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Investment Banking

OVERVIEW

Big bucks and long hours are the hallmarks of the investment banking industry. After all, keeping on top of the world's financial markets can be an almost 24/7 job. But the financial rewards—not to mention being a part of some of the big-name business deals that you see in headlines—can make the grueling hours an adrenaline-based rush.

Investment banking isn't one specific service or function. It is an umbrella term for a range of activities: underwriting, selling, and trading securities (stocks and bonds); providing financial advisory services, such as mergers and acquisition advice; and managing assets. Investment banks offer these services to companies, governments, non-profit institutions, and individuals.

The action and players in investment banking are still centered around Wall Street and midtown Manhattan in New York City along with a few other money centers around the world, such as San Francisco, London, and Tokyo, but the list of players is getting smaller as the industry consolidates. Today, leading banks include Merrill Lynch, Goldman Sachs, Morgan Stanley, Citigroup, Credit Suisse, and JPMorgan Chase. These and other firms are regular visitors to campus career centers.

What You'll Do

The intensely competitive, action-oriented, profit-hungry world of investment banking can seem like a larger-than-life place where deals are done and fortunes are made. In fact, it's a great place to learn the ins and outs of corporate finance and pick up analytical skills that will remain useful throughout your business career. But investment banking has a very steep learning curve, and chances are you'll start off in a job where the duties are more Working Girl than Wall Street.

Wall Street is filled with high-energy, hardworking young hotshots. Some are investment bankers who spend hours hunched behind computers, poring over financial statements and churning out spreadsheets by the pound. Others are traders who keep one eye on their Bloomberg screen, a phone over each ear, and a buyer or seller on hold every minute the market's in session. Traders work hand in hand with the institutional sales group, whose members hop from airport to airport trying to sell big institutions a piece of the new stock offering they have coming down the pipeline. Then there are the analytically minded research analysts, who read, write, live, and breathe whichever industry they follow, 24/7.

Who Does Well

You shouldn't go into banking just for the money—the lifestyle is too demanding. To survive in investment banking, much less to do well, you'll need to like the work itself, which requires the research ability of a skilled investigative journalist, the focused attention of a surgeon, and the physical endurance (to withstand the long hours) of a marathon runner. Of course, you also have to have top-notch analytical skills, which allow you to spot market trends and oncoming industry changes.. And, quite honestly, even if you love the work, an investment banking career can still be a tough road. If the market or your industry group is in a slump (or if your firm suddenly decides to get out of a certain segment of the business), there's always the chance that you may find a pink slip on your desk Monday morning.

But, if you like fast-paced, deal-oriented work, are at ease with numbers and analysis, have a tolerance for risk, and don't mind putting your personal life on hold for the sake of your job, then investment banking may be a great career choice. But if this doesn't sound like you, a job in investment banking could turn out to be a bad dream come true.

REQUIREMENTS

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First, if you're an undergraduate, you'll want to try to get an internship—it's the best way to secure an eventual offer. If you're an undergraduate from an Ivy League school with a great GPA, bidding recruiting points is still a favorable option—however, college recruiters are usually sent from the prestigious bulge-bracket firms, and not the smaller, specialized niche firms, or boutiques. It's important to discern the type of bank for which you are best suited, so conduct your own independent research. Big firms tend to have more turnover than smaller niche firms, which may better nurture their investment in training you.

If you're not an Ivy League graduate, and recruiters haven't been breaking down your door, networking is your best bet. Use your school's alumni and your neighbors and acquaintances to get in touch with someone at the I-bank of your choice. If you're a good student who is truly interested, you've got a shot.

If you have an MBA or other advanced business certification, you'll be paid more for a position than someone with a fresh BA. But those with prior experience always get first shot, so be sure to get an internship. Industry expertise and prior corporate finance work can also be a way in, but you'll have to be patient.

If your degree isn't in business, take heart in the knowledge that banks are increasingly encouraging applications from candidates with specialized resumes in order to better appeal to a growing client base.

JOB OUTLOOK

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Undergrads and MBAs from top schools are recruited for a number of openings that is small even in the best of times. Competition is fierce, so if you're not from a top-tier school, you may need to be more resourceful and persistent than those who are. Doing an internship in investment banking is essential to breaking into the field in today's business environment. Networking is key; make use of your alumni network.

Undergrads vie for two-year positions as analysts. If you do well, depending on the firm, you may get to stay for a third year, perhaps even abroad.

MBAs compete for fast-track associate slots, and international assignments may be available for those who want them.

