The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Chief's Vision For Big Bank Is Showing Some Success

By SUSANNE CRAIG and RACHEL ABRAMS
1,237 words
15 November 2013
The New York Times
NYTF
Late Edition - Final
1
English

Thunderclouds were gathering in April when James P. Gorman, Morgan Stanley's chief executive, went for a run on the beach on Amelia Island in Florida after attending a closed-door meeting of the bank's top stockbrokers. After just a few miles, the storm began to pick up speed, prompting Mr. Gorman to turn around and head for safety.

Mr. Gorman did not get soaked, and his company has become better at avoiding the sort of squalls that have battered the bank in recent years. Morgan Stanley's stock is up 59 percent this year. Last month, the bank reported strong third-quarter earnings that reflected the results of Mr. Gorman's three-year effort to reduce risk-taking and to expand into the safer business of advising people on how to manage their wealth.

''I felt for a long time that path was clear, but it was disputed and we were doubted many times,'' Mr. Gorman said recently.

Morgan Stanley was known for years for its swagger and its willingness to take big trading risks. Nevertheless, it was unable to pull back in time in during the financial crisis and sustained significant losses, forcing it to take a $9 billion lifeline in 2008 from a foreign bank. That prompted Mr. Gorman to change course.

The transformation has not been easy, and Mr. Gorman still has some naysayers. Despite the strong third-quarter results, Morgan Stanley produced a return on equity of just 6.2 percent in the quarter, excluding a charge related to its credit spreads. Simply to cover its debt expenses and other capital costs, Morgan Stanley must achieve a return on equity closer to 10 percent. Mr. Gorman said he hoped the bank would hit that number by 2015.

''Last quarter, the stock market was zooming, they did well in divisions like equities, investment banking and wealth management, and despite it all, it added up to a return on equity of just 6 percent,'' said Glenn Schorr, an analyst with International Strategy and Investment. ''So yes, they have made a lot of progress, but there is still a lot of work to be done.''

The bank's fixed-income department continues to be a source of some frustration. This unit, which has posted some memorable bond-trading losses, has been shedding risky assets and taking fewer gambles. Still, in the first half of 2013, Glenn Hadden, a prominent interest-rate trader at the bank who has had some successes in the past, racked up losses of more than $200 million, according to people briefed on the matter who spoke on the condition that they not be named because they were not authorized to speak on the record. Mr. Hadden, through a company spokesman, and Morgan Stanley declined to comment.

Mike Mayo, an analyst at CLSA, says the good news about the new strategy is these kinds of losses are becoming increasingly rare, and when they do happen, they are ''containable.''

One bright spot for the bank is wealth management, where it has been investing much of its effort. That department, run by Gregory Fleming, a former Merrill Lynch president, houses the combined brokerage forces of

Morgan Stanley and Citigroup. In the depths of the financial crisis, Morgan Stanley's wealth-management unit formed a joint venture with Citigroup. This year, Morgan Stanley bought Citigroup's stake, giving it more than 16,517 brokers worldwide.

Morgan Stanley initially struggled to absorb the unit, and it often had trouble with technology issues. Still, Mr. Fleming seems to have largely overcome those obstacles. His division posted a pretax profit margin of 19 percent in the third quarter, ahead of expectations and well ahead of results in the period a year earlier.

Mr. Gorman said that while Morgan Stanley had no immediate plans to add more financial advisers, the company was putting a greater emphasis on what it offered to its wealthy clients. Brokers who deal with the bank's wealthiest clients say Mr. Fleming upgraded the trading desk they deal with and is expanding the products sold to top clients.

Culturally, one of the biggest challenges with the expansion into wealth management was getting Morgan Stanley's bankers, traders and financial advisers to work together. Bankers are paid to structure mergers, and the executives they deal with often need financial advisers to manage their money. In theory, banking and retail brokerage businesses are supposed to complement each other, with one bringing the other business. But on Wall Street, it rarely works this way, because bankers tend to look down on brokers, whom they see as rather mundane.

Mr. Fleming has been trying to change this attitude. It doesn't hurt that wealth management, not banking, drives the company's earnings these days. Wealth management now generates almost 45 percent of Morgan Stanley's revenue, compared with 23 percent in 2007.

''As a banker, you like wealth management a whole lot more when it is responsible for lifting the entire firm's stock price at a place where people are paid largely in stock,'' Mr. Mayo said.

Mr. Fleming, a former banker, has moved senior bankers, some of whom he worked with at Merrill Lynch, into wealth management to work with the company's brokers.

''I recently brought in a possible deal, and someone in banking actually returned my call,'' said one Morgan Stanley broker, who spoke on the condition of anonymity because of a firm policy against speaking to the media. ''It's harder for the firm's bankers to call us idiots when we are driving the firm's earnings.''

Morgan Stanley's deal to buy the remaining Citigroup stake will also provide the company with billions of dollars in customer deposits that it plans to use to increase lending to corporations and even individual retail clients. This will include loans for residential mortgages.

The bank has $82 billion in customer deposits and expects that number to grow to about $138 billion by mid-2015.

Morgan Stanley can make a lot of money off the spread on these funds -- the difference between what it pays its customers who own the deposits and what it can lend those deposits for.

Right now, the bank is earning less than 1 percent on these deposits. Mr. Mayo, the CLSA analyst, said Morgan Stanley's plan could generate an additional $650 million in revenue a year on these deposits, assuming it can earn a spread of 1.7 percent, which is healthy but still lower than Bank of America's, which is 2.4 percent, he said. This so-called spread revenue makes up just 13 percent of the wealth management division's revenue, compared with 34 percent at Bank of America, Mr. Mayo said.

''Morgan Stanley is on the cusp of achieving its greatest benefits in wealth management,'' Mr. Mayo wrote in a recent report.

Still, lending is not without risk, and this strategy has raised some eyebrows on Wall Street.

''We will be prudent and conservative,'' Mr. Gorman said. ''Our intent is not to be on the leading edge of risk.''

This is a more complete version of the story than the one that appeared in print.

James P. Gorman, chief of Morgan Stanley, said, ''We were doubted many times.'' (PHOTOGRAPH BY YURI GRIPAS/REUTERS) (B9)

Document NYTF000020131115e9bf0009i

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Its Chief Returns Morgan Stanley to Basics and Profits

By ALEXANDRA STEVENSON
799 words
19 October 2013
The New York Times
NYTF
Late Edition - Final
2
English

Morgan Stanley surprised analysts on Friday with strong third-quarter results that relied on a back-to-basics approach.

The bank reported a jump in stock-trading revenue and steady growth in its wealth management services. The results showed that Morgan Stanley's multiyear strategy, under the leadership of James P. Gorman, to move away from high-risk businesses was beginning to take root.

The news was particularly sweet because it came on the heels of disappointing third-quarter results from Morgan Stanley's longtime rival Goldman Sachs, rounding out a week of mixed earnings across Wall Street.

Morgan Stanley's share price rose 2.63 percent, or 76 cents, to $29.69, the highest level in more than two and a half years.

The bank's income from continuing operations, excluding certain charges, was $1 billion, or 50 cents a share, for the quarter. That beat estimates of 40 cents a share, based on analysts polled by Thomson Reuters.

The stronger overall results are in stark contrast to last year, when the bank faced several challenges after Moody's downgraded the firm's ratings by two notches as part of a larger move to force banks to rein in their exposure to volatile markets. Under Mr. Gorman's watch as chairman and chief executive, the bank has changed its focus from risky areas to steadier businesses. This has meant a strong push into wealth management services.

''In the third quarter the fruit of our strategy was evident,'' Mr. Gorman said in a conference call with analysts.

Excluding one-time items, Morgan Stanley's total revenue came in at an adjusted $8.1 billion in the third quarter, up from $5.29 billion over the period a year earlier. That also beat analysts' expectations of revenue of $7.6 billion for the quarter.

Based on generally accepted accounting principles, the company said it had $7.9 billion in revenue and $862 million in profit in the quarter. Last year, the firm's results were dragged down by an accounting charge, which pushed the firm to a quarterly loss of $1 billion, or 55 cents a share.

Morgan Stanley was the last of the Wall Street banks to report earnings. Like its peers, it has faced a revenue squeeze as interest rates rose in anticipation that the Federal Reserve was ready to scale back its $85 billion-a-month bond-buying program. Even though the Fed has not yet acted, trading in the bond markets has been choppy.

On Friday, the bank revealed that solid gains in its equity trading business helped to offset a fall in bond-trading revenue. It also demonstrated that Mr. Gorman's plan to focus on wealth management was working.

''I think there's good evidence here that Morgan Stanley has turned the corner,'' said Shannon Stemm, a financial services analyst at Edward Jones. ''It is growing its more stable businesses like wealth management and reducing risk in the more volatile businesses like fixed income.''

The wealth management unit, which was previously part of a joint venture with Citigroup, posted net revenue of $3.48 billion, slightly higher than the $3.22 billion in the period a year earlier. Its pretax profit margin, a closely watched number, rose to a record high of 19 percent.

Strong equity markets this year helped to lift the value of assets in Morgan Stanley's portfolio.

Institutional securities, Morgan Stanley's division that includes the company's investment bank and its stock and bond trading, had revenue of $3.86 billion excluding certain charges, up from $3.74 billion a year earlier.

Revenue from fixed income and commodities, however, was down, as expected. The unit's revenue was $835 million excluding charges, compared with $1.2 billion in the second quarter. Some analysts were expecting the bank's fixed-income revenue to fall by as much as $500 million in the quarter.

Trading in bonds was weak this quarter as investors held their positions at a time of wider economic uncertainty.

But on Friday, Ruth Porat, the bank's chief financial officer, warned that the prospect of another political impasse in Washington, which most recently led to a 16-day government shutdown, would weigh on Morgan Stanley's business in the fourth quarter.

''The biggest headwind for the economy and the markets is Washington,'' she said, adding that ''the process needs to come to a complete resolution rather than a short patch solution.''

This is a more complete version of the story than the one that appeared in print.

Morgan Stanley's offices in Manhattan. The bank posted earnings 10 cents per share higher than analysts' expectations. (PHOTOGRAPH BY ANDREW BURTON/REUTERS)

Document NYTF000020131019e9aj00056

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Goldman Banker With Year's Top Tech Quarry

By DAVID GELLES
1,210 words
4 October 2013
The New York Times
NYTF
Late Edition - Final
1
English

Anthony J. Noto, a former Army Ranger and pro-football executive, may seem an odd fit among the cerebral recluses and flashy moneymen of the tech world.

Yet Mr. Noto, a 45-year-old Goldman Sachs tech banker, has proved himself a keen observer and trusted banker of Web pioneers. Now Mr. Noto and Goldman have won the most coveted tech banking assignment this year in leading the initial public offering of Twitter.

It is a sweet victory given that its archrival in tech I.P.O.'s, Morgan Stanley, has led the market debuts in Facebook, LinkedIn and Kayak, among others.

The problems with the Facebook offering last year -- first-day trading troubles and an early slide in the stock price -- took some of the luster off Morgan Stanley, and its star tech banker, Michael Grimes, possibly to Goldman's benefit. (Morgan Stanley, however, has been the lead underwriter on eight of the 10 biggest tech I.P.O.'s since Facebook.)

Still, there are contrasts between Mr. Noto and Mr. Grimes, a charismatic gadget lover who lives in Silicon Valley, while Mr. Noto has chosen to remain in New York and avoid much of the Silicon Valley scene.

Mr. Noto forged a number of relationships during the first Internet boom, when he was an analyst with Goldman. One was with ChannelAdvisor, an e-commerce company based in North Carolina.

A decade later, Mr. Noto returned to North Carolina as a Goldman banker to help take the company public -- an assignment that was won with his first pitch.

''He's kind of like the Don Draper of I.P.O.'s,'' Scot Wingo, the chief executive of ChannelAdvisor, said about Mr. Noto. ''Part of a good I.P.O. pitch is confidence, and succinctness, and when he says those words there's a certain amount of gravitas. As a nerdy computer guy, I respect that.''

A football fan from an early age, Mr. Noto was starting as quarterback for the high school team while he was still in middle school. He chose to attend West Point not because he wanted to join the military, but because he longed to be a leader. Nonetheless, he went on to serve as a member of the elite Rangers.

Upon leaving the Army, he worked as a brand manager for Kraft Foods, then received a master's of business degree from the Wharton School at the University of Pennsylvania. After a brief turn at Lehman Brothers, Mr. Noto joined Goldman in 1999.

As a young analyst, he wrote glowing reports about some of the biggest flops of the Internet bubble, including Webvan and eToys. Investors who took his advice lost small fortunes. After some of those misses, colleagues within Goldman took to calling him Anthony ''No-Dough.'' CNBC, meanwhile, called him Anthony ''Don't Know.''

But Mr. Noto persevered, continuing to recommend tech stocks even after Silicon Valley had been humbled. His judgment improved, and he was named the best Internet analyst by Institutional Investor magazine for several years in a row.

"I honestly think I'm the kind of person that is driven by fear of failure rather than striving for success," Mr. Noto told Wharton magazine in 2009. "I tend to go to bed scared and wake up terrified."

By 2004 Mr. Noto had made partner at Goldman, a rapid ascent, especially given his early misses. He left to become chief financial officer of the National Football League, returning to Goldman to help lead the bank's tech and media group just before a potential league lockout.

It was an audacious move, and some questioned whether he would be able to fit in with a technology industry that had come a long way since the dot-com bubble. Mr. Noto, a standout linebacker in college, does not possess the sort of big personality that might have made him a natural fit among the outsize egos of Silicon Valley's traditional bankers.

"I know more about his family than the kind of car he drives," Mr. Wingo of ChannelAdvisor said. "He's not a flashy guy."

But over the last three years, Mr. Noto's understated approach has begun to pay off. Goldman's share of the technology I.P.O. market, erratic in the years after the crisis, has been more consistent of late. This year, the firm has led the successful public offerings of a number of tech companies, including Marketo, Tableau Software and Silver Spring Networks, placing it atop the league tables for the year to date.

Now Mr. Noto faces his biggest test yet. In managing the Twitter offering, he will be bringing a ubiquitous but financially unproved social network to the public markets. In doing so, Mr. Noto and his team at Goldman must account for valuation expectations, the cash needs of Twitter and investor appetite for shares.

When Twitter began preparing to go public early this year, it interviewed a number of banks. Twitter's chief executive, Dick Costolo, and its chief financial officer, Ali Rowghani, developed a strong rapport with Mr. Noto. Like Mr. Noto, the senior Twitter executives are operational types who prefer to fly under the radar. Helping matters further was the fact that Mr. Noto and Mr. Rowghani are both big fans of the Dallas Cowboys.

By April, Twitter had selected Goldman as lead underwriter, guaranteeing it a hefty fee and a large allocation of shares. Rounding out Twitter's syndicate are Deutsche Bank, JPMorgan Chase, Morgan Stanley and Bank of America. Two boutiques, Allen & Company and Code Advisors, are providing Twitter with advice.

Also working in Goldman's favor was the perception, inside Twitter, that the bank understood the company. Goldman features a Twitter widget on the company intranet, uses the service on its trading platform, and even advertises with Twitter.

Speaking at the TechCrunch Disrupt conference this year, Mr. Noto emphasized the importance of an investment bank's role in helping a company draft its S-1 document, which Twitter filed late on Thursday. "You're really solidifying, for the entire investment community, the foundation of how to think about the company," he said.

Mr. Noto and his Goldman colleagues declined to comment. But others who know Mr. Noto say he is well suited for the job.

"I've known Anthony since 1997 and have always greatly respected him," Spencer Rascoff, the chief executive of real estate Web site Zillow, said in an e-mail. "He is a trusted adviser to leading technology executives because he is a humble whip-smart straight-shooter."

Since returning to technology after his time at the N.F.L., Mr. Noto has enmeshed himself in new technology. He is a regular user of Twitter, sending out public messages about football, venture capital and Internet companies.

On Quora, the question and answer Web site, he asked, "Is there a mismatch between private and public valuations for Internet companies?"

This is a more complete version of the story than the one that appeared in print.

Anthony Noto was a Ranger, worked for Kraft and received an M.B.A. from Wharton. (PHOTOGRAPH BY GOLDMAN SACHS, VIA ASSOCIATED PRESS) (B5)

Document NYTF000020131004e9a400074

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Morgan Stanley Announces a Buyback, and Its Shares Rise

By SUSANNE CRAIG
910 words
19 July 2013
The New York Times
NYTF
Late Edition - Final
8
English

Morgan Stanley shares rose more than 4 percent on Thursday after the firm announced it planned to buy back a chunk of its own stock.

News that the firm had received approval from the Federal Reserve to repurchase $500 million worth of its stock was good for shareholders, whose stake in the company has been diluted in recent years as the firm issued millions of shares to pay employees. This dilution has weighed on the stock, and it was trading in the teens earlier this year.

The stock rose about 4.4 percent, or $1.16, to close at $27.70, a level it has not hit since 2011. It is the first buyback Morgan Stanley has undertaken since the financial crisis and comes after the firm's decision to buy the remaining stake of its wealth management business, a move James P. Gorman, the firm's chairman and chief executive, has heralded as "transformational."

Morgan Stanley received approval from regulators in June to buy the rest of its wealth management division, a joint venture it formed with Citigroup during the crisis. Since then, the firm has been working to diversify its earnings, moving away from riskier businesses like trading and into wealth management, which offers steady, albeit lower returns. Its ability to purchase all of that division gave it full control of the operation and the full share of the profits.

Mr. Gorman told analysts that the firm was careful to have the wealth management purchase in order -- and paid for -- before it started spending money on stock buybacks.

The other good news for shareholders was the firm's second-quarter earnings, which came in slightly ahead of analysts' expectations.

The firm reported that second-quarter profit applicable to Morgan Stanley's common shareholders rose 42 percent, to $802 million, or 41 cents a share, compared with $564 million, or 29 cents a share, in the period a year earlier. Overall net income was $980 million, compared with $591 million in the period a year earlier.

The results, however, were affected by two big charges, one related to Morgan Stanley's credit spreads and the other to its recent purchase of the remaining stake of the wealth management business. Stripping out those charges, the firm had a profit of $872 million, or 45 cents a share. That beat the estimates of analysts polled by Thomson Reuters, which had projected a profit of 43 cents a share.

Morgan Stanley's revenue, excluding those charges, rose to $8.3 billion in the second quarter from $6.6 billion in the period a year earlier.

The results were driven by decent performances in most of its business units, notably wealth management and equity and debt trading. Morgan Stanley is coming off what was a weak second quarter of 2012 and is also enjoying what seems to be a better operating environment for all banks.

Morgan Stanley is the last big financial institution to report second-quarter earnings, and results have been generally strong as lenders seem to be benefiting from a pickup in the American economy. Goldman Sachs, for instance, reported that its net income doubled, beating analysts' expectations handily.

At Morgan Stanley, wealth management, which is led by Gregory J. Fleming, was a big focus for analysts on the quarterly conference call.

That unit, with 16,321 financial advisers, posted net revenue of $3.5 billion, up more than 10 percent. Its pretax profit margin, a widely watched figure on Wall Street, came in at 18.5 percent. That margin, which previously had been around 17 percent, was higher than the firm's expectations.

Institutional securities, which houses Morgan Stanley's banking and trading operations, posted net revenue, excluding the debt charge, of about $4.2 billion, up about 40 percent from a year earlier.

The firm experienced a solid increase in revenue from various segments in this department, including debt and equity underwriting, investment banking, and currency and commodities trading.

The fixed-income sales and trading unit reported that adjusted revenue rose to $1.2 billion from $771 million in the period a year earlier. This year's performance was slightly below what analysts were hoping for.

In the second quarter, there was a sudden and sharp rise in interest rates after the Federal Reserve indicated it might wind down its bond purchase program, which has helped the economy recover from the financial crisis.

Ruth Porat, the bank's chief financial officer, told analysts that the firm reduced the risk it was taking trading interest rate products.

While the bank's second-quarter results were a marked improvement over those in the period a year earlier, the firm is still producing a return on equity, excluding the two charges, of just 5.6 percent. This is up from 2.1 percent in the period a year earlier but still well below what it costs the bank to simply cover its debt expenses and other capital costs. To do that, it needs to achieve a return on equity, an important measure of profitability, of closer to 10 percent.

This is a more complete version of the story than the one that appeared in print.

Morgan Stanley's New York headquarters. The firm posted a 42 percent rise in profit and said it would buy back part of its stock. (PHOTOGRAPH BY ANDREW BURTON/REUTERS)

Document NYTF000020130719e97j0009d

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Stanley To Buy Citi Stake In Joint Venture

By SUSANNE CRAIG
665 words
22 June 2013
The New York Times
NYTF
Late Edition - Final
2
English

Morgan Stanley plans this month to buy the remaining stake in the wealth management joint venture it formed with Citigroup in the depths of the financial crisis.

The firm said on Friday that it had received regulatory approval to purchase the remaining 35 percent stake in the Morgan StanleySmith Barney joint venture it did not own for a previously established price of $4.7 billion, which will be paid to Citigroup in cash.

The joint venture was born in 2009, forged from Citigroup's Smith Barney unit and Morgan Stanley's counterpart. Citigroup had long identified the brokerage business as a nonessential asset to be sold to free up capital during a difficult time for the bank. For Morgan Stanley, the deal offered controlling interest in the venture and an expanded presence in wealth management as it sought to diversify away from certain trading businesses and into less risky ones, like selling stocks and bonds to retail investors.

''It has been a long journey,'' said James P. Gorman, Morgan Stanley's chairman and chief executive, who was visiting family in Australia when he received word of the approval. ''It's nice to see something go from vision to see something actually happen.''

The firm had been waiting for months for the government to grant approval to buy the remaining stake, and the development is an important one for Morgan Stanley, which has made a big bet on wealth management. It expects the deal to close at the end of the month, according to a release on Friday.

Morgan Stanley said it would log a negative adjustment to its capital of about $200 million, reflecting the difference between the purchase price and the brokerage's carrying value, which will hurt the company's second-quarter earnings, scheduled to be released in July.

Glenn Schorr, an analyst who covers Morgan Stanley for Nomura, said that while the announcement had been expected, it was symbolic for Morgan Stanley and meant the firm would no longer have to hand over part of the earnings of the business to Citigroup. Mr. Gorman said there were smaller benefits, too. For instance, Morgan Stanley will now control things like trading flow, which were previously shared with Citigroup.

Wealth management can be an attractive business. It requires relatively little capital to operate and brokers tend to generate a steady stream of commissions. It accounts for 42 percent of Morgan Stanley's revenue, up from just 25 percent in the first quarter of 2008, when earnings were powered by trading operations. The unit, which is led by Gregory Fleming of Morgan Stanley, has been preforming above expectations.

The business has about 17,000 wealth advisers and $1.8 trillion in assets under management. In the most recent quarter, the unit reported revenue of $3.47 billion, up from $3.29 billion in the period a year earlier.

Still, the strategy is not without some risk. Wall Street's most productive brokers are constantly being poached by rival firms or setting up shop on their own. And when these employees leave, they often take their clients. In addition, rising interest rates are likely to dent mortgage origination, an area Morgan Stanley is pushing into. At the same time, though, rising rates will allow Morgan Stanley to generate more income on customer deposits.

Citigroup said it was pleased that the sale would soon be final. Since the joint venture was formed in 2009, it said, it has sold more than 60 businesses it determined were not core to its strategy and shed more than $600 billion of assets.

''We are committed to continuing to reduce these noncore assets in an economically rational manner and allocating our resources to growth opportunities in our core businesses,'' Shannon Bell, a spokeswoman, said in a statement.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020130622e96m0003b

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Stanley Names New Leaders In Asian Unit

By NEIL GOUGH
265 words
25 May 2013
The New York Times
NYTF
Late Edition - Final
2
English

Morgan Stanley announced a shakeup of its Asia equities capital markets team on Friday.

The Wall Street bank has appointed Jerome Leleu and Mille Cheng as co-heads of its equity capital markets business in Asia. The pair will replace Justin Haik, who is moving to a new role as senior client relationship manager for equities in Asia.

The moves were announced in an internal memo, the contents of which were verified by a Morgan Stanley spokesman.

Mr. Leleu, a 15-year veteran of the bank, has worked in both Asia and Europe and has most recently focused on Southeast Asian equity markets -- a region that has outperformed the traditional Asian deal hub of Hong Kong in terms of transaction volume over the last 18 months.

Ms. Cheng is rejoining the bank from Barclays, where she headed the greater China equity capital markets business. Before leaving for Barclays in 2011, she had spent 11 years working on equity deals at Morgan Stanley.

Another 15-year veteran of the firm, Mr. Haik had headed the Asia equities team at Morgan Stanley since 2011. The bank's memo said that, in his new role, he would ''provide strategic capital raising advice to our most senior Asian clients, with an additional focus on high-profile, cross-border situations.''

The memo also added that Alex Abagain would become the head of the Asia Pacific equity syndicate business.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020130525e95p00064

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Stanley's Head Of Fixed Income to Retire

By SUSANNE CRAIG
576 words
23 May 2013
The New York Times
NYTF
Late Edition - Final
5
English

7:45 p.m. | Updated

Morgan Stanley has shaken up its once-powerful fixed-income department, announcing in an internal memo on Wednesday that Kenneth deRegt, the executive in charge of the business, is retiring.

Colm Kelleher, the company's president of institutional securities, said Mr. deRegt would be replaced by Michael Heaney and Robert Rooney, both of whom have worked closely with Mr. Kelleher over the years.

The change puts a spotlight back on Morgan Stanley's fixed-income division, which the Wall Street firm has been aggressively shrinking since the financial crisis. The division had been one of its biggest moneymakers. Now, thanks to new regulations and other pressures, it is a drain on operations. As a result, Morgan Stanley has shifted gears and has aggressively expanded into wealth management, which is a lower-return business but comes with less risk.

Mr. deRegt, 57, was a major overseer of the downsizing of the fixed-income unit. Under his watch, the department has stopped handling certain business lines, sold billions of dollars of assets and laid off hundreds of employees.

Morgan Stanley said he was leaving to join a new company, Canarsie Capital Group, as a partner. One of his sons works at the company.

Still, some people inside Morgan Stanley say the last few years have been tough on Mr. deRegt, having to oversee cutbacks. In addition, areas like interest-rate trading, a fixed-income business that Morgan Stanley has actually made a big push into, have not performed as well as some had hoped recently, putting additional pressure on Mr. deRegt.

The cuts in fixed income were an issue at Morgan Stanley's recent shareholder meeting. Responding to questions from Michael Mayo, an analyst at Crédit Agricole Securities, about the company's strategy, Morgan Stanley's lead director, Robert Kidder, said that the board was focused on the department's progress, and that it was a factor when the board reviewed the performance of the chief executive, James P. Gorman.

''The lead director reiterated that returns versus size are what matter, but we are still unsure where returns will wind up and feel the strategy is still somewhere between the bigger players and UBS,'' Mr. Mayo wrote in a recent report, referring to UBS, which has sharply cut back its presence in fixed income.

Morgan Stanley has stressed that it does not want to get out of fixed income, but rather wants a slimmed-down franchise that can serve the needs of its clients and produce a decent return. As a result, it has been selling riskier assets that would require the holding of more capital to satisfy regulators. That way, it can free up capital and use it elsewhere, hopefully generating a decent return.

The announcement brings an end to Mr. deRegt's long career at Morgan Stanley. He joined the company in 1981 and worked there almost his entire career.

Mr. Heaney was most recently global head of credit sales and trading, municipals and emerging markets credit. He joined Morgan Stanley in 1986. Mr. Rooney, who joined Morgan Stanley in 1990, was previously the head of fixed-income sales and trading for Europe, the Middle East and Africa, and global head of fixed-income client coverage since 2009.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020130523e95n0009c

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Hedge Fund Impresario Plays Host In Las Vegas

By PETER LATTMAN
1,636 words
9 May 2013
The New York Times
NYTF
Late Edition - Final
1
English

LAS VEGAS -- Just outside the grand ballroom at the Bellagio hotel early Wednesday morning, Anthony Scaramucci, the backslapping host of the country's largest hedge fund conference, spotted Gregory J. Fleming, president of Morgan Stanley Investment Management and one of Mr. Scaramucci's most important business relationships.

''Is your kid still in town? Does he want to meet Train?'' Mr. Scaramucci asked, referring to the adult-contemporary rock band performing at the event. ''It's great to have you here; it really means a lot to me.''

The hedge fund faithful, more than 1,800 strong, have come here for the SkyBridge Alternatives Conference, or SALT. Held over four days, SALT is a Wall Street schmooze-fest. This year's lineup of speakers features the investors Daniel S. Loeb and John Paulson, the politicians Nicolas Sarkozy and Leon Panetta, and the entertainers Oliver Stone and Al Pacino.

It is also a matchmaking service, with funds peddling their services to the world's richest investors, and the world's richest investors seeking out the next superstar manager. And this being Sin City, it is, perhaps above all else, a good time.

The ringmaster of this spectacle is Mr. Scaramucci, a Goldman Sachs alumnus with a Harvard Law degree whom many simply call ''the Mooch.'' In an industry known for reclusive traders and math geeks, the boyish Mr. Scaramucci, 49, is Wall Street's first hedge fund impresario, a P. T. Barnum in a Ferragamo tie. In a gilded industry that has preferred to stay below the radar, Mr. Scaramucci embraces the white-hot center of it all.

A relentless self-promoter, Mr. Scaramucci is ubiquitous, especially to the stock traders and market aficionados who stare all day at Bloomberg terminals and have their flat screens fixed to business television.

He appears regularly on CNBC, jawboning about stocks. He wedged his way into a cameo in Mr. Stone's 2010 sequel to the movie ''Wall Street.'' He has written two books: the first, ''Goodbye Gordon Gekko,'' is part memoir, part self-help manual about ''how to find your fortune without losing your soul''; the second, ''The Little Book of Hedge Funds,'' is a primer on the investment vehicles that have made him rich.

''Mutual funds are the propeller plane,'' writes Mr. Scaramucci in his primer, ''while hedge funds are the fighter jets.''

That analogy has not worked well lately. The ascent of SALT, and Mr. Scaramucci, comes in a challenging time for hedge funds, which are expensive investment vehicles that promise outsize returns in up and down markets. The explosive growth experienced by the industry a decade ago has plateaued. For four consecutive years, the average hedge fund has failed to beat the Standard & Poor's 500-stock index.

Despite the weak performance, hedge funds, which have a total of about $2.5 trillion in assets, are still attracting money, taking in $15.2 billion in the first quarter of this year, according to Hedge Fund Research.

The SALT crowd can thank the Federal Reserve's persistent near-zero interest rate policy for their continued good fortune. Managers are also seeing money flood into debt-trading strategies as the world's largest banks have retrenched from those risky investments under greater regulation.

Tepid industry performance cannot stop Mr. Scaramucci, whose irrepressible salesmanship seeks to elevate the SkyBridge Capital brand. A manager of a portfolio of hedge funds -- a ''fund of funds,'' in Wall Street lingo -- the New York-based firm has about $4.6 billion under management. It also oversees another roughly $3 billion in a business that advises pensions and other large institutions on hedge-fund-manager selection.

Mr. Scaramucci has built SkyBridge on the belief that hedge funds are not just the domain of giant pension funds and the Forbes 400 list of the wealthiest Americans.

SkyBridge's flagship product is structured for ''the mass affluent,'' requiring a net worth of $1 million and a minimum investment of $25,000. Sold through brokers at big banks like Morgan Stanley and Merrill Lynch, SkyBridge has more than 24,000 clients. A typical customer is a dentist with a million or two in the bank and a desire to spice up his or her portfolio with a dollop of hedge fund exposure.

''I'm a middle-class kid from Long Island, and neither of my parents went to college,'' said Mr. Scaramucci, a father of three who grew up in Port Washington, N.Y., and now lives just a couple of miles away in Manhasset. ''Why shouldn't more people have access to this industry?''

The access doesn't come cheap. On top of the usual 2 percent management fee and a 20 percent cut of the profits charged annually by the hedge funds in SkyBridge's portfolio, the firm adds a 1.5 percent yearly fee, along with a one-time placement charge paid to the broker that runs as high as 3 percent.

Not everyone buys what Mr. Scaramucci is selling. Critics decry the hefty fees that they say eat into the performance of funds of funds.

''Hedge funds tend to be a losing game for most investors,'' said Mebane T. Faber, co-founder of Cambria Investment Management. ''With fund of funds, it is even more of a losing game because of the layers upon layers of fees.''

Yet Skybridge's main fund, which profited from a concentrated bet on managers investing in beaten-down mortgages, returned 20.2 percent last year net of fees, handily outperforming the S.& P. But over a 10-year stretch, the fund has slightly underperformed the index.

''Reversion to the mean is a very powerful force,'' said Jack Bogle, founder of Vanguard and evangelist for low-cost funds that track the indexes. ''These hedge fund products might work in the short term, but I can absolutely guarantee that they won't work forever.''

SkyBridge almost didn't work right out of the gate. Mr. Scaramucci started the firm in 2005 after spending seven years at Goldman and then co-founding a money-management firm that he sold to Neuberger Berman. He originally formed SkyBridge to seed and incubate start-up hedge fund managers. But after the financial crisis crushed SkyBridge's portfolio of nascent funds, Mr. Scaramucci sought to reinvent the business.

He soon sniffed out an opportunity. When a sickly Citigroup sought to jettison its hedge fund unit, he negotiated a deal in June 2010 for SkyBridge to pay for the business with a small upfront payment and a revenue-sharing agreement with the bank that expires next month.

With the Citigroup acquisition, Mr. Scaramucci not only added several billion dollars in assets, but also acquired Citigroup's Raymond C. Nolte, a veteran hedge fund executive who now oversees SkyBridge's investments. Mr. Nolte also brought with him a respectable track record that Mr. Scaramucci could promote.

The SALT conference, too, grew out of the financial crisis. After President Obama warned Wall Street banks in early 2009 against throwing junkets on the taxpayers' dime, several banks canceled their Las Vegas conferences. Mr. Scaramucci decided to fill the void, holding the first SALT conference at the Wynn, with 400 people in attendance.

SALT has become the main engine of the SkyBridge marketing machine, though Mr. Scaramucci is quick to point out that it is not a SkyBridge event but an industrywide conclave. The conference is profitable, he says, but not as profitable as it would be if its organizers did not pour so much money back into it, paying top dollar for prominent speakers among other expenses.

Appearing at this year's event are Ehud Barak, the former Israeli prime minister; Mike Krzyzewski, the Duke University men's basketball coach; and Barney Frank, the former Massachusetts congressman.

Most of the talks take place in the main ballroom, but much of the real action happens behind the scenes at V.I.P. events. On Wednesday night, Mr. Scaramucci was holding a dinner for about 20, with Mr. Panetta, Mr. Pacino and others, where they were to eat a meal catered by Jean-Georges Vongerichten's ABC Kitchen, featuring organic chicken and collard greens paired with a polished Peay Vineyards syrah.

On Thursday, SkyBridge's top 20 clients will have breakfast with Matt Bissonnette, who under the pseudonym Mark Owen wrote ''No Easy Day,'' the first-person account of the raid that killed Osama bin Laden.

SALT has become so larded with famous names that Mr. Scaramucci acknowledges the problem of having to live up to the agendas of previous conferences. He has set a high bar with past keynote speeches by former presidents Bill Clinton and George W. Bush, as well as Mitt Romney. (Mr. Scaramucci supported Mr. Obama in 2008, but served as Mr. Romney's national finance co-chairman in the last election.)

That challenge is evident with this year's entertainment. On Thursday evening, Train will perform, arguably a downgrade from last year's concert by the pop superstars Maroon 5. Mr. Scaramucci staunchly defended this year's musical act.

''I'll tell you a little secret'' Mr. Scaramucci said. ''Middle-aged white men? They love Train.''

This is a more complete version of the story than the one that appeared in print.

Anthony Scaramucci, top, at the SALT conference on Wednesday; with the key to Las Vegas last year, middle; and preparing for a television appearance. (PHOTOGRAPHS BY ISAAC BREKKEN FOR THE NEW YORK TIMES; STEVE MARCUS/REUTERS) (B1); Anthony Scaramucci spoke at SALT, a conference for hedge funds, on Wednesday in Las Vegas. He runs SkyBridge Capital, a New York-based company that manages about $4.6 billion. (PHOTOGRAPH BY ISAAC BREKKEN FOR THE NEW YORK TIMES) (B4)

Document NYTF000020130509e9590005f

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
A Profit at Morgan Stanley, but Investors Have Doubts

By SUSANNE CRAIG
897 words
19 April 2013
The New York Times
NYTF
Late Edition - Final
5
English

8:11 p.m. | Updated

Morgan Stanley shareholders have been awaiting a turnaround at the bank. On Thursday, some decided they could not wait any longer.

Shares of Morgan Stanley tumbled 5.4 percent, falling to their lowest level since January, after the bank's quarterly results showed a sharp drop in trading revenue.

Yet earnings for the first quarter were stronger than Wall Street analysts had expected. Indeed, the quarterly results underscored the progress the bank has made in building its wealth management division, as well as the continued drag from the fixed-income business.

''Morgan Stanley is like a team changing sports, and the sport they are leaving didn't do so well, but the one they are going to did,'' said Chris Grisanti, the owner and co-founder of Grisanti Capital Management, which owns shares of Morgan Stanley. ''However, I think now there is some doubt in the market about their ability to make this transition.''

Revenue from trading bonds, commodities and currencies fell 42 percent, to $1.5 billion from the year-ago period. That was decidedly worse than rivals like Goldman Sachs, which had a drop in fixed-income trading of just 7 percent.

The first quarter was a challenging one for most banks, particularly in March as investor concern rose over a prolonged federal budget impasse in the United States and the health of Europe's economies. Morgan Stanley, though, seemed to be affected more than other Wall Street banks.

Since the financial crisis, Morgan Stanley has been working to reduce the size of its fixed-income department, cutting staff and selling assets. The department had been the source of trading losses, and Morgan Stanley's chief executive, James P. Gorman, has been trying to shift the bank out of riskier businesses to less volatile areas like wealth management.

Richard Bove, an analyst with Rafferty Capital Markets, said that Morgan Stanley's decision to shrink the fixed-income business meant that not only was it losing talented traders, it was not attracting as many as it used to. As a result, it will be hard for Morgan Stanley to keep up with competitors.

''Most investors are unhappy with the fact this company was not able to grow its trading activity as much as its peers and as a result they perceive there is a significant problem at the company and are pulling away from the stock,'' he said.

Morgan Stanley's chief financial officer, Ruth Porat, said she was surprised by the severity of Thursday's stock drop.

She said while there was certainly room for improvement in the earnings, investors needed to keep in mind that the bank had a strong first quarter in 2012, so that in comparison the decline in trading revenue appeared worse than it really was.

''I am not saying $1.5 billion is as good as it can be, but we are continuing that steady progress we have always talk about,'' Ms. Porat said, noting the bank had strong sequential revenue growth over the last year and continued to sell risky assets.

Morgan Stanley earned a profit, adjusted for accounting charges, of $1 billion, or 50 cents a share. That compares with a loss of $79 million in the period a year earlier. The one-time charges were related to the bank's credit spreads. Excluding the charges, the bank had a profit of $1.2 billion, or 61 cents a share, a decline from the $1.4 billion reported in the first quarter of 2012.

Morgan Stanley's adjusted revenue for the three months ended March 31 fell to $8.5 billion, from $8.9 billion in the period a year earlier. Analysts forecast revenue of $8.35 billion.

Return on equity, a measure of how efficiently shareholder money is being deployed, fell to 7.6 percent from 9.2 percent in the year-ago period

Excluding charges related to the bank's credit spreads, known as debt valuation adjustments, net revenue in institutional securities, which houses the fixed-income department, was $4.4 billion, compared with $5.1 billion in the period a year earlier.

Revenue from trading commodities and rates fell in the quarter. The decline in revenue from trading interest rates came despite a decision to take more risk over the last year. In rates and credit spreads, the bank's quarterly value at risk -- a yardstick of how much could be lost in one trading day -- was $61 million, up from $46 million in the year-ago period.

The bright spot in Morgan Stanley's earnings was its wealth management division, led by Gregory Fleming. It posted pretax income from continuing operations of $597 million, up 48 percent from the $403 million reported in the first quarter of last year.

One number investors were watching, the division's pretax profit margin, came in at 17 percent, higher than some analysts had projected. Net revenue in wealth management rose to $3.5 billion from $3.3 billion in the first quarter of 2012.

This is a more complete version of the story than the one that appeared in print.

Morgan Stanley reported a drop in trading revenue, but added that there were strong gains in its wealth management division. (PHOTOGRAPH BY SHANNON STAPLETON/REUTERS)

Document NYTF000020130419e94j00038

The New York Times

Money and Business/Financial Desk; SECTBU
In Exchange-Traded Funds, a Variable Worth Watching

By ANNA BERNASEK
1,201 words
7 April 2013
The New York Times
NYTF
Late Edition - Final
18
English

EXCHANGE-TRADED funds that track indexes may sound like straightforward investments. Because they tend to have low fees and can be used to build diversified portfolios, as well as for esoteric strategies, E.T.F.'s are wildly popular among individual and institutional investors alike. But even when E.T.F.'s appear simple, there may be more risk than meets the eye.

Buying an index fund does not, in fact, guarantee the same return as the index. While variations tend to be small, the difference between a fund's return and the index's return, often called tracking error, can sometimes be significant. Each fund uses its own method and terminology when discussing tracking error, but it's clear that some funds mimic their benchmarks better than others.

The average tracking error of all E.T.F.'s listed in the United States last year was 59 basis points, or slightly more than half of a percentage point, according to a study released last month by Morgan Stanley Smith Barney. For those E.T.F.'s with at least one year of trading history, Morgan Stanley compared the difference in total 2012 return between each fund and its underlying index.

The numbers varied widely. For instance, the study found that the iShares MSCI Emerging Markets Financials E.T.F. outperformed its index by 5.39 percentage points last year, while the PowerShares MENA Frontier Countries Portfolio underperformed its benchmark by 4.41 percentage points.

Such deviations can make it hard to build a portfolio. "Tracking error, whether positive or negative, should be a concern for investors, as it measures the effectiveness of a manager to replicate the performance of an index," said Michael Jabara, an E.T.F. analyst at Morgan Stanley Smith Barney.

Higher-than-expected fees are a drag on performance and a major contributor to tracking error, which is usually negative, meaning that a fund underperforms its benchmark. Morgan Stanley found that 709 E.T.F.'s recorded negative tracking error last year, while 132 had positive tracking error and three matched their indexes.

Tracking error can vary by asset class. Commodity, currency and emerging-market E.T.F.'s, for instance, tend to have higher tracking error than funds linked to the Standard & Poor's 500-stock index. "Tracking error is larger the more illiquid the underlying securities," said Lee Davidson, an E.T.F. analyst at Morningstar.

Main causes of tracking error are illiquidity and transaction costs. The prices of illiquid securities tend to be volatile, making it more likely that at the moment a fund buys or sells, there will be a significant difference between the trade price and the prices more typically seen for the security. These discrepancies can work in either direction, so a fund can sometimes outperform its benchmark. Stocks that are thinly traded also tend to be associated with higher trading costs.

Analysts say tracking error may also stem from other factors, like changes to the underlying benchmark index -- or whether a fund holds an entire index or just a sample of it.

Even within an asset class, tracking error can vary considerably. Consider fixed-income E.T.F.'s. Last year, the Pimco Germany Bond Index fund had a tracking error of minus 1 basis point, or a hundredth of a percentage point, according to the Morgan Stanley study. On the other hand, the Market Vectors LatAm Aggregate Bond fund underperformed its benchmark by 386 basis points, or 3.86 percentage points.

Tracking error can also vary by provider. Vanguard -- one of the three biggest providers of E.T.F.'s by total assets under management, along with BlackRock and State Street Global Advisors -- had the lowest average tracking error last year, just 14 basis points. Vanguard's E.T.F.'s are an outgrowth of its family of index mutual funds, which are the oldest in the business. For investors, the main difference is that the E.T.F.'s are priced and traded all day, while the mutual funds are priced only after the markets close.

For E.T.F.'s, BlackRock's average tracking error was 44 basis points, and State Street's was 51 basis points.

FFCM had the highest average tracking error last year: 180 basis points, or 1.8 percentage points. FFCM manages four funds that are intended to be market neutral -- that is, to provide positive returns even in a down market -- and provide both long and short exposure to a variety of stock market indexes. Its custom E.T.F.'s are generally United States stock or multi-asset-class funds that fall outside of traditional equity classifications.

According to the Morgan Stanley study, average tracking error has been cut in half since 2009, when it was 125 basis points. But 58 percent of E.T.F.'s recorded an increase in tracking error last year, versus 39 percent with a decrease and 3 percent with no change.

''E.T.F.'s have become a popular way to do wide asset allocation, especially since they are less expensive than mutual funds, but many investors may not be aware of tracking error,'' said William W. Smead, chief executive and chief investment officer at Smead Capital Management.

Part of the problem is that individual fund families have different ways of measuring tracking error. Often, it is regarded as the difference between the movement of an E.T.F.'s net asset value and the underlying index over a certain period, usually a year. That's the definition that Morgan Stanley used in its study. Yet Morningstar calls this ''tracking difference,'' and Vanguard calls it ''excess returns.''

For Morningstar and Vanguard, tracking error has a different meaning -- and it gets a bit technical. The two firms say it is the volatility of tracking difference (or excess return) over time, which they calculate as the standard deviation of tracking difference or excess return. ''Tracking difference is more important if you're buying and holding, while tracking error is more important if you're trading,'' said Mr. Davidson, Morningstar's E.T.F. analyst. ''You don't want huge volatility in that case.''

According to a recent Morningstar report, new rules issued by the European Securities and Markets Authority require E.T.F. providers in Europe not only to disclose both tracking difference and tracking error, but also to estimate them for the year ahead. But the rules don't specify how to calculate those measures, so there is still no effective, uniform way for investors to compare them across funds.

In the United States, which has no such rules, there is little uniformity. On their Web sites, however, providers often disclose some measure of the divergence between a fund's performance and its benchmark index.

Mr. Davidson said that tracking error might one day become a new focus for providers. ''We've seen a war on costs among E.T.F. providers,'' he said. ''Perhaps we'll see them start to compete on who has the lowest tracking error.''

And that could only be good for investors.

Document NYTF000020130410e947000k6

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Strives To Coordinate 2 Departments Often at Odds

By SUSANNE CRAIG
1,207 words
19 February 2013
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDEDSeveral hundred Morgan Stanley retail branch managers descended on the JW Marriott Orlando Grande Lakes resort in Florida early this month for a retreat. They were greeted by an unlikely colleague, Colm Kelleher, who runs the company's sales and trading and investment banking departments.

Traditionally, traders and investment bankers think of themselves as the elite of Wall Street and look down on the retail business, seeing it as pedestrian. Yet Mr. Kelleher had a message for the branch managers: His group can work with retail brokers to increase profits at Morgan Stanley.

That message evokes the strategic emphasis that followed the 1997 merger of Morgan Stanley with Dean Witter, Discover & Company. The rationale for that deal was to create a financial supermarket where the retail brokerage and the investment banking businesses could complement each other.

But the company's swaggering traders wanted little to do with the financial advisers, creating tension and turmoil that would lead to upheaval at the top.

The company over the years has set up revenue sharing agreements between bankers and traders. But that, too, created strife, with bankers and traders accusing each other of deliberating misstating revenue to avoid splitting fees, which some traders called the investment banker tax.

"Morgan Stanley has a horrible history of getting these groups to work together," said Richard Bove, an analyst with Rafferty Capital Markets.

Yet since Morgan Stanley moved to acquire control of the Smith Barney brokerage business from Citigroup in 2009, the balance of power has shifted to wealth management, which now accounts for almost 52 percent of the company's revenue, up from roughly 16 percent in 2006.

Gregory J. Fleming, the chief of the brokerage business, and Mr. Kelleher have been under pressure from shareholders to coax greater profits from the low-margin brokerage business by finding ways for retail and investment banking to work better together. The two men are said to have a good working relationship, leading to renewed optimism that the company can finally find synergies among its various divisions.

That is a change from a few months ago, when cooperation was difficult, according to employees at the company, because of personality conflicts between Mr. Kelleher and the investment banker Paul Taubman, who were the two co-heads of the institutional securities business. The employees spoke on the condition of anonymity because of the policy against speaking to the news media without permission.

Mr. Taubman departed recently after a power struggle, leaving Mr. Kelleher solely in charge of sales and trading, and investment banking.

In recent months, the company has made changes intended to improve communication among divisions. Last fall, Morgan Stanley transferred Eric Benedict, an ally of Mr. Kelleher, to wealth management to run its capital markets operation. Previously Mr. Benedict worked for Mr. Kelleher on the equity syndicate desk.

A few months after Mr. Benedict moved to wealth management, the company created a bond, or fixed income, sales group to focus on middle-market clients. The company then transferred some of its smaller banking clients into wealth management to give them more attention. The fixed-income division will share revenue from this middle-market unit with wealth management.

James P. Gorman, the chief executive of Morgan Stanley, is hoping that its sales and trading unit will work more closely with wealth management to increase lending, better tailor structured products for retail clients and improve collaboration on events like public offerings, company insiders said.

For instance, Morgan Stanley may take a company public and the executives at that company may need advice managing their personal wealth. In such an instance, the bankers would alert wealth management, which could dispatch a broker to assess the situation.

In January, on a call with investors to discuss the company's fourth-quarter results, Mr. Gorman said 35 projects were under way to encourage collaboration between these businesses. One focus is how to increase lending to the firm's corporate and individual clients.

A lot is riding on Mr. Gorman's strategy. Morgan Stanley, which for years was best known for its high-flying trading operations and investment bank, was badly bruised in the financial crisis. Since then regulators have established rules that require banks to post more capital against riskier operations, compelling Morgan Stanley to scale back or get out of certain businesses. Morgan Stanley has shrunk its fixed income department, where most of its risk taking was embedded.

But, if Mr. Gorman can make it work, Mr. Bove predicted the chief could return Morgan Stanley to its former glory, "albeit in a different form." Mr. Bove has a buy rating on Morgan Stanley.

Morgan Stanley emerged from the financial crisis safer, but less profitable. In 2012 it posted a return on equity (excluding a charge related to its debt) of 5 percent. Return on equity is an important measure of how effectively shareholder money is being deployed. Goldman posted a return on equity for the same period of 10.7 percent. To simply cover its debt expenses and other capital costs, Morgan Stanley must achieve a return on equity closer to 10 percent.

Investors also focused on another number, from Morgan Stanley's wealth management unit. That division posted a pretax profit margin of 17 percent in the fourth quarter of 2012, exceeding most analysts' expectations.

The number was higher than expected, according to people briefed on the matter but not authorized to speak on the record, because the company deferred from the fourth quarter some major costs like compensation for certain executives.

