75	18.58
Citigroup	323	331,720.62	17.66
Lehman Brothers	185	261,497.50	13.92
UBS	274	254,535.64	13.55
Lazard	198	214,892.74	11.44
Credit Suisse First Boston	241	197,567.50	10.52
Rothschild	255	169,691.60	9.04
Subtotal	1,888	1,316,203.27	70.08
Total	21,018	1,878,095.39	100

Source: Dealogic

Sales and Trading. Sales and trading activities on Wall Street come in three separate flavors: fixed income, institutional equities and commodities.

Fixed Income Sales and Trading (FI). The global fixed income market is the largest capital market in the world. Despite the limited amount of press that the fixed income market gets, MBAs should recognize that the bond market dwarfs the global equity market.

The bond market is an over-the-counter market. There is no New York Stock Exchange for bonds. This means that a purchaser of a bond is selling the bond to a broker who takes the bond into inventory. For investors buying bonds, the broker sells the security from its inventory of securities. This market is dominated by large market-makers who buy and sell securities for institutional investors around the world.

Over the last twenty years the spread that fixed income trading firms make on sales and purchases of securities has narrowed substantially. In fact some businesses of fixed income have actually become “loss leaders.” This has led to an evolution of the business. Instead of profits being made principally from customer execution of buys and sells most profit today comes from proprietary trading. Despite this margin compression, fixed income is huge business for the Street. Fixed income has generated over 45% of the net revenues of Wall Street during the last three years.

Proprietary trading is badly misunderstood by students. Prop trading is not simply buying thirty year Treasury bonds and hoping rates will fall. Most proprietary trading is based on simple bets made on interest rate, credit spread or yield curve shape changes that predictably occur during macroeconomic cycles. Credit spreads always expand at the beginning of recessions. Central Banks always do their open market activity at the short dated part of the yield curve, which always causes yield curves to steepen in a recession. Credit spreads narrow in a recovery.

Other proprietary trading is essentially pattern recognition. By watching the pattern of hundreds of client trades a trading desk can see that demand is growing or falling in one sector of the market. It can then position itself to profit from this insight.

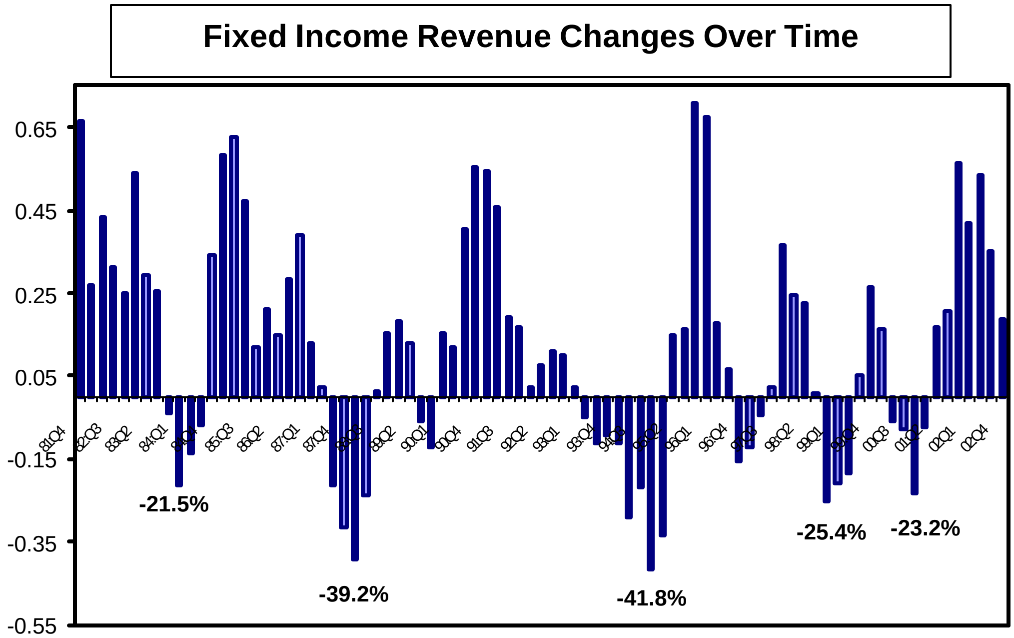
In FI, traders make markets for customers and they manage trading positions, inventory and risk. Traders typically manage small sectors of a simple market early in their career and then advance to more complex sectors and a greater part of a yield curve. The "hottest" areas of fixed income trading today are credit derivatives, high yield, distressed debt, mortgage backed securities and emerging market debt.

