





Considered view
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Back to college

By Rob Cox

Back to college: Trading pinstripes for elbow-patched Harris Tweeds appears to be a burgeoning fad on Wall Street. Just this week a couple of all-stars of investment banking announced plans to abandon finance to take up senior jobs in academia. Unfortunately for the tweedy set, an exodus is less a ringing endorsement of collegiate life than an indictment of the near-term future of Wall Street.

It is hard to see how the financial industry will enjoy times as good as those of the recent past for a long time to come. It is not just that the boom in credit markets has evaporated. As US Treasury boss Hank Paulson suggested on Thursday, regulators are almost certain to react by demanding that the industry holds more capital and reduces leverage.

That will inevitably reduce banks' ability to manufacture profits, as shown by consensus estimates for the remaining four so-called monoline investment banks - Goldman Sachs, Morgan Stanley, Merrill Lynch and Lehman Brothers. In 2006, before the subprime rout, they earned \$28bn between them. This year, their combined profit is expected to slide by 57% to \$12bn. Subsequent earnings, while better, are expected to be well below their 2006 peak.

That makes it look like a good time to leave the industry. With fewer dollars coming in the door, investment banks are cutting back. While Masters of the Universe may have job security, it's no fun firing thousands of staff.

And then there's the money. With profits down, so too will be bonuses. That means that someone like Edward Forst - who is leaving as Goldman's head of asset management to become Harvard University's executive vice president - has probably seen the top of his earnings power. True, even a 50% cut in his 2007 pay would still net him \$22m. But that puts him closer to the pay of the average university don than he's probably been in years.

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Context News

This week, Frank Yeary announced he's leaving as Citi's global head of mergers to become vice chancellor at his alma mater, the University of California at Berkeley - at the ripe age of 44.

Goldman's 47-year old head of investment management, Edward Forst, said on Thursday he will return to Harvard University as executive vice president, where he will help guide its \$35bn endowment.

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