

Will traders say, 'Banks for the memories?'

By [Aaron Elstein](#) - January 24, 2010 5:59 AM

One likely result of the Obama administration's crackdown on risky trading and investing by big banks: a flood of traders fleeing those institutions. J.P. Morgan Chase & Co., for one, could be vulnerable. Analysts at CreditSights say the bank generated about \$9.8 billion last year—10% of its revenue—from trading and private equity investing, the very activities the White House is targeting. Citigroup Inc. generated 5% of its revenue this way.

Of course, banks are probably better off without most of their gunslingers, what with their unfortunate habit of losing huge sums every few years. (J.P. Morgan suffered a \$10.7 billion loss from these so-called “principal transactions” in 2008.) But a handful of these folks are real assets for banks.

Those in the latter category include **Justin Kennedy (pictured)**, former global head of real estate capital markets at **Deutsche Bank** in New York, who left last month to start his own hedge fund after a reportedly spectacular 2008 and 2009.



“He's the smartest trader out there,” says Gustavo Dolfino, a senior managing director at headhunting firm Accretive Solutions who has recruited staffers from Mr. Kennedy's operation.

Mr. Kennedy—whose father is Supreme Court Justice Anthony Kennedy, by the way—declined to comment. The 45-year-old made his reputation on Wall Street by being part of a team with the foresight to short mortgages in 2006. Perfect timing. In just the first half of 2007, the bet generated as much as \$540 million in revenue for Deutsche Bank as subprime mortgages fell apart, according to Bloomberg News, and the wager proved even more lucrative as the rot spread. Early last year, Mr. Kennedy, who specializes in commercial mortgage-backed securities, began to bet that the market had bottomed out, people familiar with the matter say. Indeed, the sector started to turn around in the spring, when the Federal Reserve began buying commercial mortgage-backed securities from banks that needed cash.

Thanks in part to Mr. Kennedy's savvy trading, Deutsche Bank was one of the few global banks that didn't need government bailout money, though it did collect \$12 billion when the feds rescued AIG and paid off the insurer's trading partners at 100 cents on the dollar. Mr. Kennedy, 45, got his start in real estate as a land developer in California in the 1980s and went broke during that era's real estate bust. He dusted himself off and landed a job with the government's Resolution Trust Corp., which took properties from failed savings and loans and sold them to private investors. Through that, he met some people at Goldman Sachs and joined the firm in 1994. Four years later, he defected to Deutsche Bank. He left at the end of last year because management in Frankfurt, amid pressure from European regulators, dialed down risk, a person familiar with the matter says. While he reaped tens of millions for his work at Deutsche Bank, he's sure to make much, much more at a hedge fund.