As a result, some analysts and rivals are wondering how sustainable that level is. Morgan Stanley insiders say while some one-time items did help increase that number, it wasn't significant and they expect Mr. Fleming to produce a lower but still high pretax profit margin for the current quarter.

"Although the first-quarter margin is seasonally lower, we believe that we can drive margins to the high teens and above over time even with only with modest revenue growth and a low interest rate environment," said Ruth Porat, chief financial officer at Morgan Stanley, on a conference call last week with fixed-income investors.

For that number to rise significantly, Mr. Fleming must make some of recent initiatives work, analysts say.

"Everyone is watching that number," said an executive at a rival firm who was not authorized to speak on the record. "If they can increase, it will be a sign Gorman's strategy is working, but so far not everyone is convinced."

This is a more complete version of the story than the one that appeared in print.

Correction: February 20, 2013, Wednesday

This article has been revised to reflect the following correction: An article on Tuesday about Morgan Stanley's efforts to coordinate its retail and investment bank units misstated the contribution of wealth management to the company's financial results. It accounts for almost 52 percent of revenue, not almost 52 percent of profits.

Colm Kelleher, left, who runs Morgan Stanley's investment operations, and James P. Gorman, chief executive of the company. (PHOTOGRAPHS BY MORGAN STANLEY; RICHARD DREW/ASSOCIATED PRESS) (B2)

Document NYTF000020130220e92j0001i

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Stanley's Chief Gets a Base Salary Raise

By SUSANNE CRAIG
519 words
1 February 2013
The New York Times
NYTF
Late Edition - Final
7
English

James P. Gorman, the chief executive of Morgan Stanley, will receive a huge raise in his base salary this year, but his overall pay package for 2012 was down from 2011, according to a filing Thursday with the Securities and Exchange Commission.

Mr. Gorman made $9.75 million in 2012, down 7 percent from 2011. The firm had previously disclosed pieces of Mr. Gorman's pay, like some incentive bonuses, but on Thursday, the firm revealed the value of his entire package. He was also granted performance-based stock compensation valued at almost $3.75 million in 2012.

The firm also said that his base salary in 2013 would double to $1.5 million, or $28,846.15 a week. The firm's board said in the filing that Mr. Gorman's base salary was raised to bring it in line with the salaries of other bank chiefs. The chief executive of Goldman Sachs, Lloyd C. Blankfein, for instance, makes a base salary of $2 million.

Base salaries across Wall Street rose sharply after the financial crisis. Traders and bankers have historically been paid a relatively small base salary and a big one-time bonus based on their financial performance. Regulators, however, have argued that this type of pay system gives employees incentives to take unnecessary risks and have pushed banks to increase the amount of fixed compensation.

Still, Mr. Gorman's overall pay in 2012 was down, partly because of the firm's challenges. C. Robert Kidder, the board's lead independent director, said in the filing that "2012 was a transition year for Morgan Stanley, and management along with much of the organization saw reduced compensation." Still, he said the board was "confident" in Mr. Gorman's strategic plan.

Morgan Stanley was badly bruised during the financial crisis. Mr. Gorman, who took over as chief executive in 2010, had been working hard to reduce the firm's risk profile, slimming down divisions like fixed income and expanding steadier units like wealth management. The firm's stock was up more than 25 percent in 2012.

The board also increased the base salaries of Mr. Gorman's top deputies. Gregory J. Fleming, who leads the firm's wealth management division, and Colm Kelleher, who runs institutional securities, will now make a base salary of $1 million, or $19,230.77 a week, as do all members of the firm's operating committee. Last year the two made a base of roughly $750,000 each.

So far the company has disclosed compensation for these two men valued at $6.4 million. It is expected that they will also be awarded deferred cash. The total value of their compensation won't be known until later this year, but it will be lower than last year, according to a person briefed on the matter who spoke on condition of anonymity.

This is a more complete version of the story than the one that appeared in print.

James P. Gorman (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS)

Document NYTF000020130201e9210006m

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Chief's Pay Is Cut For 2nd Consecutive Year

By SUSANNE CRAIG
665 words
25 January 2013
The New York Times
NYTF
Late Edition - Final
6
English

After a year of mixed financial performance at Morgan Stanley, the firm's chief executive, James P. Gorman, is expected to take a second annual pay cut.

Mr. Gorman's compensation for last year is estimated to be slightly less than the $10.5 million he took home in 2011, according to a person briefed on the matter. His 2011 pay was down 25 percent from the previous year.

The total value of Mr. Gorman's compensation package for 2012 is not yet known, but according to a regulatory filing on Thursday, the bank's board awarded him stock options valued at $2.6 million, on top of his base salary of $800,000. He is expected to earn another $2.6 million in deferred cash, according to this person, who spoke on condition of anonymity because some of the compensation details are not yet public.

Morgan Stanley had to contend with challenges in 2012. On the one hand, its stock rose 26 percent to $19.12, and its fourth-quarter earnings were fairly strong, exceeding analysts' expectations. On the other hand, it managed to produce a return on shareholder equity of only 5 percent for the year, compared to 10.7 percent at its rival Goldman Sachs. Simply to cover its debt expenses and other capital costs, Morgan Stanley needs to achieve a return on equity closer to 10 percent.

While the firm has made progress in building out its wealth management operation, its fixed-income department, which was badly bruised during the financial crisis, continues to struggle. These issues, according to the person briefed on the matter, played a role in the board's decision to cut Mr. Gorman's pay.

The stock options Mr. Gorman was awarded give him the right to buy Morgan Stanley shares in the future at a preset price. But the options will be worthless if the company's shares fell below that price. In previous years, Mr. Gorman had been granted restricted stock units, which are stock grants tied to the price of the firm's shares when they vest down the road.

The board decided to grant options rather than restricted stock in 2012 because Morgan Stanley failed to meet the performance criteria set out in a 2001 shareholder resolution that would have allowed it to qualify for full corporate tax deductibility. One reason it failed to meet the conditions was an accounting charge that created huge volatility in its earnings but did not reflect its underlying performance. As a result, the company reported a loss of $117 million for last year. Excluding that charge, its profit was roughly $3 billion.

Mr. Gorman was not the only Wall Street chief to see his pay fall. JPMorgan Chase announced last week that its board was cutting in half the 2012 pay of its chief executive, Jamie Dimon, to $11.5 million, after the bank suffered an embarrassing $6 billion trading loss last year on his watch.

In contrast, Goldman's chief executive, Lloyd C. Blankfein, is on track to get a raise. Last week, he was granted restricted stock valued at $13.3 million for 2012, nearly double his stock award the previous year. That was on top of a base salary of $2 million. Goldman has not yet revealed the size of Mr. Blankfein's cash bonus.

Other top executives at Morgan Stanley are also expected to see their pay drop somewhat, according to the person briefed on the matter. Gregory J. Fleming, who leads the firm's wealth management division, was granted stock options valued at $2.4 million, as was Colm Kelleher, who runs institutional securities. Their total compensation packages are not known, but the person briefed on the matter said their pay would be down from the previous year.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020130125e91p0006d

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
After Crisis, A Top Bank Is Emerging Stronger

By SUSANNE CRAIG
870 words
19 January 2013
The New York Times
NYTF
Late Edition - Final
1
English

8:40 p.m. | Updated

Morgan Stanley has taken aggressive action to bolster profit. Over the last year, the Wall Street bank has cut thousands of employees, sold costly assets and retooled major businesses.

Those efforts worked. In the fourth quarter, Morgan Stanley reported earnings of $481 million, in contrast to a loss of $275 million in 2011. Profit was equally strong for the year.

But the path to future growth is less clear. While the financial firm can find other ways to cut costs, its core operations face significant challenges, from both internal and external forces. Reflecting those issues, revenue was flat last year, excluding charges related to its debt.

"They are doing everything they can to boost returns," said Glenn Schorr, an analyst at the Japanese bank Nomura. "But given the environment and the state of their franchise, they can only do so much."

Investors are assessing the progress versus the prospects.

After Morgan Stanley beat analysts' expectations, the bank's shares increased nearly 8 percent, to close at $22.38 on Friday. Morgan Stanley's stock is up nearly 50 percent since early 2012.

"The company has been steadily chipping away at areas of investor concern, and has shown evidence of that progress," Roger Freeman, a Barclays analyst, wrote in a note to investors.

Still, investors don't value the investment bank as highly as some of its peers.

Morgan Stanley is trading at approximately 70 percent of its book value, a crucial financial measure that refers to the liquidation value of a company's assets if it were forced to sell everything. Goldman, in contrast, is trading at book value.

More than four years after the financial crisis, Morgan Stanley has emerged as a much stronger, albeit smaller, bank.

After getting badly bruised during the crisis, Morgan Stanley, under the leadership of James P. Gorman, the chief executive, has moved to remake itself. He has diversified operations, emphasizing less risky businesses like wealth management.

That group was a particular bright spot. In the latest quarter, wealth management, with its 16,780 financial advisers, posted decent revenue growth. Pretax profit margin rose to 17 percent, up from 7 percent a year ago. That trumped the firm's internal goals of 15 percent.

Investment banking, too, showed signs of strength. The group posted revenue of $1.23 billion in the fourth quarter, up 26 percent from the previous year.

The bank has also cut expenses significantly to help drive profitability. In 2012, Morgan Stanley reduced its head count by 7 percent, to 57,061 employees. It laid off 1,600 people this month.

The firm has also been bringing its pay levels down modestly. The firm's compensation ratio, excluding certain charges, came in at roughly 51 percent, down from 57 percent a year ago.

Such efforts will most likely continue. On Friday, the bank said it might cut expenses by as much as $1.6 billion over the next two years.

Mr. Gorman called this quarter "pivotal," on Friday. "I am confident we are on the path to increasing shareholder value that will be evident regardless of the macro environment," he said in a statement.

Even so, the latest results underscored the growing gap between the bank and its rivals.

Revenue was flat for the quarter at Morgan Stanley, while it increased by 19 percent at Goldman Sachs during the same period. Excluding charges related to its debt, Morgan Stanley's return on equity, a measure of profitability, was 5 percent. That compares with 10.7 percent at Goldman. To simply cover its debt expenses and other capital costs, Morgan Stanley needs to achieve a return on equity closer to 10 percent.

The firm's problem child is the fixed income department.

Fourth-quarter revenue from fixed income sales and trading, headed by Ken deRegt, was $811 million, excluding the charges related to the firm's debt. This was well below analysts' forecasts. The bank was hurt by poor results in commodities trading, Mr. Gorman said in an interview on CNBC. He said it was a "terrible quarter," citing factors like Hurricane Sandy, adding that it was one of the worst for the commodities business since 1995.

Despite its successes, Morgan Stanley faces a tough road.

The bank, which has had its credit rating cut deeper than its rivals, is also adjusting to a new regulatory environment. It now has to put up more capital against its operations, forcing the bank to leave certain businesses, reducing profitability.

Morgan Stanley is also trying to build market share in less-capital-intensive businesses like interest rates trading. But it is a highly competitive area, with lower margins.

"They have made some clear progress, but still have their work cut out for them in fixed income," said Mr. Schorr of Nomura.

This is a more complete version of the story than the one that appeared in print.

In the fourth quarter, Morgan Stanley reported earnings of $481 million, in contrast to a loss of $275 million in 2011.; James P. Gorman has moved to remake Morgan Stanley. (PHOTOGRAPHS BY RICHARD DREW/ASSOCIATED PRESS) (B6)

Document NYTF000020130119e91j0006q

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

2 Banks to Pay $557 Million In Foreclosure Settlement

By THE ASSOCIATED PRESS
450 words
17 January 2013
The New York Times
NYTF
Late Edition - Final
10
English

Goldman Sachs and Morgan Stanley will pay a combined $557 million to settle federal complaints that they wrongfully foreclosed on homeowners who should have been allowed to stay in their homes.

The agreements announced Wednesday with the Federal Reserve were similar to deals this month with 10 other major banks and mortgage lenders. Combined, the 12 firms will pay more than $9 billion.

Goldman will pay $330 million. Morgan Stanley is paying $227 million.

The settlements could compensate hundreds of thousands of Americans whose homes were seized because of abuses such as robo-signing, when banks automatically signed off on foreclosures without properly reviewing documents. The agreement will also help eliminate huge potential liabilities for the banks.

Consumer advocates say regulators settled for too little by letting the banks avoid full responsibility for foreclosures that harmed families.

Under the settlement, Goldman and Morgan Stanley will pay a combined $232 million in cash compensation to homeowners to end an independent review of loan files required under a 2011 action by the Fed and the Office of the Comptroller of the Currency. The remaining $325 million will be used to reduce mortgage balances and to forgive outstanding principal on home sales that generated less than borrowers owed on their mortgages.

About 220,000 people whose homes were in foreclosure in 2009 and 2010 are eligible for payments under the deal with the two banks, the Fed said. The payments could range from hundreds of dollars up to $125,000, depending on the type of possible error.

Spokesmen for Goldman and Morgan Stanley said the banks were pleased to have the matter settled.

The structure of the deal is nearly identical to the $8.5 billion settlement announced last week with Bank of America, JPMorgan Chase, Wells Fargo, Citigroup, MetLife Bank, PNC Financial Services, Sovereign, SunTrust, U.S. Bank and Aurora.

Those banks are paying about $3.3 billion to 3.8 million homeowners to end the review of foreclosures. The rest - $5.2 billion - is going to mortgage modification.

Two other banks were subject to the 2011 independent reviews. HSBC and Ally Financial have been in discussions with regulators on similar settlements but have yet to reach deals.

Consumer advocates had complained that the loan-by-loan reviews required under the 2011 order were time-consuming and costly and did not reach many homeowners. The deals this month are separate from a $25 billion settlement last February with five major banks by the federal government and 49 states.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020130117e91h00056

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Stanley Is Fined Over Facebook I.P.O. Role

By SUSANNE CRAIG and BEN PROTESS
1,025 words
18 December 2012
The New York Times
NYTF
Late Edition - Final
1
English

Morgan Stanley is paying for its role in the troubled stock market debut of Facebook.

On Monday, Massachusetts's top financial authority fined the bank $5 million for violating securities laws, the first major regulatory action tied to Facebook's initial public stock offering.

William F. Galvin, the secretary of the commonwealth of Massachusetts, accused the bank of improperly influencing the stock offering process. The regulator's consent order asserts that a senior Morgan Stanley banker coached Facebook on how to share information with stock analysts who cover the social media company, a potential violation of a landmark legal settlement with Wall Street. While the banker never contacted the analysts directly, his actions, Mr. Galvin said, put ordinary investors at a disadvantage because they lacked access to the same research.

"The broader message here is we are going to use any means possible to enforce the strict code in place about giving out information," Mr. Galvin said in an interview. "We want to get the message across that if Wall Street wants to get confidence back, they can't disadvantage Main Street."

The consent order did not name the Morgan Stanley banker, referring to him as a "senior investment banker." But information in the regulator's order indicated that it was Michael Grimes, one of the nation's most influential technology bankers.

"Morgan Stanley is committed to robust compliance with both the letter and the spirit of all applicable regulations and laws," a Morgan Stanley spokeswoman, Mary Claire Delaney, said. Morgan Stanley, in settling the case, neither admitted nor denied guilt.

Mr. Grimes, through Ms. Delaney, declined to comment. Although the banker was referred to in the order, Mr. Grimes has not been personally accused of any wrongdoing.

The Facebook public offering was one of the most highly anticipated debuts of the last decade. In the run-up to the offering, investor interest was robust, prompting the company to increase the size of the offering and raise the share price to $38.

But the I.P.O. quickly turned into a debacle. The first day of trading was plagued with problems. The shares quickly fell below their offering price. The stock closed on Monday at $26.75.

Since the offering, Mr. Galvin and other regulators have opened wide-ranging investigations into Facebook and the banks that handled its debut. The continuing inquiries by the Securities and Exchange Commission and the Financial Industry Regulatory Authority are examining how the banks disseminated nonpublic information to big investors - and whether it conflicted with Facebook's public disclosures.

Regulators are also looking into Nasdaq, the exchange where Facebook trades. They are questioning whether the exchange failed to properly test its trading systems, which faltered during the stock offering.

The Massachusetts regulator is focused on Morgan Stanley's communications with analysts.

Shortly before the Facebook offering, analysts at several banks lowered their growth estimates for the social network. The move came after Facebook issued an amended prospectus, detailing a potential slowdown in revenue.

A Facebook executive, whose name was not given in the order but who was referred to as the treasurer, also reached out to analysts. Mr. Galvin's order asserted that the executive, in private conversations with analysts, had provided additional information on the revenue. The order indicated that Mr. Grimes was personally involved in the decision to file the new prospectus and to have Facebook communicate with analysts.

"Morgan Stanley's senior investment banker did everything but make the phone calls himself," the Massachusetts regulator said in a statement, referring to Mr. Grimes. "He not only rehearsed with Facebook's treasurer who placed the calls to the research analysts, but he also drafted the majority of the script Facebook's treasurer utilized."

Just 12 minutes after filing the amended prospectus with regulators on May 9, the Facebook treasurer phoned Wall Street research analysts from her hotel, according to the order. She had a 15-minute conversation with Morgan Stanley analysts, and then spoke with JPMorgan Chase and other banks.

The calls provided the analysts with additional information that did not appear in the amended prospectus, the order said. The conversations, for example, included "quantitative information regarding Facebook's" second-quarter 2012 projections.

This behavior, Mr. Galvin said, crossed the line, violating the regulatory settlement on stock research that Morgan Stanley and other companies signed in 2003. The agreement limits the communication between bankers and research analysts and bans companies from influencing stock reports to try to bolster banking operations.

The Morgan Stanley case falls into a curious gray area.

Bankers spend months preparing companies to go public, a role that includes providing guidance on research analysts. In this instance, Mr. Grimes did not personally place the calls, which would have been a clear violation of securities laws.

In his testimony before the Massachusetts regulator's staff, Mr. Grimes indicated that the bank had pushed for Facebook to file publicly an amended prospectus to avoid "the appearance" that the company was sharing information with a select group of clients rather than broadly with investors. Mr. Grimes, the order noted, consulted with Morgan Stanley and Facebook lawyers. Ultimately, Facebook's chief financial officer, David A. Ebersman, e-mailed the company's board to say that the new filing would "help us to continue to deliver accurate" information without "someone claiming we are providing any selective disclosure."

Mr. Grimes, in testimony with the regulator, further defended his role. While the Facebook treasurer was making the calls, he noted that "I was far down the hall so I wouldn't hear anything."

Even so, Mr. Grimes, according to the consent order, e-mailed Mr. Ebersman to say that the Facebook treasurer "was a champ in the hotel tonight," after the treasurer wrapped up the calls.

This is a more complete version of the story than the one that appeared in print.

Almost as soon as Facebook went public on May 18, questions arose and problems showed up with the trading of its shares. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) (B4)

Document NYTF000020121218e8ci0008q

The New York Times

Business/Financial Desk; SECTB
S.E.C. Says Asset Firm Manipulated Trades To Enrich Some Clients

By PETER LATTMAN
856 words
17 December 2012
The New York Times
NYTF
Late Edition - Final
3
English

Just a few years ago, sitting in his 19th-floor office with panoramic views of the Pacific Ocean, 3,000 miles from Wall Street, Peter J. Eichler Jr., had reached the top of the money management world.

His firm, Aletheia Research and Management, based in Santa Monica, Calif., controlled more than $10 billion. Mr. Eichler's stellar investment performance attracted the likes of Goldman Sachs and Morgan Stanley, which entrusted him with millions of dollars of their clients' money.

Late Friday, federal regulators accused Mr. Eichler of cheating some of his clients, the latest in a spate of legal troubles facing the 55-year old investor.

In a civil action filed in Federal District Court in Los Angeles, the Securities and Exchange Commission said that Mr. Eichler had perpetrated a ''cherry-picking'' scheme, steering profitable trades into his personal accounts while allocating money-losing investments into hedge funds that he managed.

Mr. Eichler's scheme, the government said, allowed his accounts and those of favored clients to earn $4.1 million in illegal profits, while he saddled the hedge funds with trading losses of about $4.4 million.

''Aletheia and Eichler had an obligation to treat all clients with equal fairness, but instead they cherry-picked winners and losers and unfairly disadvantaged investors in two hedge funds to profit themselves,'' said Michele Wein Layne, the head of the S.E.C.'s Los Angeles office.

In a statement issued through his lawyers, Mr. Eichler said he was cooperating with the S.E.C. and that his firm ''did not intentionally or otherwise harm any of its investment products or its clients.''

Named after the Greek word for ''truth and disclosure,'' Aletheia was started in 1997 by Mr. Eichler, a former Bear Stearns executive.

An inspired salesman, Mr. Eichler promoted a buy-and-hold investment style. In meetings, he liked to compare himself to the celebrated stock pickers Warren E. Buffett and Peter Lynch. For years, Aletheia trumpeted its track record in a splashy full-page ad in Barron's, the financial weekly.

Mr. Eichler lived like a Hollywood mogul. Until recently, a driver chauffeured him around Los Angeles in a Maybach sedan, shuttling him between Aletheia's headquarters and his multimillion-dollar homes in Pacific Palisades and Malibu.

Aletheia's outsize returns attracted marquee clients like the pension fund of Royal Dutch Shell and state pensions in Louisiana and Oklahoma. A number of brokerage houses, including Goldman and Morgan Stanley, anointed him a ''preferred manager'' and placed clients' money with him.

But the government says that since 2009, Mr. Eichler favored certain clients while shortchanging others. Mr. Eichler executed options trades -- speculative, leveraged bets on stocks that magnify profits and losses -- but waited about an hour to allocate them. He then placed winning trades in his own accounts and those of certain special clients, the commission said; losing trades were diverted to a pair of hedge funds that he managed.

Trades assigned to Mr. Eichler's personal accounts were profitable about 98 percent of the time, while only 32 percent of the trades allocated to the Aletheia hedge funds made money, according to the S.E.C.

The government's complaint added to Mr. Eichler's growing legal problems. Last month, his firm sought bankruptcy protection. The state of California has said it is owned more than $2 million in unpaid taxes and fines and has suspended Aletheia's corporate status.

Mr. Eichler is also the defendant in two lawsuits that accuse him and his firm of improper conduct. A wrongful-termination complaint filed in 2010 by Roger Peikin, a co-founder of Aletheia, said that Mr. Eichler had ''successfully rid himself of all internal controls, allowing him free rein to operate Aletheia as his personal fiefdom.''

And Proctor Investment Managers, a New York firm, sued Mr. Eichler over the terms of a deal in which Proctor had taken a 10 percent stake in Aletheia. Had it known about Mr. Eichler's ''penchant for dishonesty,'' Proctor said, it would not have partnered with him.

Both lawsuits accuse Mr. Eichler of treating the company as his personal piggy bank, including flying private jets for personal use.

As part of the S.E.C. complaint, regulators said that Mr. Eichler had also violated the law by failing to inform its investors this year that his firm was in precarious financial condition.

The firm still has $1.4 billion in assets under management, according to a recent securities filing, though bankruptcy court documents suggest the number has dropped to as low as $250 million. Goldman and Morgan Stanley have cut their ties to Aletheia.

The criminal authorities have also taken an interest in Mr. Eichler and his firm. Last month, prosecutors in the tax division of the United States attorney's office in Los Angeles asked the court to notify it of all pleadings made in the Aletheia bankruptcy case.

Aletheia Research and Management, led by Peter J. Eichler Jr., is facing widening legal troubles. (PHOTOGRAPH BY BUSINESS NEWS NETWORK)

Document NYTF000020121217e8ch0002y

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Deal Maker For Morgan Is Eased Out

By MICHAEL J. DE LA MERCED and SUSANNE CRAIG; Peter Eavis contributed reporting.
1,048 words
6 November 2012
The New York Times
NYTF
Late Edition - Final
1
English

10:35 a.m. | Updated

Since the financial crisis, Morgan Stanley has been struggling to squeeze more money out of its sales and trading business, which has suffered as the bank has pulled back on taking risk.

On Monday, the bank unexpectedly announced a shake-up in its senior management in an attempt to increase the profitability of that business. One of Wall Street's most prominent deal makers, Paul J. Taubman, will leave the company, while another executive, Colm Kelleher, will become the sole head of sales and trading.

Mr. Kelleher's power within the bank will be rivaled only by Greg Fleming, who oversees the wealth and asset management units, and James Gorman, the chief executive.

Mr. Kelleher and Mr. Taubman have been running the unit together for three years. The partnership has been plagued by infighting. But in recent weeks, Mr. Gorman told Mr. Taubman that he wanted just one executive in charge of the business, according to a person briefed on the matter who apoke anonymously because he wasn't cleared to speak publicly.

That one executive was Mr. Kelleher, 55, leaving Mr. Taubman, 51, a 30-year veteran of the company, the choice of staying in an arguably diminished role or leaving.

Behind Mr. Gorman's move was a desire to better align the sales and trading operations with the investment banking arm. The goal is to persuade clients who rely on Morgan Stanley for advice on mergers and stock sales to use it for trading services as well.

Mr. Kelleher will assume full responsibility for Morgan Stanley's investment banking and trading operations. Repairing the unit, which trades in bonds, currencies and commodities, will be of primary importance: it had a strong first quarter this year but slumped in the second, in part because of fears about Morgan Stanley's credit rating.

Shareholders will want the unit's profits to become more stable, a task made more difficult by new regulations that require holding more capital, damping crucial measures of profitability.

"They need to get fixed income right to earn acceptable returns for the stock to work," Glenn Schorr, an analyst with Nomura, said. "That fits squarely in Colm's world."

While Mr. Taubman was offered a number of different roles - and the option of not reporting to his former rival - he declined.

Mr. Kelleher, who was the bank's chief financial officer during the financial crisis, is now set up to be one of two potential successors to Mr. Gorman, along with Mr. Fleming. (There is no indication that Mr. Gorman, who is 54, plans to leave anytime soon, however.)

Mr. Taubman has been one of the most successful mergers bankers, having helped broker transactions like Comcast's takeover of NBC Universal and Wyeth's $66.8 billion sale to Pfizer. But perhaps his most important deal was working to secure an emergency lifeline from the Mitsubishi UFJ Financial Group of Japan that kept Morgan Stanley afloat during the financial crisis.

Under Mr. Taubman, Morgan Stanley has consistently come in first or second in Thomson Reuters' listings of top mergers advisers, dueling with Goldman Sachs for the top spot.

"Paul is an outstanding banker and business leader who has made exceptional contributions both to Morgan Stanley and to our investment banking franchise during his highly distinguished 30-year career here," Mr. Gorman said in an internal memorandum.

"On a personal level," he added, "Paul has been a valued strategic adviser to me on many critical issues we have faced these past few years."

Mr. Taubman, who has spent his entire career at the company, holds another distinction: As of January, he was Morgan Stanley's second-biggest individual shareholder, with 1.28 million shares as of January, according to Bloomberg data. That puts him ahead of Mr. Gorman, who had 1.17 million shares as of April. For years, Mr. Taubman made it a point of pride that he had not sold a share, even when Morgan Stanley's stock traded at multiples above where it now stands.

Mr. Taubman was elevated from the head of investment banking to co-head of the securities division in January 2010. That partnered him with Mr. Kelleher, a former accountant who won praise for his role in helping steer Morgan Stanley through the crisis.

The co-head structure was intended to pair executives with complementary skills and experiences. Instead, it led to prolonged clashes over the shared leadership of Morgan Stanley's most prominent business. The two differed not only in background but also in style: Mr. Taubman was the reserved intellectual and Mr. Kelleher the brash trading veteran fond of Cuban cigars and sarcastic humor.

Such was the rancor between them that other executives sometimes remarked upon the chilliness that descended on meetings involving the two men.

Yet while Mr. Taubman did a good job of keeping Morgan Stanley in the top tier of investment banking, Mr. Schorr said trading was likely to remain a major focus of the company's leadership for some time.

Mr. Gorman agreed. He wrote of Mr. Kelleher in an internal memo:

"His unique skill set and experience in global capital markets, as well as sales and trading, make him ideally suited to lead the institutional securities businesses."

Mr. Taubman's departure has prompted other changes in the securities division. Mark Eichorn and Franck Petitgas were named the global co-heads of investment banking, reporting to Mr. Kelleher. Jeff Holzschuh was named chairman of institutional securities to focus on maintaining crucial client relationships.

Investment bankers may benefit from one aspect of the timing of Mr. Taubman's departure. His staying until the end of the year will give him a voice in setting banker bonuses, which will be paid early in 2013.

This is a more complete version of the story than the one that appeared in print.

From left, Colm Kelleher, head of sales and trading; Paul Taubman, who is leaving; and James Gorman, the chief executive. (B1); Gregory Fleming, above, head of wealth and asset management, and Mr. Kelleher are potential successors to Mr. Gorman. (PHOTOGRAPH BY BRENDAN McDERMID/REUTERS) (B6)

Document NYTF000020121106e8b600091

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Despite a Paper Loss, Morgan Stanley Reports Improvements

By SUSANNE CRAIG
780 words
19 October 2012
The New York Times
NYTF
Late Edition - Final
4
English

6:08 p.m. | Updated

Morgan Stanley earnings rebounded strongly in the third quarter as skittish clients returned to doing business with the company.

For much of the year, Morgan Stanley lived under the threat of a big, three-notch rating downgrade by Moody's Investors Service. Ratings downgrades are bad news for any company, particularly financial institutions that depend on the confidence of their creditors and the companies they trade with.

In June, Moody's downgraded Morgan Stanley two notches to Baa1. That was not as far as some had feared, and resulted in a bump in business in the most recent quarter.

"On a tactical front, our objective this quarter was to demonstrate a recovery from the challenging second quarter," James P. Gorman, the chairman and chief executive, said in a call with analysts. "Clients did re-engage with us at the end of the second quarter and continued to do through the third quarter."

The bank actually posted a loss of $1.01 billion, or 55 cents a share, in the quarter because it incurred a $2.3 billion charge on the perceived improvement in its debt - an accounting-related cost that indicated greater public confidence in the stability of the bank.

Excluding that accounting charge, Morgan Stanley earned $561 million, or 28 cents, compared with 2 cents in the year-ago quarter and 4 cents better than analysts' expectations, according to a survey by Thomson Reuters.

Morgan Stanley produced adjusted net revenue of $7.6 billion, or $5.3 billion when excluding the one-time charge.

Investors bid up Morgan Stanley shares this week in anticipation of earnings, and then sold on the news, which failed to impress them. Shares closed on Thursday at $17.79, down 3.8 percent.

The bank showed steady gains in most of its business lines, notably in institutional securities. Excluding the debt charge, it had revenue of $3.6 billion, compared with $3 billion in the year-earlier period. This much-watched division is a big generator of revenue and has shrunk significantly since the financial crisis. It includes the company's investment bank, as well as stock and bond trading.

In the third quarter of 2007, institutional securities, which took greater risks to generate revenue, posted adjusted revenue of $4.6 billion. New regulations adopted since the financial crisis have forced Morgan Stanley to exit or reduce its presence in certain capital-intensive businesses, squeezing revenue.

The Moody's downgrade required the company to put up more capital against certain businesses, reducing its returns.

The quarter, while an improvement over recent periods, also highlights the long road the company still faces as it works to transform itself after the financial crisis.

Its return on equity in the quarter adjusted for the accounting charge was 3.5 percent. This year, it has not posted a quarterly return on equity above 10 percent. Morgan Stanley's return on equity in the third quarter of 2007 was roughly 17 percent.

"We will be very, very, very focused on noncompensation expenses," Mr. Gorman said on his plan to increase return on equity. "We are very attentive to our overall capital plan over the next couple of years. We are determined to make this global wealth management acquisition work."

Morgan StanleySmith Barney, the company's global wealth management division, posted net revenue of $3.3 billion, up slightly from the year-earlier period.

Morgan Stanley has been making a big push into wealth management, a low-risk business that tends to produce steady returns. Last month, Morgan Stanley reached a deal to buy out Citigroup's share of Morgan Stanley's share of Smith Barney, which had been a joint venture.

Asset management reported revenue of $631 million, compared with $205 million in the year-ago period.

The company's compensation expense climbed 6.7 percent, to $1.6 billion, while noncompensation expense rose 21 percent, an increase the bank attributed in large part to increased litigation costs. The company said it had almost reached its staff reduction targets for the year.

Morgan Stanley and other big Wall Street companies do not actually pay out compensation until the fourth quarter, after the company knows its performance for the full year. As a result, analysts and shareholders tend to pay more attention to just that quarter's compensation payout number.

This is a more complete version of the story than the one that appeared in print.

Morgan Stanley's headquarters at 48th Street and Broadway in New York. (PHOTOGRAPH BY ANDREW BURTON/REUTERS); James Gorman of Morgan Stanley.

Document NYTF000020121019e8aj0006h

The New York Times

DEALBOOK
Business/Financial Desk; SECTA

Citigroup's Chief Resigns His Post In Surprise Step

By JESSICA SILVER-GREENBERG and SUSANNE CRAIG; Michael J. de la Merced contributed reporting.
1,320 words
17 October 2012
The New York Times
NYTF
Late Edition - Final
1
English

9:32 p.m. | Updated

Weeks before Vikram S. Pandit's surprise resignation on Tuesday as chief executive of Citigroup, the banking giant's powerful chairman, Michael E. O'Neill, was privately huddling with other board members to plan how to replace him, according to several people briefed on the talks.

The frustrations of the board members had been building. This year the bank was publicly embarrassed when the Federal Reserve indicated Citi was not healthy enough to start paying more money back to shareholders.

Then in September, some board members felt that Citigroup had left billions on the table when it sold a stake in its wealth management unit to Morgan Stanley.

On Monday, after the stock market's close, Mr. O'Neill met with Mr. Pandit at the bank's New York headquarters and after their talk, Mr. Pandit, 55, offered his resignation.

In an interview, Mr. Pandit said that the decision to resign was entirely his own, adding that it was "something that I had been thinking about for a while" and that Monday "it occurred to me to go see Mike."

For weeks, though, Mr. O'Neill and other board members had been mapping out the transfer of power during meetings that occurred, in part, while Mr. Pandit was in Japan last week attending a gathering of the International Monetary Fund and the World Bank, said the people briefed on the matter, who declined to be named because the meetings were private.

Mr. Pandit, who navigated the troubled bank through the enormous market upheaval of the financial crisis and helped it shed billions of dollars in soured assets, announced his resignation to Wall Street on Tuesday morning, along with that of John Havens, the company's chief operating officer and a trusted lieutenant of Mr. Pandit's.

"This is a ludicrous management transition, the worst I've seen in my 25-year career," said Michael Mayo, an analyst at Credit Agricole Securities.

Mr. Pandit's replacement, Michael L. Corbat, a veteran of Citigroup who was leading much of its international business, will have to grapple with some of the same problems that dogged Mr. Pandit, including how to shed unprofitable assets and refocus the giant bank. The bank's shares, which lost nearly 90 percent of their value during Mr. Pandit's tenure, rose 1.6 percent to $37.25.

Mr. Pandit presided over a turbulent chapter in Citi's history, steering the bank back from the brink of collapse during the financial crisis when Citi received a $45 billion lifeline from the federal government, along with other federal support.

The bank was in such dire shape that Mr. Pandit said he would take a token $1 annual salary until the firm started earning profits again. Mr. Pandit was heralded when he later brought the bank back to profitability. By the end of 2010, the government had cashed out its remaining investment in the company, earning a $12 billion profit for taxpayers on the bailout.

Mr. Pandit's total direct compensation, which includes salary, bonus payouts and some stock awards, totals $56.4 million in his years as chief, according to the research firm Equilar. But his biggest payout from Citi was the $165 million that he received when the bank bought Old Lane Partners, the hedge fund he co-founded after leaving Morgan Stanley.

With Mr. Pandit's exit, just two men who ran Wall Street banks during the financial crisis remain in their posts: Jamie Dimon of JPMorgan Chase and Lloyd C. Blankfein of Goldman Sachs. Both firms rebounded from the upheaval much more quickly and strongly than Citigroup.

Power dynamics on the bank's board shifted against Mr. Pandit this year when Mr. O'Neill replaced Richard Parsons, who was viewed as friendlier toward Mr. Pandit. Along with a handful of vocal board members, Mr. O'Neill started raising questions about the direction that Mr. Pandit was taking the bank, according to those people briefed on the matter.

Some board members saw the Federal Reserve's rejection in March of Citi's proposal to buy back shares and increase its dividend payments as a reflection, in part, of Mr. Pandit's poor relationship with the bank's regulators, according to several people close to the bank.

Then some board members were angered when the final valuation of the wealth management unit, which is jointly owned with Morgan Stanley, was considered a coup for Morgan. The banks agreed to value the brokerage operation at $13.5 billion, and as a result, Citi took a $2.9 billion write-down during the third quarter.

Mr. Pandit's resignation was a surprise on Tuesday because its third-quarter earnings, released the day before, were seen as relatively strong, excluding the write-down and one-time items.

"There is nothing better than our third-quarter earnings announcement to demonstrate definitively that we have turned this company around," Mr. Pandit said in a memo to employees.

Inside the bank, the news was greeted with shock. A huge gasp was audible on the trading floor in Manhattan as employees watched the news on monitors showing CNBC, according to several employees. When Mr. Havens's resignation was reported, some employees on the trading floor jumped up from their chairs.

On his trip to Asia last week, Mr. Pandit did not give any outward indication that he knew of the storm brewing back in New York. "He was notably upbeat," said one Wall Street executive close to Mr. Pandit. "There is no way he knew this was coming."

Mr. Pandit returned from his trip on Saturday night and spent Sunday preparing for Monday's earnings call. At that point, the decision for him to resign had not been made, he said in the interview on Tuesday. Mr. O'Neill said in a conference call with investors only that Mr. Pandit had submitted his resignation and the board had accepted it.

Mr. Pandit ascended the ranks as quickly as he descended them. In late 2007, when he took over as chief for Charles Prince as the bank was announcing large losses related to subprime mortgages and credit market turmoil, Mr. Pandit had been at the bank only about five months.

The bank, which grew out of a string of acquisitions by Sanford I. Weill, had become emblematic of financial institutions that are too large to manage because of labyrinthine bureaucracy and underperforming divisions.

Throughout his tenure, Mr. Pandit has worked to transform Citigroup into a smaller bank that focused on safer investment banking and consumer and corporate lending.

Still, shareholders were apprehensive. Despite recent gains in the stock, the shares had fallen 89 percent since he took over. In April, they rejected a board-approved pay package that increased Mr. Pandit's pay to $14.9 million in 2011, up from $1 a year in 2010. That rebuke surprised some board members, adding fodder for those who wanted to replace Mr. Pandit.

Some banking analysts questioned whether anyone, even Mr. Corbat, would be able to right the course of Citi. In a note to clients, Meredith Whitney said, "No C.E.O. will be able to change these facts in the near-term."

Mr. Pandit did not have an employment agreement that guaranteed him a hefty payout in the event of an unexpected departure, according to Disclosure Matters, a company that analyzes corporate documents.

Michael J. de la Merced contributed reporting.

This is a more complete version of the story than the one that appeared in print.

Vikram S. Pandit, the outgoing chief of Citigroup. Board members were said to be planning Mr. Pandit's departure for weeks.; Michael E. O'Neill, the chairman of Citigroup's board. (PHOTOGRAPHS BY SHANNON STAPLETON/REUTERS) (B6)

Document NYTF000020121017e8ah00046

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Overseas Lending Offers Bright Spot for Citigroup

By JESSICA SILVER-GREENBERG
967 words
16 October 2012
The New York Times
NYTF
Late Edition - Final
3
English

5:18 p.m. | Updated

Citigroup's wager that international lending will offset a sluggish recovery in the United States started to pay off Monday when the bank reported third-quarter earnings.

Although Citigroup's quarterly profit plummeted because of a multibillion-dollar loss related to its continued exit from Morgan StanleySmith Barney, the bank increased its lending, particularly in Latin America, and snagged a larger share of capital markets business.

Citigroup, the nation's third-largest bank by assets, behind JPMorgan Chase and Bank of America, reported net income of $468 million, or 15 cents a share, on revenue of $14 billion, compared with net income of $3.8 billion, or $1.23 a share, in the quarter a year earlier.

Beneath the drop in revenue, though, the bank has a number of strong core businesses. Under the leadership of Vikram S. Pandit, Citi has devoted much of its resources and tied its hopes for future profitability to banking in developing countries, where there is comparatively more growth and less crippling economic uncertainty than in the United States.

Last month, Citigroup agreed to sell its part of Morgan StanleySmith Barney, the joint brokerage venture, to Morgan Stanley, beginning with a 14 percent stake. Citigroup said at the time that it was writing down the value of its remaining interest in the business.

Citigroup is still trying to work through the glut of bad assets it holds in its Citi Holdings unit, which reported a $3.56 billion loss in the third quarter, up from a $1.23 billion loss in the same period of last year. Without the charge related to Morgan StanleySmith Barney, the losses in that unit are reduced to $679 million.

Excluding the loss on its brokerage unit, a one-time accounting charge and credit adjustments, the bank reported a profit of $3.27 billion, or $1.06 a share, up from $2.57 billion, or 84 cents a share, in the period a year earlier. The results beat analyst expectations of earnings per share of 96 cents on revenue of $18.7 billion. The bank's stock was up more than 5 percent, to $36.66, on the results.

Since barely limping through the 2008 financial crisis, Citi has been working to forge a new direction that will help restore the bank to profitability. As part of its strategy, Citi has worked to sharply reduce the bank's expenses and credit losses while trying to shed its most troubled assets.

The bank's efforts at a revival have been hampered, though, by obstacles and missteps. In March, citing concerns that Citi might not have enough cash to withstand the most extreme economic downturn, the Federal Reserve scuttled the bank's plans to raise its dividend or increase share buybacks. The move was a tough blow for Citi, especially because most of the bank's rivals were allowed to raise dividend payments. After the Fed decision, Citi's shareholders rebuffed a $15 million pay package for Mr. Pandit, the chief executive, in April.

On Monday, Citi was able to trumpet growth in its core businesses like consumer lending and investment banking. "Our core businesses showed momentum during the quarter as we increased lending and generated higher operating revenues," Mr. Pandit said in a statement.

John C. Gerspach, the bank's chief financial officer, echoed Mr. Pandit's assertion on a conference call on Monday, pointing out the "underlying growth story in the numbers."

Citi is being buoyed by greater demand for loans in Latin America. Mr. Gerspach said the consumer lending unit in Latin America was having "4 percent, 5 percent growth quarter over quarter." Revenue in the region grew 7 percent, to $2.4 billion.

Profit in its international consumer banking unit fell 3 percent, to $862 million, from $885 million in the period a year earlier. Activity in Asia was hurt, in part, by lower interest rates that tamp down revenue the bank can get from its lending in the region.

In South Korea, Citi had to navigate a shifting regulatory landscape, especially when the country's officials capped interest rates on a variety of consumer loans.

While Citigroup did not get the same help from mortgages as rivals like JPMorgan Chase and Wells Fargo, which reported robust profits on Friday from a refinancing frenzy, the bank reported an 18 percent increase in profit in its North American banking segment, in part because of mortgage lending. Even though mortgage originations were down, revenue in the unit was up, in part as a result of widening spreads on the loans.

Across the bank, consumer banking posted revenue gains of 2 percent, to $10.2 billion, from the period a year earlier, while net income in the consumer banking unit increased 18 percent, to $2.2 billion.

Another bright spot for Citigroup on Monday was the 67 percent increase in profit from its securities and banking unit, as the bank benefited from revived capital market activity.

"We continue to gain market share in investment banking," Mr. Gerspach said. He pointed to "improved market share in every investment product."

Equity trading in the investment bank soared 76 percent from the same period a year earlier.

Some analysts took note on Monday. The results in the investment banking and securities business were "much better than we were expecting," Gerard S. Cassidy, an analyst with RBC Capital Markets, said in a research report.

Other banking analysts were also heartened by Citi's results. "Several moving parts, but mostly progress everywhere," Glenn Schorr, an analyst with Nomura, said in a research note.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020121016e8ag0006u

The New York Times

Business/Financial Desk; SECTB
A.C.L.U. Filing Suit Over Loans

By JESSICA SILVER-GREENBERG
1,032 words
15 October 2012
The New York Times
NYTF
Late Edition - Final
1
English

The American Civil Liberties Union is accusing Morgan Stanley of fueling the production of risky, expensive loans that targeted African-American borrowers.

In the lawsuit, expected to be filed on Monday, the A.C.L.U. claims that Morgan Stanley is culpable for predatory loans made through the New Century Financial Corporation because the investment bank lent billions of dollars to New Century, a now-defunct subprime lender, and pressured it to make troublesome loans to African-American borrowers who could not afford them.

Morgan Stanley packaged the loans made by New Century and sold them to pension funds and other large investors. But, the lawsuit claims, the bank went beyond the traditional role of an investment bank by requiring that the mortgage company churn out the wildly profitable loans that came with ''dangerous'' characteristics.

For example, the lawsuit says, many of the loans ultimately sold to investors were ''stated income'' loans, in which borrowers could estimate their incomes without having to provide supporting documentation.

The action against Morgan Stanley follows a series of lawsuits brought by investors and federal and state officials against some of the nation's largest banks. The A.C.L.U. suit, which is to be filed in federal court in New York and will seek class-action certification, claims that Morgan Stanley violated the Fair Housing Act and the Equal Credit Opportunity Act.

Rubbie McCoy, one of the five named plaintiffs in the lawsuit, took out a loan from New Century in 2006 with an adjustable rate starting at 12.14 percent, which could not fall below 10.75 percent. It came with ''excessive fees and costs,'' the suit said.

Ms. McCoy, a single mother, said she could not afford the payments, but the broker told her to ''fudge'' her income, the suit says. Now, she is fighting to save the Detroit home that she shares with her four children.

''Having a house was a way to keep my kids grounded,'' Ms. McCoy said.

Morgan Stanley declined to comment on Sunday.

Last week, in an action against another bank, federal prosecutors in New York sued Wells Fargo, the country's largest mortgage lender, saying it made ''reckless'' loans for more than a decade that soured, and subsequently left them to the government's insurance program to pay.

In its first salvo earlier this month, the federal mortgage task force formed by the Justice Department sued Bear Stearns & Company, currently a unit of JPMorgan Chase, accusing the company of widespread misconduct during the heady days of the housing boom in the packaging and sale of mortgage securities.

Morgan Stanley came under fire from the Massachusetts attorney general in 2010 for its packaging of New Century mortgage loans. In June 2010, the bank agreed to pay $102 million to close an investigation by the attorney general, Martha Coakley, into questionable lending practices.

Ms. Coakley said the bank ignored warning signs about the quality of New Century's loans and tried to court the lender's business by lowering its loan standards.

The A.C.L.U.'s complaint says, ''Morgan Stanley actively encouraged lending tactics that increased the levels of risk associated with individual loans.''

The subprime loans cited in the suit were made from 2004 to 2007. New Century, one of the country's most prolific subprime lenders, went bankrupt in March 2007. Based on lending data from 2005 through 2007, the suit says, the Office of the Comptroller of the Currency determined that New Century was responsible for the greatest share of loans in foreclosure in the 10 metropolitan areas blighted by the highest foreclosure rates.

A former employee who testified in a separate civil suit against Morgan Stanley said that bank officials knowingly bought loans in which borrowers' debt levels were more than 50 percent of their total income, according to the A.C.L.U. lawsuit.

The bank, according to one former employee, typically did not require New Century to conduct a second appraisal of homes, fearing that the second look would result in a lower assessment and prevent the loans from being securitized, the suit says.

While other investment banks purchased New Century's loans, the lawsuit claims that Morgan Stanley ''purchased a greater proportion of New Century's loans than any other institution.''

The loans generated by New Century disproportionately targeted African-American borrowers, the lawsuit claims.

African-Americans living in the Detroit area were 70 percent more likely to wind up with a subprime loan than were white borrowers with similar financial characteristics, according to an analysis, contained in the lawsuit, of New Century loans made between 2004 and 2006.

The Justice Department has accused two major banks of discriminating against black and Hispanic customers. A settlement in one case was announced in July, when Wells Fargo agreed to pay $175 million to settle claims that the bank steered roughly 34,000 minority customers into subprime mortgages, even though they could have qualified for mortgage with lower fees and less risk.

The largest settlement of a residential fair-lending violation came last December, when Bank of America agreed to pay the Justice Department $335 million to put to rest claims that its Countrywide unit discriminated against minority borrowers.

For Ms. McCoy, the $79,200 loan that allowed her to buy a home in 2006 quickly turned into an albatross, she said. She struggled to pay the monthly amount, which at the time consumed more than half of her monthly income.

To help her qualify for the loan, Ms. McCoy said, the broker inflated her income, in part, by ratcheting up the money she received for child support.

Last May, Ms. McCoy was unable to afford her monthly mortgage payments. She said she had little hope of saving her home. ''I am just waiting for them to kick me out,'' she said.

Rubbie McCoy, a named plaintiff in a pending lawsuit against Morgan Stanley, said she had little hope of saving her Detroit home.; Ms. McCoy, with her sons Damekio, 19, left, and Corey, 18. (PHOTOGRAPHS BY FABRIZIO COSTANTINI FOR THE NEW YORK TIMES) (B4)

Document NYTF000020121015e8af00035

The New York Times

Business/Financial Desk; SECTB
Morgan Stanley to Take Over Smith Barney, With Citigroup's Blessing

By MICHAEL J. de la MERCED
1,070 words
12 September 2012
The New York Times
NYTF
Late Edition - Final
3
English

Morgan Stanley has reached an agreement to take full control of the Smith Barney retail brokerage joint venture, a business that it has called a crucial part of its future.

The deal announced on Tuesday, ending a wrangle of some months between the company and its partner, Citigroup, was a coup for Morgan Stanley. Now the challenge will be whether the business of advising wealthy customers on their investments can help lift Morgan Stanley's sagging fortunes as its core investment banking and trading operations contend with difficult markets and a heavier regulatory burden.

After negotiations that stretched well into Monday night, Morgan Stanley and Citigroup agreed to value the brokerage operation at $13.5 billion. That figure was significantly closer to Morgan Stanley's estimate of the unit's worth, letting it buy the rest of the enterprise at a lower price. Citigroup said it would take a $2.9 billion after-tax write-down from the transaction.

The two companies outlined steps that would allow Morgan Stanley to buy the 49 percent of the business that it did not already own within three years. That will begin with the purchase of a 14 percent stake that will close by the end of September. Morgan Stanley will buy an additional 15 percent by next June.

That will fulfill a major part of the turnaround effort undertaken by Morgan Stanley's chief, James Gorman. In a statement, he described the agreement as ''a significant milestone for Morgan Stanley in the implementation of our strategy.''

The joint venture, Morgan Stanley Smith Barney, was born in 2009, forged from Citigroup's Smith Barney unit and Morgan Stanley's counterpart, as a way to benefit both companies. For Citigroup, which had long identified the brokerage as a nonessential asset to be sold off to free up capital, the deal will speed up its own rehabilitation plan.