Midcareer people are recruited by headhunters or hired on an ad hoc basis for positions at various levels. Though relatively few people come into the industry from other fields, it can be done, especially by those who have a technical background in a specific industry and an aptitude for and interest in finance. Otherwise, expect to start at the bottom.

CAREER TRACKS

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While the various groups within an investment bank support each other, the work and responsibilities in each group vary.

Corporate Finance
Investment bankers are like financial consultants for corporations—which is precisely where the Corporate Finance Group comes into play. As a member of Banking or CorpFin, you serve the sellers of securities—Fortune 1000 companies in need of cash to fund growth, and private companies that are looking to complete an IPO—by buying all the shares or all the bonds a company has for sale, which are then resold by your firm's sales force to investors on the market.

Many investment banks divide their corporate finance departments into industry subgroups, such as technology, financial institutions, health care, communications, entertainment, utilities, and insurance, or into product groups such as high-yield, private equity, and investment-grade debt.

As an investment banker in corporate finance, you will underwrite equity and debt (bond) offerings, help firms devise and implement financial strategies, analyze their financial needs (such as how to structure balance sheets and when and how to proceed with funding initiatives), and work with the sales and trading departments to determine valuations for new offerings.

Mergers and Acquisitions
The mergers and acquisitions group (known as M&A) provides advice to companies that are buying another company or are themselves being acquired. M&A work can seem very glamorous and high-profile. At the same time, the work leading up to the headline-grabbing multibillion-dollar acquisition can involve a herculean effort to crunch all the numbers, perform the necessary due diligence, and work out the complicated structure of the deal. As one insider puts it, "You have to really like spending time in front of your computer with Excel." Often, the M&A team will also work with a CorpFin industry group to arrange the appropriate financing for the transaction (usually a debt or equity offering). In many cases, all this may happen on a very tight timeline and under extreme secrecy. M&A is often a subgroup within corporate finance; but in some firms, it is a stand-alone department. M&A can be one of the most demanding groups to work for.

Public Finance
Public finance is similar to corporate finance except that instead of dealing with corporations, it works with public entities such as city and state governments and agencies, bridge and airport authorities, housing authorities, hospitals, and the like.

Although the basic services (financial advisory and underwriting) and the financial tools (bonds and swaps, but no equity) are similar to those used for private sector clients, numerous political and regulatory considerations must be assessed in the structuring of each deal. A particular key issue involves how to get and maintain tax-exempt status for the financial instruments the client will use.

Research

Research departments are generally divided into two main groups: fixed-income research and equity research. Both types of research can incorporate several different efforts, including quantitative research (corporate financing strategies, specific product development, and pricing models), economic research (economic analysis and forecasts of U.S. and international economic trends, interest rates, and currency movement), and individual company research. It's important to understand that these are "sell-side" analysts (because they in effect "sell" or market stocks to investors), rather than the "buy-side" analysts who work for the institutional investors themselves.

As a researcher, you'll meet with company management and analyze a company's financial statements and operations, provide written and oral updates on market trends and company performance, attend or organize industry conferences, speak with the sales force, traders, and investment bankers about company or industry trends, develop proprietary pricing models for financial products, make presentations to clients on relevant market trends and economic data, offer forecasts and recommendations, and watch emerging companies.

COMPENSATION

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All right, like any good banker, you want the bottom line. Exactly how much are these guys going to pay you to sign your life away? Salaries at investment banks, even for nonprofessional staff, almost always consist of a base salary plus a fiscal year-end bonus. Bonuses are determined at the end of each year and are based on the performance of Wall Street, as well as the performances of your firm and department and your contribution to them. If your firm has a year like Goldman Sachs did in 2006, those bonuses can skyrocket. Base salaries tend to be relatively low at the entry level (well, let's say moderate), and bonuses are discretionary. While the real money in investment banking comes from bonuses, your take-home pay from year to year can go through swings of more than 100 percent, especially when you move up in seniority.

Another useful point: Firms often have different methods of calculating employee bonuses. Some allocate a portion of profits to a particular department while others divvy up the proceeds among the departments according to performance. Others use a commission structure based on revenue instead of profit. Some firms are more generous than others, and policy can change, too.

Undergraduates: $45,000 to $55,000 with a possible $5,000-plus signing bonus at bulge-bracket firms, plus an annual bonus contingent on market success.
MBAs: $100,000 to $170,000, including bonuses, for associates; for VPs this can shoot up to $200,000 to $300,000 or more.
Summer interns: up to $2,000 per week.
A final note: Investment banking opportunities, of course, exist outside the bulge bracket and outside New York. But if you go to work for a boutique or regional bank, don't be surprised if your compensation is not as hefty as that of your bulge bracket peers.