In FI, salesmen are client relationship managers. They discuss client trade needs and portfolio restructuring alternatives. They propose solutions to client problems. They solicit client interest in new debt issues and structured products. A simplified fixed income division and the points in a macroeconomic cycle when a trading desk generates its greatest revenues are described below.

A Typical Fixed Income Department

	Gov. Bonds **"Repo"**	**Inv. Grade**	**High Yld.**	**Derivatives**	**Mortgage Backed**
When	Early in Recession	Mid Downturn	In Early Recovery	Linked to Underwriting Cycle	When 10 Yr is Low
How	Interest Rate Prop Trading	Credit Spread Prop Trading Customer Execution	Credit and Liquidity Prop Trading Customer Execution	Maturity and Arbitrage	Securitization Customer Execution

Unfortunately the fixed income business is al little like riding a roller coaster. As the chart below shows, fixed income net revenues ebb and flow with macroeconomic cycles and – let's be frank – the compensation of the fixed income professionals does also.

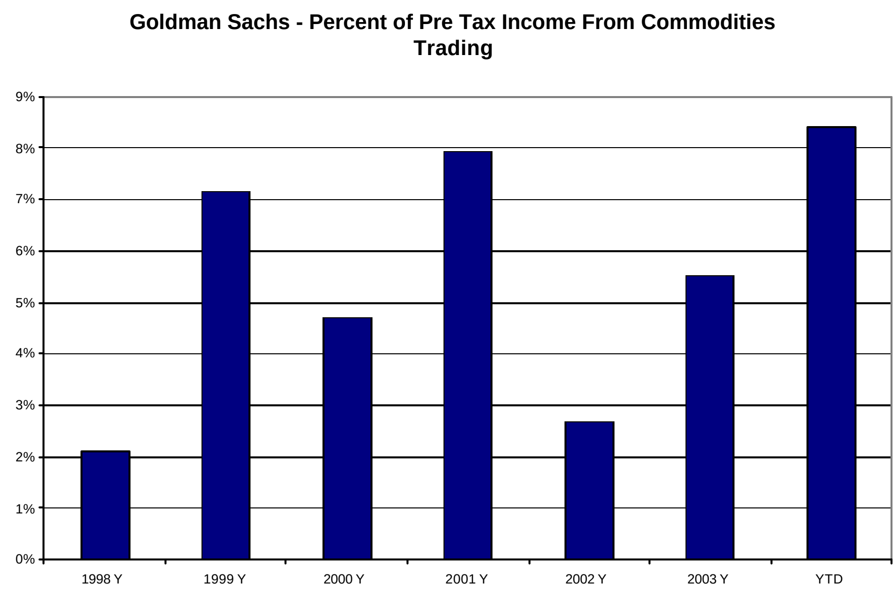


The strongest fixed income players are Lehman Brothers, Goldman Sachs, JP Morgan, Bear Stearns and Citigroup.

Commodities. The wild energy price swings over the last year have attracted a flood of new participants to the commodities market . These new players are playing a game of catch up with Goldman Sachs and Morgan Stanley. Morgan Stanley and Goldman Sachs represent a duopoly in the commodities business and are the world leaders in energy derivatives. No financial competitor comes close to their commodities net revenues, which for each of these two firms represents over $1 billion annually.