''As we have shown, the more we put the past behind us, the more we can focus on our future, which is in the core businesses in Citicorp,'' Vikram Pandit, Citigroup's chief, said in a statement.

Howard Chen, an analyst at Credit Suisse, called the settlement a win for both firms, allowing them to more quickly achieve their objectives. ''It's a point of progress in capital management and increases the potential for capital return to shareholders,'' he said.

Shares of Morgan Stanley jumped nearly 4 percent on Tuesday, to $17.25, while those in Citigroup rose 2.6 percent, to $32.66.

The retail brokerage business is one that Mr. Gorman knows well, having overseen both Merrill Lynch's and Morgan Stanley's units. Analysts say that it is an operation that requires relatively little capital for the company, while its most successful wealth advisers can bring in millions of dollars in revenue.

And Morgan Stanley Smith Barney is one of the biggest such businesses around. It accounts for the bulk of its Morgan Stanley's wealth management business, which has nearly 17,000 wealth advisers and $1.7 trillion in assets under management.

Roughly 74 percent of the overall division's clients have entrusted more than $1 million in assets to the firm's wealth advisers.

The unit reported a $418 million profit for the first half of the year, up 15 percent from the year-ago period. Its revenue slipped 4 percent, however, to $5.9 billion.

But Mr. Gorman's strategy isn't without risk. The most productive advisers are constantly being poached by rival brokerages, or can choose to set up shop on their own. And when those individuals leave, they nearly always take their entire roster of clients, draining their former employers of millions of dollars in assets to manage.

Morgan Stanley Smith Barney's own brokers have complained that the integration of the two firms' operations has been anything but smooth, marred by technology issues. And rivals like Bank of America's Merrill Lynch and Wells Fargo have been competing fiercely for clients.

While a clearly drawn path to Morgan Stanley's eventual takeover of the brokerage has existed for years, getting there was difficult. In July, the two companies brought in an independent appraiser, Perella Weinberg Partners, to value the brokerage operation after each provided vastly different estimates of its worth. Morgan Stanley estimated its worth at a little over $9 billion, while Citigroup said it was worth closer to $23 billion.

While some of the disparity between the two estimates could be attributed to tactical posturing, both sides had substantive disagreements over how to value the brokerage and related assets like tax benefits, according to a person involved in the talks.

That prompted senior executives at both firms to plead their case. Besides Mr. Gorman, Morgan Stanley called upon Robert Kindler, the firm's head of global mergers and acquisitions, and Gary Shedlin, a specialist in financial institutions. And Citigroup drew upon Edward J. Kelly, the chairman of its institutional clients group and a top dealmaker, and David Head, a co-head of financial institutions investment banking.

An e-mail from Perella Weinberg with the firm's appraisal -- less than $13.5 billion -- reached Mr. Gorman and Mr. Pandit in their Midtown Manhattan offices shortly after 4 p.m., according to people briefed on the matter.

Because of rules set by both firms governing the appraisal process, the low figure meant that Morgan Stanley Smith Barney could have valued the business at more than $10 billion below Citigroup's estimates. That could have led to a significant accounting charge for the bank.

And because Perella Weinberg's appraisal covered only the 14 percent stake that Morgan Stanley is seeking to buy at the moment, further haggling over the brokerage's value loomed.

Both firms then decided to negotiate all-encompassing settlement that would obviate the need for additional drama. Senior negotiators for Citigroup arrived at Morgan Stanley's offices off Times Square early Monday evening, for talks that stretched long into the night.

What emerged was Tuesday's deal -- and a looming end to the Smith Barney name, coined from the 1938 merger of Charles D. Barney & Company and Edward B. Smith. The unit will be re-christened Morgan Stanley Wealth Management.

James Gorman, chief executive of Morgan Stanley. (PHOTOGRAPH BY PETER FOLEY/BLOOMBERG NEWS)

Document NYTF000020120915e89c00017

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Penalty In Price-Fixing Gets Approval

By PETER LATTMAN
571 words
8 August 2012
The New York Times
NYTF
Late Edition - Final
5
English

Over objections from consumer groups and New York officials, a federal judge on Tuesday approved a $4.8 million settlement between the Justice Department and Morgan Stanley over accusations of price fixing in the electricity market.

Yet even as he signed off on the settlement, Judge William H. Pauley III of Federal District Court in Manhattan expressed "misgivings" about the deal, saying the dollar amount was too low.

"Given the government's stark allegations of manipulative conduct against Morgan Stanley, disgorgement of $4.8 million is a relatively mild sanction," Judge Pauley wrote. "There is a risk that a large financial services firm like Morgan Stanley could view such a modest penalty as merely the cost of doing business."

The judge said he agreed to the settlement out of deference to government's arm's-length negotiations with Morgan Stanley. In his ruling, Judge Pauley cited a recent decision by a federal appeals court that criticized another federal judge,Jed S. Rakoff. The appeals court suggested that Judge Rakoff might have overstepped his authority when he rejected a contentious settlement between the government and Citigroup.

The Morgan Stanley case was the first attempt by the Justice Department to penalize a bank accused of using derivatives to help clients violate federal antitrust laws. Morgan Stanley, the government said, aided the efforts of KeySpan Corporation, a major utility company in New York, to manipulate electricity prices.

In 2006, the bank entered into a complex swap agreement with KeySpan that gave the company a stake in the profits of its competitor, Astoria Generating Company Acquisitions. Morgan Stanley also represented Astoria in the transaction.

The government said that the deal allowed KeySpan to push up the price of electricity in New York, costing consumers about $300 million. Morgan Stanley made $21.6 million from serving as an intermediary in the deal.

Morgan Stanley settled the accusations with a $4.8 million payment to the federal government without admitting any wrongdoing. In 2010, KeySpan, which is owned by the British energy company National Grid, paid $12 million to resolve its role in the case, also without admitting any wrongdoing.

Late last year, after the government solicited public comments on the settlement, AARP, an association of middle-age and older Americans, filed a complaint that the deal was too lenient and Morgan Stanley should be forced to disgorge all of its revenue from the transaction.

AARP also objected to Morgan Stanley's not having to admit that it violated the law. In addition, the payment will go to the United States Treasury and not to utility customers, the group said.

A Morgan Stanley spokeswoman declined to comment. A Justice Department spokeswoman said in a statement that the ruling "should send a message to the financial services community that the antitrust division will vigorously pursue anyone who engages in anticompetitive conduct in the derivatives industry and that they will be held accountable for their actions."

Michael Gianaris, a New York state senator, said he was extremely disappointed with the judge's ruling.

"By allowing Morgan Stanley to reap more than $16 million in profit despite their misdeeds, it does even less to deter other banks from engaging in the exact same scheme in the future," he said.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020120808e88800073

The New York Times

Business/Financial Desk; SECTB
2 Banks Dispute Value of Brokerage Firm

By SUSANNE CRAIG and PETER EAVIS
791 words
26 July 2012
The New York Times
NYTF
Late Edition - Final
5
English

Brokerage firms were once the bread and butter of Wall Street. Still, a recent conflict between Morgan Stanley and Citigroup has exposed just how hard it is for even experienced hands in the business to quantify the value of such operations.

During Morgan Stanley's earnings call last Thursday, its chief executive, James P. Gorman, trumpeted the strengths of its brokerage unit, saying it was an important business for the bank. Yet days earlier, as part of negotiations with Citigroup, Morgan Stanley placed a surprisingly low valuation on the same unit.

That apparent inconsistency reveals how much is at stake as Morgan Stanley wrangles with Citigroup over acquiring a bigger share of the unit they jointly own, Morgan Stanley Smith Barney. The unit, formed of the union of Citigroup's Smith Barney division and Morgan Stanley's brokerage businesses, manages the assets of wealthy individuals and is led by Gregory J. Fleming.

Mr. Gorman has said that he wants it to play a big role in Morgan Stanley's future.

On a conference call last Thursday, Mr. Gorman was enthusiastic about Morgan Stanley Smith Barney. ''Our wealth management business will considerably increase its value to our clients and financial advisers through superior functionality, and to our shareholders through enhanced and stable earnings,'' he said.

The bank bought a 51 percent stake in Morgan Stanley Smith Barney from Citigroup in 2009, and the current talks are over what it should pay for an additional 14 percent.

In a financial filing with the Securities and Exchange Commission last Thursday about the talks, Citigroup implied that Morgan Stanley had made a bid that placed the value of all of the operations of Morgan Stanley Smith Barney at about $9 billion. Citigroup says it is worth about $23 billion. Because of the distance between the assessments, both banks must now call in a third-party appraiser, the investment bank Perella Weinberg Partners.

Executives from Morgan Stanley Smith Barney will give an overview of the business to Perella Weinberg in a meeting Thursday at Morgan Stanley's offices in Purchase, N.Y., said people who had been briefed on the talks but were not authorized to speak on the record because the discussions were private.

Officials from Citigroup and Morgan Stanley will also attend the first meeting with the appraisers, these people said. Representatives for both companies declined to comment on the meeting.

Then, next week, Citigroup and Morgan Stanley will separately make their cases to Perella Weinberg.

The difference between the banks' valuations is probably influenced by negotiating tactics. Morgan Stanley wants to have full control over the business for as low a price as possible. Meanwhile, Citigroup probably wants it to be worth more. If it is worth less than Citigroup estimates, the bank, under accounting rules, must make a write-down on its balance sheet. That could lead to a large and possibly embarrassing charge against earnings and capital.

A valuation by Perella Weinberg that is far off both banks' assessments could call into question the accuracy of their balance sheets.

According to a recent filing, Citigroup's balance sheet gives Morgan Stanley Smith Barney a value of around $22 billion, which is comparable to what Citi has told Morgan Stanley it is worth.

Morgan Stanley has not stated the precise value its balance sheet places on the unit, but filings suggest it could be $10 billion to $14 billion. The upper end of that range is far from the $9 billion implied by its bid for the 14 percent stake. Citigroup may have most to lose if the appraisal is far different from its valuation.

Wall Street analysts value Morgan Stanley Smith Barney at around $15 billion. But that would be $7 billion below Citigroup's valuation. In such a case, Citigroup would book a loss, though only on its stake, so it would be less than $3.5 billion. That would hurt some important measures of capital, but not others. Any such damage would not escape the notice of regulators, like the Federal Reserve, which in March rejected Citigroup's request to return more capital to shareholders.

But Morgan Stanley may also face questions about its decision to emphasize its wealth management business. Morgan Stanley's trading businesses are underperforming, so it is even more dependent on wealth management.

If Perella Weinberg attaches a value on the low side, close to $9 billion, analysts say it could lead Morgan Stanley shareholders to have doubts about the wealth management business, too.

Gregory J. Fleming leads Morgan Stanley Smith Barney, which manages assets and is owned by Citigroup and Morgan Stanley. (PHOTOGRAPH BY BRENDAN MCDERMID/REUTERS)

Document NYTF000020120726e87q00071

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Less Trading At Morgan; Revenue Slips 24%

By MICHAEL J. DE LA MERCED
866 words
20 July 2012
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDED

5:30 p.m. Updated

While many banks are getting battered by the trading slump, Morgan Stanley is feeling the pain more acutely.

On Thursday, the bank reported a 24 percent drop in revenue for the second quarter, driven by a significant decline in bond, currency and commodity trading.

Wall Street banks have faced a largely inhospitable environment in recent years, racked by economic uncertainty, the European debt crisis and a new regulatory system. But Morgan Stanley has been trying to navigate the market while also working to transform itself by shedding riskier businesses and building its steadier wealth management arm.

The bank had started to show signs of improvement in previous quarters, but then it got buffeted by the recent trading downdraft. For the quarter, Morgan Stanley reported that earnings came in at 29 cents a share, widely missing the 43 cents a share that analysts had expected. It posted a loss in the same period of 2011.

The bank also faced the repercussions from a recent credit rating downgrade. The bank was forced to post $2.9 billion in additional money to back its trades in the quarter, after Moody's Investors Service cut its rating by two notches.

The results spooked investors. On a day when the market was up, shares of Morgan Stanley fell as much as 7 percent before recovering slightly to finish the day down 5.3 percent at $13.25.

Glenn Schorr, an analyst at Nomura, wrote in a research note that it was ''hard to pick out too many positives'' from the firm's quarterly results.

And Howard Chen of Credit Suisse described the quarter in a report to investors as ''weak and disappointing.''

As the bank looks to bolster its profit, Morgan Stanley has taken steps to clamp down on expenses and head count. On Thursday, James P. Gorman, Morgan Stanley's chairman and chief executive, said that the firm expected to shrink its employee base by 7 percent by the end of the year.

The firm is also seeking to cut other expenses, including by moving some staff to cheaper locations like Baltimore and Glasgow, and being more selective in filling positions.

''Although global economic uncertainty remains a headwind, we are proactively positioning the firm for success,'' Mr. Gorman said in a statement. ''We continue to be focused on taking the necessary steps to deliver strong returns for our shareholders.''

Even so, the bank faced headwinds, particularly in trading. In fixed income, Morgan Stanley has tried to simply its offerings, moving away from complicated and capital-intensive products that can prove risky in tough environments.

But the "challenging macro backdrop" weighed on profits, Ruth Porat, the bank's chief financial officer, said in a telephone interview.

With the European debt crisis heating up, investors became increasingly uncertain and trading volume plummeted. Revenue in fixed income fell by 60 percent in the second quarter, to $770 million, a drop that outstrips competitors.

Morgan Stanley is also dealing with the fallout from the credit downgrade. In February, Moody's put big banks on warning, with Morgan Stanley facing a potential three-notch downgrade.

Some clients pulled back, as they waited for Moody's to complete its review, Ms. Porat said.

It only added to the bank's pain that the rating agency delayed the results, she added. In June, Moody's ended up cutting the firm's rating by two levels.

"As the month wore on, clients took a wait-and-see attitude," she said. "Time was not our friend."

Other businesses suffered as well. Advisory revenue was halved from the year-ago period, to $263 million, as fewer corporations pursued mergers or sales of stocks and bonds.

Still, Mr. Gorman highlighted the division's performance, pointing to big mandates like leading Facebook's initial public offering. (The firm has defended its work taking Facebook public, but the social networking company's stock has fallen 24 percent since the initial public offering in May.)

Morgan Stanley did have one area that posted a gain, the global wealth management group that now includes Morgan Stanley Smith Barney. The unit reported a 23 percent gain in pretax income, to $393 million, although net revenue declined slightly.

The weakness is reducing its profitability. The bank's return on equity now stands at 3.5 percent, down from 12.2 percent in 2010. Goldman Sachs, one of the firm's competitors, said this week that its 5.4 percent return on equity was "unacceptable."

Revenue in Morgan Stanley's second quarter was $6.95 billion, down from $9.2 billion.

This is a more complete version of the story than the one that appeared in print.

Online Correction: July 19, 2012, Thursday

This article has been revised to reflect the following correction: An earlier version of this post misstated the drop in Morgan Stanley's revenue as 35 percent, not 24 percent.

Morgan Stanley, with offices in Midtown Manhattan, missed profit estimates for the quarter as it reported a decline in bond, currency and commodity trading. (PHOTOGRAPH BY ERIC THAYER/REUTERS) (B4)

Document NYTF000020120720e87k0000f

The New York Times

Business/Financial Desk; SECTB
Court Papers Undercut Ratings Agency Defense

By GRETCHEN MORGENSON
982 words
3 July 2012
The New York Times
NYTF
Late Edition - Final
1
English

Documents in a civil suit in federal court appear to threaten a legal defense that credit ratings agencies have long used to fend off liability for misjudging securities that later cost investors vast sums in losses.

For years, the ratings agencies have contended that the grades they assign debt securities are independent opinions and therefore entitled to First Amendment protections, like those afforded journalists. But newly released documents in a class-action case in Federal District Court in Manhattan cast doubt on the independence of the two largest agencies, Moody's Investors Service and Standard & Poor's, in their work with a Wall Street firm on a debt deal that went bad as the credit crisis began.

The case, filed in 2008 by a group of 15 institutional investors against Morgan Stanley and the two agencies, involves a British-based debt issuer called Cheyne Finance. Cheyne was a structured investment vehicle, created in 2005, that raised $3.4 billion in short-term debt from investors. The company was meant to profit by purchasing longer-term obligations that generated more in interest than the company paid to its lenders.

But Cheyne collapsed in August 2007 under a load of troubled mortgage securities. The institutions that bought almost $1 billion of its debt, including the Abu Dhabi Commercial Bank, the fund manager SEI Investments and the Public School Employees' Retirement System of Pennsylvania, lost much or all of their money.

The investors have argued that their losses resulted from fraud and negligence by Morgan Stanley, which marketed the deal, and the ratings agencies that graded it highly. They contend that the agencies knew the data and assumptions used to assess Cheyne's obligations did not support the ratings, which did not reflect the risks in the portfolio.

Lawyers for Morgan Stanley and the ratings agencies have countered that the losses were caused by a decline in market prices that was unrelated to credit performance. ''We believe the allegations in this case are without merit,'' a spokeswoman for Morgan Stanley, Mary Claire Delaney, said. ''We have defended ourselves vigorously throughout this litigation and will continue to do so.''

Representatives from both Moody's and S.& P. said that the case was without merit and that the documents were taken out of context. They also vowed to defend themselves vigorously in the matter.

A Moody's spokesman added, ''Our ratings are fully independent and based on robust and objective analytical criteria.''

The lawyers representing the plaintiffs declined to comment on the filing.

When Cheyne issued its various securities in 2005, Moody's and S.& P. rated them all investment grade. Even though Cheyne's portfolio was bulging with residential mortgage securities, some of its debt received the agencies' highest ratings, a grade equal to that assigned to United States Treasury securities. About two years later, as mortgage losses began to balloon, both agencies downgraded Cheyne's debt below investment grade, to what is known as junk.

After the institutions that bought Cheyne's debt sued Morgan Stanley and the ratings agencies, Moody's and S.& P. immediately mounted a First Amendment defense. But Shira A. Scheindlin, the federal judge overseeing the matter, ruled in September 2009 that it did not apply because the Cheyne deal was a private offering whose ratings were distributed to a small group of investors and not the public at large. Judge Scheindlin agreed with the plaintiffs, who argued that the ratings were not opinions but were misrepresentations that were possibly a result of fraud or negligence.

''The disclaimers in the Information Memoranda that 'a credit rating represents a rating agency's opinion regarding credit quality and is not a guarantee of performance or a recommendation to buy, sell or hold any securities,' are unavailing and insufficient to protect the rating agencies from liability for promulgating misleading ratings,'' Judge Scheindlin ruled.

The judge also ruled against the defendants' motion that documents and depositions generated in the case should be sealed. As a result, e-mails and deposition transcripts were filed with the court on Monday, showing how closely agency officials rating the deal had collaborated with Morgan Stanley, the firm that hired them to rate Cheyne's securities.

For example, when the primary analyst at S.& P. notified Morgan Stanley that some of the Cheyne securities would most likely receive a BBB rating, not the A grade that the firm had wanted, the agency received a blistering e-mail from a Morgan Stanley executive. S.& P. subsequently raised the grade to A.

And when a Morgan Stanley colleague asked for information about the Cheyne deal, Rany Moubarak, an analyst at Morgan Stanley on the deal, wrote in an e-mail: ''I attach the Moody's NIR (that we ended up writing)'' referring to the new issue report published by Moody's in August 2005.

The court filings also demonstrate a lack of methodology for analyzing the Cheyne debt. For example, in an e-mail before the deal was sold, S.& P.'s lead analyst wrote to a colleague: ''I had difficulties explaining 'HOW' we got to those numbers since there is no science behind it. The documents show that the lead analyst at Moody's noted there was ''no actual data backing the current model assumptions'' for segments of the Cheyne deal.

The ratings agencies were also reluctant to turn down business from issuers of complex securities like Cheyne, the documents show. Perry Inglis, a former managing director in S.& P.'s structured finance unit, wrote to colleagues in an e-mail in February 2005: ''I don't want to miss one deal because of our model assumptions either. Is there any possibility of 'tweaking' the default table to get all of this so that we don't have to compromise?''

Document NYTF000020120703e8730006u

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Morgan Stanley Wants to Raise Stake in Brokerage Venture to 65%

By SUSANNE CRAIG
521 words
1 June 2012
The New York Times
NYTF
Late Edition - Final
3
English

Morgan Stanley's chief executive, James P. Gorman, has made it clear he wants to get his hands on the brokerage business it owns with Citigroup. Now, he will spend the next few months figuring just how much the business, Morgan Stanley Smith Barney, is worth to his bank.

The two financial firms will be wrangling over the value of a 14 percent stake in the joint venture, which Morgan Stanley announced that it would buy on Thursday.

It is an emblematic deal for Morgan Stanley. The financial firm has highlighted the group, which encompasses nearly 17,200 financial advisers and $1.7 trillion of client assets, as a pillar of its turnaround effort to reshape its strategy and to temper risk in the wake of the financial crisis.

Morgan Stanley Smith Barney, led by Gregory J. Fleming, is proving to be a bright spot for its parent. Last year, Morgan Stanley's global wealth management group, which includes the joint venture, posted net revenue of $13.4 billion, up from $12.6 billion in 2010. In the first quarter of 2012, global wealth management recorded pretax profit of $387 million, up 12.5 percent from the period a year earlier.

Despite the strength, the two banking giants may have a tough time hashing out the purchase price. One Wall Street executive joked Thursday that Morgan Stanley will be the low bid, and Citigroup will be the high one.

The joint venture was forged in the middle of the financial crisis in January 2009, when the deal was valued at roughly $20 billion. Since then, Citigroup has listed the 49 percent stake on its books at roughly the original level.

But Citigroup does not mark the price of the brokerage up or down with the market - and the bank believes it's potentially worth more than its balance sheet would indicate. The firm has said that the midpoint of its current range of estimates for the brokerage is higher than the value on its books, according to a recent filing.

In the next week, the banks are expected to hire outside advisers to help them come up with a fair market value for their stakes. The process will be more art than science, since each side may have its own interpretation of the business.

The two banks have up to 90 days to agree on a price. But if they do not agree, an arbitrator will decide the matter.

After these negotiations are completed, Morgan Stanley will hold 65 percent of the joint venture. It has the option to buy another 15 percent next year, and the rest of it in 2014.

But Morgan Stanley is already acting like the outright owner. The firm has now moved most of the former Smith Barney advisers onto the Morgan Stanley system. It is expected Morgan Stanley will also eventually drop the Smith Barney from the brokerage's name.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020120601e8610003b

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Ex-Morgan Stanley Official Pleads Guilty to Violating Anticorruption Laws

By PETER LATTMAN
864 words
26 April 2012
The New York Times
NYTF
Late Edition - Final
7
English

One of Morgan Stanley's former real estate executives in China pleaded guilty on Wednesday to violating federal anticorruption laws as the American government continues to crack down on citizens who commit fraud and bribery abroad.

The executive, Garth R. Peterson, who once ran the Shanghai office of Morgan Stanley's global real estate business, was charged with secretly acquiring millions of dollars' worth of property investments for himself and a Chinese government official. The official, in turn, steered business to Morgan Stanley's funds, the government said.

Mr. Peterson on Wednesday also settled a civil action brought by the Securities and Exchange Commission on the same matter.

Mr. Peterson, 42, an American citizen living in Singapore, faces a maximum of five years in prison and a fine of up to $250,000 over the criminal charge.

As part of his settlement with the S.E.C., Mr. Peterson agreed to be barred from the securities industry, pay more than $250,000 in disgorgement and give up his interest in Shanghai real estate - currently valued at about $3.4 million.

His sentencing is set for July 17.

Frank Wohl, a lawyer for Mr. Peterson, did not immediately return a request for comment.

''Mr. Peterson admitted today that he actively sought to evade Morgan Stanley's internal controls in an effort to enrich himself and a Chinese government official,'' said Lanny A. Breuer, the head of the Justice Department's criminal division. ''Because of his corrupt conduct, he now faces the prospect of prison time.''

The case is the latest in a flurry of activity surrounding the Foreign Corrupt Practices Act, a 35-year-old federal law that prohibits American companies and executives from bribing government officials in foreign countries to win business.

Both the Justice Department and the Securities and Exchange Commission, which brought a parallel case against Mr. Peterson, have redoubled their efforts to crack down on international bribery.

The New York Times reported on Wednesday that the S.E.C. had begun an inquiry into whether Hollywood movie studios had illegally made payments to Chinese officials to ease the way for expanding into the huge potential market there. And on Sunday, The Times reported on allegations of widespread bribery at Wal-Mart's Mexican subsidiary. In response to the reports, Wal-Mart said it had enhanced its internal controls to ensure that it was complying with the Foreign Corrupt Practices Act.

The case filed against Mr. Peterson, the former Morgan Stanley executive, dates back to the 2008 financial crisis. It was a time in which the real estate boom in China had gone bust, saddling Morgan Stanley with large losses in its Chinese real estate portfolio. Mr. Peterson was fired in 2008.

In February 2009, the bank disclosed in an S.E.C. filing that it had fired an employee in China after uncovering potential violations of the act. That employee was Mr. Peterson, the bank's highest-ranking real estate executive in the country. Morgan Stanley said that it had provided both American and Chinese officials with evidence that Mr. Peterson had secured deals by bribing Chinese officials.

Federal authorities laid out the specifics of Mr. Peterson's misconduct on Wednesday. Mr. Peterson, who speaks fluent Chinese, helped establish Morgan Stanley as one of the most prominent property investors in China. Through its real estate vehicles, known as MSREF, the bank put hundreds of millions of dollars into Chinese real estate. Mr. Peterson was involved in at least 28 deals in China, according to the S.E.C. complaint.

Mr. Peterson also had a secret business relationship with the former chairman of the Yongye Enterprise Company, a state-owned entity that exerted substantial control over real estate investing in Shanghai. In one instance, Mr. Peterson defrauded Morgan Stanley by transferring a multimillion-dollar ownership stake in a Shanghai office building to himself and Yongye's former chairman, according to court documents.

The government said that Mr. Peterson and his co-conspirators, including an unnamed Canadian lawyer, later made a profit of more than $2.5 million on the illegal deal.

The government, which places a premium on corporate cooperation in Foreign Corrupt Practices Act cases, said that Morgan Stanley voluntarily disclosed Mr. Peterson's conduct and cooperated throughout the investigation. It added that the bank had an adequate system of internal controls in place to guard against the illegal bribing of foreign government officials.

Mark Lake, a spokesman for Morgan Stanley, said the firm was pleased that the matter was resolved.

Robert S. Khuzami, the director of enforcement at the S.E.C., said: ''Peterson crossed the line not once, but twice. He secretly bribed a government official to illegally win business for his employer and enriched himself in violation of his fiduciary duty to Morgan Stanley's clients.''

David Barboza contributed reporting.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Lanny A. Breuer, assistant attorney general of the Justice Department's criminal unit, announced the charges Wednesday. (PHOTOGRAPH BY CAROLYN KASTER/ASSOCIATED PRESS)

Document NYTF000020120426e84q0006n

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Threat of Credit Downgrade Persists for Morgan Stanley

By PETER EAVIS and SUSANNE CRAIG
1,421 words
20 April 2012
The New York Times
NYTF
Late Edition - Final
1
English

Morgan Stanley's rebuilding efforts are starting to take hold, as it posted one of its strongest quarters since the financial crisis.

The bank showed healthy gains in core areas like wealth management and equity sales. Bond trading - the great profit machine on Wall Street - also kicked into high gear. In all, first-quarter profit surged 27 percent to $1.4 billion, excluding one-time accounting charges.

The results were proof, chief executive James P. Gorman told analysts during a conference call on Thursday, that Morgan Stanley was ''on the right track.''

But a cloud still looms over the bank: the threat of a credit rating downgrade that could hurt its huge derivatives business.

The group, which facilitates trading in the complex securities, may lose business and have to come up with billions of extra dollars if Morgan Stanley's credit rating is cut.

Moody's Investors Service, which is considering whether to downgrade 17 large financial companies, said Morgan Stanley's rating could decline by as much as three notches to a level below that of the bank's chief rivals.

Morgan Stanley cannot easily protect itself from this potential blow.

In 2008 at the height of the financial crisis, the investment bank kept its derivative business in its core operations rather than shifting it into a subsidiary that enjoyed greater taxpayer protection and a higher credit rating. If Morgan Stanley had made that move as Goldman Sachs did, a ratings cut would not have the same sting.

Morgan Stanley might not have that option anymore. With the financial system more stable, bank regulators are unlikely to allow Morgan Stanley, or any other bank, to move large parts of its derivatives business into a taxpayer protected subsidiary, where the government could be on the hook for potential losses.

Morgan Stanley has played down the effect of a downgrade, saying only 8 percent of its derivative contracts have rating triggers that could immediately prompt customers to move their business. And, Morgan Stanley notes, clients look at other data, including the bank's ratings by agencies, when picking trading firms.

Mr. Gorman has also been emphasizing that the bank has taken steps in the last three years that should help buoy its credit rating. It has ended or reduced its presence in certain high-risk trading operations and expanded into wealth management, a lower risk business that tends to produce steadier results.

The latest financial results reflect some of the changes.

In the first quarter, Morgan Stanley reported earnings of 71 cents a share, handily beating analysts' estimates. Its institutional securities group, which includes stock and bond trading, reported revenue of $5 billion, excluding the accounting charge. That is up from $3.76 billion a year earlier. Revenues in the global wealth management division, which includes Morgan Stanley Smith Barney, were essentially flat.

Shares of the bank rose 2.3 percent on Thursday to close at $18.07.

''We have done a lot to narrow the impact of any potential ratings change,'' Ruth Porat, Morgan Stanley's chief financial officer, said during the conference call. Despite significant improvements, Morgan Stanley executives still face questions about the threat of a downgrade, and how it affects business. A big concern is the derivatives book, which is the third largest among American banks, according to figures from the Office of the Comptroller of the Currency.

Derivatives are big business on Wall Street. Banks, pension funds and other big investors use them to bet on the direction of stocks, bonds, interest rates and commodities.

Those customers pay close attention to the credit rating of the bank executing the derivatives trades, because they need to be certain the bank can pay what it owes. If a bank loses its credit rating, clients may opt to move their business elsewhere. Or they could demand the that bank post more cash to back its derivatives trades. Either can be costly.

''Definitely, Morgan Stanley's credit rating is a pressing issue for the bank right now,'' said Mike Mayo, a bank analyst with the brokerage firm CLSA Asia Pacific Markets.

Morgan Stanley's derivatives business is even more vulnerable than those of its rivals. In the financial crisis in 2008, Morgan Stanley and Goldman Sachs converted to bank holding companies. While the designation came with added regulation, it also allowed the companies to take advantage of the government's bailout funds and other perks.

A few months later, the Federal Reserve exempted Goldman from a rule intended to stop a financial company from using a deposit-taking bank subsidiary with taxpayer backing to support other parts of the company.

With the waiver, Goldman was able to move much of its derivatives business into an insured bank, where it remains. Normally, a strict limit on the size of such transfers would have prevented Goldman from making the shift.

Goldman now warehouses $44 trillion of its derivatives - 92 percent - in that subsidiary, Goldman Sachs Bank USA, according to figures from the Office of the Comptroller of the Currency. The credit rating on the insured bank is one notch higher than on Goldman's parent company because the subsidiary has the backing of the government.

Morgan did not make the same choice. While it received the exemption from the Fed, it mainly shifted other types of assets into its insured bank. Ms. Porat said Morgan Stanley had been slowly moving derivatives into the insured bank. But only 3 percent of Morgan Stanley's $52 trillion of derivatives are at Morgan Stanley Bank N.A., the insured subsidiary.

''It really surprises me that Morgan Stanley didn't move all its derivatives into the bank,'' said Saule T. Omarova, a professor at University of North Carolina School of Law who has written about exemptions the Fed granted to banks in the crisis.

Morgan Stanley declined to explain why it did not shift its derivatives like Goldman.

The bank does not have many options now. It could move a large amount of derivatives into a higher-rated nonbank affiliate. But it probably would need to raise or transfer a lot of capital to support the rating of the subsidiary, which would be costly.

If Morgan Stanley asked the Fed for an exemption to shift the derivatives into the government- insured bank, Morgan Stanley might meet with resistance from regulators and lawmakers.

Last October, several members of Congress wrote to bank regulators to express their concern that Bank of America had moved derivatives from its Merrill Lynch subsidiary into an insured bank.

While the Fed did not mention any specifics about Bank of America in its response a month later, it highlighted the rule that caps the amount of business that can be transferred into, or transacted with, an insured bank. The transferred business is not permitted to exceed 20 percent of the insured bank's capital.

That cap could severely limit how much business Morgan Stanley could move.

Its insured bank had $8.8 billion of capital at the end of 2011, according to a regulatory filing, and 20 percent of that is $1.76 billion. That sum probably would be exceeded if Morgan Stanley transferred a large part of its derivative business, given the size of its book.

The overhaul of financial regulation makes it even harder for banks to move large amounts of derivatives.

Part of the Dodd-Frank legislation, effective in July, allows the Federal Deposit Insurance Corporation, a bank regulator, to deny a transfer, even if the Fed approves one. And even if both regulators give waivers, a bank could face scrutiny from Congress.

''We passed Wall Street reform to equip regulators with the tools they need to protect American taxpayers and ensure the soundness of our financial system,'' said SenatorSherrod Brown, Democrat of Ohio, who was behind the letters sent to regulators in October about the Bank of America derivatives transfers.

''If the very agencies charged with preventing unnecessary risk in our financial systems are approving huge exemptions, I'm committed to addressing that.''

This is a more complete version of the story than the one that appeared in print.

PHOTOS: Morgan Stanley headquarters in New York. The bank made big gains in wealth management, equity sales and other core areas. (PHOTOGRAPH BY SCOTT EELLS/BLOOMBERG NEWS) (B1); James P. Gorman, Morgan Stanley's chief, cited earnings as proof of being ''on the right track.'' (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS) (B4)

Document NYTF000020120420e84k0007y

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

Convicted Fund Manager Ordered to Pay $10 Million to Morgan Stanley

By PETER LATTMAN
663 words
22 March 2012
The New York Times
NYTF
Late Edition - Final
6
English

A federal judge has ordered Joseph F. Skowron, a onetime star hedge fund manager now serving jail time for insider trading, to pay $10.2 million to his former employer, Morgan Stanley.

In a ruling late Tuesday, Judge Denise L. Cote of Federal District Court in Manhattan ruled that Mr. Skowron, who was a portfolio manager at FrontPoint Partners, which is owned by Morgan Stanley, owed the bank $3.8 million in legal fees as a result of Mr. Skowron's crimes.

The judge also ordered Mr. Skowron to return $6.4 million to Morgan Stanley, representing one-fifth of his approximately $32 million in pay during the four years he perpetrated his scheme.

Those amounts are a fraction of the $45 million that Morgan Stanley had requested in a victim's compensation claim that the bank had made as part of the government's criminal case.

Mr. Skowron's lawyers argued that Morgan Stanley did not deserve any restitution because the bank was not a victim of the crime, in part because the insider trading offense was not a fraud against the bank. Judge Cote rejected that argument.

''His crimes deprived Morgan Stanley of the honest services of its employee, diverted valuable corporate time and energy in the defense of Skowron and FrontPoint, and injured Morgan Stanley's reputation,'' she wrote.

In a statement, Josh Epstein, a lawyer for Mr. Skowron, disputed Judge Cote's ruling.

Mr. Epstein said that the defense was reviewing the court's decision and considering its options, but that Mr. Skowron ''has made it clear he will accept all responsibility for his actions under the law.''

''However, we do not believe that Morgan Stanley is even entitled to the amount of restitution it has secured with this decision,'' Mr. Epstein said.

Mr. Skowron, a Yale-educated doctor, was one of numerous physicians who left the medical profession during the market boom to pursue Wall Street riches. He became a highly regarded hedge fund manager at FrontPoint Partners, which was acquired by Morgan Stanley in 2006.

But last year, federal prosecutors charged Mr. Skowron with bribing a French doctor to leak him confidential results about clinical drug trials. Mr. Skowron pleaded guilty in August and also admitted lying to federal regulators in an attempt to cover up his crimes.

Mr. Skowron, known as Chip, was sentenced to five years in prison and ordered to forfeit $5 million. He is serving his prison term at a federal penitentiary in Minersville, Pa.

Judge Cote did not require Mr. Skowron to repay Morgan Stanley the $33 million that the bank had paid the Securities and Exchange Commission to settle claims against FrontPoint stemming from Mr. Skowron's scheme. The $33 million represented losses FrontPoint avoided as a result of the insider trading - money that neither the hedge fund nor Morgan Stanley was entitled to by law, the judge said.

The ruling also noted that when Morgan Stanley spun out the now-defunct FrontPoint in 2011, it agreed to indemnify the fund for any disgorgement penalty resulting from the government's investigation.

Kevin H. Marino, the lawyer representing Morgan Stanley in its restitution claim, said in an interview on Tuesday that he was pleased with the court's ruling. He added that the bank planned to seek the $33 million from Mr. Skowron in a separate civil action.

Mr. Epstein, in his statement, criticized the bank for pursuing a $33 million claim that Judge Cote had already rejected.

''It is startling that Morgan Stanley would ignore the court's clear decision to make a grab for money to which it has no legal right,'' Mr. Epstein said.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Joseph F. Skowron was once a star hedge fund manager at FrontPoint Partners. (PHOTOGRAPH BY LOUIS LANZANO/BLOOMBERG NEWS)

Document NYTF000020120322e83m0003d

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Under Volcker, the Old Dividing Line in Banks May Return

By STEVEN M. DAVIDOFF
1,161 words
22 February 2012
The New York Times
NYTF
Late Edition - Final
4
English

The Volcker Rule, and its limitations on bank trading, may have the unintended effect of dividing the world back into investment banks and commercial banks. The unusual twist here is that Goldman Sachs and Morgan Stanley may end up stuck on the wrong side of the fence, treated under the law as commercial banks instead of the investment banks they once were.

The backdrop to this issue is that it is increasingly clear that banks are simply unable to make as much money from proprietary and other trading businesses as they did before the financial crisis. Take Goldman Sachs. In 2007, Goldman had revenue of $7.6 billion from traditional investment banking, but $31.2 billion in revenue from trading-related operations. Last year, Goldman had just $17.3 billion in revenue related to trading operations.

This is a trend likely to accelerate. Under the Dodd-Frank regulatory overhaul, derivatives are to be traded on central clearing agencies rather than between investment banks as before the financial crisis. Heightened bank capital requirements prevent warehousing large amounts of securities and increase the cost of financing. Then there is the Volcker Rule, which is likely to substantially reduce much of the banks' profits from their trading businesses.

Last week, Moody's Investors Service put Goldman, Morgan Stanley and 15 other global banks on a ratings watch, saying that ''the combination of changed operating conditions and increased regulatory requirements and restrictions has diminished these firms' longer-term profitability and growth prospects.''

The Volcker Rule, to be sure, also has benefits for the large banks. The more complicated the Volcker Rule, the less regulators will be able to understand it, leaving the banks with more loopholes. In addition, the rule may pose a barrier to entry to some commercial banks that can't afford the sophisticated regulatory apparatus to comply with the rule.

But given the sums involved, the question is whether we have reached a breaking point. How will Goldman, Morgan and the other banks that depend on trading revenue try to reclaim their profits?

One possibility would be for the banks to stop being bank holding companies, a regulatory status they chose in order to survive the financial crisis.

Before the Gramm-Leach-Bliley Act overturned the depression-era Glass-Steagall Act in 1999, the American financial system was divided between investment banks and commercial banks. The commercial banks were insured by the Federal Deposit Insurance Corporation and subject to heightened regulation to ensure the safety of their deposits.

In contrast, the five large investment banks - Goldman, Morgan Stanley, Merrill Lynch, Bear Stearns and Lehman Brothers - were not regulated as banks. In exchange for lighter regulation, the five investment banks financed themselves through the private markets and could not rely on the Federal Reserve for financing of their operations.

After Gramm-Leach-Bliley, the investment banks largely stayed unregulated while the commercial banks like Citigroup and Bank of America behaved more like investment banks, increasing their trading operations.

During the financial crisis, the old-style investment banking model fell apart. Lehman Brothers collapsed and Bear Stearns nearly so. Merrill Lynch was acquired by Bank of America.

Morgan Stanley, meanwhile, took a life-saving investment from Mitsubishi UFJ Financial Group, while Goldman took capital from Warren E. Buffett's Berkshire Hathaway. Morgan and Goldman also elected to become bank holding companies and regulated as banks.

By the time the dust settled, all of the nation's banks now looked like commercial ones and the investment banking model was dead. Goldman and Morgan were now subject to stricter regulation and oversight. As the Volcker Rule looms, becoming a bank holding company has proved to be a Faustian bargain.

Still, the Volcker Rule is not all gloom and doom for everyone on Wall Street. It is actually a real-life experiment in market efficiency. If the Volcker Rule truly makes the cost of markets higher, then it will reduce the profits of the big banks.

But the Volcker Rule does not apply to private equity funds, hedge funds and smaller investment banks that do not themselves own banks.

So if the Volcker Rule is really a drag on the economy, hedge funds and smaller investment banks that are not subject to it may try to interject themselves and bridge the gap that the investment banks can no longer fill.

The latter-day MF Globals of the worlds - nonbank financial firms - will have an incentive to become the next Goldman or Morgan, though it is hoped with better luck than Jon S. Corzine's actual MF Global. These newcomers will not be burdened by the full application of the Dodd-Frank Act and can sidestep the Volcker Rule.

The possibility of a new firm emerging overnight to challenge the big banks is low, but markets move quickly and there are some big players who are capable of emerging in the coming years. The Blackstone Group, Kohlberg Kravis Roberts & Company and Apollo Global Management, for example, are turning themselves from private equity firms into general service investment managers and engaging in investment banking businesses. Whether it is private equity firms, smaller investment banks or a new operation, given the profits to be made, it is likely Wall Street will find a way to close this gap.

The Volcker Rule may thus in the long term create a divided world where the old investment banks are challenged by new upstarts who are not limited by this rule. If these new competitors arise, it may even be that Goldman and Morgan reach the breaking point and give up their bank holding company status, removing the Volcker Rule straitjacket. This would allow all of them to return to their old trading practices.

Technically, this is legally possible. Each of these banks would have to elect not to be treated as a commercial bank and dispose of any banking operations. Each would still be subject to regulation, but would rid itself of the Volcker Rule's restrictions on trading. But while this is technically possible, given the public mood right now, neither is likely to want to risk the public censure it would bring.

While the idea of Goldman, Morgan or even Merrill Lynch ridding itself of its bank holding company status seems far-fetched today, the idea of new investment banks emerging is not.

The Volcker Rule, for all its good intentions, may perhaps unleash a burst of rapid financial innovation to do something it never intended: recreating the prefinancial crisis division between investment banks and commercial banks.

This is a more complete version of the story than the one that appeared in print.

DRAWING (DRAWING BY HARRY CAMPBELL)

Steven M. Davidoff, a former corporate lawyer, is a professor of law and finance at Ohio State University. His columns can be found at nytimes.com/dealbook. Follow @StevenDavidoff on Twitter.

Document NYTF000020120222e82m0005h

The New York Times

FUNDAMENTALLY
Money and Business/Financial Desk; SECTBU
Why Credit Downgrades Can Be Poor Predictors

By PAUL J. LIM
818 words
22 January 2012
The New York Times
NYTF
Late Edition - Final
6
English

THOUGH Wall Street is worried that the European debt crisis will worsen, the stock market barely budged when Standard & Poor's downgraded the credit ratings of several euro zone nations -- in the process stripping France, Austria and the euro zone's primary rescue fund of their AAA standing.

In fact, the Morgan Stanley Capital International Europe index and the Standard & Poor's 500 index of domestic stocks both rose in the days immediately after the news.

Surprised? Don't be. Historically, credit downgrades have been a lousy predictor of stock market performance.

When Moody's downgraded Japan in November 1998, for example, Japanese shares surged by more than 26 percent in the subsequent 12 months. When Canada lost its AAA credit rating in 1992, its equities gained 30 percent in the next year. And since the United States was taken down a notch by S.& P. last August, the S.& P. 500 has gained more than 9 percent.

This is not to say credit downgrades are a buy signal. It's just that analysts at the major rating agencies are reacting to the same news and information that the rest of the market has already seen. So downgrades are really a lagging indicator, says Jeffrey Kleintop, chief market strategist at LPL Financial.

''With little move in the stock or bond market on the news of the downgrades, it is clear that markets had already made the credit adjustments and are now recognizing improvement'' in the region, he says.

MARKET watchers note that while the rating agencies' views carry weight, they merely represent one opinion among many on Wall Street. ''I don't see why their voices should be louder than the rest of the voices in the wilderness,'' says James W. Paulsen, chief investment strategist at Wells Capital Management.

Indeed, when S.& P. downgraded United States' credit rating last year to AA+ from AAA, conventional wisdom said the move should make investors wary of Treasury debt, which in turn would push up the yield on 10-year Treasuries. Yet since the downgrade was announced on Aug. 5, the yield on 10-year Treasuries has actually fallen to 2.03 percent from 2.56 percent, a sign that global investors still view United States government debt as a haven.

Mr. Paulsen likens downgrades to interest rate moves by the Federal Reserve. ''By the time the Fed officially raises rates, the market will have fully discounted it,'' he says.

So instead of taking cues from the rating agencies, how should investors try to gauge the European crisis?

Mr. Paulsen says he prefers to rely on market indicators to judge whether angst over Europe is growing or shrinking. Among them are the performance of cyclical sectors of the economy versus defensive ones, and the so-called junk spread -- the difference in yields between risky high-yield bonds and safe Treasuries. Both indicators speak to the level of fear in the market.

Since last summer, the consumer discretionary sector (companies that make things households want, not need) has returned more than 13 percent, versus 8 percent for the more conservative consumer-staples sector. At the same time, the junk spread has narrowed modestly, which speaks to a growing sense in the market that even if Europe slips into recession, its effect on the domestic recovery will be modest.

Robert C. Doll, chief equity strategist at the investment manager BlackRock, says the simplest thing that investors can do is pay attention to European bond yields, especially those for debt issued by troubled nations like Italy.

On the day S.& P. downgraded Italy by two notches, to BBB+ from A, 10-year Italian bonds were paying 6.64 percent. Today, it's 6. 34 percent.

Simon Hallett, chief investment officer at the asset management firm Harding Loevner, says the real issue ''is about the health of companies in the region, not the health of the countries.''

And, on that count, the consensus among market analysts is reasonably positive. Despite growing fears that several countries in that region are in or near a recession, companies in the S.& P. 350 Europe index are still expected to enjoy earnings growth of nearly 10 percent this year, says Christine Short, senior manager at S.& P. Capital IQ .

Not only is that up from the 1 percent overall earnings growth that European companies had last year, it compares favorably with the 8 percent profit growth projected for domestic companies.

Of course, those are just estimates. And they're likely to change as the year progresses, so it's good to pay attention to them. They may be more important than those tarnished credit ratings.

E-mail: fund@nytimes.com.

Paul J. Lim is a senior editor at Money magazine.

Document NYTF000020120122e81m0009q

The New York Times

COMMON SENSE
Business/Financial Desk; SECTB
The Dawn Of Lower Pay On Wall St.

By JAMES B. STEWART
1,589 words
21 January 2012
The New York Times
NYTF
Late Edition - Final
1
English

The day of reckoning may be at hand.

This week, the venerable investment bank Morgan Stanley stunned a generation of Wall Street bankers and traders by announcing that it was capping cash bonuses for 2011 at $125,000. Its top executives, including the chief executive, James P. Gorman, and his management team, will receive zero cash. And the Republican presidential front-runner, Mitt Romney, reignited a national debate over taxing the rich and Wall Street pay by revealing that his tax rate was in the 15 percent range, joining the billionaire investor Warren E. Buffett among the ranks of the favored few who pay lower rates than people earning just a small fraction of their millions. Mr. Romney hasn't revealed his tax returns or total income, but disclosure forms indicate he received $9.6 million in 2010 and part of 2011 and had a net worth in excess of $250 million, much of it derived from his days as head of the private equity firm Bain Capital.

For most people, $125,000 is a lot of money, and for people on Wall Street, the cash bonus comes on top of base pay that has increased in recent years. The average base pay for managing directors at Morgan Stanley has risen to $400,000 and to $600,000 at Goldman Sachs. Employees also earn large parts of their bonuses in deferred cash and stock.

But $125,000 is a pittance by Wall Street standards. Citigroup paid Andrew Hall, a star commodities trader, a bonus of $98 million in 2008, the year of the financial crisis. As recently as 2010, many traders and investment bankers were arguing over whether their yearly bonuses should be eight figures rather than seven. Compensation at the 25 largest firms hit a record $135 billion that year, according to an analysis by The Wall Street Journal.

This week, Wall Street veterans were marveling that after paying federal and New York's high state and city income taxes, Morgan Stanley employees who get the maximum cash bonus would take home just $65,000 to $75,000 on top of their base pay. ''That's an eye-opener,'' said Michael Driscoll, a former top trader at Bear Stearns and Geosphere Capital, a hedge fund, who is now a visiting professor at Adelphi University. Many people on Wall Street, he said, have ''multiple homes at high cost and with big mortgages, private school payments, college tuitions, car leases and payments. They were out over their skis with leverage and assumed the good days would last forever.''

Last year, Morgan Stanley increased the deferred portion of cash compensation to 60 percent from 40 percent, a move that was greeted with howls from employees who said they didn't have enough advance notice and needed the money to meet mortgage payments, school costs and other fixed expenses. ''The cost of living is so high in the New York area that we found it was a genuine hardship,'' a Morgan Stanley spokeswoman told me this week. This year, cash bonuses for employees making $250,000 or less will be paid in full, with none of it deferred, although the bonuses are being capped at $125,000.

Even for those making seven figures or more, the cuts ''are a blow,'' Mr. Driscoll said. ''The effect is psychological. To a large extent, Wall Street keeps score by what you're paid. If you're making $750,000 or $1 million, you're doing O.K. by any reasonable standard. A lot of people make that kind of money. But it affects people's psyches. It's a hard thing for the other 99 percent to grasp, but for better or worse, that's how they measure their value and self-worth: what their paycheck is. I'm not trying to defend that, but that's how it is. Now they're being paid less and less. They're being pilloried in the press and by the 99 percent. Even Republican candidates are attacking you. People in the industry are being treated like pariahs.''

An investment banker I know lamented, "Contrary to popular opinion, bankers are people, enduring the human condition like other people. The industry is experiencing massive retrenchment, waves of redundancies, endless public criticism and repeated cutbacks in compensation levels."

Overall compensation on Wall Street this year is expected to drop at least 30 percent, reflecting the dismal financial results reported this week by the industry standard-bearers Goldman Sachs, JPMorgan Chase, Bank of America and Morgan Stanley. The compensation ratios are hard to evaluate because this year's payouts include the deferred portions of previous years' awards, and include only the current components of this year's.

