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Top Traders Still Expect the Cash

Wall Street CEOs Are Giving Up Pay, but Hotshots Are Another Story

By [ANN DAVIS](#)

Behind headlines of record losses, a small group of Wall Street traders on commodities, currencies and interest-rate trading desks have made huge profits for the banks that employ them. That is setting up a scramble as traders vie for dwindling pools of bonus money once heaped on such top performers. So far, they look to be on the losing side of the trade. Top officers at [Goldman Sachs Group](#) Inc., [UBS](#) AG, [Deutsche Bank](#) AG, and Barclays PLC all are forgoing bonus payments for 2008.



Tim Foley

Even "best-in-class" front-line employees now face a much darker pay outlook, with bonuses expected to fall by 10% to 20%, according to search firm Options Group. It projects that bonuses overall will drop 25% to 50%. UBS, meanwhile, is crafting packages that withhold short-term pay if long-term bets go sour.

The top traders' final bonuses will be an acid test for Wall Street's once-proud pay-for-performance culture. Shaken by the global financial crisis and increasing government oversight, banks are groping with a new way of doing business: Pay out huge sums and risk public ire and perhaps more government intervention. Pay too little, and tempt defections or insurrection from the few people who are driving this year's profits.

Around Wall Street, "I know a couple guys who've been told, 'We'll take care of you.' But they call me every day because they worry" that they will be shortchanged, said Gustavo Dolfino, president of financial-services executive-search firm WhiteRock Group. "The only guys protected are the guys with a contract."

Indeed, not all of Wall Street is in the red. The rough-and-tumble commodity markets, for example, delivered a much-needed assist to Morgan Stanley and Goldman.

Bonus Coverage

Bonus payments for select Wall Street jobs

PROFESSION	2008 BONUS	CHANGE FROM 2007
Managing director in investment banking	\$900,000 to \$1.1 million	down 55%
Commodities trading managing director	\$3 million to \$4 million	down 25%
Foreign exchange trading managing director	\$1 million to \$1.5 million	down 15%
First-year investment banking analyst	\$30,000 to \$40,000	down 50%

Note: 2008 average bonus estimates for global investment banks

Source: Options Group

The two banks are struggling with declining stock prices and questions about their long-term business models. But the firms' little-publicized commodity-trading desks could add perhaps as much as \$1.5 billion to each firm's 2008 bottom line, say people familiar with their results. That could potentially contribute as much as a third of Goldman's and Morgan's projected net income. (Wall Street firms don't break out results from their commodities business.)

The year's three hottest trading areas -- commodities, currencies and interest rates -- generally are housed within banks' fixed-income trading divisions, which also typically include the hard-hit mortgage-trading and credit-derivative products. That is dragging down potential compensation for even the best performers. That doesn't sit well with consistently profitable divisions. While Morgan Stanley's chief financial officer cited the commodities-trading group on an analyst call this year as one of the bank's "two top businesses," some traders in the unit in the past have argued that the commodities group is undercompensated relative to its contribution.

Generally, traders look for bonuses of up to 10% of profits they made for a firm, with adjustments for the performance of the unit and the overall firm. This year, an oil trader who brought in several hundred million dollars or more in revenues to his firm might still get \$20 million, but much more of it will be in stock.

Mr. Dolfino says star foreign-exchange traders who expected to make \$25 million this year after earning the firm \$250 million may get less if it isn't clear the feat can be repeated without the use of borrowed money.

Access to the firm's capital has been a key element to the returns of Morgan and Goldman, who have led a virtual duopoly in this commodities-trading business for more than two decades. In its fiscal year ending this month, Morgan Stanley's commodities business is set to record \$2.5 billion to \$3 billion in net revenue, before compensation costs and taxes, several people familiar with its results say.

Goldman, the other dominant Wall Street commodity dealer, could also make as much as \$3 billion in net revenue, say people familiar with its results. The third-largest commodity dealer, Barclays Capital, a unit of Barclays, also is moving toward a record year of \$2.2 billion or more in net revenue, say others familiar with its performance. Its year ends in December.

Commodities operations help airlines manage fuel costs, sell investments pegged to raw-materials prices and speculate with firm money on gyrating oil, metals and grains. Morgan Stanley's agricultural-trading group, headed by Jean Bourlot in London, for example, successfully navigated the run-up in agriculture prices early this year and made fat margins on structured investments bought by pension funds and others. And as owner of a fuel distribution and terminal network, Morgan and other so-called physical energy traders also had gasoline inventories to sell when Hurricane Ike disrupted supply in the South.

Many firms' foreign-exchange and interest-rates groups -- which act as brokers for clients managing currency and interest-rate risks and make bets in those markets themselves -- also are expected to post stellar results, say people familiar with the matter. Headhunters cited traders at Deutsche Bank, Goldman and [J.P. Morgan Chase & Co.](#) who will expect rewards this year to stick around.

J.P. Morgan, for example, said its 19% increase in fixed-income markets revenue for the third quarter was "driven by record results in rates and currencies," along with strong performance in credit trading, emerging markets and commodities.

Yet the world's banks are keen not to appear to be funneling billions of dollars in government aid into bonuses, especially with government officials sending subpoenas over bonus plans. Earlier this week, New York Attorney General Andrew Cuomo urged [Citigroup](#) Inc.'s top brass to decline bonuses. Goldman's general counsel Gregory Palm told a Senate committee last week that payouts to his firm's employees will be "dramatically affected" by the financial turmoil. UBS, the European bank hardest hit by the financial crisis, says that next year, about 2,000 of its 8,000 employees will be labeled as "risk takers." They will receive variable cash and share bonuses, with the cash component paid out over several years and a provision to deduct from it during that period if company or individual performance is poor.

But docking pay for big producers can be risky. Deutsche Bank finance chief Stefan Krause recently told analysts that bonuses would be down but added: "We need good people that develop profitable business and generate revenues. So we will not do anything that really harms our platform."

—*Joann Lublin, Joanna Slater and Dana Cimilluca contributed to this article.*

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