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Bond salesmen dodge bonus flap at US commission shops

By Dena Aubin

NEW YORK, Oct 20 (Reuters) - As a firestorm builds over Wall Street bonuses, some of the market's top bond salesmen have found a different road to riches: smaller brokers paying them commissions of 40 percent or more.

In their own rebellion against the bonus model, salesmen have jumped ship from firms such as Bear Stearns, Lehman Brothers and Citigroup Inc, which either imploded during last year's credit crisis or retrenched as losses piled up.

They have been beating a path to boutique firms like Hexagon Securities or to regional brokers or U.S. arms of foreign banks offering salesmen fixed commissions that can reach \$3 million a year, compensation experts said.

"Some of these guys that moved to commission shops were doing really well," said Michael Karp, co-founder of the Options Group, a global recruiting firm. "We were meeting guys saying 'Why should I work on Wall Street? I'm making three, four hundred grand a month.'"

Bonuses are expected to rise this year after a dismal 2008 but may not reach pre-crisis levels at some firms as scrutiny mounts on Wall Street pay. Washington's pay czar Kenneth Feinberg has hinted he could try to recover compensation from some companies that received government bailout funds.

"There's really no upside to staying at a large bank that took money from the government if you have a pay czar that's going to tell you how much you can make," said Gustavo Dolfino, founder of executive search firm WhiteRock Group.

EAT WHAT YOU KILL

During the credit crisis, when bigger brokers all but stopped functioning, regional brokers and other commission-based shops that could match buyers and sellers by hiring salesmen with good contacts came into their own.

"Some of our salesmen here have had the best years of their career at Mizuho," said Timothy Cox, executive director in debt capital markets at Mizuho Securities USA in New York.

Starting with about a dozen commission-based salesmen dealing mostly in Treasury and agency debt, Mizuho has built out a U.S. credit team over the past two years and now has a sales force numbering nearly 40, Cox said. It has hired salesmen from JPMorgan, Bear Stearns, ABN Amro, Lehman Brothers and HSBC, he said.

Once the norm on Wall Street, commissions were replaced over the years by discretionary bonuses at major brokers as the firms put more of their own capital at risk and wanted control over how their employees would be paid.

Known as "eat what you kill," the commission model lets salesmen earn a share of trading profits at once instead of waiting until year end for an uncertain, discretionary payout.

TRADING PROFITS WANE

Tom Benninger, San Francisco-based co-founder of investment firm Global Leveraged Capital, said it made sense for start-ups to pay commissions because the salesmen were bringing in new accounts. He said he trades regularly with some of the boutiques and likes the attention they pay to getting the best price for his bonds. At the major dealers, "a lot of the problem is that the sales guys were gone; they were getting fired," he said. "All of a sudden, you are calling up and you're assigned to some guy who doesn't even know who you are."

Commission-paid salesmen thrived during the credit crisis partly because panic selling widened trading spreads, the difference between the price at which bonds were bought and sold. That spread, or markup, the source of trading profits, has since narrowed, however, as the credit crunch has eased.

Now that risks have subsided, major banks are also making markets again, using their own balance sheet to buy bonds if they can't find a buyer. That leaves less need for some small boutique shops that were just matching buyers and sellers without putting their capital at risk.

"A lot of guys that went to commission shops want to come back to the mainstream of big security houses," said Karp of the Options Group.

Many professionals expect a winnowing process.

"If the business plan was just to cross bonds and that's where it stopped, there's no added value in this current environment," said Joe Messineo, a managing partner at Hexagon Securities in New York. Firms like Hexagon, an investment bank with an array of services, will thrive, however, as will the commission model they use, he said.

"The benefit to that type of pay structure is that it reduces a lot of noise and uncertainty on both sides," he said. "They (salesmen) can walk out every day knowing exactly what they've earned." (Reporting by Dena Aubin; Editing by Jan Paschal)