Still, a trend seems clear. At Goldman Sachs, compensation was just over 42 percent of revenue, and at JPMorgan Chase it was 34 percent for the investment bank -- low by historical standards. Even with the new caps on cash bonuses, Morgan Stanley's compensation was something of an outlier, representing 51 percent of revenue, which reflects high costs at its global wealth management division, where brokers are paid on commission. Still, Morgan Stanley's ratio was sharply lower than 2009's 62 percent, which Mr. Gorman at the time vowed "no one will ever see again."

In a regulatory filing Friday, Morgan Stanley said Mr. Gorman's total compensation for 2011, including stock and deferred cash, would drop by 25 percent, to $10.5 million from $14 million in 2010.

Wall Street firms typically aim for a compensation ratio of less than 50 percent of revenue, but especially in weak years, they've often gone higher. One of the maddening aspects of Wall Street pay, at least for those outside the industry, is that in good times bankers and traders have demanded what they consider their fair share, often invoking the adage "we eat what we kill." But in lean years, they've also insisted on high pay, threatening to jump to a competitor. What is different this year is that firms seem willing to call that bluff.

"In prior years, you'd see the ratios jump in down years," said Brian Foley, an executive compensation expert. "You aren't going to see that this year. The retention argument was always there, but it's tough to make that argument this year because much of the Street is down. Where are they going to go? People are cutting back or even eliminating investment banking. They're laying people off. A hedge fund? There are only so many hedge funds. And hedge funds haven't had such a good year, either. Plus, the job security there is weak. It's a limited opportunity, and now it's constrained. Private equity is also limited. Those doors are closing."

And European banks like Deutsche Bank and UBS, which once aggressively poached Wall Street talent, are reeling from the European debt crisis and have all but stopped hiring. UBS announced that it was sharply curtailing its investment banking operations after years of expansion. One Wall Street executive told me that "frankly, what's different from last year is that the playing field feels even. Last year, they could walk across the street to Deutsche Bank, and we had some defections. This year, there's very little risk. A top trader isn't going to walk out the door."

And a person with knowledge of Mr. Gorman's decision at Morgan Stanley said he "wants people to think long term."

Another factor has been the Federal Reserve, which has been closely scrutinizing Wall Street compensation practices in an effort to align incentives with longer-term interests and to curb incentives for excessive risk-taking. "We're very aware of the environment we're operating in," the Morgan Stanley spokeswoman said. "We're taking a disciplined approach to compensation and trying to align it with shareholder interests. And the bottom line is, it wasn't a good year."

Such changes are arguably long overdue. Many people are still enraged by the perverse compensation practices that had the insurance giant American International Group using money from the Troubled Asset Relief Program to pay millions in guaranteed bonuses to employees after investments drove the firm to insolvency. "I know no one is going to shed any tears over these people," Mr. Driscoll said. "But I know people who are having a tough time keeping it all together. You can manage for a year or so, but eventually the compensation levels we're seeing are going to catch up with you."

It remains to be seen whether Wall Street's newfound pay discipline will stick. A culture in which self-worth is measured by pay isn't going to change overnight, or even in a few years. But virtually everyone I spoke to agreed that Wall Street pay, while still lofty, will be lower for the foreseeable future, and may never return to the heady days of 2007. "Internally, it's troubling for people," one executive told me. "But they're going to have to change the way they think. In the mid-1990s, everyone did fine, the pay was perfectly respectable, and it didn't make headlines. The chief executive made $4 million, and you thought that was great. Was anything so wrong with that?"

PHOTO: James Gorman, Morgan Stanley's chief, will get no cash bonus. (PHOTOGRAPH BY SCOTT EELLS/BLOOMBERG NEWS) (B7)

Document NYTF000020120121e81l00032

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
The New Normal on Wall Street

By PETER EAVIS and SUSANNE CRAIG
1,448 words
20 January 2012
The New York Times
NYTF
Late Edition - Final
1
English

With firms like Goldman Sachs and Morgan Stanley reporting weak results for last year, Wall Street is having to confront doubts about itself.

Is this a temporary slump? Or will the moneymakers never get to go back to their high-rolling ways? Many on Wall Street had hoped 2011 would be a year when the investment banks showed that they could still make solid profits in the more sober financial environment that has followed the 2008 crisis.

Instead, Goldman Sachs's earnings fell 67 percent last year; Bank of America's investment banking operation, which includes Merrill Lynch, suffered a 53 percent decline in net income; and Morgan Stanley's earnings were down by 42 percent.

Some of the forces that weighed on earnings last year - like Europe's government debt crisis and a sluggish United States economy - could go away. Yet Wall Street still faces permanent pressures on profitability, particularly stricter regulations aimed at making the financial system safer. For instance, Wall Street firms cannot borrow such large amounts of money and make bets with it. With much less of this kind of leverage, the game is changed - perhaps forever.

''No matter how you cut it, the Goldman Sachs of tomorrow is not going to be the Goldman Sachs of 1999, when it did its I.P.O., or the Goldman Sachs of 2006, when it was at the high point of the cycle,'' said Brad Hintz, a senior analyst with Sanford C. Bernstein & Company.

As profits fall way short of internal targets, the executives who run Wall Street may have to cut back hard, to stop profits from falling even further. When asked by an analyst on Wednesday whether Goldman Sachs was thinking of downsizing to deal with the difficult business conditions, David A. Viniar, the bank's chief financial officer, said, ''That is one of the most critical questions and a very difficult one to answer.''

Wall Street employees are feeling the squeeze this bonus season, which is going on right now. In 2011, Goldman set aside $12.22 billion to pay compensation and benefits for its 33,300 employees. That comes out to around $367,000 per person. In 2006, the firm paid out $16.46 billion in compensation and benefits, or roughly $621,000 per employee. At Morgan Stanley, which lost money in the fourth quarter, cash bonuses were capped at $125,000 per person.

The retrenchment has hurt morale among lower-tier workers. Young bankers and traders fresh out of Ivy League universities can no longer count on earning more than their peers in other prestigious industries, such as management consulting and law. Rounds of layoffs, which used to be aimed mainly at senior and midlevel employees, have cut through the junior ranks this year at firms like Credit Suisse, and bonuses are down for nearly everyone.

At Goldman Sachs, some young analysts - a group that could earn year-end cash bonuses of up to $80,000 in better years - were given as little as $20,000 this year, according to one person with knowledge of this year's numbers.

On Wall Street, much depends on a financial performance metric, return on equity, which effectively measures the profits a bank was able to generate on its capital. If a bank made $1 billion in profits on $10 billion of equity, its return on equity would be 10 percent.

In the middle of last year, Goldman Sachs's target for return on equity was 20 percent, though the firm has since retreated from setting a target, citing the uncertainty in its business. Its actual return last year was only 3.7 percent, compared with 33 percent in 2006. Morgan Stanley managed 4 percent in 2011, compared with 23.5 percent in 2006.

Analysts estimate that Goldman effectively pays 10 to 15 percent for its capital. As a result, in 2011, the firm did not even cover the cost of its capital.

Morgan Stanley encapsulates the quandary facing a big Wall Street firm: Attempts to diversify may not help profitability. Over the last few years, rather than rebuild trading desks that were taking a lot of risks, Morgan Stanley has shifted its focus to wealth management, a steadier business, but that could mute returns.

''Do I expect to see a return to a return on equity in the mid-20s like the old days? No, but is there a path to the midteens over time? Yes,'' said Ruth Porat, Morgan Stanley's chief financial officer, in an interview on Thursday.

Wall Street firms operate under a tougher regulatory environment than existed in 2008. One of regulators' first responses to the crisis was to make banks raise extra capital, to increase their buffer against losses, and they were told to use less short-term borrowed money to finance their businesses, which made them less vulnerable to runs. At the end of its 2007 fiscal year, Morgan Stanley's $1.05 trillion of assets was supported by only $30 billion of equity. At the end of 2011, its equity was up to $60.5 billion and its assets were down to around $750 billion.

These adjustments effectively make it impossible to get back to the returns on equity achieved in the glory days. With double the equity, Morgan Stanley would now need to double profits, from a smaller pool of assets, to get back to its mid-2000s returns.

While some of 2011's challenges may ease this year, Wall Street has to grapple with new regulations in 2012 that could whack profits.

The new rules take aim at businesses in which Wall Street has traditionally made its fattest profit margins, like bond trading and trading in financial instruments called derivatives.

The Volcker Rule, which is aimed at stopping banks from making financial bets for their own accounts, could permanently eat away at bond trading revenue. Efforts to strengthen the derivatives market - such as making sure that trades are properly backed with collateral - could deplete the profitability of this business.

Mr. Hintz estimates that a Wall Street bank currently makes a 35 percent profit margin on its derivatives businesses, but he thinks the new rules could shrink that to 20 percent.

Despite the pessimistic outlook, the fittest Wall Street firms will no doubt make a Darwinian bid to profit as weaker firms falter.

United States banks could pick up new business in Europe, for instance. In November, the Swiss banks UBS and Credit Suisse announced big cuts in their securities businesses, and the Italian bank UniCredit recently said it was closing its equities business in Europe. And some United States banks may decide to retreat from certain activities, allowing others to pick up the business.

The first part of this year may see a rebound in business, as investors venture back into the market. This occurred in the first part of 2009, once fears lessened.

''You could see a couple of blockbuster quarters as pent-up demand comes back,'' said Roger Freeman, a senior analyst with Barclays Capital. But he says revenue may taper off if new regulations bite.

Still, Jamie Dimon, the chief executive of JPMorgan Chase, struck a more optimistic note in talking to reporters in a conference call last Friday. Noting that there were always swings in the investment banking business, he said, ''I think when things come back, these numbers could boom again.''

Bank of America's chief financial officer, Bruce R. Thompson, said he thought the continued downdraft in trading revenue was temporary, rather than representing a long-term shift in the Wall Street landscape.

"There's always this question of what's normal versus what's not," he said, adding that the first few weeks of 2012 had seen a pickup in trading activity.

If his optimism proves wrong, and revenues remain depressed, though, more cuts loom. "Operating at a loss," Mr. Thompson said, "isn't something we will continue to want to do."

Kevin Roose and Nelson D. Schwartz contributed reporting.

This is a more complete version of the story than the one that appeared in print.

PHOTOS: PHOTO (B1); Ruth Porat, Morgan Stanley's chief financial officer, said return on equity would rise, but would not go back to its past heights. (PHOTOGRAPH BY JIM LO SCALZO/EUROPEAN PRESSPHOTO AGENCY); Asked about downsizing at Goldman Sachs, David A. Viniar, chief financial officer, said that was "a very difficult" question. (PHOTOGRAPH BY ANDREW HARRER/BLOOMBERG NEWS) (B5)

CHARTS: Shrinking Wall Street: Goldman Sachs and Morgan Stanley collect less revenue and are less leveraged than before the financial crisis. (Source: Regulatory filings)

Document NYTF000020120120e81k00084

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

A Jedi of Deals Brings His Magic Back to Morgan Stanley

By EVELYN M. RUSLI
1,147 words
20 January 2012
The New York Times
NYTF
Late Edition - Final
5
English

Charles Cory, a longtime Morgan Stanley deal maker, spent the financial crisis cloistered in academia, working as a law professor at the University of Virginia.

But Wall Street came calling last year. With merger activity picking up, Paul J. Taubman, the co-president of Morgan Stanley's securities business, spoke to Mr. Cory to persuade him to come back full time, even sending e-mails during Mr. Cory's family vacation to Tuscany.

''Taubman said, 'This assignment will be good for you, and it will be good for Morgan Stanley,''' said Mr. Cory.

In September, he moved back to Menlo Park, Calif., to help run the firm's technology banking practice. Since then, he has led a flurry of deals. In October, he represented RightNow Technologies in its sale to Oracle for $1.5 billion. He advised SuccessFactors, which was bought for $3.4 billion by SAP in a rich deal valued at roughly 10 times projected sales.

''As activity heats up, we wanted to have the most effective, senior tech bankers in the Valley,'' said Mr. Taubman, who has known Mr. Cory for decades.

As Mr. Cory sees it, the industry is at the start of another bull market for mergers and acquisitions. Last year, deal volume in the sector jumped more than 26.9 percent, to $190.6 billion, according to Thomson Reuters.

He has historical perspective. In his 30 years with Morgan Stanley, he has handled more than 300 deals, including the breakup of AT&T in 1984.

''There are tectonic shifts going on, and the older companies need to figure out how to play,'' said Mr. Cory, 56.

Mr. Cory, who restores historic homes in his spare time, has a knack for rebuilding.

In 1996, after the abrupt departure of the star banker Frank Quattrone, Morgan Stanley tapped him to shore up its Menlo Park office. He had to start from scratch; Mr. Quattrone gutted the staff on his way to a smaller rival, Deutsche Morgan Grenfell. He asked three Manhattan-based bankers to relocate and then helped fill out the rest of the team.

The first year post-Quattrone was brutal, with the firm's share of the tech mergers-and-acquisitions market plunging from 62 percent for the previous year to 16 percent, according to data provided by Morgan Stanley. But by 1998, the firm had largely bounced back, accounting for nearly half of the market activity.

While deal-making was derailed by the dot-com bust that soon followed, a wave of consolidation began sweeping the enterprise software industry in 2003. PeopleSoft announced its $1.7 billion acquisition of rival J.D. Edwards.

The J.D. Edwards deal, advised by Morgan Stanley, led Oracle to submit a hostile bid for PeopleSoft just days later. In the ensuing years, Mr. Cory's team went on to advise several multibillion-dollar transactions, representing Oracle when it bought Siebel Systems in 2005 and Hyperion when it was sold to Oracle in 2007.

But after many years with the firm, Mr. Cory decided to take a sabbatical, just as the financial crisis was unfolding. He returned to his alma mater, the University of Virginia School of Law, to teach a course on acquisitions and another called "A (Necessarily) Brief Introduction to the Capital Markets." Still, he remained a banker-on-call, occasionally tapped to pinch-hit on deals and call old clients.

Now, the elder statesman is officially back - a homecoming his colleagues have affectionately called "the return of the Jedi." As the chairman of global tech banking, he is mainly focused on client relationships. He leaves the day-to-day operations to the co-heads of the group, Michael Grimes and Paul Chamberlain.

He is spending more time on the enterprise market. Many upstarts that went public from 2006 to 2008 are now contemplating whether they should merge with larger companies. At the same time, potential suitors - enterprise giants flush with cash - are seeking technologies to adjust to new trends, like the rise of Web-based, or cloud-computing, services.

Traditionally, the enterprise market has been dominated by installed software, which typically involves big upfront fees and recurring maintenance needs. Now, more businesses are migrating to cloud services that are easy to scale and allow clients to pay based on usage.

"Everyone is motivated to do a deal," said Pat Walravens, an analyst at JMP Securities. "The sellers are motivated because despite the fact that they are gaining market share, they are under tremendous margin pressure to build out their sales force."

Oracle, a company that once scoffed at its cloud-based competitors, has ramped up efforts to expand its footprint in the area. Its acquisition of RightNow in October pressured SAP to close a large transaction in that field, which set up its acquisition for SuccessFactors two months later.

"SAP is the biggest player in on-premise software, and even they decided they needed to get a better platform for the cloud," Mr. Cory said.

As always, competition remains fierce. In telecommunications, media and technology deals, Morgan Stanley had the highest total in fees last year, at $357.6 million, according Thompson Reuters. But Goldman advised the most transactions, with a deal volume of $106 billion.

There's also the risk that Morgan Stanley could falter if one of its top bankers flees. Mr. Grimes - who has been with the firm since 1995 and led the I.P.O.'s of Zynga, LinkedIn and Groupon - is considered to be a star in his own right.

Mr. Cory is confident in the firm's prospects. The banker, a Facebook and Xbox user, says the business still comes down to textbook basics: relationships and sector knowledge.

In September, the chief of SuccessFactors, Lars Dalgaard, called Morgan Stanley, the firm that helped his company go public in 2007.

Less than an hour later, the bankers pulled up to the lobby of a Sheraton hotel near San Francisco. Unknown to them, Mr. Dalgaard was waiting upstairs, with a bid from SAP.

After reviewing the offer, the team - led by Mr. Cory and a top deputy, Owen O'Keeffe - discussed the assets of SuccessFactors, the merits of the deal and comparable transactions.

"They are skillful presenters - maybe a little McKinsey. They can show you what a company needs to do in a couple of slides," Mr. Dalgaard said in a recent interview, referring to the giant consulting firm. "Chuck and Owen made it easy."

This is a more complete version of the story than the one that appeared in print.

PHOTO: Last fall, Charles Cory moved to Menlo Park, Calif., to help run Morgan Stanley's technology banking practice, where he has led a flurry of deals. (PHOTOGRAPH BY PETER DASILVA FOR THE NEW YORK TIMES)

Document NYTF000020120120e81k0006r

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Wall Street Is Bracing For Dismal 4th Quarter

By SUSANNE CRAIG
1,195 words
7 January 2012
The New York Times
NYTF
Late Edition - Final
1
English

For most Wall Street bankers, 2011 was a year they would rather forget. Investors will soon find out just how bad that year was for the country's biggest financial institutions.

In recent days, analysts have been lowering their fourth-quarter earnings estimates for Goldman Sachs, Morgan Stanley, Citigroup and Bank of America. Analysts are also bracing for lower earnings from JPMorgan Chase, which on Friday will be the first of the Wall Street banks to report results.

''It's likely 2011 will be the worst year for revenue growth for the banks since 1938, and so far 2012 isn't feeling much better,'' said Michael Mayo, an analyst with Credit Agricole Securities and the author of the recently published book ''Exile on Wall Street: One Analyst's Fight to Save the Big Banks from Themselves.'' ''The industry simply grew too fast over the past two decades and now it's downshifting. This process will take time, but the hit to revenue is happening now.''

Wall Street banks have been buffeted by a weak economy in the United States and by concerns that the European debt crisis will spread, sending shock waves through the financial system.

At the same time, most banks are expected to book an accounting loss in the fourth quarter from the performance of their own debt. In the previous quarter, this one-time item significantly bolstered the earnings of a number of banks.

With business sluggish, Wall Street banks have been chopping staff and expenses. A dismal 2011 will translate into smaller employee bonuses, which most banks will begin handing out in the coming weeks. Compensation experts are estimating compensation for Wall Street employees could fall as much as 30 percent from levels a year ago. While sharply lower bonuses may be politically popular, they will also eat into the revenue that New York State collects from Wall Street.

The challenges facing Wall Street are illustrated by the performance of Goldman Sachs - for years the envy of rivals for its ability to churn out rich profits even in rough times - in recent quarters. In the third quarter, Goldman reported a loss of $428 million, in contrast to a $1.74 billion profit a year ago. Goldman's chief executive, Lloyd C. Blankfein, told investors that Goldman was ''disappointed'' in the performance.

For the fourth quarter, the firm is projected to post a profit of $2.02 a share, according to a survey of analysts by Thomson Reuters. That consensus number is down from $2.81 a month ago. And it is likely to fall further in the coming days as more analysts weigh in with new estimates. Some analysts already have Goldman, which reports on Jan. 18, earning less than $1 a share in the fourth quarter.

New regulations combined with a drop in client trading revenue and the falling value of some of its core equity holdings, like the Industrial and Commercial Bank of China, a strategic investment the firm made in 2006, hurt Goldman in the third quarter. Equity markets, however, improved in the fourth quarter, so Goldman should gain from some of the same investments that ate into profits just a few months ago.

An analyst with Credit Suisse, Howard Chen, does not have high hopes for Goldman's fourth-quarter results.

''We're expecting a quiet finish to a challenging year for Goldman Sachs and the brokerage industry - while 2011 may now be in the rearview mirror, we do believe the year ended on a difficult note with highly depressed levels of institutional and corporate client risk appetite and year-end seasonal weakness,'' he wrote in a report issued on Thursday. Mr. Chen is predicting the firm will earn 70 cents in the fourth quarter.

Analysts are also notching down estimates for Goldman's rival Morgan Stanley. Morgan Stanley was hit harder than Goldman by the financial crisis. While it is a major player in many areas Goldman dominates, like sales and trading, it decided after the financial crisis to make a big investment in wealth management, a lower risk business that tends to post steadier results.

So far the strategy, led by Morgan Stanley's chief executive, James Gorman, appears to be taking hold. The company earned $2.15 billion in the third quarter, up from a loss of $91 million in the year-ago period. In the fourth quarter, however, Morgan Stanley will be taking a substantial one-time pretax earnings hit of $1.8 billion related to a recent legal settlement. This will translate into a per-share hit of 64 cents and will most likely put Morgan Stanley into the red in the quarter. Analysts are predicting the bank will lose 54 cents a share in the fourth quarter. A month ago, the consensus was for a profit of 29 cents a share, according to Thomson Reuters. (Morgan Stanley has not yet announced when it will report.)

Investors will also keep a close eye on Bank of America, which has also struggled to recover from the financial crisis. The firm's shares are now trading above $6, a nice bump given it was trading at about $5 just a few weeks ago. Its legacy mortgage business, however, remains a burden. Bank of America, which reports on Jan. 19, is projected to post a fourth quarter per-share profit of 20 cents, up from 4 cents in the quarter a year ago.

JPMorgan Chase weathered the financial storm better than some, in part because it has a large retail bank that produces fairly steady earnings. Still, it owns a big investment bank and it is not immune to the same issues facing its rivals. JPMorgan's profit dipped 4 percent, or $1.02 a share, in the third quarter, in part because of lingering mortgage problems. Analysts are projecting the firm will post a profit of 93 cents a share in the fourth quarter. The bank posted a per-share profit of $1.12 in the fourth quarter of 2010.

Citigroup is scheduled to report its earnings on Jan. 17. Analysts are forecasting that it will earn 76 cents a share in the fourth quarter, up from 40 cents in the year-ago period.

In a recent research note, Jeff Harte, an analyst at the brokerage house Sandler O'Neill, said Citigroup earnings would be dragged down by a number of one-time items, like severance payments to employees and credit hedging losses. Still, not all the news is bad.

''While we are also reducing our capital markets-related revenue estimates, the bottom-line impact should be offset substantially by lower-than-previously-expected credit costs,'' he wrote. Mr. Harte is predicting Citigroup will earn 43 cents a share.

This is a more complete version of the story than the one that appeared in print.

PHOTOS: Lloyd C. Blankfein, above, chief of Goldman Sachs, which had a drop in client trading revenue. Left, James Gorman of Morgan Stanley, which earned $2.15 billion in the third quarter. (PHOTOGRAPHS BY DANIEL ACKER/BLOOMBERG NEWS; SCOTT EELLS/BLOOMBERG NEWS) (B6)

Document NYTF000020120107e81700091

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

For the Big Players of Wall St., the Holiday Party Is Still Over

By KEVIN ROOSE
815 words
20 December 2011
The New York Times
NYTF
Late Edition - Final
5
English

Three years after the financial crisis, the Grinch still hovers over Wall Street.

In the precrisis era, big banks were renowned for their extravagant holiday parties. Goldman Sachs once rented out huge halls for its end-of-year galas, which featured appearances by performers such as Harry Connick Jr. and Bette Midler. In 2007, Morgan Stanley took over several floors of Lotus, then a popular Manhattan nightclub.

But, mindful of mass layoffs, flagging profits and sustained anger on Main Street, the nation's largest banks have canceled firm-sponsored celebrations or moved them in-house to avoid the costs and the criticism.

For the fourth year in a row, Goldman Sachs and Morgan Stanley have shelved their official holiday parties. The investment banking divisions of JPMorgan Chase, Citigroup and Bank of America have also decided against them. But groups of employees at all five firms were permitted to hold - and pay for - their own festivities.

European firms, hit hard by the sovereign debt crisis, have also scaled back. The Royal Bank of Scotland, which is still part-owned by the British government, allowed some division heads to partially subsidize their employee parties with up to 10, or about $15, a person in company money. But employees in the American branches of the bank had to pay for their own parties this year, according to a company spokeswoman.

Corporate holiday parties, in general, are on the wane. This year, only 74 percent of companies are holding them, down from 95 percent in 2006, according to a survey of 120 companies conducted by Amrop Battalia Winston, an executive search firm.

The dearth of company-sponsored holiday parties has jolted the owners of the bars, restaurants and lounges that housed the parties, the tabs for which could run into the hundreds of thousands of dollars. Steven Greenberg, the owner of 230 Fifth, a rooftop lounge in Manhattan, estimates that Wall Street nightlife used to account for 20 percent of his business.

Now, bank parties at 230 Fifth ''are nonexistent, period,'' said Mr. Greenberg, though he said that business from foreign tourists has helped replace lost bookings. ''They're concerned about doing layoffs and on the same day having a press report saying that they're having a big holiday party,'' he said.

Goldman, Morgan Stanley, Bank of America, JPMorgan, and Citigroup all declined to comment.

With large American firms cutting back on holiday parties, private equity firms, hedge funds and others that operate farther from the public eye are taking their place.

Bridgewater Associates, the giant hedge fund headquartered in Westport, Conn., rented out the Webster Bank Arena, a 10,000-seat arena in nearby Bridgeport, for its holiday party, according to several people with knowledge of the event. The Royal Bank of Canada held a party for its New York office at Chelsea Piers, in a high-end event space that can accommodate up to 2,000 guests, according to two people who attended but were not authorized to speak on the record about it.

Credit Suisse's investment banking division held its celebration at Bar Basque, owned by the restaurateur Jeffrey Chodorow. The bank provided an open bar and food including chicken parmesan sandwiches and fried olives.

Still, even that party ''paled in comparison to last year's,'' said a person who attended Credit Suisse's party and spoke on the condition of anonymity.

At banks without official parties, some employees are making do with less.

A group of Morgan Stanley employees held an unofficial holiday party with an ''ugly sweater'' theme at an Upper East Side bar, according to a person with knowledge of the event, while other employees of the firm partied at Dream, a hotel with a rooftop bar in Midtown Manhattan. A group of R.B.S. employees held an informal event at the Powerhouse Lounge in Jersey City.

Other firms have emphasized charitable giving programs intended to draw attention to their good works. One year after holding a grand gala at the Metropolitan Museum of Art to celebrate its 25th anniversary, the Blackstone Group, the private equity firm co-founded by Stephen A. Schwarzman, held a coat drive at its holiday party, a low-key affair in the Waldorf Astoria hotel, according to a person with knowledge of the event.

Those kinds of events can provide the morale boost of a holiday party without the reputational risks, experts say.

''At this point, the crazy, expensive caviar nights don't make sense, but maybe something more subdued would be more appropriate,'' said Alison Brod, who runs a New York-based public relations firm. ''It's pretty sad to do nothing.''

This is a more complete version of the story than the one that appeared in print.

DRAWING (DRAWING BY MINH UONG)

Document NYTF000020111220e7ck0009h

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Two Ways For Banks To Win

By ANDREW ROSS SORKIN
1,214 words
20 December 2011
The New York Times
NYTF
Late Edition - Final
1
English

There was a lot of back slapping at Morgan Stanley when Zynga went public on Friday. But it should hold the self-congratulatory applause.

Morgan Stanley scored the coveted position of lead underwriter for Zynga's initial public offering. The offering was considered a lucrative win for the bank: it was paid more than $10 million for marketing and distributing shares of the new stock. In total, Zynga paid out $32.5 million in fees to its underwriters. They included a laundry list of other Wall Street heavyweights too, like Goldman Sachs (which took in about $8.7 million).

So far, however, Zynga's stock appears to be a dud. Its shares, which were initially priced at $10 each on Friday morning, fell to $9.05 by the end of trading Monday.

But there were even bigger losers before Zynga's shares began trading: some of Morgan Stanley's wealthiest clients. The bank's investment management group used a collection of 11 of its mutual funds to buy into pre-offering shares of Zynga in February, when it paid $14 a share on behalf of its investor clients. In total, Morgan Stanley invested $75 million of its clients' money to buy about 5.3 million shares of Zynga. As of Monday, its clients had lost a third of their investment, or about $25 million on paper.

Morgan Stanley, which has been the top underwriter of hot technology I.P.O.'s, has often used client money to invest in pre-I.P.O. shares. Coincidentally or not, it has often later found a way to land a role as a lead underwriter. In that position, it reaps eight-figure windfalls for the firm.

Such investments raise a question that has long been whispered about but rarely asked aloud: Should investment banks seeking underwriting roles in I.P.O.'s be allowed to invest client money in prospective corporate clients ahead of a potential deal?

''I'm sure it doesn't hurt when you're doing the I.P.O. bake-off to be an investor,'' said Steven N. Kaplan, a professor at the University of Chicago Booth School of Business.

Frank Partnoy, the director of the Center on Corporate and Securities Law at the University of San Diego and a longtime critic of Wall Street (and a former Morgan Stanley employee) has an even more skeptical view. ''It's another example of how the cash cow of I.P.O.'s creates corruption and self-dealing,'' he said, adding that he takes ''the corruption part as a given.''

He said that he was not so cynical as to believe that such investments were being directed by bankers or their chiefs, but that it represented a larger culture and ethos problem on Wall Street. ''I doubt it's orchestrated, but I think it's endemic to large bank holding companies. From the top they think they have a Chinese wall. But it's only three feet high.''

In fairness, pre-I.P.O. investments are just as often a success as they are a failure. Morgan invested client money in Groupon in January at a $4.7 billion valuation. The deal was a huge win. Groupon's market valuation is now worth $14.2 billion. And who later led Groupon's I.P.O.? Yep, Morgan Stanley. Its underwriting fee: $17.4 million.

Banks say that investments made on behalf of investor clients are completely separate from their investment banking divisions and would never be influenced by the prospect of I.P.O. fees and the stream of other fees that are typically generated from the relationship developed underwriting a public offering. (The underwriting is usually just the tip of the iceberg; a successful I.P.O. often means the lead banks get to underwrite secondary offerings and manage personal money on behalf the company's executives.)

Mr. Kaplan acknowledged that such investments might represent a perceived conflict. ''A mutual fund of a bank is only going to make the investment if they think it's a good investment,'' he said. He pointed out that investment managers were typically paid based on the performance of their funds, not on the take of the firm's investment banking business. Still, he said, the banks ''get inside information.'' He added: ''This asks the whole question of whether the banks should be broken up. It's the Glass-Steagall question,'' he added, referring to the 1933 act that split investment and commercial banking and was repealed in 1999.

Privately, bankers say that while there is supposed to be a clear Chinese wall and that they do not seek to influence other parts of the firms, the fact that a big bank has the ability to make an investment either itself or by introducing a prospective client to the asset management side of their business can help build a relationship with potential corporate clients. A spokesman for Morgan Stanley declined to comment on the issue.

In January, Goldman Sachs invested $450 million of its own money and about $1 billion from its overseas clients in Facebook ahead of the company's planned I.P.O., which is expected to take place in the first half of 2012. It has long been speculated that the transaction will help Goldman's chances of being selected to underwrite the offering.

Facebook is now valued at more than $100 billion - so Goldman and its clients appear to have made money on paper. Facebook is in the final throes of deciding on underwriters for its initial public offering, and Morgan Stanley, Goldman and JPMorgan Chase are all considered contenders for the top underwriting spot. Facebook is expected to pay more than $100 million in underwriting fees.

To be fair, in every case that I have found, banks like Morgan Stanley and Goldman properly disclosed their potential conflicts to the public. In Zynga's prospectus, there is a section that clearly states that Morgan Stanley, through its mutual funds, had a stake in the company. Similarly, Morgan Stanley's prospectuses for its mutual funds clearly say the firm may have other relationships with the companies that it invests in.

Nonetheless, as arm's length as such investments may be, they raise questions among investors. ''The disclosures just illustrate to me that they have bulletproofed themselves from lawsuits,'' Mr. Partnoy said.

In February, JPMorgan raised a $1.2 billion fund, called the J.P. Morgan Digital Growth Fund, to invest in pre-I.P.O. shares of hot technology companies. While the idea for the fund came from the asset management division and the investment bank was not even told about it until after it became public, it was seen, perhaps unfairly, as a way for the bank to get closer to prospective corporate clients.

Representatives for Goldman Sachs and JPMorgan declined to comment.

''You could tell a positive story or you could tell a conflict story,'' Mr. Kaplan said.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Mark Pincus, a co-founder of Zynga, at a recent event. Zynga's initial public offering was Friday. (PHOTOGRAPH BY STEPHEN LAM/REUTERS) (B4)

Document NYTF000020111220e7ck0009e

The New York Times

STOCKS AND BONDS
Business/Financial Desk; SECTB
Indexes Fall On Skidding Bank Shares

By NELSON D. SCHWARTZ and BINYAMIN APPELBAUM; Christine Hauser contributed reporting.
1,223 words
20 December 2011
The New York Times
NYTF
Late Edition - Final
1
English

Talk about a bad anniversary present.

Two years after Brian T. Moynihan became Bank of America's chief executive, the beleaguered bank's shares crashed through the psychologically important $5 mark on Monday, the lowest they've traded since March 2009. Other bank stocks including Morgan Stanley fell even harder on Monday as investors fretted on renewed concerns about bank capital cushions and a darkening economic outlook in Europe.

When Mr. Moynihan was appointed to the top job on Dec. 16, 2009, Bank of America was trading near $15 a share, a far cry from the $4.99 at which it closed Monday. The loss of two-thirds of its value far exceeds the drop in other battered financial institutions like Citigroup, JPMorgan Chase and Wells Fargo over the same period.

''This is like a fire in a 10-story building,'' said Mark T. Williams, a former Federal Reserve bank examiner who now teaches courses on banking at Boston University. ''It's burning through each floor as investors dump their shares.''

Financial stocks fell by more than 2 percent Monday in the United States, leading the entire stock market down. The Dow Jones industrial average closed off 100.13 points, or 0.8 percent, at 11,766.26. The Standard & Poor's 500-stock index was down 1.2 percent, and the Nasdaq composite index fell 1.3 percent. The Dow is now down more than 2 percent this month, while the S.& P. is down more than 3 percent.

Trading on Wall Street had opened higher, but then turned negative in the late morning. Analysts said that market moves were expected to be exaggerated, with lighter volumes in a holiday week.

During the day, some focus shifted to European sovereign debt troubles as the European Central Bankwarned of a perilous year ahead. The sovereign debt crisis is colliding with slower economic growth and a dearth of market financing for banks.

A report in The Wall Street Journal that the Federal Reserve would rebuff pressure from American banks and go along with international recommendations on capital levels for banks also affected the markets, analysts said.

Citigroup fell 4.7 percent and Morgan Stanley 5.5 percent.

For Bank of America, which tumbled 4.1 percent, trading below $5 represents one more embarrassment this year. The company, based in Charlotte, N.C., recently lost its title as the country's largest bank by assets to JPMorgan Chase. More than anything else, Bank of America's problems stem from its disastrous 2008 acquisition of Countrywide Financial, the subprime mortgage giant whose excesses have come to symbolize the housing bubble of the last decade. It now faces lawsuits from investors seeking to force it to buy back billions in soured mortgages.

In addition, slow economic growth and ultra-low interest rates are eating into profit margins in traditional businesses like commercial lending. What's more, capital markets where banks help companies raise money and make deals have slowed in recent weeks, hurting results at Bank of America's investment banking unit.

Even a $5 billion investment by Warren E. Buffett this summer has failed to mollify sellers -- he has lost roughly $1.5 billion on paper, although the generous terms of his purchase agreement protect him against losses.

Along with more fundamental factors, institutional money managers are also quietly dumping their losers before 2012 arrives, a practice known as ''window dressing,'' which removes stocks like Bank of America when investors read year-end reports.

''It's a headache that a lot of money managers don't want,'' said one mutual fund manager who insisted on anonymity because he wasn't authorized to speak publicly. ''Managers don't want endowments and other clients asking them why they own Bank of America.''

Some observers have speculated that going below $5 would force some institutional investors to unload Bank of America stock because of rules forbidding them to own shares in the low single digits. But Glenn Schorr, an analyst with Nomura, played down the likelihood of that.

''I don't think there are a lot of funds that need to sell below $5, although it's a nice round number that people can point to and say 'uh-oh,' '' he noted. ''I guess there is some concern that if anyone was heroic enough to step in and buy, this is another reason not to.''

Besides Europe's financial problems and the overhang from hundreds of billions in bad mortgage debt, banks also face worries about new rules requiring them to set aside more capital that could lower future profits. ''For financials, the higher capital requirements mean they have less money to make money with,'' said Brad Sorensen, an analyst for the Schwab Center for Financial Research. ''In an already tough environment, it gets a little bit more difficult.'' The Federal Reserve plans to publish this week a draft of new rules for systemically important financial companies, including banks with at least $50 billion in assets, according to a person with knowledge of the matter.

The regulations include details of tougher capital requirements constraining the ability of those institutions to fund their operations with borrowed money. The United States won an international agreement to impose such requirements earlier this year, overcoming the initial opposition of European nations. Leaders of the Group of 20 nations endorsed the agreement at a November meeting.

The rules will require companies at the heart of the global financial system to raise a larger share of their funding by selling shares or holding on to profits, rather than borrowing money. For the most important firms, like JPMorgan Chase, the threshold will be 2.5 percentage points higher than the baseline requirement of 7 percent. The supplemental threshold will be lower for firms with less central roles.

The draft that the Fed plans to release this week will describe the new rules, but not which requirements will apply to specific financial firms.

Daniel K. Tarullo, appointed to the Fed's board of governors after the financial crisis to oversee its regulatory responsibilities, has long advocated for higher capital standards as necessary to increase the resilience of the financial system. The Fed initially hoped to publish a draft of the rules this summer, but was delayed by the complexity of incorporating various requirements of the Dodd-Frank Act.

In Europe, stocks had a choppy day on most major European exchanges, falling early, then rebounding in midsession before ending mixed.

The dollar gained against other major currencies. The euro fell to $1.2994 from $1.3034 late Friday.

The Treasury's 10-year note rose 12/32, to 101 23/32. The yield fell to 1.81 percent, from 1.85 percent late Friday.

PHOTO: Brian Moynihan was appointed chief executive of Bank of America two years ago. Its stock has fallen by two-thirds since then. (PHOTOGRAPH BY DAVIS TURNER/BLOOMBERG NEWS) (B9)

CHARTS: The Dow Minute by Minute: Position of the Dow Jones industrial average at 1-minute intervals yesterday. (Source: Bloomberg); Back Below $5: Bank of America's stock price fell to its lowest point since the beginning of 2009 and crossed a psychologically important threshold. (Source: Bloomberg) (B9)

Document NYTF000020111220e7ck00097

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Stanley, Like Rivals, to Make Deep Job Cuts

By KEVIN ROOSE
892 words
16 December 2011
The New York Times
NYTF
Late Edition - Final
3
English

8:32 p.m. Updated

It is a year to forget on Wall Street.

The final few months of 2011 have been a painful period of layoffs and cost-cutting in the finance industry, and it continued on Thursday, as Morgan Stanley announced that it would eliminate 1,600 jobs, or 2.6 percent of its work force, by the first quarter of 2012.

Many banks, facing economic and regulatory uncertainty, have embarked on widespread cost-cutting programs to improve profits. But Morgan Stanley waited longer than many of its competitors to make deep cuts to its work force. This month, Citigroup announced it would cut 4,500 jobs. Bank of America, Goldman Sachs, Credit Suisse and several other firms have also announced thousands of job cuts.

''As we conduct our year-end performance management process and evaluate the right size of the franchise for 2012, we anticipate the elimination of approximately 1,600 positions across the firm globally,'' Jeanmarie McFadden, a Morgan Stanley spokeswoman, said in a statement.

In all, the securities industry in New York City lost nearly $3 billion in the third quarter, according to a report released on Thursday by Thomas P. DiNapoli, the New York State comptroller. Profits at the city's securities companies, which include major Wall Street banks as well as smaller brokerage firms, now total $9.6 billion for 2011, and they are expected to fall far short of the $20 billion in profit officials had projected for the year, according to the report.

In another sign of the banks' struggles, Fitch Ratings lowered on Thursday the ratings of Morgan Stanley, Bank of America, Goldman and others. Fitch cited concerns about the banks' financial health and long-term stability.

''There's no denying that business is dreadful, and banks are trimming back,'' said Chris Kotowski, a banking analyst with Oppenheimer. ''In an environment like this, people are going to look at everyone on their platform and say, is this person absolutely necessary?''

The job cuts have been severe. In an report released in October, Mr. DiNapoli estimated that another 10,000 people in the securities industry in New York could lose their jobs by the end of 2012, which would bring the total to 32,000 since January 2008.

''These firms are still going to make money, no question about it,'' Mr. DiNapoli said in an interview Thursday. ''But when you consider how strongly the year began, it is certainly ending very differently.''

At Morgan Stanley, the newest round of reductions is expected to hit all job levels in all divisions, including investment banking, trading and support functions, according to a person with knowledge of the plans who was not authorized to speak publicly. The 17,000 financial advisers in the Morgan Stanley Smith Barney unit are not expected to be affected by the cuts, the person said, though other employees in the unit may be laid off.

The cuts are not the first for Morgan Stanley, which announced in March that it had laid off 300 underperforming advisers in the Smith Barney unit. The bank has been trying to reduce noncompensation expenses by $1 billion over the next three years. In October, James P. Gorman, the chief executive, told analysts that Morgan Stanley would keep paying "those employees who are delivering value."

End-of-year layoffs are standard procedure on Wall Street. Many cut underperforming members of struggling divisions and adjust bonuses for the remaining staff.

But this year is different. "Everybody gets lower bonus checks, and some people get a severance package," Mr. Kotowski of Oppenheimer said. "This is not a Morgan Stanley thing, this is a Wall Street thing."

The cuts have been large enough to worry New York City officials, whose budgets depend upon a relatively healthy financial sector. Personal income tax collection could drop by $200 million next year because of lower profits in the financial sector, and business and sales tax collection could drop by $100 million a year, the comptroller's report estimated.

"Having a downsize in employment in a sector that pays very well is not welcome news," Mr. DiNapoli said, citing what he called the "multiplier effect," whereby each lost Wall Street job results in two additional lost jobs in other sectors in the city.

In addition to lost taxes, the downturn in the financial sector will most likely hurt profits for businesses in the real estate, automobile and luxury good sectors, which rely on financiers spending their bonuses. Those bonuses are expected to fall 20 to 30 percent this year compared with last year, according to a survey by Johnson Associates, a compensation consulting firm.

And while the Occupy Wall Street movement might not have much sympathy for smaller bonuses, Mr. DiNapoli said the effects of cutbacks could become a Main Street concern.

"It's a double-edged sword," he said. "There may be some things you don't like about Wall Street, but for our city and state, we very much depend on it."

This is a more complete version of the story than the one that appeared in print.

PHOTO: James Gorman, head of Morgan Stanley, has said the company will keep paying "those employees who are delivering value." (PHOTOGRAPH BY JIN LEE/BLOOMBERG NEWS)

Document NYTF000020111216e7cg0003j

The New York Times

Metropolitan Desk; SECTA
$4.8 Million Sought in a Price-Fixing Case

By MATTHEW L. WALD
492 words
14 December 2011
The New York Times
NYTF
Late Edition - Final
31
English

WASHINGTON -- An electricity price-fixing scandal thought to have cost New York consumers about $300 million has led to a proposed settlement with Morgan Stanley for $4.8 million. But the proposal has brought complaints from a consumer group, which points out that the company took in four times that much in the scheme.

In February, a judge approved a settlement against another defendant, the KeySpan Energy Corporation, which had a complex deal using derivatives that gave it a stake in the profits of a competitor, Astoria Generating Company. KeySpan then closed some of its generators, pushing up revenue for its remaining power and for Astoria's; the move also benefited generators around the state not involved in the scheme. KeySpan did not admit wrongdoing but paid $12 million.

Now the Justice Department is seeking $4.8 million from Morgan Stanley, which acted as an intermediary in the deal: according to prosecutors, Morgan Stanley realized revenues of $21.6 million on it. The settlement would be a so-called disgorgement of illicit profits, which is unusual in cases like this, which was brought under the Sherman Antitrust Act.

One consumer advocate, AARP, said the proposed settlement, like the first, was too lenient.

''I don't understand how the government thinks this will deter anyone,'' said Gerry Norlander, a consultant on the case for AARP. The group filed a comment with the department last week calling for tougher punishment.

AARP also wants whatever money is recovered to be paid to ratepayers and not the Treasury. The Justice Department said in the KeySpan settlement that it had no mechanism for doing that.

Morgan Stanley had no comment.

The Justice Department would not say how it arrived at the $4.8 million figure. In a court filing, it said, ''Disgorgement will effectively fulfill the remedial goals of the Sherman Act to prevent and restrain antitrust violations, as it will send a message of deterrence to those in the financial services community considering the use of derivatives for anticompetitive ends.''

A spokeswoman for the department, which is accepting comments until Dec. 30, would not say whether others had been filed. All the comments and the department's replies will eventually be published and submitted to Judge William H. Pauley III of Federal District Court in Manhattan, who will decide whether to approve the settlement.

The case has raised concerns about the structure of the electricity market in New York. The commodity at issue was electric generating capacity, which utilities like Consolidated Edison are required to buy in an auction. If the auction price is bid up, utilities all over the state pay the higher price.

The Justice Department's investigation grew out of complaints from Con Edison that the market for capacity had been artificially inflated. Con Ed estimated that consumers around the state had paid nearly $300 million extra.

Document NYTF000020111214e7ce0007b

The New York Times

Business/Financial Desk; SECTB
Morgan Stanley and MBIA End Dispute Over Insurance

By REUTERS
423 words
14 December 2011
The New York Times
NYTF
Late Edition - Final
5
English

Morgan Stanley said on Tuesday that it had agreed to give up insurance claims over guarantees on mortgage bonds against MBIA, the ailing insurer, in exchange for a $1.1 billion payment.

As the result of the settlement, confirmed by MBIA, Morgan Stanley will take a pretax $1.8 billion charge in the fourth quarter for the deal. After accounting for tax benefits, the deal will reduce Morgan Stanley's earnings by $1.2 billion.

Morgan Stanley bought protection against bond defaults from MBIA, an insurer that guarantees bonds. MBIA historically focused on municipal bonds, but in the last decade it sold large numbers of credit-default swaps, or insurance contracts, that guaranteed mortgage-backed securities and other structured finance bonds.

MBIA's bets on credit-default swaps began to sour when financial crisis started, forcing regulators to split the insurer into a municipal guarantee business and a structured finance unit.

A group of 18 banks, including Morgan Stanley, objected to the restructuring in court, arguing that it might leave the insurer unable to pay out its structured finance obligations. Morgan Stanley's settlement will also end its legal objections to MBIA's restructuring.

Many of the banks suing MBIA have settled recently, including HSBC Holdings, Royal Bank of Scotland and Wells Fargo. Five are still pursuing claims, including Bank of America and UBS.

''We are continuing to work toward resolving all the litigation,'' said Kevin Brown, a spokesman for MBIA. ''We're talking to most, but not all, the parties.''

Robert J. Giuffra Jr., a partner at Sullivan & Cromwell and lead counsel for banks that are still suing MBIA, said the plaintiffs would continue to fight its restructuring.

The agreement will also free up $5 billion worth of capital for Morgan Stanley and lift the bank's Tier 1 common ratio by 75 basis points under new, tougher capital rules. Under existing rules, its Tier 1 common ratio will decline 30 basis points. A basis point is equal to one-hundredth of a percent.

With Morgan Stanley ending its credit-default contracts with MBIA, the bank will no longer have to record gains and losses in the market value of the contracts, which had been a source of swings in its income.

MBIA will drop a lawsuit over the quality of mortgage bonds underlying the contracts, Morgan Stanley said. MBIA had said that Morgan Stanley misrepresented the quality of the mortgage bonds that the insurer was guaranteeing.

Document NYTF000020111214e7ce0003f

The New York Times

Business/Financial Desk; SECTB
Morgan Stanley Beats Analysts' Forecasts

By SUSANNE CRAIG
658 words
20 October 2011
The New York Times
NYTF
Late Edition - Final
4
English

8:54 p.m. Updated

What a difference a few weeks can make.

In early October, shares of Morgan Stanley dipped below $12 during the day, as the financial firm battled rumors about its exposure to the European sovereign debt crisis.

But the company is slowly shaking off the speculation, addressing some concerns with better-than-expected earnings on Wednesday. The stock - which rose as much as 6 percent on the news before ending essentially flat at $16.64 - is now up more than 40 percent from its low earlier this month.

''Clearly, we are in a very dynamic environment and our journey is not done,'' the bank's chief executive. James P. Gorman, said in a conference call with analysts. ''But the U.S. financial system in general, and Morgan Stanley in particular, has made far more progress than it is being given credit.''

It is a marked change from a year ago. The company earned $2.15 billion in the third quarter, in contrast to a loss of $91 million a year ago. Despite the sharp drop in the stock market, it notched gains in core divisions like equity sales and wealth management

In its results, Morgan Stanley moved to clarify its exposure to five countries at the center of the European debt crisis. It is less than some have feared, with just $2.11 billion in exposure, including hedges.

But Morgan Stanley, like rivals, also got a major boost from one-time gains. The firm booked $3.4 billion on the falling value of the company's debt. On a per share basis, the one-time gain accounted for 98 percent of the firm's earnings.

Howard Chen, an analyst at Credit Suisse, wrote in a note to investors that it was a ''weak quarter, but not as bad as anticipated.''

Michael Mayo at Credit Agricole Securities noted the ''main news is that results were not worse than peers given inline declines in capital markets,'' which were down sharply in the quarter.

As with the rest of the industry, Morgan Stanley is trying to find its footing in a postfinancial crisis world, with a stricter regulatory regime and weaker growth prospects. With new rules forthcoming, the firm has exited high-margin businesses like proprietary trading. Instead, it is focusing on less risky groups like Morgan Stanley Smith Barney, the firm's global wealth management division, which is a less capital-intensive business with the potential for steady profits.

In the latest quarter, the unit posted net revenue of $3.26 billion this quarter, compared with $3.1 billion in the period a year earlier. Still, the business got hit by the market turmoil, even as the firm logged record inflows. The division had $1.6 trillion assets under management in the quarter, down from $1.7 trillion in the previous quarter.

Third-quarter revenue in institutional securities, bolstered mainly by the one-time gain on the value of Morgan Stanley's debt, increased 123 percent, to $6.45 billion. Asset management reported revenue of $215 million for the period, down 73 percent from the previous year on losses in firm investments.

With the industry facing a more muted reality, Mr. Gorman told analysts that the firm intended to pay ''those employees who are delivering value.'' That is a theme that Wall Street chiefs have struck since last year, implying the best staff members would get competitive compensation while packages for the rest would fall. So far this year, Morgan Stanley has set aside $12.69 billion to cover compensation and benefits, up 6 percent from year-ago levels.

This is a more complete version of the story than the one that appeared in print.