Morgan Stanley and Goldman have difficult to assail franchises in commodities trading that combine scale advantages, strong credit ratings, global trading relationships, unquestioned reputations and a large staff of seasoned commodities professionals. Morgan and Goldman energy commodities activities have effectively cross-sold project finance and securitization services of their firms.

The greatest portion of the commodities business relates to customer hedging of energy risk, and it has been characterized by their competitors as "picking up nickels and dimes" from profitably managing basis risk through their large commodities derivatives portfolios. The recent bubble of energy price volatility has significantly increased the demand for the hedging of energy price risk by consumers and manufacturing companies worldwide. The chart below shows the percentage of Goldman net revenues from commodities. Like FI commodities has traders who manage risk and structure derivatives and salesmen who "hand hold" nervous clients.



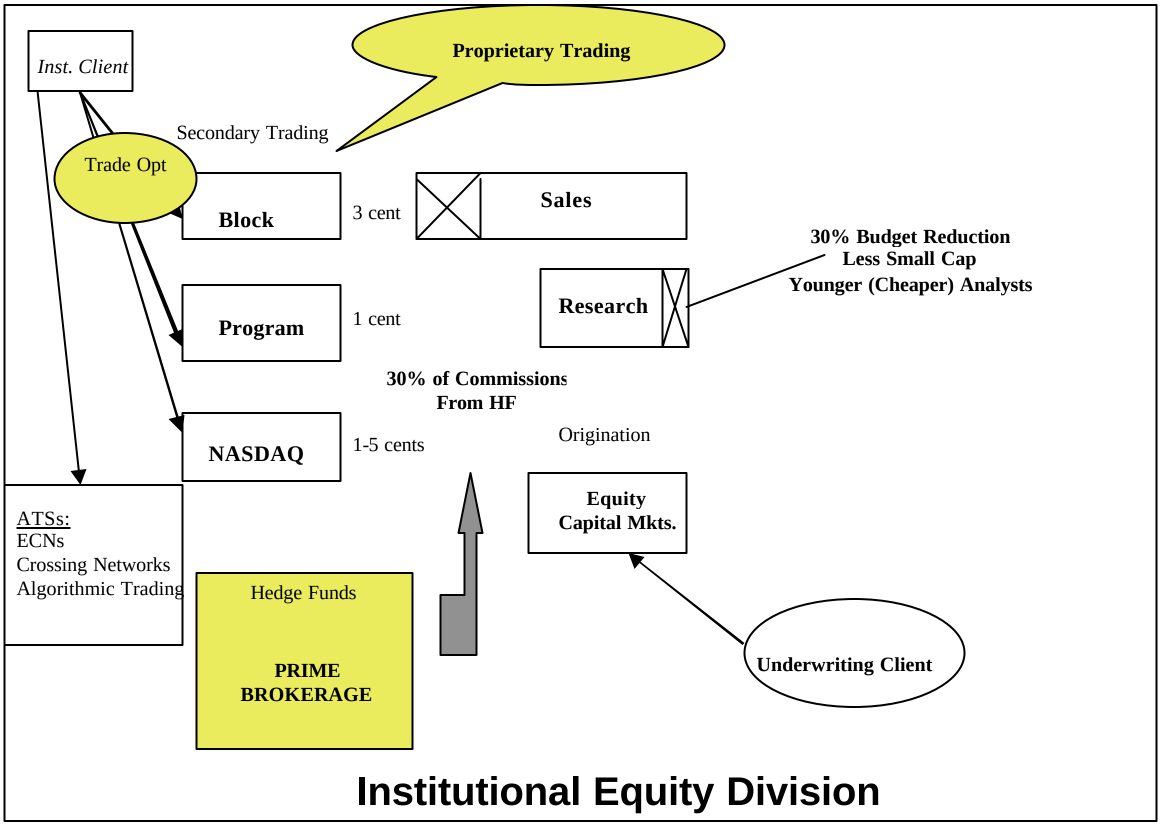
Equity Sales and Trading. Institutional equities sales and trading (IED) is a business that, unfortunately, is in trouble. Historically IED has been a business that made money from profitable customer execution of trades on an agency basis. As institutional asset managers grew in size, these firms demanded more and more capital to support the large scale trades they wanted to do. This led the Street to commit more and more capital to IED.