PHOTOS: Morgan Stanley's chief, James Gorman, left, has taken it out of some lucrative businesses like proprietary trading. (PHOTOGRAPHS BY SCOTT EELLS/BLOOMBERG NEWS; RAMIN TALAIE/GETTY IMAGES)

Document NYTF000020111020e7ak00061

The New York Times

Business/Financial Desk; SECTB
Quelling Speculation At Morgan

By SUSANNE CRAIG
1,111 words
5 October 2011
The New York Times
NYTF
Late Edition - Final
1
English

Morgan Stanley executives are battling a daily barrage of rumors and nay-saying to try to stem a sharp slide in the company's stock.

It is a war that is being fought in large part in the shadows: against anonymous blogs and market whispers, but also against undefined fears about exposure to troubled European banks. While those worries are common to all the big Wall Street banks, Morgan Stanley, as the smallest, is perhaps the most vulnerable among them.

In response, Morgan Stanley executives have been rallying employees and talking to the company's biggest shareholders. The campaign culminated late on Monday, with the Mitsubishi UFJ Financial Group, which owns approximately 22 percent of Morgan Stanley, publicly reaffirming its support for the company.

The push may have helped on Tuesday. Shares of Morgan Stanley rose 12.4 percent, after falling nearly 29 percent since the beginning of September. Morgan and other banks were primarily buoyed on Tuesday by a suggestion that European officials would look at bank recapitalizations.

Nonetheless, there has been a bloodbath in bank stocks. Morgan Stanley is down 48.5 percent for the year; Goldman Sachs has fallen 44 percent; and Bank of America is off about 57 percent. And the cost of insuring Morgan Stanley's debt for five years through credit-default swaps, though it eased on Tuesday, remains at levels that were seen during the financial crisis.

Morgan Stanley's war-roomlike approach to market volatility highlights the difficulties of stamping out rumors in a world of instant, and often anonymous, information.

Its latest round of troubles began on Friday morning before the markets opened at 9:30 a.m. Zero Hedge, a well-read and controversial financial blog, linked to a Bloomberg News article that noted Morgan's credit-default swap spreads had been widening. The Zero Hedge post also directed readers to a previous Zero Hedge article that pegged Morgan Stanley's net exposure to French banks at $39 billion, about $12 billion more than the bank's current market capitalization, reigniting fears about its exposure.

It was a potent cocktail of information. The company's stock opened down more than 3 percent, prompting a flood of calls to Morgan's investor relations and press offices.

Calling Zero Hedge for damage control was not an option. The post was written by an anonymous blogger who goes by the name of ''Tyler Durden,'' a character in the movie ''The Fight Club,'' and the Web site does not give readers a way to readily reach its writers.

Adding to Morgan Stanley's woes, Friday was the last day of Morgan Stanley's third quarter. The company is set to release its earnings in a few weeks, and securities laws limit what it can say about its financial condition. Unable to reach Zero Hedge, Morgan Stanley's investor relations department went into overdrive, quickly pulling together talking points for callers that were circulated to both media and investor relations staff members.

According to the talking points, reviewed by The New York Times, the numbers cited by Zero Hedge ''represent gross asset positions and thus do not reflect the benefit of collateral or other hedges and protection, and the more relevant exposure to consider is the net exposure.''

So what is its net exposure? The company was limited in what it could say because of the pending earnings announcement. To address this point, staff members were told to direct callers to pre-existing stock research. ''Analysts estimate that the actual net exposure is meaningfully lower,'' the talking points read.

In particular, they cited a recent report by Brad Hintz, an analyst with Sanford C. Bernstein & Company, who estimated that Morgan's ''total risk to France and its banks is less than $2 billion net of collateral and hedges.''

Zero Hedge could not be reached for comment.

Despite Morgan Stanley's efforts, the stock ended on Friday down about 10 percent, at $13.51, its lowest close since the fall of 2008 and the depth of the financial crisis. The stock price was particularly frustrating to James P. Gorman, the company's chief executive since early 2010. He has been leading the effort to rebuild the company; he even bought 100,000 shares of Morgan Stanley in early August at approximately $20 a share.

On Friday, Mr. Gorman shared his concerns with senior executives at Mitsubishi, conversations that culminated with discussions over the weekend between Mr. Gorman and Nobuyuki Hirano, his counterpart at the Japanese bank. The two men discussed the market rumors, concurring that they ran contrary to what they felt was going on in the market, said two people briefed on the conversation.

The company is expected to report third-quarter results in two weeks. Those results, these people said, are solid in light of the recent stock market rout. Analysts polled by Thomson Reuters estimated that the bank would report a profit of 36 cents a share.

Mr. Gorman and Mr. Hirano agreed that it would be helpful if Mitsubishi issued a news release expressing its support. That did not come, however, until Monday after the close.

Early on Monday Mr. Gorman decided to speak out himself. ''In fragile markets, where fear triumphs over common sense, these things are bound to happen. It is easy to respond to the rumor of the day, but that is not usually productive,'' he wrote in a note to employees. ''Instead we should let balanced third parties do their own analysis and let the facts speak.''

On Monday, despite Mr. Gorman's efforts, the company's stock tumbled 7.7 percent.

Six minutes after the close, Mitsubishi issued its statement. ''In response to recent market volatility M.U.F.G. wishes to reiterate that we are firmly committed to our long-term strategic alliance with Morgan Stanley. The special relationship we have formed remains core to our global business strategy.''

Initially, the statement seemed to have little effect on the stock. The cost to insure Morgan Stanley's bank debt with credit-default swaps on its debt continued to rise Tuesday morning, but then fell back, according to Markit, a financial information company. Its shares closed at $14.01, up $1.54, or more than 12 percent.

''Mitsubishi's announcement was the equivalent of a Japanese firm saying you are part of the family,'' Mr. Hintz said.

This is a more complete version of the story than the one that appeared in print.

PHOTO: James Gorman, chief of Morgan Stanley, tried to address rumors about the company's stock. (PHOTOGRAPH BY JIN LEE/BLOOMBERG NEWS) (B6)

Document NYTF000020111005e7a50009y

The New York Times

Business/Financial Desk; SECTB
Investor Fear Over Morgan Stanley Sharpens

By ERIC DASH and JULIE CRESWELL
1,058 words
1 October 2011
The New York Times
NYTF
Late Edition - Final
1
English

It is Morgan Stanley's turn on the hot seat.

As confidence in the soundness of some of the world's biggest banks has fallen in recent weeks, investors have been selling off their shares of one financial institution after another.

Now, the fears about Morgan Stanley are becoming especially acute. Investors are worried about the bank's exposure to the European debt crisis, its ability to weather a turbulent trading environment and its reliance on short-term borrowing to finance its operations.

The bank and some analysts say the fears are unfounded. But the market drove Morgan Stanley shares down 10.5 percent on Friday to $13.51, and the stock has lost 41 percent in the last three months. That performance was par for the course in what was a bruising third quarter for the entire financial industry. Bank of America shares fell more than 44 percent. Citigroup shares dropped more than 38 percent, while even Goldman Sachs, considered the mightiest of the Wall Street giants, tumbled more than 28 percent.

It was also a brutal quarter for the broader stock market. The Standard & Poor's 500-stock index fell 14 percent from July to September, its worst performance since the fourth quarter of 2008 at the height of the financial crisis.

Almost everywhere they looked, investors saw trouble. In the United States, the Congressional deadlock over debt and the downgrade of the nation's once-sterling credit rating rocked the confidence of consumers and businesses. In Europe, rising concerns about a potential Greek default and the inability of other governments to agree on a financial rescue plan surged through the markets. Grim data also pointed to a sharp slowdown in economic growth around the globe.

Now Morgan Stanley, which never regained the prestige and power it had in the years before the 2008 crisis, is quickly becoming a focal point for investors who fear that it may not be able to weather another financial storm

In another closely watched indicator of investor sentiment, the cost of buying protection against a default of Morgan Stanley bonds has soared. It now eclipses the cost of similar insurance on major French banks. Only a few weeks ago, the French banks came under heavy fire amid concerns that they were struggling to finance their operations.

Investors are now paying $449,000 a year to insure $10 million of Morgan Stanley bonds against a possible default in a sparsely traded market in what are called credit-default swaps. That is almost three times the cost in early June, but it is still well below the roughly $1.3 million a year it cost to insure Morgan Stanley bonds a few weeks after the collapse of Lehman Brothers, according to pricing from Markit.

Among investors, the concerns are many. Some worry that the test could come from the company's exposure to French banks. Others fear a liquidity crisis similar to what occurred in 2008 when banks like Morgan Stanley struggled to borrow the short-term debt that keeps them afloat. Still other investors expect the turbulent markets to take their toll on trading and investment banking results, which are the lifeblood of Wall Street.

''It strikes me that everything seems to be O.K. with these guys,'' said Brad Hintz, an analyst at Sanford C. Bernstein & Company, who is a former treasurer at Morgan Stanley. ''I'm not arguing that we're not seeing stuff in the credit-default swaps market that is pretty scary-looking. But they just don't seem to be having any problems funding themselves.''

Some investors worry that Morgan Stanley may be too reliant on short-term borrowing or that it lacks a significant deposit base like those of the large commercial banks JPMorgan Chase or Bank of America. Others, however, note that Morgan Stanley has shifted much of its borrowing into longer-dated paper since 2006 and that its deposits have risen to $66 billion, from $28 billion.

Citing the quiet period before Morgan Stanley reports third-quarter earnings, a spokeswoman for the company declined to comment.

In recent weeks, analysts and investors have scoured obscure regulatory filings and reports, trying to determine what potential exposure Wall Street banks could have to troubled regions and institutions in Europe.

One filing that quickly gained attention in the market revealed that Morgan Stanley had one of the biggest exposures among Wall Street companies to the ailing French banks -- about $39 billion at the end of last year, before factoring in offsetting hedges and collateral. Morgan Stanley has not provided investors with more up-to-date information.

But in a research note, Mr. Hintz said that Morgan Stanley had substantially reduced its exposure to French banks and estimated that it was now likely to be less than $2 billion, after factoring in collateral and hedges.

Investors also expect Morgan Stanley to report lackluster trading results, in line with many of its peers who have seen a slowdown in activity as clients have moved into cash.

After several periods of lackluster results, Morgan Stanley's trading desks had a standout performance in the second quarter -- besting even Goldman in challenging markets. Morgan Stanley's financial statements showed that it was increasing its appetite for risk.

Now, some investors worry that Morgan Stanley may have turned too aggressive at just the wrong time. They are now girding for another round of dismal results -- especially after JPMorgan warned in mid-September that its trading revenue could fall almost 10 percent from a year ago and now that Wall Street analysts expect Goldman to report a loss in the quarter.

PHOTO: The Morgan Stanley building in Manhattan. The company's shares fell 10.5 percent on Friday, and the cost of buying protection against a default of Morgan Stanley bonds has soared. (PHOTOGRAPH BY MARY ALTAFFER/ASSOCIATED PRESS) (B6)

CHARTS: A Bad Quarter for Stocks: The Standard & Poor's 500-stock index fell 14.3% in the third quarter, its worst performance since the financial crisis at the end of 2008. But big European shares fared even worse, down 23.5% for the quarter, the worst since 2002. (Source: Bloomberg) (B1); Slide Continued Last Quarter: Morgan Stanley stock price (Source: Bloomberg) (B6)

Document NYTF000020111001e7a10005z

The New York Times

FUNDAMENTALLY
Money and Business/Financial Desk; SECTBU
If It Looks Like a Bear, And Moves Like a Bear ...

By PAUL J. LIM
917 words
25 September 2011
The New York Times
NYTF
Late Edition - Final
6
English

AFTER a week in which stocks sank more than 6 percent, the sell-off in equities that began five months ago is coming perilously close to bear market territory.

Whether this correction turns into a full-fledged bear, and whether the economic slowdown that started the selling in late April is labeled a recession may not matter much in the end.

While it's true that the Standard & Poor's 500-stock index isn't technically in a bear market now -- at the end of the week, domestic equities were off 16 percent from their April 29 peak -- plenty of other parts of the market have dropped more than 20 percent, the requisite mark of a bear.

Small-company stocks in the Russell 2000 index, for example, fell as much as 25 percent earlier this year. Foreign stocks in the Morgan Stanley Capital International EAFE index lost as much as 26 percent. And the MSCI emerging-markets index was down around 27 percent from this spring.

Four of the 10 sectors that make up the S.& P. 500, meanwhile, have also slipped into a bear market.

As for broad domestic equities, they've taken investors on a very rough ride since the financial crisis of 2008 and early 2009. ''This is about as severe as it gets without it being called a bear market,'' said Sam Stovall, chief investment strategist at S.& P. Equity Research.

In fact, if this slide stops short of the 20 percent mark, it will have been the most severe correction for the S.& P. 500 in recent memory that didn't morph into an official bear market.

This slide feels so much like a bear because of its speed, some market strategists say. Technically, the correction began on April 29, when the S.& P. peaked at 1,363.61. But the bulk of the 16 percent decline took place in two brief but volatile periods. First, from July 25 to Aug. 8, stocks fell about 16 percent. After rebounding, they sank more than 6 percent last week.

These free falls would make ''even rational, seasoned investors feel like they've been raked over the emotional coals,'' said James B. Stack, editor of the InvesTech Market Analyst newsletter.

Mr. Stack added that investors weren't given much warning to brace themselves for the sell-off. In 2008, when stocks swooned amid the collapse of Lehman Brothers, equities had already been in a bear market for nearly a year. This time, the plunge during that short summer window came after stocks rose by more than 21 percent in the previous 12 months.

The market's day-to-day rockiness is also contributing to Wall Street's bearish sentiment.

Based on one traditional gauge of volatility -- the number of trading days when stock prices move up or down by 2 percent or more -- the market today is nowhere near as shaky as it was in 2008 or 2009.

But Mr. Stack used another method to measure the market's volatility: the spread between intraday highs and lows for stocks. Based on that gauge, he said, stocks have actually been about 10 percent more volatile recently than in 2009.

So does he think that a bear market is inevitable? No.

''I don't think it's in the cards,'' he said.

Other strategists disagree.

Doug Ramsey, director of research at the Leuthold Group, said in a recent report that he believed that the August swoon represented ''the second leg of a new bear market that began after the S.& P. 500 and most global indexes topped on either April 29 or May 2.''

One sign, Mr. Ramsey said, is the length of the rally that preceded this sell-off. He looked at all major corrections in the S.& P. 500 since 1950 that stopped just shy of a bear market. He found that the median length of the bull markets leading up to those downturns was 50 weeks.

By comparison, the bull that preceded this sell-off was 112 weeks old. The rally, he wrote, may be ''too old for the current decline to be only a correction.'' And here is one other bearish indicator: Historically, about 80 percent of corrections that took stock prices down by at least 15 percent eventually graduated into official bear markets.

So let's assume for a moment that the correction does morph into a bear. Would it matter whether it were accompanied by an official economic recession?

Mr. Ramsey looked into that topic as well. Using the Dow Jones industrial average as a proxy for domestic stocks, he separated recessionary bear markets from major declines that were not accompanied by a contracting economy.

Since 1945, stock prices fell by around 30 percent during bear markets that included recessions, versus a 27 percent decline for bears when no recession occurred.

The one big difference, though, was the duration of the market downturns. While bear markets in nonrecessionary environments have historically lasted six months, on average, major sell-offs that took place just before or during a recession have lasted roughly a year longer.

For nearly everyone, investors included, recessions are painful. That's another reason to hope the economic downturn doesn't morph into one.

E-mail: fund@nytimes.com

Paul J. Lim is a senior editor at Money magazine.

Document NYTF000020110925e79p0009h

The New York Times

Business/Financial Desk; SECTB
At Morgan, Mack to Exit With Gorman Adding Role

By SUSANNE CRAIG
661 words
16 September 2011
The New York Times
NYTF
Late Edition - Final
6
English

7:42 p.m. Updated

Morgan Stanley's chairman, John J. Mack, will step down at the end of year, paving the way for the company's chief executive, James P. Gorman, to take on that role as well.

The bank announced Mr. Mack's retirement late Thursday morning shortly after its board met by telephone to vote on the transition.

Mr. Mack, a former chief executive of the company, has been chairman since early 2010. He is expected to retain a senior advisory role. He is working on a book about leaders and his years on Wall Street, which is scheduled to be published next September by Simon & Shuster.

Mr. Mack, a graduate of Duke University, is expected to join other corporate boards. He already serves on the boards of a number of nonprofit organizations and is chairman of the panel of economic advisers for Jon M. Huntsman Jr., a Republican presidential candidate.

The decision to have Mr. Gorman succeed Mr. Mack as chairman was widely expected.

Mr. Mack, 66, is one of Wall Street's best-known figures. He worked at Morgan Stanley for years, rising from bond salesman to become the company's president. After a long-running dispute with Morgan Stanley's then-chief executive, Philip J. Purcell, he left the company in 2001.

He soon resurfaced at Credit Suisse, which named him chief executive of the Credit Suisse First Boston investment bank, and later co-chief executive of the parent company, the Credit Suisse Group.

At Credit Suisse, he lived up to his nickname ''Mack the Knife,'' drastically eliminating jobs and cutting costs. But the relationship, in the end, was ill-fated. At one point he proposed merging Credit Suisse First Boston with another investment bank. The Swiss bank's board disagreed, and his contract lapsed in 2004.

In 2005, after an uprising at Morgan Stanley forced Mr. Purcell to step down, the board asked Mr. Mack to return as chief executive. He received a standing ovation when he walked into the trading floor on his first day.

Yet his record as Morgan Stanley's leader was mixed. He made riskier bets after returning to the firm, giving it some of its former swagger, but he was unable to pull back in time in 2007 and 2008 as the New York bank sustained significant losses.

During the financial crisis, Morgan Stanley required $10 billion in emergency support from the federal government, as well as a $9 billion investment by the Japanese bank Mitsubishi UFJ Financial Group to survive. Mr. Mack, however, received credit for negotiating the Mitsubishi deal, persuading the Japanese bank to move ahead with the partnership despite the difficult environment. Morgan Stanley repaid the government bailout money in 2009.

Mr. Gorman has been running the day-to-day operations of Morgan Stanley since 2010. He has been trying to revive the company's fortunes, reducing risk and rebuilding units that were injured during the credit crisis.

He has received credit from analysts for his efforts, but Morgan Stanley's stock, like that of other financial companies, continues to languish. Its shares closed Thursday at $16.59, up $1.11, but down from the $29.60 when Mr. Gorman became chief at the start of 2010. When Mr. Mack took the helm in 2005, Morgan Stanley's shares were trading above $43.

Morgan Stanley's move to combine the chief executive and chairman roles is likely to raise eyebrows among corporate governance watchdogs. They typically encourage companies to have a nonexecutive chairman, which they say gives the board a more independent voice.

This is a more complete version of the story than the one that appeared in print.

PHOTO: John Mack, left, and James Gorman at the New York Stock Exchange last September for Morgan Stanley's 75th anniversary. (PHOTOGRAPH BY VALERIE CAVINESS/NYSE EURONEXT, VIA BLOOMBERG NEWS)

Document NYTF000020110917e79g00003

The New York Times

FUNDAMENTALLY
Money and Business/Financial Desk; SECTBU
Emerging Markets Are Down, Not Out

By PAUL J. LIM
779 words
4 September 2011
The New York Times
NYTF
Late Edition - Final
5
English

IN a global slowdown, it's only natural for investors to focus on parts of the world where economic growth remains strong -- for instance, the rapidly expanding emerging markets.

Yet so far this year, bets on stocks in developing nations like China, India and Brazil have produced far greater losses than those in the domestic market. The Morgan Stanley Capital International Emerging Markets index has plummeted more than 10 percent, versus a 6.7 percent decline for the Standard & Poor's 500 index of domestic stocks.

So have investors thrown in the towel on the emerging markets? Not in the least. In fact, between January and July, they plowed more than $12 billion in net new money into mutual funds that focus on developing-market stocks.

As investors stuck with this asset class, though, they also tweaked their strategies.

Throughout much of the last decade, the way to win in emerging markets was to bet on producers. For instance, industrial companies throughout the developing world experienced a huge wave of growth as manufacturing left mature economies in the West.

So investors focused on parts of the industrial sector that benefited from the manufacturing boom. They bet on energy companies that powered factories and on commodity producers that met the rising demand for the raw materials needed to supply those factories and construction.

This year, though, the market has shifted. Industrial-oriented stocks have fallen 17 percent, or about seven percentage points more than the broad emerging markets.

Consumer-oriented companies, meanwhile, many of which are catering to the fast-growing middle class in places like China, have held up remarkably well. Shares of companies in emerging markets that make nonessential, or discretionary, consumer products are up around 3 percent this year.

''An overarching theme that's occurring across the emerging markets is that the consumer base is blossoming into an income level that allows them to spend money on things beyond the necessities,'' said Mark D. Luschini, chief investment strategist at Janney Montgomery Scott.

China, for example, is on track this year to overtake Japan in the number of vehicles it has on the road, putting it second behind the United States.

Arjun Jayaraman, a portfolio manager for emerging markets at Causeway Capital Management, said it was not surprising that some consumer companies had held up better than industrial ones.

''Let's face it: this slowdown is based in the developed world,'' Mr. Jayaraman said. While companies that make and export goods to Europe and the United States will be hurt by slowing demand in the West, he said, ''a consumer company in India or China that's more dependent on the local markets will be more insulated from the global slowdown.''

To be sure, consumer companies aren't a huge segment of the emerging markets. Combined, consumer discretionary stocks and shares of consumer staples companies -- which make essential goods like food or toothpaste -- make up just 16.5 percent of the Standard & Poor's Emerging Broad Market index.

But Alec Young, international equity strategist at S.& P. Equity Research, said that these consumer-oriented companies could serve "as a port in the storm for investors who want exposure to the emerging markets but want to achieve it in a more conservative way."

Investors must still be careful, though, with this group of stocks.

"Stocks that are less sensitive to the global economy and that target local consumer demand have performed better, but as a result they've gotten more expensive," said Jeffrey A. Urbina, co-portfolio manager of the William Blair Emerging Markets Growth fund.

The average price-to-earnings ratio for consumer discretionary stocks in the MSCI Emerging Markets index, for instance, is 13.4, based on the last 12 months of earnings. By comparison, the ratio for the broad emerging markets stands at 10.9.

As a result, many strategists say a cheaper -- and less volatile -- way to gain exposure to emerging-market consumers is through shares of large domestic and European multinational companies that generate a sizable portion of their revenue from those regions.

As examples, Simon Hallett, chief investment officer at Harding Loevner, an asset management firm, points to McDonald's, whose shares are up 19 percent this year, and Colgate-Palmolive, up 12 percent.

These stocks have performed so well in this volatile market "not just because they're defensive stocks," he said. "It also has to do with their long-term growth opportunities in emerging economies."

E-mail: fund@nytimes.com.

Paul J. Lim is a senior editor at Money magazine.

Document NYTF000020110904e7940004q

The New York Times

Business/Financial Desk; SECTB
Former FrontPoint Manager Pleads Guilty

By AZAM AHMED
579 words
16 August 2011
The New York Times
NYTF
Late Edition - Final
3
English

6:06 p.m. Updated

A former portfolio manager for the hedge fund FrontPoint Partners pleaded guilty on Monday to insider trading, less than a year after the charges that rocked the hedge fund first surfaced.

The portfolio manager, Joseph F. Skowron, known as Chip, admitted before a federal judge in Manhattan that he had avoided $30 million in losses by trading on tips leaked by a consultant for an expert network about the results of a clinical drug trial. He also admitted that he and the consultant, Dr. Yves Benhamou, had agreed to mislead the Securities and Exchange Commission about their actions.

Mr. Skowron faces as much as five years in prison for the one count of conspiracy to commit securities fraud and obstruct justice and will pay a $5 million fine.

''I knew my actions were wrong, and I deeply regret participating in these activities,'' Mr. Skowron, 42, said in court.

The guilty plea is the latest victory for federal prosecutors in Manhattan, whose recent crackdown on insider trading has focused on the expert network industry. Dr. Benhamou was connected to Mr. Skowron through an expert network, which sets up meetings between industry executives and Wall Street for a fee to help money managers understand a given field. But prosecutors at the United States attorney's office have said that many such arrangements have crossed the line.

The FrontPoint case was one of the first to emerge from the expert network investigation. In the subsequent weeks and months, several hedge funds were raided and the government arrested a number of consultants to and employees of expert networks. FrontPoint has since all but shut down, along with a few other funds that were caught up in the insider trading sweep, like Level Global Investors.

News of the insider scheme first surfaced last November, when Dr. Benhamou was arrested by federal authorities and pleaded guilty after being charged with leaking private information about the results of a clinical drug trial to a hedge fund. Shortly after, it became clear that FrontPoint was the hedge fund cited in the complaint, and Mr. Skowron was put on leave from the firm.

While simultaneously working as paid consultant for an expert network, Dr. Benhamou was retained by Human Genome Sciences to assist with a clinical trial for Albuferon, a hepatitis C drug. In January 2008, Dr. Benhamou told Mr. Skowron of a major setback in the trial before the information became public.

Mr. Skowron told one of his traders to sell all of its shares in the company, a move that saved the hedge fund $30 million when the information became public and the stock sank.

Later, when the S.E.C. began investigating the suspicious trading before the announcement by Human Genome Sciences, Mr. Skowron and Dr. Benhamou agreed to mislead the regulatory agency.

In the aftermath of the charges, investors withdrew billions of dollars from FrontPoint, once among the highest-flying hedge funds on Wall Street. The hedge fund struggled to stem the losses but fell short. In May, executives at the fund announced they were getting rid of most of their funds.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Joseph F. Skowron at a bail hearing in April. He pleaded guilty Monday to trading on insider tips while working at FrontPoint. (PHOTOGRAPH BY LOUIS LANZANO/BLOOMBERG NEWS)

Document NYTF000020110816e78g0009m

The New York Times

Business/Financial Desk; SECTB
Gloom Grips World's Financial Capitals: Banking Sector Punished Over European Debt

By ERIC DASH
1,122 words
11 August 2011
The New York Times
NYTF
Late Edition - Final
1
English

Fear is on the rise again that worsening problems at some of Europe's biggest banks may wind up hurting financial institutions in the United States.

The clearest signs of the anxiety are in the stock market, where shares of American banks plunged again on Wednesday. Bank of America dropped almost 11 percent. Citigroup sank 10.5 percent. Goldman Sachs fell 10 percent, while Morgan Stanley was down 9.7 percent.

All told, bank stocks have fallen more than 30 percent since the beginning of the year -- and have swung wildly up and down over the last week -- as the weakening economy is expected to take a toll on business and reduce earnings.

But concerns about European banks are driving the latest wave of selling. Societe Generale's share price dropped 14.7 percent on Wednesday, the most of any European bank, as its chief executive "denied all rumors" that he said caused the stock to fall.

Other European giants were alsopounded. Shares of Intesa Sanpaolo of Italy fell nearly 14 percent. Credit Agricole and AXA Financial of France dropped more than 10 percent apiece.

Financial institutions across the Continent have huge holdings of government and corporate bonds from Italy and Spain. Doubts about the financial health of European lenders are encouraging investors to unload their shares and driving up their borrowing costs.

Those banks, in turn, trade billions daily with their counterparts on Wall Street. They also rely on billions of dollars invested by American money market mutual funds to finance loans and other investments.

That has created a vicious circle, where fears about the soundness of European banks are feeding new concerns about the stability of American financial institutions.

"The European situation is back and isn't going away," said Alex Roever, the head of short-term fixed income at JPMorgan Chase. "It continues to keep pressure on the market."

Only a few months ago, American banks looked as if they had finally found their footing. Loan losses were easing. Profits and bonuses were back. Even some of the new regulations had turned out to be not as draconian as many bankers once believed.

But there has been a steady drumbeat of dismal headlines in the last few weeks. First, weak data for the housing market and the broader economy suggested that banks would find it even harder to grow. Standard & Poor's downgrade of the United States government further rattled confidence, the lifeblood of the financial system.

Then, in a sign of how grim things had become, the Federal Reserve took the unprecedented step of pledging to keep interest rates near zero for the next two years. That may prevent the economy from slipping into another recession, but it will squeeze lending profits that make up the bulk of banks' income.

And that comes as demand is already slowing for all kinds of loans and a wave of deal making has been shelved.

"Everyone is going to be lowering their estimates," said David Ellison, the chief investment officer of two FBR mutual funds that invest in financial companies. "You are going to have lower loan growth and lower margins; we are in a new era."

If that were not enough, there are lingering worries about the legal hangover from the housing bust. Bank of America, which faces potentially tens of billions of dollars in investor claims, held an unusual conference call on Wednesday to reassure shareholders it could cope with all settlements, among other concerns. Its shares fell to $6.77 on Wednesday, after reaching a postcrisis high of almost $20 in April 2010.

Now, as Europe's fiscal troubles spread to core trading partners like France, there are renewed fears of contagion. The links between French and American institutions, after all, are orders of magnitude larger than they are between American banks and say, Greek, or even Spanish ones.

For example, according to the Bank for International Settlements, French banks owed American institutions more than $160 billion at the end of 2010. Spanish banks owed less than $20 billion. And that's not counting the billions of dollars that big American banks lend directly to overseas companies or any European government debt they hold as investments.

Nowhere is that nervousness greater than in the short-term financing markets, where European banks turn to American money funds each day for tens of billions of dollars in funding.

Interbank borrowing rates are still well below where they were at the height of the financial crisis. But they have been drifting higher over the last week for several big European lenders, creating ominous echoes to the fall of 2008.

In particular, American money funds, one of the main providers of financing, have been cutting back their exposure to French banks. They are concerned about the banks' holdings of Italian and Spanish government debt, as well as the possibility of France losing its top credit rating -- something the major agencies have said is not currently on the table.

In July, American money funds and other suppliers of short-term credit chose not to refinance more than $38 billion of short-term notes issued by European banks, with more than half belonging to French lenders, according to JPMorgan research. And as recently as Wednesday, French banks, like Societe Generale, were forced to pay more to borrow dollars.

In one sign of the funding pressure, what banks charge each other to swap euro-denominated assets into dollars is now around 80 basis points, compared with 10 basis points a few months ago.

Still, thanks to emergency support measures taken by the world's central banks and tens of billions of dollars stockpiled in the Fed's reserves, European lenders have not run short on cash. That is one sliver of good news, although little consolation to those who invest in American banks.

Shares of Goldman Sachs, for example, are now trading at just over $110, down from their postcrisis peak of $192 in October 2009. Morgan Stanley shares are now at $16.45, a price not seen since the market bottomed in March 2009.

Citigroup shares are trading at $28.49, about the same level on a split-adjusted basis as they were a few weeks after the bank's shares dropped below $1 in March 2009.

"Clearly, the problems in Europe and the growing risk of recession makes banks less valuable," said Douglas J. Elliott, a fellow at the Brookings Institution. "The extreme nature of the reaction reflects panic."

PHOTO: Shares of Societe Generale fell almost 15 percent on Wednesday, the most of any European bank. (PHOTOGRAPH BY ANTOINE ANTONIOL/BLOOMBERG NEWS) (B4)

Document NYTF000020110811e78b000a5

The New York Times

Business/Financial Desk; SECTB
Despite Quarterly Loss at Morgan Stanley, Major Divisions Post Gains

By KEVIN ROOSE
863 words
22 July 2011
The New York Times
NYTF
Late Edition - Final
8
English

7:59 p.m. Updated

At Morgan Stanley, even a loss can be a win.

Although the financial firm reported a second-quarter loss of $558 million on Thursday, three crucial divisions posted significant gains, a promising sign that the turnaround plan Morgan Stanley embarked on after the financial crisis was taking hold.

In its institutional securities business, which houses trading and banking, revenue rose almost 15 percent, to $5.19 billion. The division that houses global wealth management posted net revenue of $3.5 billion this quarter, compared with $3.1 billion a year ago, after letting go of poorly performing brokers and cutting costs. The firm's asset management division's revenue jumped $235 million, to $645 million.

But the gains failed to put the firm in the black for the quarter, largely because it was still paying for the decisions it made during the financial crisis to keep the firm alive.

In April, Morgan Stanley renegotiated its deal with the Japanese bank Mitsubishi UFJ Financial Group, which had provided it with a $9 billion cash infusion during the darkest hours of the financial crisis. This move, which converted Mitsubishi UFJ's preferred stock into common stock, was seen as positive, but it came at a price, forcing the firm to take a one-time $1.7 billion charge.

The bank's loss of 38 cents a share in this most recent quarter was hailed by analysts, who had expected the bank to lose 61 cents a share. The firm's stock surged on the news, rising 11.4 percent, or $2.48, to close at $24.20. Before Thursday, the shares were down about 20 percent for the year.

Morgan Stanley reported total revenue of $9.3 billion in the second quarter, up 17 percent from a year ago. That gave the bank an important symbolic victory: it was the first time since 2008 that its quarterly revenue exceeded that of its rival Goldman Sachs. Earlier this week, Goldman reported a disappointing $7.3 billion in net revenue, its lowest figure since the financial crisis.

While Morgan Stanley's results were encouraging, the bank was still ''a work in progress,'' said Michael Wong, an analyst with the financial research company Morningstar. ''It's too early for James Gorman to declare victory,'' he said, referring to Morgan Stanley's chief executive.

Morgan Stanley's traders produced some stumbles, such as an interest-rate trade in June that reportedly lost the firm tens of millions of dollars. But gains from other trades offset those losses, and the firm's overall trading revenue climbed 4 percent over year-ago levels, to $3.5 billion.

Morgan Stanley's investment banking team, traditionally a strong suit, also improved, and was in on some of the quarter's biggest deals, including the public offerings of LinkedIn, Groupon and Zynga. These deals helped push investment banking revenue to $1.5 billion, from $885 million a year ago. Underwriting revenue increased 57 percent in the period, to $940 million. Revenue from Morgan Stanley's advisory division also improved, jumping 85 percent, to $533 million. That unit represented BJ's Wholesale in its deal to sell itself to a group of private equity firms for $2.8 billion. It also worked with Capital One Financial, which bought ING's American online banking group for $9 billion in June.

One of Mr. Gorman's top priorities since becoming chief executive in January 2010 has been stabilizing the bank by beefing up its global wealth management and asset management groups, safer groups that fluctuate less with the ups and downs of the stock market. In January, he appointed Gregory J. Fleming to lead Morgan Stanley Smith Barney, the firm's wealth management arm.

The bank also took steps this year to improve its asset management division, which is also run by Mr. Fleming, and which has historically been a sore spot for the firm. The division's growth primarily stemmed from gains in the firm's real estate investments and improvements to its core asset management business.

''This wasn't about a bunch of trading gains,'' said Ruth Porat, the firm's chief financial officer, in an interview after Thursday's earnings release. ''We've been very focused on building up the client side and delivering content with a point of view.''

In Thursday's conference call, analysts asked Mr. Gorman about elements of his long-term plan, including the firm's capital reserves and the continuing integration of its Morgan Stanley Smith Barney brokerage division, which was formed in a joint venture with Citigroup in 2009.

''These are unquestionably challenging markets, but our focus is and must be on methodical and resolute forward progress with an ever-increasing eye on those things which we do control,'' Mr. Gorman said.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Morgan Stanley, which is still showing the effects of the financial crisis, reported losses that were smaller than had been expected. (PHOTOGRAPH BY SCOTT EELLS/BLOOMBERG NEWS)

Document NYTF000020110722e77m0005y

The New York Times

Business/Financial Desk; SECTB
At Morgan Stanley, Speculation Swirls Over the Next No. 2

By SUSANNE CRAIG
908 words
1 July 2011
The New York Times
NYTF
Late Edition - Final
5
English

Wall Street has a new guessing game: whom will James P. Gorman choose to be his No. 2?

Mr. Gorman, the Australian-born chief executive of Morgan Stanley, is not expected to take over as chairman until early next year, after John J. Mack steps down.

But inside the investment bank, speculation is already swirling about the next president, a title now also held by Mr. Gorman. It is a crucial position, and the person filling it is usually seen as the heir apparent to the top spot.

While there are several long shots, the odds favor three senior executives. Insiders are betting on the co-presidents of institutional securities, Colm Kelleher and Paul J. Taubman, as well as Gregory J. Fleming, the president of Morgan Stanley Smith Barney and Morgan Stanley Investment Management.

They could be waiting a while to get the nod from Mr. Gorman. People close to the chief executive say he has no intention of filling the spot right away and could even wait years.

Mr. Gorman, 52, is still a young chief executive and does not see the need to publicly anoint a second in command, the people say. Choosing one would most likely ruffle the feathers of the executives passed over - a situation Mr. Gorman does not want so early in his tenure. By waiting to pick a president, Mr. Gorman can also monitor the performance of each deputy, keeping them in healthy competition with one another.

''It's too early to give anyone that type of promotion,'' said a UBS stock analyst, William Tanona. ''Mr. Gorman needs to get some decent quarters behind him before doing anything like this. The company is going through a transition phase with new people, and there is still a lot to be worked out.''

It is not unusual for a Wall Street chief executive to keep the job empty. Jamie Dimon of JPMorgan Chase and Brian T. Moynihan at Bank of America both have several senior deputies but no president.

But a strong No. 2 can be useful. Goldman Sachs's president, Gary D. Cohn, is often called to attend investment banking pitches and step in when the firm's chief executive, Lloyd C. Blankfein, is busy.

The rumor mill at Morgan Stanley is starting in anticipation of a board meeting this month. The directors are scheduled to meet in Japan, where a top shareholder is based, to discuss management changes at the top. The current chairman, Mr. Mack, is widely expected to retire this year. If he does, it will pave the way for Mr. Gorman to step into the role.

Morgan Stanley has a deep bench of executives from which Mr. Gorman can pick a president - when he eventually does. Mr. Taubman and Mr. Kelleher, who have been running institutional securities since late 2009, are natural choices.

The two top executives played crucial roles in guiding the company through the financial crisis. Mr. Taubman, 50, helped secure a lifeline from the Japanese bank Mitsubishi in 2008 shortly after Lehman Brothers collapsed, and he is now focused on investment banking. Mr. Kelleher, 54, was Morgan Stanley's chief financial officer during the rocky period. He is now charged with turning around sales and trading, a crucial unit that has not fully recovered from the depths of the disaster.

Both have long histories at Morgan Stanley, too. Mr. Taubman, who has been with the firm for 29 years, is one of the largest individual shareholders, with almost 1.1 million shares, valued at roughly $25 million. Mr. Kelleher, an outgoing Irishman who has eight siblings, is an accountant by trade, having worked at Arthur Andersen before joining Morgan Stanley in 1989.

As can be common with co-heads of a division, their professional relationship is tense, according to colleagues who spoke on condition of anonymity because they were not authorized to talk publicly. It is sometimes uncomfortable in meetings with the two executives, since it is readily apparent they do not get along, the colleagues say. Through a spokeswoman for the firm, Mr. Taubman and Mr. Kelleher declined to comment for this article.

The relative newcomer of the group, Mr. Fleming, 48, has known Mr. Gorman since their days working together at Merrill Lynch. Hired in late 2009 to run the firm's asset management division, he quickly improved the group's profitability, in part by selling noncore assets and cutting costs. This year, Mr. Gorman added the retail brokerage unit to his duties. Expanding the unit's lower-risk, fee-based business is a crucial part of the firm's broader strategy.

There are also dark-horse candidates to consider, like the chief financial officer, Ruth Porat, 53, and Jim Rosenthal, 58, head of corporate strategy. Both are senior executives and members of Mr. Gorman's inner circle. Mr. Gorman could also look outside to fill out his corporate suite.

As is usually the case in these races, it is too early to call. Of course, that has never stopped Wall Street from talking.

This is a more complete version of the story than the one that appeared in print.

PHOTOS: James P. Gorman, above, chief executive of Morgan Stanley. His possible picks for president include, from far left, Colm Kelleher, Paul J. Taubman and Gregory J. Fleming. (PHOTOGRAPH BY VALERIE CAVINESS/NYSE EURONEXT, VIA BLOOMBERG NEWS)

Document NYTF000020110701e7710000p

The New York Times

Business/Financial Desk; SECTB
Mortgage Companies Settle Suits on Military Foreclosures

By DIANA B. HENRIQUES
650 words
27 May 2011
The New York Times
NYTF
Late Edition - Final
1
English

Two mortgage servicing companies have agreed to settle federal complaints that they wrongfully foreclosed on the homes of at least 178 military service members and to set aside a minimum of $22 million to compensate those victims.

The Justice Department announced on Thursday that it had simultaneously filed and settled lawsuits against the two companies -- a subsidiary of Bank of America formerly known as Countrywide Home Loans Servicing, and Saxon Mortgage Services, a subsidiary of Morgan Stanley.

The companies were accused of knowingly and repeatedly violating the Servicemembers Civil Relief Act, a federal law that extends an array of financial and legal protections to military personnel. Specifically, the companies were accused of ignoring a provision of the law that required them to get court orders before foreclosing on active-duty service members.

Without admitting wrongdoing, the former Countrywide unit agreed to pay $20 million to approximately 160 victims of illegal foreclosures from January 2006 to May 2009. It also agreed to reimburse victims of any other illegal military foreclosures found to have occurred from May 2009 to the end of last year.

Further, it promised to upgrade its training and report future violations of the civil relief act to the Justice Department.

Although most of the improper foreclosures began before Bank of America acquired Countrywide, ''it is our responsibility to make things right,'' said Terry Laughlin, an executive vice president at the bank. He added, ''These errors are not acceptable, and we certainly regret them.''

According to Thomas E. Perez, assistant attorney general for the Justice Department's civil rights division, the Countrywide settlement is ''easily the largest amount ever recovered'' by the Justice Department for violations of the civil relief act.

Saxon was accused of illegally foreclosing on approximately 18 service members, ''some of whom were severely injured in the line of duty or suffer from post-traumatic stress disorder,'' according to Mr. Perez.

Without admitting wrongdoing, Saxon agreed to pay $2.35 million to victims of those foreclosures, made from January 2006 to May 2009. It also agreed to pay the victims of any subsequent wrongful military foreclosures, through the end of last year, and to upgrade its training programs.

''First and foremost, we want to apologize to those military families that were affected by any mistakes made in the foreclosure process,'' said Mark Lake, a spokesman for Morgan Stanley. ''Our servicemen and women deserve the highest level of customer service.''

He said that Saxon ''has taken meaningful steps to ensure it has appropriate policies and procedures in place to comply fully'' with the civil relief act.

Both companies agreed to repair any damage their improper foreclosures had caused to the credit scores of the affected homeowners.

There have been widely publicized violations of the civil relief act since well before January 2006, the starting date for these settlements. Indeed, the Saxon investigation was based on a complaint by Sgt. James B. Hurley, an Iraq veteran who lost his home in western Michigan in an improper foreclosure in 2005. Saxon and its co-defendant in that case, Deutsche Bank, reached a confidential out-of-court settlement with the Hurleys early this year.

Mr. Perez said the 2006-9 period was chosen because it encompassed the sharp spike in national foreclosure activity that began in late 2006.

The settlement terms expand that window to the end of 2010.

The two mortgage companies have set up a direct hot line for service personnel who believe they are eligible for relief under the settlements. That number is (800) 896-7743, mailbox 6 for the former Countrywide unit and mailbox 995 for Saxon.

PHOTO: Sgt. James B. Hurley, on a bridge near the property in western Michigan he lost to foreclosure while he was serving in the military. (PHOTOGRAPH BY ERIK HOLLADAY FOR THE NEW YORK TIMES)

Document NYTF000020110527e75r00070

The New York Times

Business/Financial Desk; SECTB
Trading Charges Claim a Hedge Fund

By PETER LATTMAN and AZAM AHMED
819 words
20 May 2011
The New York Times
NYTF
Late Edition - Final
1
English

FrontPoint Partners, once a multibillion-dollar hedge fund before it was battered by allegations of insider trading, will shut down most of its funds by the end of the month.

The decision to wind down and restructure its business is a surprising reversal of fortune for the hedge fund. Earlier this year, FrontPoint had appeared to have weathered the scandal when it raised $1 billion for a new fund. And in March, its co-chief executives, Dan Waters and Mike Kelly, announced that the firm had bought back majority ownership of itself from Morgan Stanley, concluding a long-delayed spinoff.

But the good news was short-lived as investors continued to flee the fund when the window for withdrawals opened earlier this month.

''We have received capital redemption requests from some of our clients and as always we will honor those requests,'' FrontPoint said in a statement to The New York Times in response to questions. ''These actions are affecting strategies differently at FrontPoint Partners and as a result we will be winding down select strategies.''

The firm declined to state how much money investors wanted back. But people who spoke to the fund's executives say that FrontPoint was winding down most of its business.

Earlier on Thursday, a spokesman for the firm, Steve Bruce, had denied that the firm was shutting down.

FrontPoint is just one of several funds brought low by a widespread government crackdown on insider trading at hedge funds. Two funds, Level Global Investors and Loch Capital, shut down after raids by federal agents late last year linked to the broader investigation.

More broadly, FrontPoint's move comes at a difficult time for the hedge fund industry, amid increased regulation and difficult markets. Some prominent managers like Stanley Druckenmiller, Chris Shumway and most recently Carl C. Icahn have left the field and manage their own money.

In many ways, the rise and fall of FrontPoint mirrors that of the industry itself. In late 2006, when owning a hedge fund was considered a smart way for banks to deploy capital, the firm was bought by Morgan Stanley for about $400 million.

Then, during the financial crisis, the hedge fund was lauded for the insight of one of its most colorful managers, Steve Eisman, who had placed a bet against the subprime mortgage market that earned him hundreds of millions and a major role in ''The Big Short,'' the best seller by Michael Lewis. Several other hedge fund managers, including John A. Paulson and the Harbinger Group founder Philip Falcone, also minted fortunes from their bets against the housing market.

But trouble began at FrontPoint in November last year when a French doctor was arrested by federal authorities and accused of leaking secret information about a clinical drug trial to an unnamed portfolio manager. It quickly became public that the portfolio manager was Joseph F. Skowron, a doctor who ran a health care portfolio at FrontPoint.

The firm, which managed about $7 billion at the time, placed Mr. Skowron on leave and terminated the entire health care team. Effort to reassure investors that Mr. Skowron's fund was separate from the many others it ran failed. Clients withdrew $3.5 billion as they raced to the exits.

A long planned spinoff from Morgan Stanley - prompted by the Dodd-Frank financial overhaul - was delayed as result of the huge withdrawals and legal complications.

The tide seemed to turn in January, when the firm announced that a new fund that would lend money to midsize companies had raised $1 billion. At the time, Mr. Waters, one of the firm's chief executives, indicated the firm's transparency had paid off.

But weeks later, Mr. Eisman, FrontPoint's star manager, told those close to him that he was considering leaving the firm, frustrated with the collateral damage his funds had suffered from the insider trading incident. Clients had withdrawn nearly $500 million from funds he managed, according to a person close to Mr. Eisman.

Last month, Mr. Skowron was formally charged by federal authorities, accused of conspiring to hide his role in a trading scheme that netted FrontPoint Partners more than $30 million. Mr. Skowron was leaked confidential tips about a drug trial by Yves M. Benhamou, a French doctor, who accepted envelopes stuffed with cash for the information.

Mr. Benhamou has pleaded guilty to insider trading and obstruction of justice.

FrontPoint declined to say which funds would be closed after the shakeout. The only fund they did indicate would remain open was the midsize lending fund, which has money committed for several years.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Steve Eisman, a star manager at FrontPoint, considered leaving in the wake of the allegations. (PHOTOGRAPH BY DANIEL ACKER/BLOOMBERG NEWS) (B10)

Document NYTF000020110520e75k00065

The New York Times

Business/Financial Desk; SECTB
Mitsubishi Accord Aids Turnaround At Morgan

By SUSANNE CRAIG
900 words
22 April 2011
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDED

James P. Gorman, the chief executive of Morgan Stanley, received some bad news this year. A joint venture controlled by Mitsubishi UFJ Financial in Japan was facing huge losses, which would drag down earnings at the American investment bank.

But Mr. Gorman used the situation as leverage, striking a deal that frees Morgan Stanley from paying roughly $800 million a year to Mitsubishi, the costly overhang of a cash infusion made during the financial crisis.

Announced on Thursday, the agreement between the two banks removes a major financial burden on Morgan Stanley, which at the same time reported that first-quarter profit declined 48 percent from the period in the previous year. It also was a personal victory for Mr. Gorman, who has struggled to turn around Morgan Stanley since becoming chief executive in January 2010. In an internal note to employees, Mr. Gorman, 52, called the deal a ''signature event'' for the firm.

Under the terms of the transaction, Mitsubishi will trade most of its convertible preferred stock in Morgan Stanley for common stock. Once completed, Mitsubishi UFJ will own 385 million common shares, or roughly 22 percent of the company. The agreement requires approval from shareholders and regulators.

Although the firm still faces major obstacles in its recovery, investors welcomed the deal. Shares of Morgan Stanley closed at $26.48, up 1.69 percent, on Thursday.

Morgan Stanley reached out to Mitsubishi for a $9 billion lifeline during the depths of the crisis in 2008. In exchange for the money, the investment bank agreed to make quarterly dividend payments of roughly $200 million on Mitsubishi's stake.

The firm was required to do so until the stock hit $37.875 for 20 out of 30 consecutive trading sessions - or until the two banks reached a new agreement. With the stock languishing below that target, Morgan Stanley insiders worried it could take years to reach that level.

For months, the Mitsubishi stake has been a source of aggravation for Mr. Gorman, who had inherited several headaches, some of which he dealt with by shedding nonessential divisions.

At a staff meeting in January, the chief executive expressed his frustration about the dividend payment. In response to questions about bonuses, he told employees that the firm needed to show restraint on compensation in part to appease shareholders and get the stock price up - generating an automatic end to the Mitsubishi payment.

When the news of the joint venture troubles crossed his desk around the same time, Mr. Gorman moved to use the information to his advantage. Ruth Porat, Morgan Stanley's chief financial officer, who worked with Mr. Gorman and other senior Morgan executives on the latest deal, said the losses ''took a logical discussion to the finish line.''

The parties were also cognizant that Goldman Sachs was moving to pay back a $5 billion crisis investment from Warren E. Buffett's Berkshire Hathaway, which was completed this week.

In late March, Mr. Gorman flew to Japan to meet with executives of Mitsubishi, and they reached an accord not long after. Morgan Stanley's board voted to approve the pact this week.

The directors also met to review the firm's first-quarter earnings, which Morgan Stanley released Thursday. Morgan Stanley posted a profit of $736 million, compared with $1.41 billion a year earlier. The results included a pretax loss of $655 million from the Mitsubishi joint venture.

The firm's quarterly profit of 50 cents a share beat analysts' expectations of 35 cents, according to Thomson Reuters.

Net revenue was $7.6 billion for the quarter, compared with $9.1 billion a year ago.

Although the Mitsubishi deal removes one obstacle to Morgan Stanley's prospects, the firm still has plenty of work left on its turnaround, as it contends with a sluggish economic environment and a more restrictive regulatory regime. Its fixed-income and commodities division posted revenue of $1.77 billion, down 35 percent from year-ago levels. Asset management posted net revenue of $626 million, down 4 percent.

There were bright spots in the financials. Investment banking reported first-quarter revenue of $1.2 billion, up 15 percent from the period a year earlier. At the global wealth management division, which includes Morgan Stanley Smith Barney, revenue increased to $3.4 billion, from $3.1 billion a year ago.

Mr. Gorman struck an unusually positive note on the firm's conference call with analysts, saying the changes he and his team had made over the last year or so were starting to pay off.

''We made clear progress increasing client share and this translated to financial performance. We have seen the benefits of our investments in hiring and the leadership as we execute across our businesses,'' he said.

This is a more complete version of the story than the one that appeared in print.

Correction: April 23, 2011, Saturday

This article has been revised to reflect the following correction: An article on Friday about a deal between Morgan Stanley and Mitsubishi UFJ misstated the amount of Morgan that the Japanese bank will own when the transaction is completed. It is roughly 22 percent, not 10 percent.

PHOTO: James P. Gorman has struggled to turn around Morgan Stanley since becoming chief executive. (PHOTOGRAPH BY CHESTER HIGGINS JR./THE NEW YORK TIMES) (B5)

Document NYTF000020110423e74m00051

The New York Times

Business/Financial Desk; SECTB
Judge in Italy Clears Banks In Parmalat Fraud Case

By ERIC SYLVERS
594 words
19 April 2011
The New York Times
NYTF
Late Edition - Final
3
English

5:39 p.m. Updated

MILAN - An Italian judge on Monday cleared Bank of America, Citigroup, Morgan Stanley and Deutsche Bank of charges that they engaged in market rigging by helping the dairy company Parmalat conceal the fraud that led to its collapse in 2003.

The banks, which all worked for Parmalat in the years before its bankruptcy, were also acquitted of accusations that they did not have appropriate internal systems that would have prevented their employees from carrying out the fraud.

Employees of the banks were also acquitted. The four banks had all denied wrongdoing.

Parmalat collapsed after it was revealed that the company's debt was eight times as much as it had publicly stated and that sales and profit had been overstated for at least a decade.

The four banks were part of a large pool of financial institutions that Parmalat used to raise money and organize acquisitions that helped turn a provincial milk producer into a large multinational food company, with businesses in Europe, the United States, Latin America and Australia.

A much smaller Parmalat emerged from bankruptcy and was relisted on the Milan stock exchange in 2005.

Bank of America hailed the judge's ruling, saying it confirmed that ''not only was the claim without foundation, but Bank of America had appropriate organizational models in place'' as required by Italian law.

Citigroup said that it had ''maintained throughout that it was defrauded by Parmalat'' and that the Milan court's judgment confirmed ''unequivocally that Citi and its employees did not have any involvement'' in the affair. Morgan Stanley and Deutsche Bank also said they were satisfied with the verdict.

Milan prosecutors had asked that each bank be fined 900,000 euros ($1.3 million) and that a total of 120.6 million euros be seized from the banks: 70 million euros from Citigroup, 30.7 million euros from Bank of America, 14 million euros from Deutsche Bank and 5.9 million euros from Morgan Stanley.

The prosecutors did not say whether they would appeal the verdict. The decision to appeal is usually made after the judges have published the reasoning behind their verdict, which must be done within 90 days of the ruling.

Considering the time and effort the prosecutors put into the case, it would be extremely surprising if they did not appeal, said a person involved in the trial who spoke on the condition of anonymity because he was not authorized to discuss the case until it was officially closed.

The four banks are still on trial in Parma, where Parmalat is based, on charges of covering up the fraud that led to its bankruptcy. That trial is in its preliminary phase and is likely to last another two to three years.

In December, the Parma court sentenced Calisto Tanzi, Parmalat's founder and chief executive at the time of the collapse, to 18 years in prison for his role in the company's demise. Mr. Tanzi has appealed that ruling.

Two years ago, the Milan court sentenced Mr. Tanzi to 10 years in prison in another trial connected to Parmalat's collapse. Mr. Tanzi lost the first appeal of that case and the second appeal could be decided in the next several months.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Parmalat, a food company, collapsed in 2003 after disclosure that it had overstated its revenue. (PHOTOGRAPH BY MAX ROSSI/REUTERS)

Document NYTF000020110419e74j0006w

The New York Times

Business/Financial Desk; SECTB
Morgan Chief's Compensation Falls Slightly, To $14 Million

By JACK LYNCH
364 words
15 April 2011
The New York Times
NYTF
Late Edition - Final
4
English

Even though James P. Gorman was promoted to chief executive of Morgan Stanley last year, he received a $1 million pay cut, as his total compensation fell to $14 million, the firm disclosed Thursday in a regulatory filing.

The pay cut comes as Mr. Gorman strives to revitalize Morgan Stanley, where earnings and its stock price have remained under pressure since he took charge at the beginning of 2010.

For the year, Mr. Gorman received a cash bonus of $1.55 million and a deferred cash award of $2.33 million that can be clawed back based on the firm's performance, according Morgan Stanley's annual proxy statement. Those total cash awards of $3.88 million were down from a deferred cash award of $5.71 million he received for 2009 when he was the firm's co-president.

Morgan Stanley also gave Mr. Gorman $3.5 million in stock options and $3.88 million in restricted stock that vests over three years, as well as $1.94 million in stock awards tied to the firm's performance, for a total of $9.32 million. That compares with $8.55 million in restricted and performance stock awards for 2009.

Mr. Gorman did get a slight raise in his base salary, to $800,000, from $734,247 in 2009.

At $14 million, Mr. Gorman was paid less than his counterparts at JPMorgan Chase and Goldman Sachs. Jamie Dimon of JPMorgan received $20.8 million during 2010, while Lloyd C. Blankfein of Goldman was paid $19 million for the year.

Mr. Gorman's pay cut was not unexpected. The firm has been trying to rein in compensation costs.

Morgan Stanley is scheduled to report its first-quarter earnings on April 21, and analysts are expecting a decline. On Tuesday, Goldman sharply cut its earnings estimates for the firm.

Shares of Morgan Stanley closed unchanged on Thursday at $26.79. That price is down about 9.5 percent since Mr. Gorman became chief executive.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020110415e74f00096

The New York Times

Business/Financial Desk; SECTB
Fund Manager Charged in Insider Case

By BEN PROTESS
636 words
14 April 2011
The New York Times
NYTF
Late Edition - Final
2
English

8:03 p.m. Updated

Federal prosecutors have charged a hedge fund manager with insider trading, accusing him of using secret information about a clinical drug trial to place millions of dollars in trades.

The portfolio manager, Joseph F. Skowron, a medical doctor who specialized in health care funds, is the latest person to be ensnared in the government's vast insider trading investigation.

Mr. Skowron is also accused of conspiring to hide his role in the trading scheme, which saved his hedge fund, FrontPoint Partners, more than $30 million, according to a complaint unsealed on Wednesday by federal prosecutors in Manhattan. FrontPoint, which was recently spun off from Morgan Stanley and is not accused of any wrongdoing, has agreed to return about $33 million to the government.

Mr. Skowron surrendered to the F.B.I. on Wednesday. His name first surfaced in November, when federal prosecutors accused a French doctor of illegally leaking confidential information about a drug trial to Mr. Skowron. He, in turn, gave the source envelopes stuffed with cash, prosecutors said.

The source, Yves M. Benhamou, pleaded guilty this week to securities fraud and conspiracy to obstruct justice, according to court documents.

''When Skowron needed inside information, Dr. Benhamou was always on call,'' Preet Bharara, the United States attorney for Manhattan, said at a news conference on Wednesday.

Dr. Benhamou, 51, is ''cooperating in hope of receiving a reduced sentence,'' prosecutors said.

Mr. Skowron, who was fired from FrontPoint on Dec. 1, 2010, intends to fight the charges, said his lawyer, James J. Benjamin Jr. of Akin Gump Strauss Hauer & Feld. ''We look forward to responding to the allegations more fully in court at the appropriate time,'' Mr. Benjamin said.

Mr. Skowron was released on $6 million bail on Wednesday.

The supposed arrangement between Mr. Skowron and Dr. Benhamou centered on clinical drug trials for Albuferon, which is used to treat hepatitis C.

Dr. Benhamou, an expert in hepatitis C treatment, worked as a consultant on the drug trials in 2007. He also had a consulting deal at the time with an expert networking firm, which connected hedge funds, including FrontPoint, with industry experts.

Mr. Skowron soon recruited Dr. Benhamou to do more than consult, prosecutors say.

Mr. Skowron, beginning in April 2007, ''showered'' Dr. Benhamou with gifts to ''induce'' him to share inside information about the drug trials, according to the F.B.I.

At a bar in Milan in April 2008, Mr. Skowron handed Dr. Benhamou an envelope containing $10,000 in cash, prosecutors said.

As their relationship blossomed, so did FrontPoint's stake in Human Genome Sciences, which was a co-developer of Albuferon. By Dec. 3, 2007, the fund had accumulated 6.3 million shares, worth about $65 million.

But the drug trial hit a serious snag. By Dec. 1, one patient in the drug trial died and at least one other was sick. Dr. Benhamou quickly alerted Mr. Skowron about the problems, and on Dec. 7, the hedge fund manager began dumping his fund's stake in Human Genome Sciences, prosecutors said.

On Jan. 18, Dr. Benhamou called Mr. Skowron to say that the company was discontinuing the drug trial. About seven minutes after the call began, prosecutors say, Mr. Skowron sent a FrontPoint trader an instant message: ''Sell the hgsi. All of it,'' referring to the stock ticker for Human Genome Sciences Inc.

Four days later, the hedge fund no longer had a stake in the drug company.

Complaint Against Joseph F. Skowron

This is a more complete version of the story than the one that appeared in print.

PHOTO: Joseph F. Skowron, who managed FrontPoint Partners, was accused of insider trading. (PHOTOGRAPH BY JOHN MARSHALL MANTEL FOR THE NEW YORK TIMES)

Document NYTF000020110414e74e000ah

The New York Times

Business/Financial Desk; SECTB
Impatience For Recovery At Morgan

By SUSANNE CRAIG
1,368 words
13 April 2011
The New York Times
NYTF
Late Edition - Final
1
English

A year and a half into a campaign to rebuild Morgan Stanley, some shareholders are losing patience with James P. Gorman, the firm's chief executive.

Despite a flurry of management changes and a big hiring spree to bolster its trading business, a big Wall Street money maker, the company's stock price is lower than when Mr. Gorman took over in early 2010. Analysts have been cutting their earnings forecasts for Morgan Stanley's first-quarter results, which the company is scheduled to report next week. On Tuesday, Goldman Sachs chimed in, cutting sharply its estimates for the bank.

''You can only take so much pain,'' said David P. Foley, an investment manager at Estabrook Capital Management, which as of Dec. 31 owned roughly 661,000 shares in Morgan Stanley, valued at almost $18 million. ''We have to go to our clients and defend the stock, and invariably someone says, 'Why do you still own this thing?' Eventually, I am sure Morgan Stanley will turn around, but the firm has become harder and harder to defend because it still hasn't turned the corner.''

Mr. Gorman has been working to turn that corner for Morgan Stanley, a one-time Wall Street powerhouse that was almost brought to its knees in the 2008 financial crisis. Yet the company continues to be hobbled by one-time legacy items, and the stock price has fallen more than 9 percent since Mr. Gorman took over. In 2010, Morgan Stanley produced a return on equity, a closely watched measure of financial performance on Wall Street, of 8.5 percent, down from 23.5 percent in 2006. In 2009, return on equity was 5 percent. In contrast, Goldman produced a 2010 return on equity of 11.5 percent and its stock has fallen roughly 4.5 percent since early 2010.

And analysts are expecting Morgan Stanley to report a decline in its first-quarter results. The consensus, according to a survey by Thomson Reuters, is that Morgan will earn 37 cents a share in the first quarter ended March 31, down from 99 cents a share in the quarter a year ago.

Analysts expect the first quarter to include a handful of one-off charges, including the impact of a major embarrassment for the firm. Mitsubishi UFJ Morgan Stanley Securities, a unit that Morgan Stanley created with the Mitsubishi UFJ Financial Group but that it does not control, may post a fiscal year loss of $960 million, a recent report in the Nikkei newspaper of Japan said.

Morgan Stanley owns 40 percent of the venture, and its share of this loss will be reflected in its first-quarter results. The company declined to comment on the Nikkei report.

James Mitchell, an analyst with the Buckingham Research Group, estimates that the losses will result in an after-tax reduction in Morgan Stanley's net income of $290 million, or 20 cents a share. Keith Horowitz at Citigroup estimates that the impact on Morgan's earnings will be as high as $385 million.

Morgan Stanley's relationship with Mitsubishi was struck in the darkest days of the financial crisis, when the company accepted a $9 billion lifeline from the Japanese bank. The investment was similar to the one the billionaire investor Warren E. Buffett made in Goldman Sachs. Morgan Stanley also set up two joint ventures with Mitsubishi to increase its presence in Japan.

But unlike Goldman, which recently announced plans to pay back Mr. Buffett, Morgan Stanley still has expensive ties to Mitsubishi. In addition to the joint-venture losses, its dividend payments to Mitsubishi on the $9 billion investment total roughly $220 million a quarter, or almost $900 million a year.

Getting out of this investment has proved more difficult than many executives at Morgan Stanley initially thought. The dividend payments will continue until the two parties can come to an agreement to end them or until the stock trades above $37.875 for 20 days out of 30 consecutive trading days. For this to happen, Morgan's stock would have to increase 41 percent.

As a result, Mr. Gorman is keenly focused on the company's stock price, employees say. At an internal meeting in January, workers disappointed that their compensation was down confronted Mr. Gorman, according to employees who attended the session but were not authorized to speak on the record. Mr. Gorman told them he had to show restraint on expenses because he was focused on lifting the share price above $38 to free Morgan Stanley from the Mitsubishi investment.

Morgan Stanley declined to comment for this article.

Mr. Gorman has had just 16 months to turn things around - and he has been hampered by decisions made by previous chief executives that still weigh on the company. He also faces the same challenging markets that have vexed his rivals.

Mr. Gorman has told investors that fixing Morgan's fixed-income department is his No. 1 priority, and he recently named a longtime Morgan Stanley executive, Ken deRegt, to run the division.

But fixes will not come easily. The fixed-income, currency and commodities division lost $29 million in the fourth quarter. Trading activity has not fully recovered from the financial crisis.

Structured products like mortgage securitizations are not the profit centers they once were. Morgan Stanley was more focused than many competitors on structured products. At the same time, it was less focused on grabbing client activity, making a comeback even more difficult.

In 2006, Morgan Stanley produced revenue of $9.58 billion in fixed-income sales and trading. In 2010, revenue from this division came in at $5.8 billion. In contrast, Goldman produced $13.7 billion in fixed-income trading revenue in 2010, down from $14.26 billion in 2006.

To turn around the fortunes of its fixed-income department, Morgan needs a great amount of capital. This is a capital-intensive business; all companies are required by regulators to put up considerable capital to support trading operations, and Morgan has a lot of it sitting there that it cannot put to work elsewhere.

And other draws on Morgan Stanley's capital are just around the corner. During the financial crisis, Morgan Stanley struck a joint venture with Citigroup to merge the two companies' retail operations. Morgan Stanley controls the venture, which employs an army of stockbrokers.

In June 2012, Morgan Stanley has the option to buy an additional 14 percent of Citigroup's stake, which would bring its ownership to 65 percent. A year later, it can buy another 15 percent, and it can buy the remainder in the next year. It would pay ''fair market value,'' as determined by a third-party appraiser, according to regulatory filings.

Glenn Schorr, an analyst at Nomura, estimates it would cost Morgan Stanley $12 billion to $14 billion to buy the rest of the venture from Citigroup.

''While this was a strategic move for the company, it is a still a big call on capital over the next three years,'' Mr. Schorr said.

Still, not all shareholders are throwing in the towel.

Matthew Lindenbaum, a managing partner at the hedge fund Basswood Partners, is bullish on the stock. The fund owned 423,400 shares at the end of December, most of which were recently acquired. That stake is currently valued at $11.1 million. Unlike some long-term holders, Mr. Lindenbaum estimates he has actually made some money on the stock, and he has been buying in recent months.

He says if there is no material change in the stock a year from now, he will consider selling, but for now he is sitting tight.

''I am frustrated, but you have to grow up a bit,'' he said. ''The actual turnout will take a few years, but the stock will move before that. It is not easy doing what Gorman is trying to do, and it takes time.''

This is a more complete version of the story than the one that appeared in print.

PHOTO: James Gorman has been trying to turn around Morgan Stanley since he became chief in 2010. (PHOTOGRAPH BY JIN LEE/BLOOMBERG NEWS) (B4)

Document NYTF000020110413e74d000cs

The New York Times

Business/Financial Desk; SECTB
Ex-Galleon Worker Tells Of Firm's Insider Trades

By PETER LATTMAN
849 words
30 March 2011
The New York Times
NYTF
Late Edition - Final
10
English

Despite his impeccable pedigree, Adam Smith still thought he needed an edge on Wall Street.

A Boston native, Mr. Smith earned undergraduate and business degrees from Harvard. At the peak of the dot-com boom in 1999, he landed a prestigious post as a technology banker at Morgan Stanley. Three years later, Raj Rajaratnam invited Mr. Smith to join his firm, the Galleon Group, which was considered one of the industry's elite hedge funds.

But Mr. Smith, in Federal District Court on Tuesday, described how he helped Mr. Rajaratnam add to his prodigious wealth by trading on illegal stock tips.

''I was tasked with doing research, getting an edge,'' said Mr. Smith, the first former Galleon employee to testify in the insider trading case against Mr. Rajaratnam.

Mr. Smith, who has pleaded guilty, faces up to 25 years in prison. But by cooperating with the government in its case, he hopes to obtain a lesser sentence. Mr. Smith, 39, wearing wire-rimmed glasses, a Hermes tie and oxfords, told the jury how he routinely bought and sold shares of technology companies based on inside information gleaned from contacts in Asia and the Silicon Valley.

Azam Ahmed and Guilbert Gates/The New York Times Click on the above graphic to get a visual overview of the Galleon information network

''I shared it with Raj,'' Mr. Smith said multiple times on the witness stand, explaining that whenever he received confidential information about a company, he passed it on to his boss.

Mr. Smith took the jury through six vignettes involving technology companies like Intel and Advanced Micro Devices.

In one incident, he described developing a relationship with an executive in Taiwan who worked at Intersil, a semiconductor company. Once a quarter, Mr. Smith traveled to Taiwan to meet with the executive, Jason Lin.

The two initially discussed industry issues and ''more qualitative types of information,'' Mr. Smith said. Over time, Mr. Smith said that he asked Mr. Lin to be more specific, and eventually Mr. Lin started giving him Intersil's quarterly revenue numbers in advance of the company's public announcement.

Andrew Michaelson, the prosecutor, asked Mr. Smith why he trafficked in inside information.

''I was getting an edge on a company,'' Mr. Smith said. ''My motivation was to improve the profitability of my firm and to help Raj.''

Mr. Michaelson asked Mr. Smith to define ''an edge.''

Mr. Smith said ''an edge'' was a source that provided insights into buying or selling a stock that would vary from the Wall Street consensus.

''It's the key component to arbitraging consensus, which was essentially our strategy,'' he said. ''Whenever an event would occur that would vary from consensus, we would want an edge.''

Mr. Lin's information helped Mr. Smith in his research on Intersil. It would help "build my Excel model," Mr. Smith explained.

When Mr. Michaelson asked Mr. Smith if he also did actual security analysis on Intersil, Mr. Smith said that he did, adding that he really did not consider the confidential revenue numbers provided by Mr. Lin to be legitimate research.

"Getting the number is more like cheating on the test," Mr. Smith said.

Mr. Michaelson continued, "Did you do your homework on Intersil?"

"Yes," Mr. Smith said.

"Did you also cheat on the test?"

"Yes," Mr. Smith said.

Mr. Smith also said he received advance word on merger deals from a former investment banking colleague at Morgan Stanley. He testified that the banker, Kamal Ahmed, told him about Integrated Device Technology's planned acquisition of Integrated Circuit Systems in 2005.

The jury was shown an e-mail from Mr. Smith to Mr. Rajaratnam from March 2005 with the subject line "The two eyes," which was code for the two companies that each began with the letter "I." The e-mail read: "I had a chance to update and we are still on track." A subsequent e-mail updating Mr. Rajaratnam had the subject line "Eyes" and said, "Game on."

When the deal was announced in June 2005, Mr. Smith said he had a tinge of regret about his misdeeds.

"I was concerned that I had been responsible at least in part for Galleon being involved in a stock trade based on inside information," Mr. Smith said. "I remember after the announcement having a sinking feeling in my stomach that this might be a problem, but the reality of it caused me to reflect, and I had a moment of worry."

But, Mr. Smith added, "No one spoke to me about it so I moved on."

Although Mr. Smith was serious during his testimony, his wit was on display when the government showed a series of incriminating instant-message exchanges between Mr. Smith and a Galleon colleague. Mr. Smith's instant-message user name was "smithinvshand" - an apparent reference to another Adam Smith, the 18th-century economist who coined the phrase "invisible hand."

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020110330e73u0003b

The New York Times

FUNDAMENTALLY
Money and Business/Financial Desk; SECTBU
The Case for Europe's Blue Chips

By PAUL J. LIM
985 words
13 March 2011
The New York Times
NYTF
Late Edition - Final
5
English

FOR many American investors, European stocks were an afterthought last year, as a growing debt crisis threatened to upend economic recovery on the Continent. But in recent months, European shares have rebounded.

Even as European leaders grapple for a solution to their region's debt crisis, Wall Street is now debating another question: Should investors, who are flocking to blue-chip stocks for the first time in years, favor the European or domestic variety?

Both the Morgan Stanley Capital International Europe index and the Standard & Poor's 500 are up nearly 4 percent this year. ''European stocks still offer compelling values,'' said Mark D. Luschini, chief investment strategist at Janney Montgomery Scott in Philadelphia.

The price-to-earnings ratio for European shares is just 13.2, below the 15.2 of the S.& P. 500. For many years previously, European stocks traded at a premium to American shares.

There's also the currency advantage to consider. The Wall Street consensus is that the dollar is likely to weaken further against the euro this year, continuing a trend that's been unfolding since last summer. If that happens, Americans who invest in European shares will enjoy a lift -- over and above any stock price gains -- just because of the euro's relatively stronger value.

They're already enjoying that tail wind. Shares of Siemens, the German conglomerate, for example, have gained 2 percent this year, as the company has enjoyed better-than-expected profits -- partly because of sales growth in rapidly expanding emerging markets. But tack on the effect of the weakening dollar and those returns more than double, to 5 percent.

''A weak dollar is good if you're an American investing overseas,'' said Alec Young, international equity strategist at S.& P. Equity Research Services. But ''if it lasts too long,'' he added, ''it could turn out to be bad.''

Just as a falling dollar can improve prospects for American investors abroad, it can be a boost for domestic companies trying to export their products overseas. That's because a weakening currency makes their products cheaper for foreign customers. Conversely, a stronger euro makes it harder for European companies to export their goods.

''There is a price at which the currency exchange rate impacts the business model,'' said David R. Kotok, chief investment officer at Cumberland Advisors. ''It's north of $1.40,'' he said, referring to the current exchange rate of just under $1.40 to the euro. ''But is it $1.50, $1.60, $1.70? I have no idea.''

For now, he said, European stocks still look attractive.

But it's not just the weakening dollar that investors must weigh, some strategists say. Another consideration is why the dollar is falling against the euro in the first place.

One reason is that the European Central Bank has signaled that it may soon raise short-term interest rates to combat a rising threat of inflation. In fact, Jean-Claude Trichet, the central bank president, recently hinted that a rate increase could come as early as next month. By comparison, most investors think the Federal Reserve will hold short-term rates in the United States steady until the start of 2012.

Why are the European bankers considering such a quick move? Consumer prices in the region have risen 2.3 percent over the last year, noticeably faster than the 1.6 percent gain in the United States. And rising oil prices, spurred by the political turmoil in the Middle East, is likely to feed European inflation fears.

If the European Central Bank does tighten its monetary policy, it will not only be tapping the brakes on the region's economy, but may also put further pressure on the dollar, because global investors will be rewarded with higher yields for parking their cash in euros. That, in turn, may add to the pressure European exporters -- and their earnings.

''With slower growth and slightly higher inflation there, I would imagine the profit squeeze in Europe will be a little bigger than in the U.S.,'' said Nariman Behravesh, chief economist at IHS Global Insight.

Would that be enough to snuff out the European rally?

Mr. Young said he didn't think so. ''If we were talking about rates moving from 4 percent to 5 percent, this would be a bigger issue,'' he said. But since rates are only about 1 percent now, ''It's not that big a factor,'' he said.

James W. Paulsen, chief investment strategist at Wells Capital Management, disagrees. He said that if the European Central Bank soon raised rates, ''European policy officials will probably come to realize by late summer that they tightened too early.''

He expects the domestic economy, meanwhile, to keep heating up. ''The combination of hotter growth here and policy changes that could slow the growth there would seem to favor domestic large caps,'' he said.

For the moment, investors who are wondering where to place bets may want to make decisions case by case and sector by sector, Mr. Kotok said.

Because of uncertainties about health care reform in the United States, he said, investors looking at pharmaceutical companies might favor Sanofi-Aventis -- the French giant that recently bought Genzyme -- over a domestic drug maker.

But, he said, if investors want to bet on energy, they might favor a domestic player like ExxonMobil over Royal Dutch Shell, based in the Netherlands, as Exxon is making a big push into the potentially promising domestic natural gas market.

When it comes to your overall portfolio, though, it's ultimately not a case of either/or, he said. ''You need to own stocks both here and over there to be properly diversified,'' he advised.

Paul J. Lim is a senior editor at Money magazine. E-mail: fund@nytimes.com.

Document NYTF000020110313e73d00066

The New York Times

Business/Financial Desk; SECTB
U.S. Inquiry on Military Family Foreclosures

By DIANA B. HENRIQUES
878 words
12 March 2011
The New York Times
NYTF
Late Edition - Final
1
English

The Justice Department is investigating allegations that a mortgage subsidiary of Morgan Stanley foreclosed on almost two dozen military families from 2006 to 2008 in violation of a longstanding law aimed at preventing such action.

A department spokeswoman confirmed on Friday that the Morgan Stanley unit, Saxon Mortgage Services, is one of several mortgage and lending companies being investigated by its civil rights division. The inquiry is focused on possible violations of a federal law that bars lenders from foreclosing on active-duty service members without a court hearing.

Mark Lake, a Morgan Stanley spokesman, declined on Friday to comment on the investigation. However, in the fine print of a recent regulatory filing, Morgan Stanley disclosed that it was ''responding to subpoenas and requests for information'' from various government and regulatory agencies concerning, among other issues, its ''compliance with the Servicemembers Civil Relief Act,'' the law that governs the actions creditors can take against service members on active duty.

The investigation came to light in a document that Saxon's lawyers filed on Tuesday in federal court in Grand Rapids, Mich., during a trial to assess damages against Saxon and two co-defendants after a federal judge ruled late last year that they had illegally seized and sold the home of Sgt. James B. Hurley, a Michigan National Guard member who lost his home while he was serving in Iraq in 2005. That case was ultimately settled on Thursday.

In the document filed on Tuesday, one of Saxon's lawyers characterized the investigation as ''merely a preliminary investigation based on unproven allegations, for which no liability or wrongdoing has been found.''

The filing also suggested that Saxon was negotiating a settlement, but neither Morgan Stanley nor the Justice Department would comment on any talks.

According to people present in the courtroom, the discussions of the Saxon filing indicated that as many as 23 military foreclosures were under scrutiny in the Justice Department investigation.

Under the civil relief act, a judge must hold a hearing at which the service member is represented before granting a lender the right to foreclose on the service member's home, even in states where a court order is not required for civilian foreclosures. As early as 2005, advocates for military families were complaining that banks and other lenders were frequently violating the law.

Sergeant Hurley was one of the service members affected by a violation of the act. He returned from duty as a power generator mechanic in Iraq in December 2005 to find that Saxon had foreclosed on his riverside home outside Hartford, Mich., and sold it to someone else. He sued Saxon and two co-defendants, Orlans Associates, the law firm in Troy, Mich., that handled the foreclosure paperwork, and Deutsche Bank Trust Company Americas, the trustee for the mortgage involved in the foreclosure.

The case dragged on until late last year, when Judge Gordon J. Quist of United States District Court ruled that the foreclosure and sale of the Hurley home had violated the civil relief act and ordered a jury trial to determine damages.

On Thursday, the fifth day of that trial, Sergeant Hurley settled with all the defendants in the case for an undisclosed sum, according to Col. John S. Odom, a retired Air Force lawyer who represented the Hurley family. The terms of the settlement are confidential, Colonel Odom said. ''But the Hurleys are well pleased,'' he added.

Mr. Lake of Morgan Stanley said: ''We are very pleased to have settled this matter with Sergeant Hurley. As we have said previously, Saxon is always willing to make reasonable accommodations to amicably resolve a matter, especially for our service men and women.''

John T. Gallagher, a spokesman for Deutsche Bank, declined to comment on the settlement itself. ''As Deutsche Bank has repeatedly informed The New York Times, loan servicers, and not trustees, initiate and manage all foreclosures,'' Mr. Gallagher said.

He emphasized that Saxon, as the servicer on the Hurley mortgage, ''had the sole interaction with Mr. Hurley's representatives regarding the loan. No employee of Deutsche Bank had any involvement in the underlying facts.''

The settlement came two days after the brief courtroom drama on Tuesday that led to the disclosure of the Justice Department investigation.

It began when Colonel Odom unexpectedly served a subpoena on Saxon's general counsel, Gregory Smallwood, who was present in the courtroom.

Saxon's trial lawyers immediately filed a motion arguing that the subpoena should be quashed because ''the court has ruled inadmissible any reference to the D.O.J. investigation for which plaintiffs have suggested Mr. Smallwood's testimony would be probative.''

The motion also argued that ''the fact that Saxon may be negotiating a settlement of the investigation is also inadmissible'' and that ''any reference to the investigation, the negotiation of a consent decree, or the allegations that are the basis for that investigation, would also be unfairly prejudicial to Saxon.''

PHOTOS: Sgt. James B. Hurley, a National Guard member, lost his home while he was serving in Iraq. (B1); Sgt. James B. Hurley with his lawyer, Matt Cooper. His lawsuit was settled Thursday. (PHOTOGRAPHS BY ERIK HOLLADAY FOR THE NEW YORK TIMES) (B4)

Document NYTF000020110312e73c0006l

The New York Times

DEAL PROFESSOR
Business/Financial Desk; SECTB
To Improve Corporate Boards, Add More Diverse Voices

By STEVEN M. DAVIDOFF
1,193 words
9 March 2011
The New York Times
NYTF
Late Edition - Final
7
English

Harry Campbell Directors can be trouble. Just ask Goldman Sachs and Morgan Stanley.

The Securities and Exchange Commissionhas accused a former Goldman Sachs board member, Rajat K. Gupta, of facilitating insider trading while he was on the Goldman board. A current Morgan Stanley director, Howard Davies, has resigned as head of the London School of Economics because of his dealings with Libya.

The news about the two men throws a spotlight on the boards of the two firms for the first time since the financial crisis. Goldman and Morgan were, of course, the two Wall Street investment banks that survived the crisis and that not so coincidentally had better corporate governance than their peers.

But has anything really changed in the boardroom since the crisis?

Heightened scrutiny, to be sure, has led these firms, as well as others, to shake up their boards. Morgan Stanley has three new directors. Goldman also has three new directors and has shrunk its board to 11 members from 12. Citigroup and Bank of America, which together received over $90 billion in federal help, have a majority of new directors.

In all four companies - as well as more broadly in corporate America - there is now a preference for operational experience, for people who have run companies.

The recent changes on the Goldman board reflect this trend. Goldman's three new directors are Lakshmi Mittal, the head of the global steel maker Arcelor Mittal; H. Lee Scott Jr., the former chief executive of Wal-Mart; and James J. Schiro, a former chief executive of Zurich Financial Services.

These are seriously accomplished people. We are long past the days when O. J. Simpson could serve as a member of the board and the audit committee of Infinity Broadcasting.

Boards are now required to have independent members and separate compensation and audit committees. And in financial institutions, there is certainly a renewed focus on risk, with many boards holding separate breakout sessions on the issue.

Peter R. Gleason, chief financial officer of the National Association of Corporate Directors, said recently that a single board membership could take 225 hours a year. It has become less of a perquisite or a way to build client relationships and more of a job.

Sidney J. Weinberg, the legendary chief executive of Goldman, sat on more than 30 boards, including that of General Electric. But this is no longer possible. According to a recent survey by the corporate directors association, 37 percent of companies limit the number of other directorships a member can hold.

So if directors are more dedicated, is change still needed?

Boards may be more focused, and the names may have changed, but the type of director is increasingly the same: men, and about 15 to 20 percent women, with operational experience.

Despite the experience of the financial crisis, no one expects a board member to be able to price a complex derivative. In the case of a financial institution, the job of a director is about asking good questions and monitoring. Those who want or expect more from a financial firm would end up having a board of math Ph.D.'s to the exclusion of all else. This concept applies to other types of companies like General Motors, which, before its bankruptcy, suffered because its board was unwilling to challenge management.

But if it is good questioners we want, is it appropriate to put only members of the same club on the board?

There have been hundreds of studies on corporate board composition, but there is no consensus on what works. It is unclear whether independent directors add value, though evidence shows that they do bring more independent decision-making. There is also evidence that separating the chairman and the chief executive can add value. And at least one controversial University of Michigan study found that a Norwegian law requiring boards to be at least 40 percent women reduced a company's market value.

There is also little agreement on whether people from different backgrounds add value. In his book ''Fault Lines,'' the University of Chicago economist Raghuram G. Rajan argues for a diversity of perspective and background, and that directors should come from academia, public interest organizations and other fields.

The idea is that these people will bring independent thinking. It also may affect things like compensation. European companies are required to have labor representatives as directors, and this may be one part of the reason that compensation is lower for European chief executives.

But boards need to be collegial places, and a more diverse mix of people may upset this need. This is Goldilocks's porridge, a hard mix to get right, one that varies with each company.

But it is important. If the same type of people are always appointed to corporate boards, will anything change? When the next bubble comes along will these directors critically question industry practices? Or will new directors with more diverse backgrounds continue the perceptible improvement in corporate board decision-making and add value?

The rush to appoint operational people with the same skill set is an obvious response to the financial crisis. Certainly, operational experience is valuable, but if everyone is the same, it may spur group-think instead.

In many banks currently, the only debate is whether board appointees should have an operational background or an operational background specifically from a financial company. Seven of the 13 members of the Bank of America board are from finance companies and two are from financial regulators.

The boards of Bank of America, Citigroup, Morgan Stanley and Goldman may be more focused these days on risk and compensation, but their directors largely have similar backgrounds. Adding two or three board members with more diverse backgrounds could spur more critical thinking - a type of introspection that was absent before the crisis.

And these four are the leaders in reforming governance. General Electric, which also was in a perilous state during the financial crisis, has added only two new members to its 16-member board since. Many financial institution boards remain unchanged.

As we enter proxy season, this type of re-examination is a step that all financial institutions should take and shareholders should request. Deadwood needs to be removed, and directors penalized for their companies' poor performance.

For all companies hiring new directors, perhaps it is time they told their search consultants that some diversity in background is appropriate. As of last year, the S.E.C. requires companies' to state the ''experience, qualifications, attributes, or skills'' that led them to choose a director. Operational experience may be valuable, but so is critical thinking. People from other backgrounds may be just the right ingredient to perfect this difficult mix.

This is a more complete version of the story than the one that appeared in print.

DRAWING (DRAWING BY HARRY CAMPBELL)

Steven M. Davidoff, a former corporate lawyer at Shearman & Sterling, is a professor at the University of Connecticut School of Law. His columns can be found at nytimes.com/dealbook. Follow @StevenDavidoff on Twitter.

Document NYTF000020110309e7390000c

The New York Times

BUSINESS BRIEFING FINANCE
Business/Financial Desk; SECTB
Vice Chairman Leaving Morgan Stanley

By EVELYN M. RUSLI
665 words
5 March 2011
The New York Times
NYTF
Late Edition - Final
2
English

3:57 p.m. Updated

Morgan Stanley's vice chairman, Gary G. Lynch, is stepping down and leaving the firm, according to a memo obtained by DealBook on Friday.

''We have greatly benefited from his stand-out leadership in vastly improving our relationships with global regulators, navigating our conversion to a financial holding company, and directing the firm's efforts resulting in successful resolutions of a number of major litigations and investigations,'' Morgan Stanley's chief executive, James P. Gorman, said in the memo.

The firm did not indicate who would be Mr. Lynch's successor.

Mr. Lynch, who has been the firm's vice chairman since May 2009, joined the firm in late 2005 as an executive vice president and chief legal officer when John Mack became chief executive.

For Mr. Lynch, the key move was his departure from the post of chief legal officer in February 2010. At that time, Morgan Stanley said Mr. Lynch was stepping down to focus on his duties as vice chairman, according to an internal memo obtained by DealBook. ''Gary has decided to step away from his role as chief legal officer and concentrate on his other senior management responsibilities,'' Mr. Gorman said in that 2010 memo.

But some analysts saw Mr. Lynch's move a year ago as signaling the eventual end of his tenure at the firm.

Mr. Lynch has a long history with Mr. Mack, who stepped down as Morgan Stanley's chief executive at the end of 2010 but continues to serve as its chairman. Prior to Morgan Stanley, Mr. Mack served as the chief executive of Credit Suisse, where he hired Mr. Lynch to be the chief legal counsel for that firm in 2001.

During his tenure, Mr. Lynch was praised for shoring up Credit Suisse's legal reputation and settling issues with regulators. In the aftermath of the dot-com bust, he helped Credit Suisse navigate claims that it overcharged its clients in public offerings, leading to a $100 million settlement with regulators in 2002.

Before joining Wall Street, Mr. Lynch was a partner at Davis Polk & Wardell and was the director of enforcement for the Securities and Exchange Commission in the mid-to-late 1980s.

Mr. Lynch is not the first high-profile executive hired by Mr. Mack to leave the firm. Jack DiMaio, another Credit Suisse alum, joined in 2009 to be the global head of interest rate, credit and currency trading and stepped down in January. At that time, the company also announced the resignation of Charles Johnston, president of the Morgan Stanley Smith Barney joint venture; Gregory J. Fleming, a key hire by Mr. Gorman, took over his responsibilities.

The departure of Mr. Lynch was first reported by Bloomberg News.

Susanne Craig contributed to this report.

Below is a copy of the memo from Mr. Gorman:

Gary G. Lynch has decided to leave and pursue opportunities outside the Firm. Since May 2009, Gary has served as a Vice Chairman of Morgan Stanley based in London. He has been on a number of our Morgan Stanley subsidiary boards throughout the region and has been working as a senior manager advising the Firm on issues of policy and strategy.

As you know, from 2005 to 2010, Gary was our Chief Legal Officer. While Gary's accomplishments during his tenure are too numerous to list here, we have greatly benefitted from his stand-out leadership in vastly improving our relationships with global regulators, navigating our conversion to a financial holding company, and directing the Firm's efforts resulting in successful resolutions of a number of major litigations and investigations. We will miss Gary's wise counsel and outstanding business judgment.

Please join me in thanking Gary for his many contributions and wishing him well in his future endeavors.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020110305e7350004d

The New York Times

Business/Financial Desk; SECTB
Wall St. Often Slow to Tell Brokers' Sins

By SUSANNE CRAIG and BEN PROTESS
1,512 words
23 February 2011
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDED

Driving his black Mercedes-Benz over the Fourth of July weekend, a Morgan Stanley Smith Barney broker, Martin Joel Erzinger, hit a cyclist, leaving the rider seriously injured on the side of the road.

Not long after, police found Mr. Erzinger in the parking lot of an abandoned Pizza Hut, removing the side mirror and bumper from his car, according to court documents. Mr. Erzinger told officers he didn't remember striking anybody.

Mr. Erzinger was charged with a felony over the summer and pleaded guilty to two lesser misdemeanor charges in December. Morgan Stanley Smith Barney, which was supposed to tell regulators within 30 days of the initial charges, took months to report the incident.

Now the Financial Industry Regulatory Authority, Wall Street's self-policing organization, is looking at whether the brokerage firm violated securities laws by not disclosing the charges in a timely fashion.

''Finra is investigating the matter,'' said Nancy Condon, a spokeswoman for the regulator. ''There are serious questions about whether the reporting obligations were met.''

The case casts a light on a persistent problem: the failure of financial firms to properly report infractions to Finra's central database, a critical tool that large and small investors rely on to vet stockbrokers and other financial professionals.

''It's really no different than if you're talking to a doctor,'' said Charles Rotblut, a longtime investor and a vice president of the American Association of Individual Investors. ''You have to trust who you're working with.''

For its part, Morgan Stanley Smith Barney says it followed the correct procedures regarding Mr. Erzinger, disclosing the matter once the related court documents became available. The reporting requirement, said Jim Wiggins, a spokesman for the firm, was met in ''an accurate and timely manner.''

Mr. Erzinger's lawyer did not respond to requests for comment. Finra, the nongovernment regulator that shares oversight of Wall Street with federal agencies like the Securities and Exchange Commission, requires financial firms to disclose employee infractions within 30 days. Those incidents, ranging from serious criminal offenses to minor customer complaints, are then put into a system known as the Central Registration Depository.

Individual investors use the 30-year-old system to check out a stockbroker's history, including past employment, police records and client lawsuits. Institutions use the database to investigate job candidates.

But Finra depends on Wall Street to update the records -- and dozens of new cases show that the information is sometimes missing, out of date or erroneous. Any deficiencies can deprive individuals and institutions of crucial details they need to properly assess financial professionals before hiring them.

''The goal is for the investing public to know who they're doing business with,'' said Kurt N. Schacht, a managing director for the CFA Institute, an association of investment professionals. ''If infractions aren't reported and visible, it's a huge problem.''

This self-reporting system soon faces another test. Policy makers are considering whether to expand the responsibilities of Finra, giving it oversight of tens of thousands of investment advisers, on top of the 600,000-plus brokers already under its purview. The situation will only put additional pressure on Finra's system.

Wall Street, which finances Finra's operations, has a checkered history of reporting infractions by brokers. When regulators last cracked down on such filing violations in 2004, the sweep ensnared nearly 30 securities firms, including some of the biggest names on Wall Street. At the time, the National Association of Securities Dealers, Finra's predecessor, fined brokerage firms a collective $9.2 million for failing to properly disclose customer complaints and criminal convictions.

The same year, Morgan Stanley separately was hit with a $2.2 million penalty for failing to appropriately report 1,800 incidents of customer complaints and other wrongdoing. It was the largest fine ever levied against a firm for disclosure issues.

Since then, the tally of Finra's disciplinary cases has ebbed and flowed. In 2010, the regulator suspended 56 brokers for failing to report previous infractions, up from 34 in 2006. Annual fines rose to $2 million from $1.6 million over the same period.

In one of the most prominent cases last year, Finra fined Goldman Sachs $650,000 for failing to disclose that a trader, Fabrice P. Tourre, and another employee had received a Wells notice from the Securities and Exchange Commission, a warning that the agency was considering an enforcement action against them.

Mr. Tourre was the only person named in the S.E.C.'s fraud case against Goldman Sachs last year. The agency accused the investment bank of misleading investors about a complex security tied to subprime mortgages. Mr. Tourre was said to be ''principally responsible'' for marketing the bonds.

Goldman, which neither admitted nor denied wrongdoing, settled the S.E.C.'s claims in July for $550 million -- one of the largest fines ever paid by a Wall Street firm. The charges against Mr. Tourre are still pending.

A Goldman spokesman declined to comment. A lawyer for Mr. Tourre did not respond to requests for comment.

While most disclosure cases don't grab headlines, they all go straight to the issue of trust.

Finra in 2010 fined Citigroup $150,000 for filing ''inaccurate'' disclosures about 120 brokers who were fired or resigned after being accused of theft or fraud. In its disciplinary action, the regulator said Citigroup had ''hindered the investing public's ability to access pertinent background information.'' Finra fined JPMorgan Chase $150,000 for similar violations in 2009.

Alex Samuelson, a spokesman for Citi, said the bank had ''a robust internal reporting system and follows all Finra rules on client complaints and brokers' records.'' A JPMorgan spokesman declined to comment.

Last year the regulator sanctioned Fifth Third Securities, the brokerage arm of the Cincinnati-based Fifth Third Bank, for failing to disclose that seven of its brokers had personal financial blemishes, including bankruptcies and liens. For example, a financial professional identified only as ''MS'' told Fifth Third on Nov. 21, 2005, that she had filed for bankruptcy protection. The firm, which declined to comment, did not disclose the filing to Finra until May 11, 2007, more than 500 days late under the rules.

''If they filed for bankruptcy, it does raise a question about their ability to handle money,'' said Mr. Rotblut, of the American Association of Individual Investors.

Even when firms follow the letter of the law, they can violate the spirit, preventing investors from getting the full story.

Consider the record of a Citigroup broker, Richard Greenbaum. In 2008, an investor, James Murphy, complained in a letter to Citigroup that his stockbroker, Mr. Greenbaum, had put him in unsuitable investments, causing his portfolio to lose value. The firm, which determined the matter was without merit, noted the complaint in Mr. Greenbaum's record, as per Finra rules.

About a month later, Mr. Murphy filed an arbitration claim against Citigroup, naming his broker in the complaint, albeit not as a defendant. In December, a Finra panel awarded Mr. Murphy approximately $1 million.

But Mr. Greenbaum's record reflects only the original complaint and not the later arbitration award.

Technically, it does not have to be included. Finra rules at the time of the original claim did not require the disclosure since Mr. Greenbaum was not a defendant. The regulations changed in 2009, compelling brokers to reveal arbitration awards in which they were named as a defendant or in the complaint. The move was aimed at improving transparency, Ms. Condon of Finra said.

As Mr. Greenbaum was grandfathered under the old rules, his current employer, Morgan Stanley Smith Barney -- a joint venture between Morgan Stanley and Citigroup's brokerage arm Smith Barney -- did not update the record. The firm's spokesman, Mr. Wiggins, called the information in the database ''accurate.''

''I think these sort of things happens fairly regularly,'' said Mr. Murphy's lawyer, Robert Savage, who is also the director of Investor Advocacy Clinic at Florida International University. ''The bottom line for investors is this broker's record doesn't reflect the actual outcome of the case.''

This is a more complete version of the story than the one that appeared in print.

Correction: February 24, 2011, Thursday

This article has been revised to reflect the following correction: An article on Wednesday about the failure of financial firms to properly report infractions involving brokers to the Financial Industry Regulatory Authority, Wall Street's self-policing organization, misidentified, in some editions, the party that filed an arbitration claim in one case involving a Citigroup broker and an investor. It was the investor, James Murphy, who filed the claim - not the broker, Richard Greenbaum. (As the article correctly noted, the broker was named in the complaint, though not as a defendant, and the arbitration panel awarded Mr. Murphy about $1 million.)

PHOTO: Martin Erzinger's firm took months to report a felony. (PHOTOGRAPH BY EAGLE COUNTY SHERIFF'S OFFICE) (B5)

Document NYTF000020110224e72n0006d

The New York Times

Business/Financial Desk; SECTB
Earnings Increase 60% At Morgan Stanley

By SUSANNE CRAIG
779 words
21 January 2011
The New York Times
NYTF
Late Edition - Final
9
English

6:44 p.m. Updated

While Morgan Stanley's fourth-quarter results are a nod to progress the bank has made, they are also a reminder of how far it has to go.

On Thursday, Morgan Stanley announced that fourth-quarter earnings rose 60 percent from the previous year, to $600 million. It posted a loss of $91 million in the third quarter.

The firm showed progress in its three major divisions for the year, with annual net revenue and pretax income up in global wealth management, asset management and institutional securities - although the fixed-income piece took a hit.

Investors bid up shares on the news. On Thursday, the shares rose 4.6 percent to close at $29.02, after a drop on Tuesday following Goldman Sachs's downbeat earnings report.

Even so, the results make clear that Morgan Stanley's turnaround is neither complete nor guaranteed. As it works to increase the firm's profitability, senior management will have to contend with a difficult environment characterized by regulatory reforms and a less-than-robust economy - all of which is keeping big clients from increasing their deal-making and trading activities.

A snapshot of its financials then and now shows the reality the firm faces. In 2006, Morgan Stanley produced a fourth-quarter profit of $2.2 billion, compared with $600 million now. Return on equity, a measure of profitability, was 26 percent back then, compared with just 5.2 percent in the fourth quarter of 2010 and 8.5 percent for the full year.

While Ruth Porat, the firm's chief financial officer, acknowledges that the firm's return on equity was disappointing, she expects it to rise as revenue increases. Ultimately, investors can expect a return on investment in the midteens.

Since taking over a year ago, James Gorman, the chief executive, has been trying to rebuild the bank's franchise, which was badly bruised during the credit crisis. Morgan Stanley has hired hundreds of traders and poured millions of dollars into the transformation. Most recently, Mr. Gorman has been retooling the management team. In early January, he named Kenneth M. deRegt to head the fixed-income business and Gregory J. Fleming to run wealth management.

With earnings on the mend, Mr. Gorman struck an optimistic tone, saying in a conference call with analysts that the bank had ''made progress executing our strategy despite challenging market conditions this year.''

On Thursday, Morgan Stanley made marked improvement in its major businesses, which executives said was a sign that the rebuilding was starting to take hold.

Investment banking fourth-quarter revenue climbed 5 percent to $1.8 billion, as the firm benefited from an uptick in initial public offerings and deals. Asset management posted sales of $858 million for the period, up 68 percent from the previous year. Global wealth management, which includes results from Morgan Stanley Smith Barney, improved quarterly revenue to $3.4 billion, from $3.1 billion.

But the firm's challenges are starkly reflected in its once-powerful fixed-income division. The fixed-income, currency and commodities group reported trading losses of $29 million, in contrast to revenue of $663 million a year earlier. The division was hurt by narrowing spreads of the firm's own debt over Treasuries, which can cost firms money.

''There is a lot to do still in Morgan Stanley,'' particularly in that division, Kian Abouhossein, a JPMorgan Chase analyst, said in a research note on Thursday, adding that new management appointments indicated that the division was ''still in restructuring mode compared to Citi and Bank of America which are 'back in business.' ''

Despite plowing money into remaking the company, Morgan Stanley did manage to bring down compensation as promised. After shareholders complained in 2009, Mr. Gorman called the pay levels unacceptable and vowed to bring them down. In 2010, Morgan Stanley paid 51 percent of its revenue to employees, down from 51 percent the year before. The overall pool increased to $16 billion from $14.4 billion, amounting to $257,000 a person.