In recent years a technology revolution has changed the economics of this business. Smart order routing systems at institutional investors have led to a much smaller proportion of higher margin (3 cent per share) block trades of individual stocks in the equity divisions of Wall Street and a much higher portion of (1 cent per share) basket or program trades being sent to the firms. At the same time a larger and larger part of the easy to do (read - highly profitable) trades were siphoned off The Street by netting systems and electronic communication systems that matched buys and sells.

The earnings of this business collapsed and massive staff reductions were made. Trading systems were automated and "smile and dial" sales people were let go. Gradually a new business model began to develop. Customer execution itself became a low return business and the information contained in the customer flow of trades allowed proprietary trading to increase. This shift in business model is still in the process of being embraced by the Street.

Today, traders make over the counter markets in equities and a small portion use derivatives and index trades to do proprietary trading. Goldman Sachs and Morgan Stanley are the leaders in the shift to the new "prop trading" based equity business model. Merrill and Citigroup are major players in IED. UBS and Lehman have been making significant market share gains in the recent past. The hottest area of equity trading is equity derivatives.

In IED, equity salesmen are client relationship managers. They discuss client trade needs and portfolio restructuring alternatives. They propose derivative solutions for client problems. They solicit client interest in new equity issues and structured products and they discuss equity research with the clients. Outlined below is a schematic that describes a “modern” institutional equity division.



Equity Research. As IED profitability fell institutional research budgets were cut. Over the last three years research budgets on Wall Street have fallen 30% on average and over 40% at Goldman Sachs. Equity research professional have been laid off and the average age and compensation of equity research analysts have fallen.

Equity research professionals cover a specific sector or industry and rate the companies within that sector based on economic investment attractiveness. It appears that equity research is slowly evolving into an entry level position for relatively young new hires.

In this new business model equity research analysts will join the department. Become familiar with an industry sector and then become investment bankers, hedge fund managers or buy side analysts. The hottest areas of equity research are technology, medical devices, pharmaceuticals and bio tech.

What if I get a Job Offer From More than One Company?

Looking At the Companies. Unfortunately, all Wall Street firms want to give the impression to potential employees that they are good in all products. This is simply not the case. When considering which firm to join it is useful to see what portion of their revenue come from which business. This will show you which businesses that are considered important and which are not. As a general rule it is better to be an employee of the dominant (or at least an important) business unit of a brokerage firm than being the employee of a business that is considered a rounding error. See schematic below for a normalized mix of the net revenues of the major securities firms.

(Average 1998-2003)
($ Millions)

	Goldman Sachs	Morgan Stanley	Merrill Lynch	Lehman Brothers	Bear Stearns	JPMorgan Chase & Co.*
Business Mix						
Fixed Income ("FI") Sales and Trading	26%	19%	11%	36%	32%	19%
Debt Underwriting	5%	5%	4%	12%	5%	4%
M&A Advisory	14%	7%	5%	8%	8%	3%
Equity Underwriting	8%	5%	5%	7%	5%	2%
Merchant Banking	1%	1%	-	1%	1%	1%
Institutional Equity Sales and Trading	31%	15%	32%	33%	26%	5%
Prime Brokerage/ Clearing Services	7%	5%	-	-	17%	5%
Credit Card	-	18%	-	-	-	19%
Retail Brokerage	-	16%	34%	2%	-	-
Asset Management	9%	10%	9%	2%	7%	7%
Corporate Lending & Sevices	-	-	-	-	-	13%
Consumer Finance	-	-	-	-		22%
Total%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

For you lucky candidates who get multiple offers we recommend that you consider the position description, your opinion of the people you met in the interview process, the business mix of the company and the match of the corporate culture with your own personality when deciding.

Best of Luck,

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