Mr. Gorman still has some work left to correct pay in certain divisions. At a conference in February 2010, he said a ''well-performing wealth management business'' should have a compensation-to- revenue ratio of about 55 percent. In 2010, the business reported pay levels of 62 percent.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Since taking over a year ago, James P. Gorman, the Morgan Stanley chief, has been trying to rebuild the bank's franchise. (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS)

Document NYTF000020110121e71l00011

The New York Times

Business/Financial Desk; SECTB
Morgan Stanley Chief Promotes 2 Into Top Leadership Jobs

By SUSANNE CRAIG
1,659 words
14 January 2011
The New York Times
NYTF
Late Edition - Final
7
English

Brendan McDermid/ReutersGregory J. Fleming will run Morgan Stanley's wealth management operation.9:58 p.m. Updated

James P. Gorman's Morgan Stanley is starting to take shape.

On Thursday, Mr. Gorman, a 52-year-old native of Australia, made his biggest moves since taking the reins of the company a year ago, as he promoted executives to run two powerful units.

Ken deRegt will run Morgan Stanley's fixed-income business and Gregory J. Fleming will take over wealth management.

Mr. deRegt's move means the departure of Jack DiMaio, who had his own hedge fund until he was hired in 2009 as part of an effort to reinvigorate Morgan Stanley's trading business. But the business's performance has been mixed in recent quarters.

In a memo on Thursday to employees, Mr. Gorman wrote, ''We wish him well and look forward to working with him as a client in the future.'' Mr. DiMaio, through a company spokeswoman, declined to comment.

Mr. deRegt ran Morgan Stanley's global fixed-income business in the 1990s and was most recently the company's chief risk officer.

Mr. Fleming's move is also significant. Mr. Gorman hired him a year ago and the two have known each other for years. They worked together at Merrill Lynch, which is now owned by Bank of America.

Mr. Fleming, 47, replaces Charlie Johnston, who has roots at Citigroup and is retiring from Morgan at the end of 2011.

''Greg has made great progress realigning the asset management business over the past year - establishing a strong management team and focusing our strategy on Morgan Stanley's historic strengths,'' Mr. Gorman wrote in his note to employees.

Mr. Fleming will have his work cut out for him running Morgan Stanley Smith Barney, a division that accounts for roughly 40 percent of Morgan Stanley's revenue. During the financial crisis, Morgan Stanley struck a joint venture with Citigroup to merge the two companies' retail operations. Morgan Stanley controls the venture, which employs an army of stockbrokers.

The company is still working to merge the two operations, and melding disparate cultures and technology systems is never an easy task. Mr. Fleming will continue to run asset management.

Mr. Fleming helped put together financial services deals like the merger of Merrill Lynch Investment Management and BlackRock, creating one of the world's biggest money managers. As president of Merrill Lynch, he oversaw that company's private equity and real estate investment operations.

Improving trading results and bolstering wealth management will be crucial in Mr. Gorman's effort to transform Morgan Stanley into a steadier, more conservative financial company, less susceptible to swings in the market.

Morgan Stanley's stock price has remained fairly flat since Mr. Gorman became chief executive, and some shareholders have grumbled that Morgan Stanley's turnaround is taking too long.

But over the last month, Mr. Gorman has been shaking up jobs and shuffling roles in the company's management, changes he hopes will bolster the company's fortunes.

Co-presidents of the bank's institutional securities group, Colm Kelleher and Paul J. Taubman, will keep their titles but take on new roles with more international responsibility.

Mr. Kelleher plans to move to London, where he will focus on Europe, the Middle East and non-Japan Asia. He will have direct responsibility for the company's global sales and trading business.

Mr. Taubman, who will remain in New York, will take on additional responsibilities in Latin America and Japan and oversee the company's global investment banking businesses.

Walid Chammah, chairman of Morgan Stanley International, will keep his post in London but will focus exclusively on the company's top clients.

Earlier this month, Mr. Gorman named Jim Rosenthal, the former head of technology operations and the integrator of Smith Barney at Morgan Stanley, to become chief operating officer, succeeding Tom Nides, who left the company last fall to become deputy secretary for management and resources at the State Department.

Investors will find out next week just how much progress the company has made; Morgan Stanley is scheduled to report its earnings Thursday.

Here is a copy of Mr. Gorman's memo to employees:In recent weeks, we have announced a number of changes in the responsibilities of members of our senior management team to ensure we best leverage our leadership talent and build on our momentum across the Firm. Today, I want to share with you the final set of changes in this management realignment.

After successfully steering the integration of the Morgan Stanley Smith Barney JV over the past two years, Charlie Johnston has informed me of his desire to retire from the Firm at the end of 2011 and spend more time on family and charitable pursuits. With the integration on track and the return of the retail investor to the markets, driving increased client activity - Charlie believes it is the right time to make this change. Therefore, Charlie will become Vice Chairman of MSSB for the next year, where he will be focused on building and strengthening relationships with key financial advisors and wealth management clients, while continuing to support the senior leadership team of MSSB through this transition period. Charlie has been an extraordinary contributor in guiding the historic MSSB merger. His leadership of MSSB has been critical to the integration and early success of the JV - which has been the most recent chapter in a highly distinguished career in financial services that has spanned more than three decades. We look forward to Charlie's continued advice and counsel over the next year as we build the best global wealth management business.

Greg Fleming will become President of Global Wealth Management, while continuing to lead our asset management business. Greg has made great progress realigning the asset management business over the past year - establishing a strong management team and focusing our strategy on Morgan Stanley's historic strengths. I am confident that under Greg's ongoing leadership of MSIM, we will continue to see tangible progress toward our goal of building a leading asset management business. I believe Greg is also ideally suited now to build on the tremendous momentum in our wealth management business. He brings vast experience and a proven record of leadership to this role. In order to best leverage our Global Research franchise with our institutional equity clients, Global Research, led by Linda Riefler and Juan-Luis Perez, will now report into the Equity Division.

As we have said many times, a big driver of our future success will be the continued build-out of our Sales and Trading platform and in particular, our strategy and footprint in Fixed Income. While we have started to see some progress, there is more we can do to ensure the best execution of the strategy. I'm very pleased to announce that Chief Risk Officer, Ken deRegt, will become Global Head of Fixed Income Sales and Trading (excluding Commodities) and will report to Colm Kelleher. Ken had a long and highly successful record of accomplishment leading Morgan Stanley's global fixed income business in the 1990s and more recently, as Chief Risk Officer, has substantially strengthened the Firm's risk function. As our CRO, Ken has been a source of wisdom, outstanding judgment and market knowledge.

Ken first joined Morgan Stanley in 1981, and over the following 20 years served in a variety of roles, including Global Head of Fixed Income, Currencies and Commodities and as a member of the Management Committee. His responsibilities within the fixed income businesses included U.S. Government Securities trading, U.S.

Treasury primary dealer, and European Fixed Income trading and risk management. Ken is a proven leader with superb experience in fixed income, capital markets and risk management that make him the ideal person to help the Firm realize the potential of the additional resources we have put in place in our fixed income business over the past year. Given Ken's stature, successful track record and significant experience, I have asked him to stay on the Operating Committee as he takes on this new role.

Jack DiMaio, Global Head of Interest Rate, Credit and Currency Trading, has decided to leave the Firm and return to the buy side, where he worked for six years prior to joining Morgan Stanley in 2009. In the last 18 months, Jack contributed greatly to the progress in IRCC by making many key hires and establishing an aggressive strategy for growth. We appreciate the numerous contributions Jack has made as we have worked to build this important business. We wish him well and look forward to working with him as a client in the future.

With Ken assuming this new role, Keishi Hotsuki, who has worked closely with Ken as Head of Market Risk, will assume the position of interim Chief Risk Officer. Keishi is a seasoned risk management professional with over 20 years of experience. In the months ahead, we will conduct a search for a new Chief Risk Officer. This search will evaluate both internal and external candidates to ensure we have a world-class risk manager in this critically important role.

These changes complete the important series of organizational moves at the Operating Committee level that have taken place in the past few weeks. We believe we have the right people in the right roles to build on our current momentum, and I hope you will join me in congratulating these individuals along with the other members of our management team who have assumed new or expanded roles in 2011.

This is a more complete version of the story than the one that appeared in print.

PHOTOS: Gregory Fleming, above, will take over the wealth management business at Morgan Stanley, James P. Gorman, chief executive, announced Thursday. (PHOTOGRAPHS BY ANDREW HARRER/BLOOMBERG NEWS; RICHARD DREW/ASSOCIATED PRESS)

Document NYTF000020110114e71e0001p

The New York Times

Business/Financial Desk; SECTB
2 Big Banks Approved For Ventures In China

By DAVID BARBOZA
500 words
8 January 2011
The New York Times
NYTF
Late Edition - Final
3
English

JPMorgan Chase and Morgan Stanley said on Friday that they had each won approval from Chinese regulators to form joint ventures in the country, potentially giving them a bigger role in China's booming securities business.

The two firms are the latest global banks to win the right to team up with local players to underwrite stock and bond offerings in China. Eventually, the joint ventures will be able to sell stocks to Chinese citizens and institutions.

JPMorgan said it would join with First Capital Securities and hold a 33 percent stake in the new firm they establish.

Morgan Stanley said it would hold a 33 percent stake in the joint venture it was forming with Huaxin Securities, also known as China Fortune Securities.

While Wall Street's biggest firms have long taken part in helping Chinese companies list shares on foreign stock exchanges in New York and Hong Kong, they have been frustrated by restrictions on operating in China's domestic market.

For now, Wall Street banks seem content to form joint ventures. In 2004, Goldman Sachs won approval to form a joint venture in China that became Gao Hua Securities. UBS, Credit Suisse and Deutsche Bank have each formed a Chinese joint venture with a local securities firm in recent years. All the firms hold minority stakes.

Wall Street is eager to expand in China, the world's second-largest economy and the biggest market for initial public offerings. In 2010, Shanghai and Shenzhen stock exchanges together raised about $72 billion in initial public offerings, passing the Hong Kong and New York stock exchanges for the first time, according to Dealogic. Chinese companies also raised billions of dollars last year by listing shares in Hong Kong and New York.

To illustrate how lucrative China can be, Citic Securities earned a $935 million profit in 2009, even though the country's stock market was among the worst performing that year. Another local securities firm, Guotai Junan Securities, earned $910 million. Ten of the largest players together earned about $6.4 billion in profit, according to the China Securities Association.

''This is a platform,'' Zili Shao, chairman and chief executive of JPMorgan China, said in a telephone interview Friday. ''We must have this capacity or else our franchise will have a gap'' in the firm's global offerings.

For Morgan Stanley, the new joint venture with Huaxin is a second effort to gain access to China's local securities market. In 1995, Morgan Stanley teamed up with China Construction Bank to form the China International Capital Corporation.

Although Morgan Stanley held a 35 percent stake in a very profitable firm, it lost management control and became a passive investor in the company, which is now led by Levin Zhu, the son of a former Chinese prime minister, Zhu Rongji.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020110108e7180000c

The New York Times

Business/Financial Desk; SECTB

New Capital For Groupon Sets Stage For Offering

By EVELYN M. RUSLI; Andrew Ross Sorkin contributed reporting.
985 words
31 December 2010
The New York Times
NYTF
Late Edition - Final
1
English

The 30-year-old founder and chief executive of Groupon, Andrew Mason, could raise as much as $950 million from investors in the next few weeks, laying the groundwork for a multibillion-dollar initial public offering in 2011.

The social buying site, which offers coupons for local businesses, has so far locked up $500 million in fresh capital from Fidelity Investments, Morgan Stanley, T. Rowe Price, and other large investors - allowing Mr. Mason and eight other directors to take a significant amount of cash off the table.

In the coming weeks, the company could bring in another $450 million, according to a Securities and Exchange Commission filing on Thursday.

If successful, Groupon's latest fund-raising effort would be the largest ever for a start-up, a venture capital record held by DreamWorks Animation SKG for the last 15 years, based on Thomson Reuters data.

A spokeswoman for Groupon declined to comment on the outside investments.

The fund-raising is all part of the typical lifecycle for an Internet start-up. But Groupon has gone from a quirky idea to Web darling in about two years - an especially fast evolution that got a turbo charge when the Chicago-based company spurned a $6 billion takeover offer by Google in the first week of December.

A frenzy of activity followed the failed bid.

Within days, institutional investors started lining up, ready to provide significant capital infusions. On Dec. 20, Groupon hired its first chief financial officer, Jason Child, a former Amazon.com executive. By Thursday, Fidelity, T. Rowe Price, Morgan Stanley, and others had committed $500 million, according to two people with knowledge of the fund-raising who asked for anonymity because they said they were not authorized to speak publicly.

Meanwhile, Groupon, with revenue above $1 billion, continues to grow at a breakneck pace. In the last month, the site's subscriber base has jumped 42.3 percent to more than more than 50 million worldwide, the company said. On private exchanges that facilitate trading in tech start-ups, Groupon has an implied valuation approaching $5 billion, up from $1.2 billion in June.

With its giant war chest and investor excitement, Groupon is now planning to hold an I.P.O. at the end of 2011, these people said.

The company's eagerness to enter the public markets stands in stark contrast to another Internet star, Facebook. The social media giant reluctantly - almost grudgingly - seems headed for an I.P.O. in the next two years. The S.E.C. is looking at private trading in Facebook shares, which may prompt the company to go public earlier than it wants.

If either company holds a public offering, it would be the most highly anticipated since Google's in 2004. A multibillion-dollar deal would also go a long way to reviving the moribund I.P.O. market, which has been in a slump since the financial crisis. In the last three years, only 61 tech start-ups have gone public - and none valued at more than $1 billion, according to boutique investment firm Renaissance Capital.

"The market has been waiting a long time for that innovative young company, like a Groupon, to hit," said Paul Bard, a vice president at Renaissance Capital. "Having one of these companies go public would validate the I.P.O. market for a lot of smaller companies waiting in the wings."

Groupon could be rushing its debut, in part, to cement its dominance in the online advertising market. While Groupon is the 800-pound gorilla, it is a highly competitive space that has spawned scores of clones that are becoming viable threats. The No. 2 player, LivingSocial, has more than 10 million subscribers and recently raised $175 million from Amazon.

For now, Groupon has first-mover advantage. But that edge can quickly evaporate as Friendster and MySpace learned when Facebook entered the social media fray years ago.

"If they raise all this money privately and then become the first to go public in this space, they will become the de facto winner," said Peter Falvey, co-head of technology investment banking for Morgan Keegan. "They have a good lead, but the idea is to go for the knockout punch - an I.P.O. would be a huge branding event."

For Groupon's new class of investors, it is all about that eventual payday. By jumping in now, T. Rowe Price, Fidelity and Morgan Stanley get an opportunity to peer into the company's books and more important, get in before the public offering so the potential for a windfall is greater.

T. Rowe Price and Fidelity have participated in venture capital deals before. In 2008, the two firms teamed up on a $50 million fund-raising effort for Slide.com, a Web application developer. T. Rowe Price also has a stake in Twitter, which recently raised $200 million.

"Institutional players are dealing with a competitive environment, and they're looking to put capital to work in a differentiated way," said Tige Savage, a board member at LivingSocial. "They see it as an opportunity to get involved earlier at a better price and lock themselves into larger positions at these companies."

As institutional investors patiently wait for their payout, Groupon's directors could soon get a windfall. The company plans to use $344.5 million from the latest fund-raising round to let Mr. Mason and the rest of the board cash out some shares.

That would be the second time this year the company's founder banked profits. "Historically, most private company investors don't get meaningful liquidity from other private investors," Mr. Falvey said. "Groupon is the exception, not the rule."

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020101231e6cv00047

The New York Times

Business/Financial Desk; SECTB
At Morgan, A Struggle Over Big Pay

By SUSANNE CRAIG
1,100 words
9 December 2010
The New York Times
NYTF
Late Edition - Final
1
English

Even as Wall Street prepares to hand out rich year-end bonuses, one firm, Morgan Stanley, is mapping out a plan to reduce the pay of some of its senior executives, according to people with knowledge of the plan.

The effort to rein in compensation in the management ranks - while still rewarding its top traders and bankers - is one way that Morgan Stanley is coming to grips with a quandary that has plagued it for a year.

Shaken from the financial crisis, Morgan Stanley's board and its newly installed chief executive, James P. Gorman, decided in early 2010 that the firm needed to spend money to hire and begin to rebuild. But the firm already had bloated compensation levels. A year later, it has hired 2,000 people but has had little revenue growth.

In response to shareholder complaints about the high employee expenses, Mr. Gorman publicly vowed in February to reduce the firm's payout.

Now, instead of layoffs, Morgan Stanley is planning to cut the pay of many top executives, typically the top earners, the people with knowledge of the plan say, in order to get its compensation levels down.

Recently, Mr. Gorman has been telling employees that the selective, short-term pain on compensation will give the firm credibility with shareholders and help the firm long term. Mr. Gorman has told employees that 2010 is ''the year of differentiation,'' these people say, speaking only on the condition of anonymity.

This means employees who did well will get paid competitively. The rest will see their compensation fall. Divisions like equities, which includes stock trading, and investment banking performed well in 2010, and those employees can expect decent bonuses, these people said. But traders in the firm's fixed-income department, which did not have a great year, may see smaller pay packages, these people say.

''Our long-term success depends on retaining the best people, and we are committed to paying competitively,'' said a Morgan Stanley spokeswoman.

Mr. Gorman came under fire from shareholders at his firm's services conference in February for paying outsize bonuses to employees in 2009. Morgan Stanley paid out a record 62 percent of its net revenue in compensation and benefits that year. Wall Street firms typically pay 40 to 45 percent of their revenue in compensation.

Mr. Gorman told attendees the 62 percent ratio was a ''historic high'' that no one on his management team ''will ever see again.'' He indicated that it should be no higher than 50 percent.

One rival, Goldman Sachs, had a ratio of 36 percent in 2009. Two institutional shareholders sued Morgan Stanley in February, accusing the bank of overpaying employees in recent years. The lawsuit, filed in New York State Supreme Court, is pending. Morgan Stanley declined to comment.

''I am willing to give him some more time, but as a shareholder I want to get something decent soon for owning this firm,'' said Anton V. Schutz, manager of Burnham Financial Funds. His funds control 150,000 shares of Morgan Stanley, valued at $3.9 million. Mr. Schutz is not a party to the shareholder suit.

This year Morgan Stanley is on track to pay out $15.98 billion, or about 50.4 percent of its net revenue, in compensation and benefits. This is lower than 2009 but compares with an average ratio of 43 percent from 2003 to 2006, the year before the credit crisis took hold.

In the most recent quarter, however, as revenue tumbled amid a slowdown in trading, Morgan allocated almost 58 percent of its revenue to compensation and benefits. Excluding the British bonus tax it was forced to pay, the ratio drops to 48.8 percent.

''Everyone on the Street has a down revenue issue, but they have more of an issue because of all the hiring they have done as part of their rebuild,'' said Glenn Schorr, an analyst with the Japanese bank Nomura.

Michael S. Levine, a portfolio manager at OppenheimerFunds, which holds 1.5 million Morgan Stanley shares, said the firm had a struggle on its hands.

''The stock performance between Morgan Stanley and Goldman Sachs started to diverge in September and has yet to reverse, showing that the market remains impatient with Morgan on a number of issues, including compensation,'' he said.

However, he warned against reading too much into the high compensation in the third quarter. ''I think management will bounce back and compensation will be more aligned with shareholder interest going forward,'' he said.

At the conference in February, Mr. Gorman provided some details on his divisional compensation. He said a ''well-performing wealth management business,'' the division that houses a firm's retail brokerage force, should have a compensation and benefits ratio of about 55 percent.

An underperforming division will produce a ratio of 65 percent. In 2009, this division at Morgan Stanley posted a compensation ratio of 65 percent because of weaker-than-usual performance as well as severance and restructuring costs. For the first nine months of this year, this division had a compensation ratio of 63 percent. The compensation ratio in this unit tends to be higher because many brokers are given fixed payouts not tied to market swings.

A well-performing securities business, Mr. Gorman said, should have a compensation-to-revenue ratio in the mid 30s. In 2009, Morgan's institutional securities business posted a compensation ratio almost double that of 57 percent. In a nod to the progress Mr. Gorman has made here, this division's compensation ratio was running at 42 percent for the nine months ended Sept. 30. Excluding the money Morgan had to pay for Britain's bonus tax, the ratio comes in closer to 39 percent.

It is not known yet how deep the pay cuts will be. Mr. Gorman, for his part, earned $15 million in salary and bonus for his work as co-president in 2009. All but his base salary came in the form of deferred cash and stock.

This is a more complete version of the story than the one that appeared in print.

PHOTO: In response to shareholder complaints, James P. Gorman, chief executive of Morgan Stanley, vowed to reduce the firm's payout. (PHOTOGRAPH BY CHESTER HIGGINS Jr./THE NEW YORK TIMES) (B4)

CHARTS: An Eye on Its Pay: Revenue and profits at Morgan Stanley have fallen steadily in the last three years, but total pay has not. This has led the company to consider lowering pay for some. (Source: Company reports) (B4)

Document NYTF000020101209e6c90006y

The New York Times

Business/Financial Desk; SECTB
FrontPoint Investors Seek to Redeem Billions

By AZAM AHMED
496 words
27 November 2010
The New York Times
NYTF
Late Edition - Final
2
English

FrontPoint Partners, a $7 billion hedge fund under fire for allegations that a manager there benefited from insider information, has received about $3 billion in redemption requests, according to a person with knowledge of the matter.

The huge calls by investors for their money back come at a time of investor nervousness following the raid of three hedge funds, subpoenas to several others and the arrest of an expert on allegations of trading insider information this week.

The news also comes about a week after the FrontPoint decided to close its $1.2 billion health care fund, which is at the center of one of the insider trading inquiries. The person with knowledge of the situation requested anonymity because he was not authorized to speak to the media about the matter.

Federal authorities say that the co-portfolio manager of FrontPoint's health care fund received inside information about the results of a clinical drug trial from a French doctor, who was arrested in early November. Authorities say the insider tips saved the firm about $30 million.

Prosecutors say the doctor, Yves Benhamou, gave nonpublic information about a clinical trial for a hepatitis drug to a fund manager, who was later identified as Joseph Skowron, co-manager of FrontPoint's health care funds.

Mr. Skowron, who has not been charged and was not named in either the criminal or civil complaint, has been placed on leave from the firm.

A representative for FrontPoint could not immediately be reached for comment. FrontPoint has not been accused of any wrongdoing.

Morgan Stanley, which owns a majority stake in FrontPoint, declined to comment. The Financial Times reported the redemption requests on Friday.

Dr. Benhamou was released in lieu of $3 million bail this week.

Dr. Benhamou is accused of leaking information from November 2007 to January 2008 while he worked on a steering committee that oversaw the clinical trial of a hepatitis-C drug for Human Genome Science.

At that time, he was consulting for hedge funds and other investors who traded stocks in the health care sector.

During that period, Dr. Benhamou repeatedly communicated updates to Mr. Skowron, prompting the portfolio manager to order the sell-off of six million shares of Human Genome Sciences, a biopharmaceutical company, according to the complaints.

It's unclear what the heavy redemptions will do to a planned spin-off of FrontPoint from Morgan Stanley.

A spokesman for Morgan Stanley said the company was assessing the impact of the FrontPoint-related events and continued to work toward the revision of its ownership in the hedge fund.

Morgan Stanley acquired the hedge fund four years ago for about $400 million, and is now on the cusp of spinning off a majority stake to the fund's co-chief executives, Daniel Waters and Michael Kelly.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020101127e6br0000h

The New York Times

Business/Financial Desk; SECTB

Morgan and 'Quant' Trader May Go Separate Ways

By ANITA RAGHAVAN
1,101 words
12 November 2010
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDED

For nearly two decades, the mathematical whiz Peter Muller and his secretive band of traders have helped power Morgan Stanley to bigger profits.

But now Morgan Stanley and Mr. Muller are in advanced talks about splitting up. Under the plan being discussed, Morgan Stanley would spin off Mr. Muller's unit, called Process Driven Trading, and keep a minority stake. Mr. Muller and his team would get access to Morgan Stanley's infrastructure, including its legal and other resources.

Mr. Muller, 47, is part of a new breed of investors called quants - short for quantitative - who use high-speed computers to turbocharge their mathematically powered investing skills.

They program their computers to track different data and variables like the historic relationship between certain pairs of stocks. If the relationship goes out of kilter, a quant might make a bet, amplified with borrowed money, that the historical relationship between the stocks will return.

The strategy has been immensely profitable for Morgan Stanley. The Process Driven Trading unit generated an estimated $4 billion in profits in the 10 years through 2006, according to Scott Patterson's book, ''The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It'' (Crown Business, 2010). Those gains were after the unit took a 20 percent slice, according to the book. That means that Mr. Muller and his team were paid about $1 billion over a decade, making them among the most highly paid executives in the firm.

A separation between Morgan Stanley and Mr. Muller has been in discussions for years, but talks accelerated in the wake of the passage in July of the Dodd-Frank Act, which restricts proprietary trading by Wall Street firms. Morgan Stanley and Mr. Muller had been discussing another option where the unit would have moved to Morgan Stanley Asset Management. But the act makes that far less likely now, said people close to the situation who were not authorized to speak publicly.

A spinoff of the prop trading unit would largely mirror a plan by Morgan Stanley to sell a majority stake in FrontPoint Partners, a Greenwich, Conn., hedge fund it bought in 2006, to the partners.

Other Wall Street firms are retreating from the business of betting on markets with their own money. Goldman Sachs's proprietary trading desk, which spawned the careers of a number of Wall Street luminaries and hedge fund founders, is moving to Kohlberg Kravis Roberts. Citigroup has sold its private equity businesses.

Mr. Muller's unit is the last significant proprietary trading business at Morgan Stanley, with the exception of a small statistical arbitrage business that operates out of the bank's equities division. Over the years, as much as $6 billion of Morgan Stanley's money has been housed in his unit. A spinoff, while freeing capital for Morgan Stanley, would also benefit Mr. Muller, allowing him to raise money from third-party investors and possibly paving the way for him to expand his business, which requires large amounts of capital.

A 1985 mathematics graduate of Princeton, Mr. Muller, who is passionate about math and loves music, started the Process Driven Trading unit in 1992. From the start, its esprit de corps was more Silicon Valley than Wall Street. Mr. Muller stocked the group with Ph.D.'s and housed them on their own floor, away from the hurly-burly excitement of Morgan Stanley's mammoth stock trading floor. To stimulate productivity and cerebral thinking, he had ceiling lights installed that changed color every 15 seconds.

The group was always known for its close-knit culture and camaraderie. The math whizzes worked together and often played together. Many of their exploits - painting a mural for a school in Harlem, a recent volleyball game and a ski trip - are displayed on the walls of their ninth floor offices in Morgan Stanley's Midtown Manhattan headquarters on LCD screens that flip from one photo to another every 10 seconds.

The group was as eclectic as its leader. Even though he and his unit were minting money, Mr. Muller quit working full-time for Morgan Stanley in 2001, saying, according to a short biography on his Web site, that he realized he "can no longer find happiness in the corporate world." Over the next several years, he traveled to Bhutan, New Zealand and Hawaii, hiking and kayaking, with his five-pound keyboard in tow. He took up yoga and began writing crossword puzzles, many of which appeared in The New York Times and other newspapers.

He indulged his love of music, writing songs, releasing two albums under his own label and playing his guitar on the streets of Barcelona and in New York City subways. He also pursued his passion for poker, a favorite pastime of quantitative traders. He played in a few tournaments on the World Poker Tour. In his first tournament he came in fourth and took home nearly $100,000.

In late 2006, Mr. Muller, who is married with two children, returned full time to Morgan Stanley. For decades, he and his team, which eventually grew to about 60 members with operations in London and Tokyo, operated well below the radar, quietly and consistently churning out billions of dollars in trading profits for the investment bank.

As the unit prospered, Mr. Muller became wealthy and started his own family office, Chalkstream Capital, to manage his assets. Chalkstream has since branched out to manage the money of others.

But, in summer 2007, the unit hit a big speed bump when aberrational stock price moves from the United States to Japanese and European markets caused losses of about $500 million in a little more than two weeks.

The convulsions at the Process Driven Trading unit were felt at so-called quant funds around the globe. Still, even amid the chaos around him that summer, he managed to play at Caffe Vivaldi in Greenwich Village. He still appears there from time to time, and performed Wednesday night.

This is a more complete version of the story than the one that appeared in print.

Correction: November 15, 2010, Monday

An article on Friday about a spinoff of Morgan Stanley's Process Driving Trading unit, where employees known as quants use high-speed computers to trade, misstated a word in the title of a book on such employees. The book, by Scott Patterson, is "The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It" (not "Match Whizzes").

PHOTO: Peter Muller (B4)

Document NYTF000020101115e6bc00042

The New York Times

Business/Financial Desk; SECTB
A Female Wall St. Financial Chief Avoids Pitfalls That Stymied Others

By SUSANNE CRAIG
1,471 words
10 November 2010
The New York Times
NYTF
Late Edition - Final
1
English

Ruth M. Porat has a knack for escaping unscathed from tough situations.

She joined Morgan Stanley in 1987 just before the stock market crash yet managed to hang onto her job. During the Internet boom she was a technology banker. When that sector blew up she reinvented herself, eventually becoming a financial services banker. The banking industry almost collapsed in 2008, but Ms. Porat's star has continued to rise.

Today, as chief financial officer of Morgan Stanley and being among the highest-ranking women on Wall Street, her survivor skills will come in handy. She is trying to excel not only during difficult times for Morgan Stanley, but also in the face of a horrible track record of women who have made it this far, only to stumble.

''The chief financial role at a global investment bank is an incredibly challenging job; you have to know everything about everything,'' said Glenn Schorr, an analyst with Nomura.

In Ms. Porat's case, she is often reminded about recent Wall Street history. ''Be careful in everything you do, because we all know how this ended before,'' another stock analyst told her at a cocktail party earlier this year on the 41st floor of Morgan's Stanley's headquarters in Midtown Manhattan, according to attendees.

The comment was a not so subtle reference to the last two female chief financial officers on Wall Street: Erin Callan at Lehman Brothers and Sallie L. Krawcheck at Citigroup. Ms. Callan resigned from Lehman just months before it filed for bankruptcy and is now under investigation by regulators. Ms. Krawcheck struggled as chief financial officer at Citigroup and was publicly demoted in early 2007. (She has since rebounded at Bank of America.)

Morgan Stanley offers another reminder: Its former co-president, Zoe Cruz, was one of the earliest casualties of the credit crisis.

Any chief financial officer -- male or female -- would be facing challenges at Morgan Stanley at the moment. The firm, under its chief executive, James P. Gorman, is trying to transform itself into more of a steady producer than an investment bank susceptible to swings in the market. The transition has been rough sledding: Morgan Stanley had a net loss of $91 million in the third quarter.

The stock has fallen 11 percent so far this year, compared with a flat performance for its chief rival, Goldman Sachs. Some shareholders have been grumbling that Morgan Stanley's turnaround is taking too long. And there has been a noticeable turnover in the share base this year.

For instance, the mutual fund giant Fidelity has recently reduced its stake in a number of firms, according to regulatory filings, but in percentage terms its selling in Morgan is larger than other reductions.

A Morgan Stanley spokeswoman says that other big investors, including Fairholme Capital Management, have been buying the firm's shares.

Until her promotion to chief financial officer, Ms. Porat, 52, was best known as the banker who had been tapped to advise the Treasury Department on the takeover of Fannie Mae and Freddie Mac. She has kept an intentionally low profile since January and declined to be interviewed for this article.

Ms. Porat is not an accountant and had never worked in the finance department. She has an economics degree from Stanford and a master's degree in business administration from the Wharton School of the University of Pennsylvania. She joined Morgan Stanley in 1987.

Six years later, however, she quit to follow the well-known Morgan Stanley banker Robert F. Greenhill to Smith Barney. In a 2009 book titled "How Remarkable Women Lead," she said she regretted the move immediately.

"Oh my God, I've completely messed up my career," she said to herself upon landing there, according to the book. "I want to go back and I won't have that option."

She did go back, in 1996, but was forced to take a demotion as part of the deal. In 2000, she went to London to lead Morgan Stanley's technology banking team there. Ms. Porat helped take some of the era's biggest names public, including Amazon and Priceline.

During the tech bubble Ms. Porat aligned herself with Mary Meeker, the influential technology analyst. Morgan Stanley, largely through Ms. Porat and Ms. Meeker, vetted more than 750 Internet-related public offerings from 1995 to 2001. In that period, Morgan served as the primary manager on 50 of 597 Internet companies that eventually did go public.

"She is the best banker I have worked with since Quattrone, and while Frank has the tech relationship edge, Ruth has the creative edge," wrote Ms. Meeker in her 1999 performance review, released in 2003 as part of a regulatory inquiry.

Mr. Quattrone is perhaps the dot-com era's best-known deal maker, whose career stalled temporarily while he successfully fought civil and criminal charges. He has since started Qatalyst Partners, which has been a busy adviser in a number of tech deals this year.

She soon faced another challenge: In 2001 she was given a diagnosis of breast cancer. She moved back to America for treatment.

Colleagues say Ms. Porat is a tireless worker. In 1992, during the birth of her first son, she was on the phone in the delivery room making client calls. And in her spare time she, along with her husband, a lawyer, renovate and sell New York City apartments.

Ms. Meeker, the godmother to each of Ms. Porat's three sons, remembers one meeting with management at the media company Ziff Davis where Ms. Porat threw her back out. "Instead of leaving she laid on the boardroom table and continued on with the presentation," Ms. Meeker said.

She has been known to go out on a limb for clients; in 2004 she wrote a letter to the court in support of a client and friend, Martha Stewart. That year Ms. Stewart was sentenced to five months in prison after she was convicted of lying to authorities about her 2001 sale of about 4,000 shares of ImClone Systems.

But at times Ms. Porat got caught up the euphoria of the Internet bubble, some co-workers say. In 1999, at a dinner with senior Morgan executives, she and Ms. Meeker tried to convince top brass to buy the brokerage house Charles Schwab; its stock had soared during the Internet boom.

Ms. Meeker says there were a number of strategic ideas discussed at the meeting, including a possible acquisition of Schwab by Morgan, but no one "was pounding the table" for such a deal to take place. "However of the available options, it was the most interesting," she added.

After the tech wreck, Ms. Porat began banking more blue-chip companies, and assisted in the initial public offering of a General Electric subsidiary, Genworth Financial Inc. The next year she learned her cancer was back, and underwent treatment again. In 2006 she was tapped to run the financial institutions group, and help take public a number of companies, including the private equity firm Blackstone Group.

Tony James, president of Blackstone, said Ms. Porat was available at all hours to handle issues. "She never makes you feel like you are disturbing her personal life; I don't even know if she has one."

He said that unlike many bankers, she was able to quickly tap resources from all corners of Morgan. For instance, she arranged for Mr. Gorman, then head of strategy for Morgan, to speak to Blackstone executives about what it was like to be a public company. "I would never have even known to have asked for that," he said.

In 2008, she and a fellow Morgan banker, Robert Scully, landed one of the most prestigious assignments of the credit crisis, advising the Treasury Department on the takeover of Fannie Mae and Freddie Mac.

Lee Sachs, a former senior Treasury worker, dealt frequently with Ms. Porat, saying she had a ''recognition and understanding of the public policy and political implications, positive and negative, of various courses of action.''

Still, Mr. James of Blackstone said he was surprised when he heard that Ms. Porat had been appointed chief financial officer. ''She went from a client-facing job into a job which is totally internal facing and is quite technical,'' he said. ''And beyond that she moved from a role that involved managing one or two people to thousands of people. It was a huge change, and I like Ruth so I wanted it to work out, but I wondered if it would, but so far it seems to be.''

PHOTO: Ruth Porat, chief financial officer at Morgan Stanley, is one of the top women in banking. (PHOTOGRAPH BY MORGAN STANLEY, VIA BLOOMBERG NEWS) (B4)

Document NYTF000020101110e6ba0005c

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Wall Street Gets Its Groove Back, And Big Pay, Too

By SUSANNE CRAIG
1,110 words
4 November 2010
The New York Times
NYTF
Late Edition - Final
1
English

These are not boom times for financial firms. Trading is down and new regulations threaten to take a bite out of future profits. Some firms have been handing out pink slips. Morgan Stanley even posted a loss in its last quarter.

Yet Wall Street pay seems to defy gravity: Bonuses will be up this year, according to a study to be released on Thursday by a Wall Street compensation expert, Alan Johnson. The survey shows that overall compensation in financial services will rise 5 percent this year, with employees in some businesses like asset management getting increases of 15 percent.

''I did not expect compensation would come back the way it has,'' Mr. Johnson said. ''I underestimated the industry's resiliency.''

One does not have to look far to see that Wall Street has found its stride again. Hot new restaurants are opening, and they are packed with traders and investment bankers. John DeLucie, the chef and one of the owners of The Lion restaurant, one of Greenwich Village's newest hot spots, said business had been surprisingly strong since it opened in May.

Customers are buying vintage bottles of wine; the restaurant recently sold a 1982 Chateau Mouton Rothschild for $3,950. ''We are seeing a lot of luxury purchases, like vintage Bordeaux, things that we haven't seen sell well in a few years,'' Mr. DeLucie said.

Rich year-end bonuses are expected this year even though the total amount of money set aside for compensation in sales and trading and investment banking for the five big Wall Street banks has shrunk.

Over all, Goldman Sachs, Morgan Stanley, Citigroup, Bank of America and JPMorgan Chase have set aside $89.54 billion this year to pay employees, 2.8 percent less than a year ago, according to data from the Japanese bank Nomura. Total revenue for the five firms has fallen about 4 percent this year.

But in the wider universe of financial companies, including asset managers and smaller firms, compensation will be modestly higher, Mr. Johnson says.

In compiling his survey, Mr. Johnson says he talks to executives across Wall Street, looks at what has been set aside to date for compensation and then makes estimates based on which divisions are doing well and which are not.

Financial firms will not calculate what exactly will be paid until January. So much depends on what happens in the fourth quarter, Mr. Johnson cautions. If business continues to be sluggish, bonuses may drop from last year.

While the current market may not necessarily justify a bump up in bonuses, Wall Street bankers and traders benefit from a curious economy of their own making. If Wall Street firms start lowering pay, employees will most likely find another firm willing to pay them more. As a result, even in difficult years, Wall Street still doles out big bonuses, typically cutting into what otherwise would go to shareholders.

And this year, while some firms including Bank of America and Credit Suisse have let go of some employees as trading activity has slumped, other firms are hiring, putting upward pressure on 2010 compensation.

For instance, Nomura recently started an aggressive expansion on Wall Street and is paying high prices for many of its new recruits. Morgan Stanley, struggling to find its footing since the 2008 credit crisis, has hired hundreds of traders this year. And despite its third-quarter loss, Morgan Stanley plans to add more staff by year's end. Citigroup, badly bruised by the mortgage crisis, has also shown a willingness to pay millions of dollars for some strategic hires.

''This is the first year we have seen people building again,'' Mr. Johnson said. ''This build is medium sized, not big, but we are coming from nothing, so this is actually a big deal.''

The line item likely to garner the most attention this year is executive pay, the bonuses that go to top executives like Lloyd C. Blankfein of Goldman Sachs and Jamie Dimon of JPMorgan Chase. Pay for the most senior executives across Wall Street fell during the credit crisis. Still, President Obama called the bonuses paid during the crisis ''shameful.''

But chief executives should see a ''meaningful'' increase this year, Mr. Johnson said.

''Senior executive pay will go up more than the rest,'' he said. ''I think executives are saying 'I didn't get paid much for two years and now I want something.'''

In 2009, Mr. Blankfein, who runs Wall Street's most profitable firm, received a $9 million all-stock bonus. In 2008, the year the financial system nearly collapsed, he took no bonus. In 2007, he took $68.5 million in cash and stock, a record payday for a Wall Street chief.

Lower down the food chain, Wall Street employees tend to get a base salary of $100,000 to $200,000; the rest comes in big year-end bonuses. Firms typically pay out 40 percent to 50 percent of their revenue in compensation and benefits. Top employees often make well in excess of $10 million a year.

Mr. Johnson said asset management employees, hard hit last year, could see their compensation rise as much as 15 percent in 2010.

However, fixed-income and equity traders will not fare quite as well, he said, predicting the difficult trading environment recently could result in a 40 percent compensation cut for some employees. This, of course, is off a high base in 2009, when these divisions did quite well.

Executives in private equity and those who handle mergers and acquisitions will see their pay rise slightly, as much as 5 percent, Mr. Johnson said. Those who work in retail banking will see a slightly larger bump, between 5 and 10 percent. The big losers, he says, will be traders in fixed income and equities, with only some groups, like commodities traders, doing better.

Lucy Cabrera, president and chief executive of the Food Bank for New York City, said she expected it to take two years for the new wealth from Wall Street to trickle down to Main Street. She said 93 percent of the agencies the food bank services have seen an increase in first-time users, one sign that those hurt by the 2008 crisis have only just run out of money. ''Let's hope this news means increased spending and jobs for others,'' she said.

This is a more complete version of the story than the one that appeared in print.

PHOTO: Lloyd C. Blankfein, the chief executive of Goldman Sachs. (PHOTOGRAPH BY SUSAN WALSH/ASSOCIATED PRESS) (B14)

Document NYTF000020101104e6b40008g

The New York Times

DEALBOOK
Business/Financial Desk; SECTB

French Doctor Accused of Providing Inside Data on Drug to Hedge Fund Manager

By THOMAS KAPLAN
634 words
3 November 2010
The New York Times
NYTF
Late Edition - Final
2
English

A prominent French doctor has been arrested on criminal fraud charges that accused him of tipping off a hedge fund manager about setbacks in a clinical drug trial that had not yet been made public, federal authorities said Tuesday.

The manager avoided $30 million in losses by selling his entire stake in Human Genome Sciences before it announced the setbacks in January 2008, the authorities said.

The Securities and Exchange Commissionalso filed a civil suit against the doctor, Yves M. Benhamou, who was an adviser for clinical trials of a hepatitis drug being developed by Human Genome Sciences.

Dr. Benhamou, a liver disease expert whose research has been widely published in medical journals, was also working at the time as a paid consultant to hedge funds and other investors, the authorities said.

They did not identify the manager or his firm, but a person close to the firm said it was FrontPoint Partners, which is being spun off by Morgan Stanley. The firm has not been charged with wrongdoing.

FrontPoint issued a brief statement saying it was ''cooperating fully with this investigation.'' It also said it had placed one of its managers, Dr. Chip Skowron, on leave pending the outcome of the investigation. In his position as a member of the steering committee for a clinical trial of the drug Albuferon, Dr. Benhamou learned in late 2007 that two participants in the trial had developed lung disease, and one of them had died, according to the civil and criminal complaints filed in United States District Court for the Southern District of New York.

Dr. Benhamou, according to the complaints, passed word of the setbacks to a portfolio manager with whom he had a consulting relationship. The manager, described in the complaints as a managing director of a investment bank who co-managed six health care hedge funds, then began selling some of the shares the funds held in Human Genome Sciences.

On Jan. 22, 2008, during a telephone call with Dr. Benhamou, the portfolio manager sent an instant message to a trader instructing him to sell the remaining shares the fund held in Human Genome Sciences, according to the complaints. The next day, the drug company announced that it had reduced the dosage for some participants in the clinical trial because of safety concerns, and its shares plummeted 44 percent, to $5.62, from $10.02.

The hedge funds saved approximately $30 million by selling its shares in advance of the announcement by Human Genome Sciences, the complaints said.

Dr. Benhamou, 50, of Neuilly-sur-Seine, an affluent Paris suburb, was detained by F.B.I. agents on Monday as he attended a conference in Boston. He appeared Tuesday in federal court in Boston, where the authorities announced their charges. He will be transported to New York, where he is expected to be arraigned. His lawyer, Joseph H. Zwicker, declined to comment.

Human Genome Sciences, meanwhile, no longer employs Dr. Benhamou as a consultant, said Jerry Parrott, a spokesman for the drug maker. ''We cooperated fully with the S.E.C. investigation and have no comment beyond that,'' he said.

The drug in question, which has since been branded as Zalbin, has been abandoned. The Food and Drug Administration raised concerns about it earlier this year, and Human Genome Sciences and its collaborator on the drug, Novartis, said in October that they would not develop it further.

Susanne Craig contributed reporting.

Go to Related Item from DealBook>>

Criminal Complaint Against Yves Benhamou

Civil Complaint Against Yves Benhamou

Go to Press Release from the Securities and Exchange Commission>>

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020101103e6b30005z

The New York Times

REUTERS BREAKINGVIEWS
Business/Financial Desk; SECTB
Morgan Stanley's Painful Setback

By ANTONY CURRIE and IAN CAMPBELL
770 words
21 October 2010
The New York Times
NYTF
Late Edition - Final
2
English

James Gorman, Morgan Stanley's chief executive, took one on the nose in the third quarter. While his peers have largely beat analysts' estimates, Mr. Gorman presided over results that not only missed the target but included an unexpected $91 million loss. In fact, the company had to rely on one-time items to avoid an even worse showing. After a decent first half of the year, it's a setback.

A surprising write-down on an Atlantic City casino project pushed Morgan Stanley into the red. The company already had taken what appeared to be a full hit on the investment when it decided to get rid of its stake early this year. But it has yet to find a buyer at the price initially marked on the books.

Fixed-income trading revenue also slumped. And the twisted accounting rule that forces firms to mark their own debt to market made the drop from the second quarter, 64 percent, look even worse.

But even after stripping out the new rules, the top line still fell 24 percent, worse than any of Morgan Stanley's rivals. JPMorgan Chase's bond, currency and commodities revenue rose slightly, while Bank of America's equivalent business generated 50 percent more cash than the previous quarter.

Morgan Stanley's loss would have been worse but for some nonrecurring items. There was $800 million of revenue from gains on investments housed in the institutional securities and asset management units. Another $176 million accrued thanks to a tax benefit from bringing foreign earnings back to the United States.

That the bank's fixed-income traders had the most dismal quarter of the top banks was not so surprising. After multiple changes of strategy, the division is still rebuilding, a task that Mr. Gorman has repeatedly cautioned investors will take several quarters.

And revamps elsewhere are still running smoothly, if slowly. Wealth management pretax income rose by about a third, though its pretax margin reached only 9 percent. And even after stripping out gains on real estate investments, asset management made a rare profit from continuing operations. That suggests underlying strength. That should give investors some comfort that, the latest noise and disappointments aside, Mr. Gorman is still largely on the right track.

British Penance

It is living up to its billing as a bloodbath. Britain's coalition government is slashing public spending by $128 billion over five years, about 19 percent when adjusted for inflation.

The plan is billed as a painful necessity to secure the country's financial future, but it is also ideological. The aim is to move from unaffordable levels of public employment and welfare to private employment and a balanced budget. The risk, however, is that the economy could stall.

The cuts to the civil service are drastic and will cause distress, even though most departments' budgets have been reduced by less than a quarter, as had been threatened. The BBC, the foreign office, the police, even the royal family: none have been spared. The government wants services to be delivered more cheaply, which means by fewer people.

Britons know the public sector has excesses and that some cuts will not be the end of the world. Nevertheless, losing half a million public sector jobs is a heavy toll. If the private sector cannot absorb these workers, total unemployment in Britain may rise to three million, or more than 9 percent.

Cutting many departments has allowed the government to lift health spending and maintain the schools budget. With welfare, however, the changes risk looking harsh. Most, though not all, of the overall $11 billion drop in welfare spending hits the poorest. The intention is to encourage people to swap welfare for work, but the danger is greater social division.

The big macroeconomic risk is that the cuts cause a return to recession, thereby wrecking the government's fiscal calculations. That risk is real: house prices are still falling, and consumers are still deleveraging.

The Bank of England is likely to make money as cheap as possible. Nevertheless, tough years lie ahead. A country that was living far beyond its means now faces simultaneous big spending cuts and tax increases.

The government hopes its decision will bring clarity and a swift climb in private investment. A happy outcome is not assured. But at least it's a resolute start.

ANTONY CURRIE and IAN CAMPBELL

PHOTO: James Gorman, the chief executive of Morgan Stanley, which lost $91 million. (PHOTOGRAPH BY CHESTER HIGGINS Jr./THE NEW YORK TIMES)

Document NYTF000020101021e6al0006f

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Morgan Posts $91 Million Net Loss In Quarter

By MICHAEL J. de la MERCED and SUSANNE CRAIG
714 words
21 October 2010
The New York Times
NYTF
Late Edition - Final
3
English

Morgan Stanley says it needs more time to reshape its battered franchise. But its latest results suggest the firm is falling farther behind its rivals.

Even as the majority of the country's big banks reported so-so earnings, Morgan Stanley's stood out as weak. The firm reported a net loss of $91 million in the third quarter because of the disposal of an investment in Atlantic City and the changing value of its own debt. And its profit from continuing operations fell well short of analyst estimates and rivals' results.

''Morgan Stanley remains a work in progress,'' James P. Gorman, the firm's chief executive, said on a conference call with analysts on Wednesday. ''We are not exactly where we want to be, but we are better off than where we were 12 months ago.''

Most of the country's major banks struggled during the third quarter, as the stock and debt markets proved fragile. Even Goldman Sachs, long the powerhouse in trading, reported a 40 percent slump in earnings this week - though it managed to exceed lowered analyst estimates.

But Morgan Stanley, which is rebuilding its trading division, struggled more than others. Its trading revenue fell 58 percent, to $1.44 billion, in the quarter from a year ago.

The firm's chief financial officer, Ruth Porat, said in an interview on Wednesday that it had suffered even more because its business depended on client activity, which dried up in the quarter. She added that while sales and trading needed work, the firm was still integrating the 400 employees it had hired this year.

Under Mr. Gorman, Morgan Stanley is seeking to refashion itself as a less-risky firm built on conventional investment banking and asset management. The firm has been taking steps to divest itself of noncore businesses, though it has taken hits in the process.

It took a $229 million loss through its disposal of a stake in Revel Entertainment, which is developing a $2 billion hotel and casino in Atlantic City. (Ms. Porat said that the firm's carrying value of the investment is now about $40 million, down about $200 million.) Excluding the special charges, Morgan Stanley reported earnings from continuing operations of $313 million, or 5 cents, a share, for the quarter.

In keeping with the overhaul of financial regulations, which restricts banks' ownership of hedge funds, the bank confirmed on Wednesday that it would spin off FrontPoint Partners, a hedge fund it bought in 2006. FrontPoint management and executives will own the majority of the hedge fund, though Morgan Stanley will retain a minority stake.

To Morgan Stanley, such a huge overhaul cannot be done in one quarter. In years past, other investment banks, like Credit Suisse and JPMorgan, took a long time to reshape their businesses. Morgan Stanley executives say that they prize disciplined execution of their plan over speed.

''It's not a light switch that we can flick on,'' Ms. Porat said. ''We've said that right? sted of that that?this will take time and that this will be over quarters.''

Other elements of Morgan Stanley's rebuilding proved a little better. Its global wealth management business, an increasingly important part of the firm, reported nearly flat net revenue of $3.1 billion, as client activity dropped from the same time last year.

The firm is also continuing efforts to keep its compensation levels in check: Its compensation expenses for the quarter fell to $3.7 billion, or 54 percent of revenue, down from 58 percent the same time last year. (Excluding costs related to Morgan Stanley's improving credit, its compensation expenses amount to 49 percent of revenue.) Wall Street firms typically seek to cap compensation at roughly 50 percent or less. Goldman, for example, set aside 43 percent of net revenue for the quarter.

Ms. Porat said that while emerging markets remain healthy, developed markets had only recently shown gains, and must grapple with governments' efforts to support those improvements. ''I hope we're not seeing the new normal,'' she said.

This is a more complete version of the story than the one that appeared in print.

Document NYTF000020101021e6al00037

The New York Times

Business/Financial Desk; SECTB
Wall St. Faces Specter Of Lost Trading Units

By GRAHAM BOWLEY and ERIC DASH; Louise Story contributed reporting.
911 words
6 August 2010
The New York Times
NYTF
Late Edition - Final
1
English

They are the elite among the elite at Goldman Sachs, highfliers who are the envy of Wall Street.

But on Washington's orders, Goldman is now considering a step that once would have been unthinkable: disbanding the corps of market wizards at the heart of its lucrative trading operation.

Under the new Dodd-Frank financial regulations, Goldman must break up its principal strategies group, the wildly successful trading unit that has helped power the bank's profits. Goldman is considering several options, including moving the traders to another division or shutting the unit altogether, according to people briefed on the matter.

Across Wall Street, other financial giants are also embarking on the delicate task of complying with the new rules governing their trading and investments.

Morgan Stanley is considering ceding control of its $7 billion hedge fund firm, FrontPoint Partners. At Citigroup, executives have sold hedge fund and private equity businesses and are now discussing paring back proprietary trading, which relies on a bank's own capital to make bets in the financial markets.

JPMorgan Chase has already begun dismantling its stand-alone proprietary trading desk and is now preparing to wind down One Equity Partners, its internal private equity business. While many of these plans are still under discussion and could take years to fully put into effect, the Dodd-Frank rules are slowly starting to change Wall Street, at least on the surface.

How deep the changes will go is uncertain. Citigroup and others, for instance, are considering moving proprietary traders to desks that handle trades for clients, although the traders would still be able to make their own bets in the markets.

Analysts nonetheless characterized the coming shift as nothing short of a sea change. Some of the banks' big businesses -- trading, hedge funds and private equity, for example -- must now be overhauled.

''This is the real stuff,'' said Brad Hintz, an analyst at Sanford C. Bernstein &Company. ''It shows that if you squeeze Wall Street, like a balloon it will come out somewhere else, and we really are squeezing Wall Street. Their business models are changing.''

The changes are aimed at complying with rules intended to reduce risk and speculation.

Perhaps nowhere is this shift more profound that at Goldman, whose powerful proprietary trading operation is legendary on Wall Street. In the 1980s, under Robert E. Rubin, its arbitragers profitably navigated an era of heady mergers. Today, the group is walled off from other traders on Goldman's trading floor.

The loss of the division would be a big change for Goldman. The group has long been one of the most sought-after places to work at Goldman, and one of the most highly compensated.

One option under consideration would be to fold the group into Goldman's asset management unit, allowing it to bring in outside investors. This way, Goldman would gradually reduce its direct financial stake in the unit.

Another option would be to shut the group or let its traders spin it off into a separate fund or funds and seek capital from outside investors.

A Goldman spokesman, Lucas van Praag, said: "We are reviewing our options and will, of course, comply with the new legislation."

In recent years, the group had as much as $10 billion of Goldman's capital and focused mostly on stocks. It has also produced several prominent hedge fund managers, among them Edward S. Lampert, Thomas F. Steyer and Daniel S. Och.

At Morgan Stanley, executives have decided to spin off FrontPoint to the fund's management, according to two people with knowledge of the matter. FrontPoint's principals were negotiating terms, and the deal could still founder.

Under a tentative plan, Morgan would reduce its ownership of FrontPoint, which employs about 180 people, to about 25 percent. That stake could then be reduced further over the next five years.

Morgan Stanley executives view the restructuring not as a reaction to the financial overhaul but as part of the bank's recovery since the financial crisis, and as part of the reorganization of its asset management business that was set in motion by the new chief executive, James P. Gorman. The move would represent something of a break with the era of John J. Mack, Morgan Stanley's chairman, who pushed the bank into areas like hedge funds. But even if Morgan Stanley spins off FrontPoint, it will still own minority stakes in several other hedge funds.

Like other banks, Morgan Stanley is also reviewing the future of its large and successful proprietary equities trading unit. Mr. Gorman is considering whether to spin it off into the asset management division.

Citigroup has already sold its real estate arm, its SkyBridge Capital hedge fund group and its private equity division. It has also been scaling back its proprietary trading operations.

Now, Citigroup executives are discussing plans for broader changes. One alternative is to shift some of its proprietary traders onto other trading desks. Another would be to fold them into the asset management area.

While JPMorgan is also scaling back its stand-alone proprietary trading operations, its giant hedge fund firm, Highbridge Capital Partners, will be unscathed by the Dodd-Frank rules. That is because Highbridge, with $21 billion in assets, is considered an asset manager, as it relies primarily on capital from investors, rather than Morgan.

Document NYTF000020100806e6860005d

The New York Times

Business/Financial Desk; SECTB
Optimist vs. Pessimist

By NELSON D. SCHWARTZ
1,396 words
6 August 2010
The New York Times
NYTF
Late Edition - Final
1
English

When the latest unemployment figures are announced on Friday, all of Wall Street will be watching. But for Richard Berner of Morgan Stanley and Jan Hatzius of Goldman Sachs, the results will be more than just another marker in an avalanche of data.

Instead, the numbers will be a clue as to which of the two economists is right about where the American economy is headed. Their sharp disagreement over that question adds yet another twist to the fierce rivalry between the firms, Wall Street's version of the New York Yankees and the Boston Red Sox.

Mr. Hatzius is arguably Wall Street's most prominent pessimist. He warns that the American economy is poised for a sharp slowdown in the second half of the year. That would send unemployment higher again and raise the risk of deflation. A rare occurrence, deflation can have a devastating effect on a struggling economy as prices and wages fall. He says he may be compelled to downgrade his already anemic growth predictions for the economy.

For months, Mr. Berner has been sticking to a more optimistic forecast, despite growing evidence in favor of Mr. Hatzius's view. Last week, Mr. Berner was caught by surprise when the federal government reported that the economy grew at a 2..4 percent pace in the second quarter, well below the 3.8 percent he had forecast a month before. Mr. Hatzius came closer to hitting the mark, having projected a 2 percent growth rate.

Mr. Berner and his deputy, David Greenlaw, still expect a pickup in the second half of the year, which would help gradually bring down unemployment. They play down the danger posed by deflation, the malady that deepened the Great Depression and contributed to Japan's lost decade of the 1990s.

''I'd say at this point the data and the sentiment in the marketplace have certainly gone more Jan's way than mine,'' Mr. Berner said. Some people, he added, ''think I'm out of my mind. But I have a conviction in my beliefs that's based on my analysis.''

Mr. Hatzius, a 41-year-old native of Germany who was 3 when Mr. Berner started out as an economist, is more restrained. He can afford to be, having snagged the top spot in a recent ranking of Wall Street economists as well as an award from Arizona State University honoring his ''uncanny economic forecasting that anticipated the global financial crisis.''

On Wall Street, both men were among a very small group that accurately predicted the recent recession. Mr. Berner's long resume includes stints at the Federal Reserve in Washington and Mellon Bank in Pittsburgh. ''I've seen plenty of ups and downs,'' said Mr. Berner, 64, sitting in a corner office overlooking the Manhattan skyline at Morgan Stanley's Midtown headquarters.

Showing not even a hint of doubt, Mr. Hatzius said, ''The prospect of substantial inflation seems very remote, but the prospect for deflation is far from remote. A double dip is certainly possible but not likely.''

Mr. Berner does not expect substantial inflation, but he is predicting inflation will run 1 to 2 percent annually rather than the near-zero level Mr. Hatzius sees by the end of next year.

''There is still a one in 10 chance of deflation,'' Mr. Berner calculates. ''But we already have been much more aggressive and proactive in dealing with the problem than Japan was,'' he said, referring to the Federal Reserve's decision to quickly cut rates and aggressively buy government securities.

The split between the chief economists, whose work helps inform trading strategies recommended to investors by their firms, echoes a broader and sometimes fiercer debate among academic economists and commentators about the threat posed by deflation and what the government's response should be.

According to the deflationistas, as they are nicknamed, a new round of stimulus spending by Washington is urgently required to stave off a Depression-like cycle of falling prices and wages that is difficult to reverse once it is set in motion.

Inflationistas, by contrast, worry more about the effect that additional government borrowing could have on the recovery. With the budget deficit expected to hover around $1 trillion a year for the next decade, they say, interest rates could eventually surge, making borrowing -- and goods -- more expensive. A double dip, they say, is highly unlikely.

Mr. Hatzius's gloomy outlook is owed centrally to Americans' slowdown in spending. Recent data suggest that consumers are using any extra cash they have to pay down debt or put into savings. That places a strain on an American economy that has become hugely dependent on consumer spending.

On Tuesday, the Commerce Department reported that Americans saved 6.4 percent of their after-tax income in June, in contrast to the years before the recession, when savings rates stood at 1 to 2 percent.

Last month, the Federal Reserve reported that consumer debt dropped by 4.5 percent in May, a $9 billion decline. It was the 20th consecutive month that figure has dropped. In 2007, consumer debt jumped by 5.7 percent, or nearly $40 billion.

''We had a housing and credit boom that was unsustainable, and now this boom has turned into a bust,'' Mr. Hatzius said. ''There was too much debt, and the deleveraging process has still got a ways to go. It's going to keep private demand weak.''

Another big factor is the amount of slack in the economy. According to a recent report by Nomura, ''The U.S. economy continues to operate with a staggering amount of spare capacity -- unemployed workers, idle trucks and factories, etc.''

Mr. Hatzius agrees, adding that all this extra capacity will restrict the ability of companies to raise prices, thus raising the risk of deflation. ''It's plain to see there's a ton of slack in the economy,'' he said. ''We're not managing to generate enough demand to absorb all these productive resources in the economy.''

Mr. Berner is also studying the role that slack and deleveraging are playing, but he draws very different conclusions from Mr. Hatzius. Excess capacity is being reduced more quickly than Mr. Hatzius believes, Mr. Berner said. That will help businesses raise prices and improve profits, thus heading off the threat of deflation.

What is more, Mr. Berner argues that the deleveraging process is much further along than Mr. Hatzius contends, which will encourage consumers to start spending again. He expects economic growth in the second half of 2010 to run at more than 3 percent, roughly twice the 1.5 percent rate Mr. Hatzius projects.

If Mr. Hatzius is right, unemployment will still stand at 9.7 percent at the end of next year, slightly higher than it is now. Mr. Berner says he believes unemployment should sink to 8.7 percent by then. As for Friday's numbers, Mr. Berner is calling for a private sector gain of 145,000 jobs versus Mr. Hatzius's prediction of 75,000 new jobs.

Either way, both predict unemployment will remain at uncomfortably high levels for several years.

One answer, Mr. Hatzius says, is another round of stimulus spending by Washington to fend off the deflation risk he worries about.

Mr. Berner was skeptical of the stimulus bill passed in 2009, and he still ''doubts that traditional fiscal stimulus is the right tool for the job.''

Instead, he and his colleague Mr. Greenlaw argue for new mortgage rules that would reduce foreclosures and steady the housing market, payroll tax credits to encourage hiring and a new job training corps for unemployed workers.

''Friday's number is just one tile in a mosaic,'' Mr. Berner said. ''From time to time, it'll be like I'm winning, from time to time Jan will be winning.''

"The truth is that it's just a crummy moderate recovery," Mr. Berner added, hedging his bets. "We'll both testify to that."

PHOTOS: Jan Hatzius of Goldman Sachs, left, has a more pessimistic outlook on the economy than Richard Berner of Morgan Stanley. (PHOTOGRAPHS BY MICHAEL FALCO FOR THE NEW YORK TIMES) (B6)

DRAWING (DRAWING BY MINH UONG/THE NEW YORK TIMES) (B1); CHART: Contrasting Forecasts: Analysts at two firms have made greatly different economic forecasts for the third quarter. (B6)

Document NYTF000020100806e68600029

The New York Times

REUTERS BREAKINGVIEWS
Business/Financial Desk; SECTB
Tread Carefully On G.M.'s I.P.O.

By ROBERT CYRAN and NICHOLAS PAISNER
786 words
4 August 2010
The New York Times
NYTF
Late Edition - Final
2
English

General Motors' anticipated initial public offering may be a hard sell. After all, the automaker burned investors with its Chapter 11 filing a little over a year ago. But companies that emerge from bankruptcy can significantly outperform the stock market. On the other hand, the offering of G.M. and, in time, those of other cleaned-up ex-bankrupts like Delphi and Chrysler deserve cautious investor interest.

Shares of formerly bankrupt companies tend to do well if markets are anywhere from plodding to bullish. A portfolio of such stocks including Federated Department Stores (which later became Macy's) in the early 1990s, and another after the dot-com bust in the early 2000s, would have sharply outperformed stock indexes. The early 1990s batch returned about 28 percent more over 200 days than stocks of similar public firms, according to a study by Edward Altman, a New York University professor.

But investors in companies that have been through Chapter 11 still need to be selective. About a third of re-emerging companies go bust again -- entering what is informally called Chapter 22 -- within four years, according to academic studies.

For some companies, that happens because their products become obsolete. Silicon Graphics, for example, produced ultra-high-end computers. The switch to networked groups of cheap machines doomed the group to a second bankruptcy. But the biggest cause of recidivism is too much debt, according to Professor Altman. Those who file again for Chapter 11 protection have, on average, almost four times as much debt as equity. Those that avoid this fate have, on average, a debt-to-equity ratio of less than 1.5.

Uncle Sam's involvement in G.M.'s bankruptcy may therefore turn out to be an important factor. The government forced pain on all parties, leaving the company's balance sheet relatively healthy. The company has about $23 billion of debt and other obligations, mainly health care. And there's a $27 billion hole in its pension fund. Yet it has more than $23 billion in cash and may raise additional money in its initial offering.

So a rapid lurch back into bankruptcy looks unlikely. Still, investors will have to take a careful look at G.M.'s I.P.O. valuation. The company might push for a heady price in an attempt to minimize taxpayers' paper losses on the bailout. With G.M. still having plenty to prove, that could leave little upside.

Value in Disclosure

Investment banks offer a plethora of detail on awards and league-table credits in their quarterly reports. But they provide only the broadest information on their all-important trading divisions, which generate more than two-thirds of industry revenue.

Most bulge-bracket firms just give nebulous comments on market conditions. In its second-quarter results, Morgan Stanley alluded to the ''challenging trading environment'' in certain markets, while JPMorgan noted ''lower results.'' Credit Suisse gave an indication of the relative size of its trading businesses, but didn't provide specific figures.

Some banks are more forthcoming. UBS provides quarterly revenue figures for broad areas. British-based lenders go a little further; HSBC and Royal Bank of Scotland separated out revenue for their government bonds and foreign exchange businesses.

The figures are enlightening. UBS's numbers show that its emerging-market desks bore the brunt of the pain in fixed income in the second quarter: revenue tumbled 70 percent, to 73 million Swiss francs ($69 million). Meanwhile, the $1.5 billion that HSBC made trading government bonds and interest-rate products in the first half of 2010 was well over twice what it made in the second half of 2009.

It's hard to understand the hesitance of other firms. By the time results are released, anything that can be gleaned by rivals is old news. Perhaps the worry is that once a firm starts disclosing figures, it cannot easily revert to giving less information. Currently, weak performance by any given trading unit can be hidden from view.

There are few other industries where there is so little transparency about such a big slice of the revenue pie. That may well be one reason global investment banks trade at just 8.4 times next year's forecast earnings, according to Thomson Reuters. If investors had a better sense of where those earnings came from, and how reliable they were, they might be willing to pay more for them.

For more independent financial commentary and analysis, visit www.breakingviews.com.

PHOTO: Federated Department Stores, now Macy's, did well after bankruptcy. (PHOTOGRAPH BY J.B. REED/BLOOMBERG NEWS)

Document NYTF000020100804e6840006k

The New York Times

Business/Financial Desk; SECTB
An A.I.G. Failure Would Have Cost Goldman Sachs, Documents Show

By GRETCHEN MORGENSON
777 words
24 July 2010
The New York Times
NYTF
Late Edition - Final
3
English

Since the United States government stepped in to rescue the American International Group in the fall of 2008, Goldman Sachs has maintained that it would have faced few if any losses had the insurer failed. Though it was the insurer's biggest trading partner, Goldman contended that it had bought credit insurance from financial institutions that would have protected it, but it declined to identify the institutions.

A Congressional document released late Friday lists those institutions and shows that Goldman was exposed to losses in an A.I.G. default because some of the investment bank's trading partners, such as Citibank and Lehman Brothers, were financially unstable and might have been unable to make good on large claims from Goldman.

The document details every institution that had sold credit insurance on A.I.G. to Goldman as of Sept. 15, 2008, the day before the New York Fed arranged the insurer's rescue with an $85 billion backstop. The document, supplied by Goldman Sachs, was released by Charles E. Grassley of Iowa, the ranking Republican on the Senate Finance Committee.

Goldman had purchased credit protection on A.I.G. worth $402 million from Citigroup and $175 million from Lehman Brothers, the document shows. As of the date of the document, Lehman had already filed for bankruptcy protection.

''This illustrates that the Goldman version of reality is not entirely accurate,'' said Christopher Whalen, managing director at Institutional Risk Analytics. ''They did have exposure to A.I.G., and that is what drove their behavior in the bailout.''

Lucas van Praag, a Goldman spokesman, reiterated that the firm was fully protected from an A.I.G. default and noted that the protection it had purchased from financial institutions required that they post cash to Goldman to cover rising exposures. ''Given that we were receiving and paying collateral on a daily basis, the risk to us of not being able to collect on our hedges had A.I.G. defaulted was de minimus,'' Mr. van Praag said.

For decades, Goldman and A.I.G. had a long and fruitful relationship, with A.I.G. insuring billions in mortgage-related securities that Goldman Sachs underwrote. When the mortgage market started to deteriorate in 2007, however, the relationship went sour and Goldman began demanding cash from A.I.G. to cover the declining value of the securities it had insured. A dispute ensued, and Goldman began buying credit insurance on A.I.G. to protect against possible losses arising from its dealings with the company.

According to the document, Goldman held a total of $1.7 billion in insurance on A.I.G. from almost 90 institutions. Its exposure to A.I.G. at that time was $2.6 billion.

Goldman bought most of the insurance from large foreign and domestic banks, including Credit Suisse ($310 million), Morgan Stanley ($243 million) and JPMorgan Chase ($216 million). Goldman also bought $223 million in insurance on A.I.G. from a variety of funds overseen by Pimco, the money management firm.

JPMorgan and Credit Suisse declined to comment late Friday. A Pimco official could not be reached.

Critics of the A.I.G. rescue have characterized it as a ''backdoor bailout'' of financial institutions that had made mortgage bets guaranteed by the beleaguered insurer. Initially, the government refused to identify these institutions, causing consternation among some in Congress, including Mr. Grassley, who thought the taxpayers should know whom they had benefited.

The issue of the rescue's beneficiaries surfaced again last Wednesday in hearings sponsored by the Senate Finance Committee. Elizabeth Warren, the chairwoman of the Congressional panel that oversees the government's responses to the credit crisis, testified that Goldman Sachs had declined to supply her staff with information about the insurance it had bought to protect itself from an A.I.G. failure.

Because the Congressional panel cannot issue subpoenas, Mr. Grassley suggested that his committee request the information from Goldman, subpoenaing the firm if necessary. Goldman quickly submitted the materials.

''It's as if the New York Fed used A.I.G. as a front man to bail out big banks all over the world,'' Mr. Grassley said in a statement. ''It took nearly two years for the public to learn these details, and they only were revealed because Congress wouldn't take no for an answer. Taxpayers deserve to know what happened with their money.''

PHOTO: Lloyd Blankfein, the chief executive of Goldman Sachs, testifying in April before a Senate subcommittee hearing in Washington. (PHOTOGRAPH BY SUSAN WALSH/ASSOCIATED PRESS)

Document NYTF000020100724e67o0002d

The New York Times

REUTERS BREAKINGVIEWS
Business/Financial Desk; SECTB

Morgan Stanley Sees Less Risk Pay

By ANTONY CURRIE and ROB COX
778 words
22 July 2010
The New York Times
NYTF
Late Edition - Final
2
English

Morgan Stanley's postcrisis conversion to reducing risk finally seems to be paying off. James P. Gorman, its chief executive, presided over $1.4 billion of earnings from continuing operations in the second quarter, according to earnings released Wednesday. That is the first time in a year and a half that Morgan Stanley has managed to put in a more impressive performance than most of its competitors.

That wasn't the result of raking in more revenue, although the bank's top line increased slightly in both debt and equity underwriting, which none of its peers managed. And a $345 million tax benefit helped the bottom line. But what made Morgan Stanley stand out was Mr. Gorman's traders. They showed greater resilience in last quarter's choppy markets than others.

Fixed-income trading revenue, for example, fell just 14 percent. By comparison, that of Citigroup, JPMorgan Chase and Goldman Sachs tumbled 33 to 40 percent in their second quarters. Granted, Morgan Stanley got more of a boost from the nonsensical accounting rule that requires firms to mark as income any drop in value of their own debt. Even allowing for that, though, Mr. Gorman's shop did better than its rivals.

Revenue in equities trading, meanwhile, was flat compared with the first quarter -- and down just 9 percent excluding the accounting gain on liabilities. That's in stark contrast to the fall of a third or more at rival firms. Goldman's equities revenue, for instance, halved after traders were caught holding the wrong side of the volatility-related bets made by clients.

Morgan Stanley still has work to do. Revenue may have declined by less, but its fixed-income desks still bring in no more than two-thirds of what their biggest rivals do. While the bank's 12.2 percent return on equity was, on its face, solid given market conditions in the quarter, the figure is cut in half once accounting and tax gains are excluded.

Still, by sidestepping the latest trading pitfalls, Mr. Gorman showed admirable restraint. He didn't give in to the all-too-common Wall Street temptation of chasing the outsize results of rivals. That should give shareholders comfort that the firm's 18-month-old pledge to keep risk in check is more than just talk.

Mergers Can Work

Academic studies generally support the idea that shareholders of companies that make acquisitions get the short end of the stick. But that's not always the case. Stanley Black &Decker, the tool giant created this year, is shaping up to be a notable exception if Wednesday's quarterly report is any guide. Investors might want to make a punch list of the deal's key components.

From the start, the merger, announced last November, looked good on paper. Stanley Works agreed to buy Black &Decker for stock valued at a 22 percent premium. That was justified because Stanley got management and board control, and its shareholders were to own more than half of the stock.

More important, the amount Stanley was paying above Black &Decker's market capitalization was dwarfed by the value of cost cuts promised by the deal. These, of course, were no sure thing; achieving them depended entirely on management making them happen. But in the first full quarter as a combined group, these are now being captured.

The company reported better-than expected second-quarter results and raised its outlook for 2010 profit, despite lackluster consumer demand for its power drills, saws and other gear. Moreover, the company said it was ''firmly on track'' to meet its estimates for cost cuts and was examining opportunities for revenue synergies.

Since the deal was announced, Stanley shares have risen by more than 20 percent, adding about $1.5 billion in combined value for the two companies' collective shareholders. By comparison, the Standard &Poor's 500-stock index has added just 4 percent.

The lesson should be fairly simple: mergers can work if the blueprints are solid. In the Stanley Black &Decker case, the elements included overlapping businesses with broad scope for expense reduction, a modest premium amply justified by the synergies, clear governance and control, and a shared distribution of future gains. Put those tools in the box, and there's no reason shareholders can't benefit from such deals.

For more independent financial commentary and analysis, visit www.breakingviews.com.

PHOTO: Stanley bought Black &Decker last year in an all-stock deal valued at $3.5 billion. (PHOTOGRAPH BY JOE RAEDLE/GETTY IMAGES)

Document NYTF000020100722e67m0004t

The New York Times

Business/Financial Desk; SECTB
Traders at Morgan Stanley Help Profits Top Estimates

By GRAHAM BOWLEY
999 words
22 July 2010
The New York Times
NYTF
Late Edition - Final
3
English

Morgan Stanley faced near death during the credit crisis in 2008. Then it became so cautious that it missed the stock market boom in 2009. Now, however, it appears to have found its groove.

Along with the rest of Wall Street, Morgan Stanley took a hit to revenue and profit in the second quarter, a period that included a stock market flash crash and rising fears over the European debt crisis.

Profit fell 22 percent from the first quarter to $1.4 billion, the company said on Wednesday. A year earlier, the firm posted a loss of $138 million.

Morgan Stanley's new army of traders seemed to navigate the riled markets better than its rivals -- and certainly better than Wall Street had expected.

''These were clearly challenging market conditions,'' said Howard Chen, an analyst at Credit Suisse. ''Morgan Stanley was less worse than others.''

Morgan was the last of the Wall Street banks to report its second-quarter earnings. Goldman Sachs disappointed markets on Tuesday with an 82 percent drop in earnings from last year, hurt by a slowdown in trading.

James P. Gorman, Morgan's chief executive, said in a conference call with investors that worries about global growth, indebted European governments and financial regulation had bred a ''lack of conviction'' among investors in May and June.

That is, investors large and small pulled out of the markets, causing a slowdown in bond trading and other activities like underwriting.

The flash crash on May 6, which officials are still investigating, had a particular souring effect on investor confidence, Morgan Stanley said. Ordinary investors withdrew billions of dollars from its wealth management business, which trades stocks and bonds for small accounts.

But Morgan more than held its own in equities trading, helping to lift its overall earnings beyond analysts' expectations -- the biggest positive earnings surprise ever for Morgan, according to Capital IQ. Total revenue across all its businesses was $7.95 billion, down 12 percent from the first quarter but a 53 percent rise from a year earlier.

Morgan Stanley's results on Wednesday caused its shares to buck a declining market and close up 6.3 percent at $26.80.

''Its equities business was flat while Goldman's was down to the tune of 49 percent,'' said Alan Villalon, a financial analyst at First American Funds, a mutual fund company in Minneapolis. ''They managed the quarter better than the other players.''

Other financial giants, like JPMorgan Chase, Bank of America and Citigroup, also reported disappointing results from their trading operations when they announced second-quarter earnings over the last week.

Morgan Stanley scaled down its trading activities after it suffered painful losses in the turmoil of the credit crisis. That move would later disappoint its investors, when the bank missed out on the boom in markets last year.

Rivals like Goldman took big bets and made hefty profits from trading. Morgan Stanley did not return to profitability until the third quarter of last year.

But it has since moved to rebuild its trading activities, adding 400 new salesmen and traders, a strategy that appears to be paying off, at least for now.

Ruth Porat, Morgan Stanley's chief financial officer, said the firm's larger sales force meant it could be closer to clients during the market uncertainty, a stance that helped it win some business from rivals.

''We didn't have big misses,'' she said in an interview. ''We had some market gains, but it is still early days.''

Earnings were heightened by $750 million in extra revenue resulting from an accounting change in the value of its debt and by a one-time $345 million tax benefit.

Analysts said the company showed cost restraint by reducing the proportion of its revenue it set aside for salaries -- despite having to pay a $361 million charge for a British bank tax on bonuses.

In its investment banking business, underwriting revenue was $597 million, 30 percent lower than a year ago. Morgan attributed the drop to ''lower levels of market activity.''

Its asset management business was still losing money in the quarter. That unit is being overhauled by Gregory J. Fleming, the former Merrill Lynch executive who joined Morgan Stanley at the beginning of the year.

On Tuesday, Goldman Sachs reported a quarterly profit of $613 million, its worst quarterly performance since the depths of the financial crisis in late 2008. Its profits were hit by the turmoil in markets as well as the cost of settling a civil fraud suit with the Securities and Exchange Commission.

''In some respects, M.S.'s more conservative approach to balance sheet deployment to its trading businesses since the credit crisis, which drew criticism from investors last year, may be playing to the company's benefit in a period where deploying principal capital in fickle markets carries a higher level of risk,'' Barclays Capital analysts wrote in a research note.

Looking forward, Ms. Porat said in the conference call that the global economic outlook remained a concern, but she said the fear of a double dip recession was overstated. Nevertheless, she said, it would take time for investors to regain their poise.

''We are not expecting a rapid rebound in volumes,'' she said.

As part of its strategy to rebalance the bank after the big risks it took before the credit crisis, Morgan has concentrated a lot of resources on building its retail wealth management business, and this unit's performance in the latest quarter was disappointing, analysts said.

But Mr. Gorman, who took over as chief executive from John J. Mack in January, said he was confident about its future.

''The retail investor will not disappear, I am sure,'' he said. ''I have been doing this for a long time.''

PHOTO: James P. Gorman, Morgan Stanley's chief executive, said investors pulled back from the markets. (PHOTOGRAPH BY CHESTER HIGGINS Jr./THE NEW YORK TIMES

Document NYTF000020100722e67m0001i

The New York Times

Business/Financial Desk; SECTB
Earnings and Revenue Decline at Goldman Sachs, Reflecting a Tough Stretch

By NELSON D. SCHWARTZ
929 words
21 July 2010
The New York Times
NYTF
Late Edition - Final
4
English

Those master traders at Goldman Sachs didn't see it coming, either.

The ''flash crash'' and the rest of the stock market madness in May and June, as well as the cost of settling an embarrassing civil fraud suit, hammered Goldman's second-quarter profits. Earnings plunged 82 percent.

The results were Goldman's worst quarterly performance since the depths of the financial crisis in late 2008, and the first time that it had missed analysts' estimates in five years.

''It's rare for them to miss, but it does happen,'' said Guy Moszkowski, an analyst with Bank of AmericaMerrill Lynch. ''It was a very, very bad operating environment.''

But at $613 million, the investment bank's quarterly profit was well above the $550 million that Goldman agreed to pay last week to settle fraud claims brought by the Securities and Exchange Commission.

The agency had accused Goldman of misleading institutional investors who bought financial products linked to subprime mortgages that ultimately defaulted. Goldman did not admit wrongdoing but agreed to provide better disclosure to investors in mortgage securities as part of the settlement, one of the largest ever for a Wall Street firm.

On a conference call with reporters on Tuesday, the focus remained on the S.E.C.'s suit and the after-effects of the settlement. Goldman's chief financial officer, David A. Viniar, struck an apologetic tone when it came it to the case but insisted Goldman's sterling image had not been tarnished.

''We acknowledge that we made a mistake, we regret that we made a mistake and we know it was not good for us,'' he said. ''I can't tell you if there were calls that we didn't get; that's impossible to measure. We feel that our clients have been pretty supportive of us, so far as we can tell.''

Besides the weak trading results, the lackluster numbers also reflected weakness across a range of businesses, including its investment banking unit. ''It was really driven by lack of client activity and lack of revenue,'' said Mr. Viniar.

In a sign of just how unpredictable investors can be, Goldman's stock jumped despite the disappointing results, as investors concluded the worst was behind the 141-year old firm. Shares of Goldman rose $3.23, to close at $148.91.

What's more, Goldman's employees are on track for what could still turn out to be a very good year. Goldman has set aside $9.3 billion for bonuses and other compensation so far this year -- down 18 percent from the first half of 2009 -- but enough to equal more than $500,000 per employee at the firm, which has a work force of 34,100.

Goldman's traders have long aroused envy across Wall Street for their ability to prosper in markets good and bad, but they lost the Midas touch in the spring, especially when it came to trading stocks. As clients bet on rising volatility, Goldman took the other side of the trade, leaving it on the losing end when volatility did in fact surge.

''We didn't hedge it fast enough,'' Mr. Viniar said in a conference call with analysts after the earnings announcement. ''Things spiked really dramatically, really fast.''

Mr. Viniar said he did not foresee any changes in Goldman's top ranks as a result of the settlement. Nor did he foresee the firm giving up the bank status it hastily received after the collapse of Lehman Brothers. As a result of the overhaul legislation approved by Congress last week, banks will face new restrictions on trading as well as investing in private equity and hedge funds.

The new rules will still permit the kind of trades on which Goldman was caught by surprise, however, because they were done on behalf of clients, underscoring how difficult it will be for regulators to distinguish between proprietary trading and serving customers. Other financial giants, like JPMorgan Chase, Bank of America and Citigroup, also reported disappointing results from their trading operations when they announced second-quarter results. Morgan Stanley, Goldman's longtime rival, is to report its results on Wednesday.

In addition to the $550 million S.E.C. penalty, Goldman also had a one-time charge of $600 million for a tax on industry bonuses that was imposed in Britain.

In the second quarter, net income totaled $613 million, or 78 cents a share, down from $3.43 billion or $4.93 a share, in the same period a year ago. Revenue fell 36 percent, to $8.84 billion from $13.76 billion.

Analysts had been expecting net income of $1.23 billion, or $2.08 a share, on revenue of $8.98 billion, according to Thomson Reuters.

''It's a weak quarter, that happens,'' said Roger Freeman, an analyst with Barclays. ''But I wonder to some extent whether any of this quarter's trading results could be attributed to distractions that management was facing, both around financial reform legislation and the S.E.C. investigation. I wonder if that took away from their focus on markets.''

Judge Approves Settlement

Goldman Sachs won court approval of a $550 million settlement with the Securities and Exchange Commission over claims it misled investors in collateralized debt obligations linked to subprime mortgages.

United States District Judge Barbara Jones in Manhattan granted final approval on Tuesday to the accord. Goldman acknowledged that it made a ''mistake'' and that marketing materials were ''incomplete.''

Document NYTF000020100721e67l0001e

The New York Times

FUNDAMENTALLY
Money and Business/Financial Desk; SECTBU

Don't Let the Euro Dictate Your Portfolio

By PAUL J. LIM
857 words
13 June 2010
The New York Times
NYTF
Late Edition - Final
4
English

FOR Americans with significant exposure to foreign stocks, the euro's 16 percent decline against the dollar this year may lead to second thoughts.

After all, the same forces that led to the euro's drop -- namely, the region's mounting debt and credit problems -- have pushed European stock prices sharply lower. And the currency's fall to $1.21 last week from $1.43 at the start of the year has only exacerbated those losses.

Although the Morgan Stanley Capital International EAFE (for Europe, Australasia and the Far East) index of foreign shares is down nearly 7 percent in 2010, the losses have been twice as large for Americans after factoring in the strengthening dollar.

But before investors start changing their portfolios because of concerns over currency risk, market strategists advise them to consider several things.

For starters, the euro has been weakening for only about seven months, a short period on which to base long-term portfolio decisions. To be sure, fears are growing that the euro could slide for several more months, and some economists say it could even fall to parity with the dollar. But remember that only six months ago, many economists were concerned about the dollar's weakness and the euro's strength.

And while foreign currency fluctuations have served as a headwind for Americans investing in Europe lately, they have been a tailwind for Americans investing abroad for much of the last decade.

Over the last 10 years, the EAFE index has fallen about 4 percent, annualized, in local currencies. But because the dollar was weakening against the euro and other world currencies for much of this period, Americans suffered milder losses, just 2 percent a year, on average, in EAFE stocks. This may partly explain why investors in recent years have poured more money into stock funds with mainly foreign holdings than into those that mainly hold domestic stocks.

Keep in mind, too, that while the dollar has strengthened against the euro this year, it hasn't necessarily gained that much ground against other currencies, said Alec B. Young, international equity strategist for Standard &Poor's Equity Research Services.

Mr. Young points out that while the dollar's rise has been a huge burden on European stock holdings, ''there's been much less currency drag when it comes to the emerging markets.'' While the dollar has risen against the Brazilian real and the South Korean won, for example, it has lost value against currencies like the Mexican peso and the Thai baht. That explains why, since the start of the year, the MSCI Emerging Markets index has lost about 6 percent in local currencies and 8 percent in dollars.

In countries like Japan and Canada, currency fluctuations have worked to the benefit of American investors. Although the MSCI Japan stock index is down nearly 7 percent this year, those losses amount to less than 5 percent when converted into dollars. Mr. Young argued that this shows the risks of abandoning a foreign investing strategy simply because of the euro's woes.

Perhaps the best case for maintaining overseas holdings, though, is that exposure to different currencies has been shown to make a portfolio more stable, and not more volatile, in the long run.

How is that possible?

Stock markets around the world have grown more correlated, thanks to the effects of globalization. In fact, there is now a correlation level of about 0.9 between movements in the Standard &Poor's 500 index of domestic stocks and the EAFE. (A correlation of 1.0 would indicate that two investments were in perfect sync.)

But Peng Chen, president of Ibbotson Associates, the investment advisory firm, notes that currency fluctuations are one aspect of foreign investing that has been shown to be essentially unrelated to movements in the S.&P. 500. In fact, over the last 20 years, the correlation between movements in European currencies and the S.&P. 500 has been just a negative 0.07, he said.

(Negative correlation implies that when the currencies rise against the dollar, the S.&P. 500 may fall, and vice versa, but the 0.07 figure is so small that the two movements can be seen as virtually independent.)

MICHELE GAMBERA, head of quantitative analysis at UBS Global Asset Management in Chicago, says that even if foreign stocks no longer zig when domestic shares zag, one reason that these asset classes don't always post similar returns each year is the currency effect.

''By having even some passive exposure to different currencies, you are adding diversification,'' he said.

Of course, this currency exposure can bolster returns in some years and hurt them in others. It's hard to predict.

But that's the point of diversification -- maintaining broad-based exposure to various assets, even if some might lose value, because it's impossible to tell when one investment will fare better than another.

Paul J. Lim is a senior editor at Money magazine. E-mail: fund@nytimes.com.

Document NYTF000020100613e66d00052

The New York Times

Business/Financial Desk; SECTB
Morgan Stanley's Asia Chief To Take Teaching Post at Yale

By BETTINA WASSENER
377 words
5 June 2010
The New York Times
NYTF
Late Edition - Final
6
English

HONG KONG -- Morgan Stanley announced on Friday that Stephen Roach, the chairman of the bank's Asia operations and one of the region's most prominent economists, would relocate from Hong Kong to New York, in part to take up a teaching position at Yale University.

Mr. Roach, who has spent the last three years in Hong Kong, will remain with Morgan Stanley and assume the role of nonexecutive chairman of Asia on July 1. He will return to the region about once a month to work with Morgan Stanley clients, government policy makers and regulators.

A prolific writer and speaker, Mr. Roach has become recognized as a highly influential expert on global imbalances and on Asia's growing role in the world.

At Yale, he will teach upper-level undergraduates and graduate students, with a focus on Asia macroeconomic policy, Morgan Stanley said in a statement. Beginning this autumn, his first course, ''The Next China,'' will focus on the Chinese economy.

''While Steve has made the decision to return to the U.S. and join the faculty at Yale, we are delighted he will also remain with the firm,'' the chief executive of Morgan Stanley, James P. Gorman, said in the statement.

''After spending 28 years at Morgan Stanley, the last three of them in Asia, I wanted to spread my wings a bit,'' Mr. Roach said in an interview. ''There are a lot of misperceptions in the United States about Asia, and about China in particular, and I hope to be able to help open up the debate a bit.''

''We are very pleased that in his new role he will continue to be an active contributor to the firm's success in the region,'' Owen D. Thomas, the chief executive of Morgan Stanley Asia, said in a statement. ''During his three years based in Hong Kong, Steve has further cemented his reputation as a clear and original thinker, commentator and communicator on the world's major macro themes.''

Morgan Stanley did not name a successor.

PHOTO: Stephen Roach's teaching focus at Yale will be on macroeconomic policy in Asia. (PHOTOGRAPH BY DANIEL ACKER/BLOOMBERG NEWS)

Document NYTF000020100605e6650002u

The New York Times

Business/Financial Desk; SECTB
Morgan Raises Base Salary Of Chairman to $2 Million

By THE ASSOCIATED PRESS
197 words
29 May 2010
The New York Times
NYTF
Late Edition - Final
2
English

Morgan Stanley is raising the base salary of its chairman, John J. Mack, to $2 million, more than twice the salary he earned last year when he also served as the bank's chief executive.

The increase, which takes effect Tuesday, was disclosed in a Securities and Exchange Commission filing on Friday.

Mr. Mack's salary was $800,000 last year as Morgan Stanley repaid federal bailout money and returned to profitability. Mr. Mack, 65, stepped down as the bank's chief executive at the end of last year but remained in the chairman's post.

His successor as chief executive, James P. Gorman, had a base salary of $734,247 last year.

The increase in Mr. Mack's salary was approved by a board committee that sets executive compensation policy.

Morgan Stanley said the move reflected its shift from annual incentive awards toward an executive compensation program that was balanced between fixed, short-term and long-term compensation.

PHOTO: John J. Mack's base salary was $800,000 in 2009. (PHOTOGRAPH BY CHESTER HIGGINS JR./THE NEW YORK TIMES)

Document NYTF000020100529e65t0002s

The New York Times

Business/Financial Desk; SECTA
Prosecutors Ask If 8 Banks Duped Rating Agencies

By LOUISE STORY; Gretchen Morgenson contributed reporting.
1,263 words
13 May 2010
The New York Times
NYTF
Late Edition - Final
1
English

The New York attorney general has started an investigation of eight banks to determine whether they provided misleading information to rating agencies in order to inflate the grades of certain mortgage securities, according to two people with knowledge of the investigation.

The investigation parallels federal inquiries into the business practices of a broad range of financial companies in the years before the collapse of the housing market.

Where those investigations have focused on interactions between the banks and their clients who bought mortgage securities, this one expands the scope of scrutiny to the interplay between banks and the agencies that rate their securities.

The agencies themselves have been widely criticized for overstating the quality of many mortgage securities that ended up losing money once the housing market collapsed. The inquiry by the attorney general of New York, Andrew M. Cuomo, suggests that he thinks the agencies may have been duped by one or more of the targets of his investigation.

Those targets are Goldman Sachs, Morgan Stanley, UBS, Citigroup, Credit Suisse, Deutsche Bank, Credit Agricole and Merrill Lynch, which is now owned by Bank of America.

The companies that rated the mortgage deals are Standard &Poor's, Fitch Ratings and Moody's Investors Service. Investors used their ratings to decide whether to buy mortgage securities.

Mr. Cuomo's investigation follows an article in The New York Times that described some of the techniques bankers used to get more positive evaluations from the rating agencies.

Mr. Cuomo is also interested in the revolving door of employees of the rating agencies who were hired by bank mortgage desks to help create mortgage deals that got better ratings than they deserved, said the people with knowledge of the investigation, who were not authorized to discuss it publicly.

Contacted after subpoenas were issued by Mr. Cuomo's office late Wednesday night notifying the banks of his investigation, spokespeople for Morgan Stanley, Credit Suisse and Deutsche Bank declined to comment. Other banks did not immediately respond to requests for comment.

In response to questions for the Times article in April, a Goldman Sachs spokesman, Samuel Robinson, said: ''Any suggestion that Goldman Sachs improperly influenced rating agencies is without foundation. We relied on the independence of the ratings agencies' processes and the ratings they assigned.''

Goldman, which is already under investigation by federal prosecutors, has been defending itself against civil fraud accusations made in a complaint last month by the Securities and Exchange Commission. The deal at the heart of that complaint -- called Abacus 2007-AC1 -- was devised in part by a former Fitch Ratings employee named Shin Yukawa, whom Goldman recruited in 2005.

At the height of the mortgage boom, companies like Goldman offered million-dollar pay packages to workers like Mr. Yukawa who had been working at much lower pay at the rating agencies, according to several former workers at the agencies.

Around the same time that Mr. Yukawa left Fitch, three other analysts in his unit also joined financial companies like Deutsche Bank.

In some cases, once these workers were at the banks, they had dealings with their former colleagues at the agencies. In the fall of 2007, when banks were hard-pressed to get mortgage deals done, the Fitch analyst on a Goldman deal was a friend of Mr. Yukawa, according to two people with knowledge of the situation.

Mr. Yukawa did not respond to requests for comment.

Wall Street played a crucial role in the mortgage market's path to collapse. Investment banks bundled mortgage loans into securities and then often rebundled those securities one or two more times. Those securities were given high ratings and sold to investors, who have since lost billions of dollars on them.

Banks were put on notice last summer that investigators of all sorts were looking into their mortgage operations, when requests for information were sent out to all of the big Wall Street firms. The topics of interest included the way mortgage securities were created, marketed and rated and some banks' own trading against the mortgage market.

The S.E.C.'s civil case against Goldman is the most prominent action so far. But other actions could be taken by the Justice Department, the F.B.I. or the Financial Crisis Inquiry Commission -- all of which are looking into the financial crisis. Criminal cases carry a higher burden of proof than civil cases. Under a New York state law, Mr. Cuomo can bring a criminal or civil case.

His office scrutinized the rating agencies back in 2008, just as the financial crisis was beginning. In a settlement, the agencies agreed to demand more information on mortgage bonds from banks.

Mr. Cuomo was also concerned about the agencies' fee arrangements, which allowed banks to shop their deals among the agencies for the best rating. To end that inquiry, the agencies agreed to change their models so they would be paid for any work they did for banks, even if those banks did not select them to rate a given deal.

Mr. Cuomo's current focus is on information the investment banks provided to the rating agencies and whether the bankers knew the ratings were overly positive, the people who know of the investigation said.

A Senate subcommittee found last month that Wall Street workers had been intimately involved in the rating process. In one series of e-mail messages the committee released, for instance, a Goldman worker tried to persuade Standard &Poor's to allow Goldman to handle a deal in a way that the analyst found questionable.

The S.&P. employee, Chris Meyer, expressed his frustration in an e-mail message to a colleague in which he wrote, ''I can't tell you how upset I have been in reviewing these trades.''

''They've done something like 15 of these trades, all without a hitch. You can understand why they'd be upset,'' Mr. Meyer added, ''to have me come along and say they will need to make fundamental adjustments to the program.''

At Goldman, there was even a phrase for the way bankers put together mortgage securities. The practice was known as ''ratings arbitrage,'' according to former workers. The idea was to find ways to put the very worst bonds into a deal for a given rating. The cheaper the bonds, the greater the profit to the bank.

The rating agencies may have facilitated the banks' actions by publishing their rating models on their corporate Web sites. The agencies argued that being open about their models offered transparency to investors.

But several former agency workers said the practice put too much power in the bankers' hands. ''The models were posted for bankers who develop C.D.O.'s to be able to reverse engineer C.D.O.'s to a certain rating,'' one former rating agency employee said in an interview, referring to collateralized debt obligations.

A central concern of investors in these securities was the diversification of the deals' loans. If a C.D.O. was based on mostly similar bonds -- like those holding mortgages from one region -- investors would view it as riskier than an instrument made up of more diversified assets. Mr. Cuomo's office plans to investigate whether the bankers accurately portrayed the diversification of the mortgage loans to the rating agencies.

PHOTO: Andrew Cuomo, the attorney general of New York, sent subpoenas to eight Wall Street banks late Wednesday. (PHOTOGRAPH BY CHANG W. LEE/THE NEW YORK TIMES) (A3)

Document NYTF000020100513e65d0007w

The New York Times

Business/Financial Desk; SECTB
4 Big Banks Score Perfect 61-Day Run

By ERIC DASH
824 words
12 May 2010
The New York Times
NYTF
Late Edition - Final
1
English

It is the Wall Street equivalent of a perfect game of baseball -- 27 up, 27 down, the final score measured in millions of dollars a day.

Despite the running unease in world markets, four giants of American finance managed to make money from trading every single day during the first three months of the year.

Their remarkable 61-day streak is one for the record books. Perfect trading quarters on Wall Street are about as rare as perfect games in Major League Baseball. On Sunday, Dallas Braden of the Oakland Athletics pitched what was only the 19th perfect game in baseball history.

But Bank of America, Citigroup, Goldman Sachs and JPMorgan Chase &Company produced the equivalent of four perfect games during the first quarter. Each one finished the period without losing money for even one day.

Their showing, disclosed in quarterly financial filings, underscored the outsize -- and controversial -- role that trading has assumed at major financial institutions. It also drives home the widening lead that a handful of big banks are enjoying over lesser rivals on post-bailout Wall Street.

Experts said it would be difficult to repeat such a remarkable feat this quarter. Even so, the performance could feed the debate in Washington over the role of proprietary trading at banks, as well as sometimes conflicted roles banks play as market makers in matching buy and sell orders.

Risk management experts said the four banks, as well as other Wall Street players, reaped big rewards without necessarily placing big bets that stocks or bonds would go up or down. Instead, they mostly played matchmaker, profiting from the difference between the prices at which clients were willing to buy and sell. Banks said that customer order flows were particularly strong during the period.

''This is not about hitting home runs,'' said Jaidev Iyer, who runs his own risk management consulting firm, J-Risk Advisors. ''This is just, as we call it, milking the market and your captive client base.''

Still, the quarterly showing was highly unusual. Bank of America said that its trading revenue surpassed $100 million on 26 days, or almost 43 percent of the 61 trading days in the first quarter. It was the first time Bank of America had a perfect quarter since acquiring Merrill Lynch in early 2009.

JPMorgan said that its trading revenue hit $90 million on 39 days during the first quarter, and exceeded $180 million on nine days, or about 14 percent of the time.

A JPMorgan spokesman said the last time the bank had a perfect run was the first quarter of 2003. ''The high level of trading and securities gains in the first quarter of 2010 is not likely to continue throughout 2010,'' Morgan said in a regular filing with the Securities and Exchange Commission this week.

Goldman Sachs -- which is fighting an S.E.C. suit claiming the bank defrauded customers on a complex mortgage investment -- posted its first perfect quarter ever. Goldman made at least $100 million on 35 days during the quarter, and at least $25 million on the remaining trading days.

In the wake of the S.E.C. suit, Goldman's role as a market maker has come under scrutiny on Capitol Hill. It has staunchly defended its business practices and said it had done nothing wrong.

Gary D. Cohn, Goldman's president, said Tuesday that the standout quarter highlighted the strength of the trading that Goldman executed for its customers, particularly its fixed income, currency and commodities unit, known as FICC. ''Our FICC and equities businesses are largely global market-making businesses where we intermediate flows and commit capital and liquidity and in the process generate revenue including bid-offer spreads,'' Mr. Cohn said at a UBS conference in New York. ''These franchises create numerous opportunities for the firm.''

Citigroup also had a loss-free first quarter, according to a person briefed on the situation. The bank discloses its trading performance on an annual basis, but big daily losses have been a regular occurrence over the last few years. In 2008, it lost $400 million on 21 of its 260 trading days.

This year, even those that lost money from time to time, performed very well during the quarter. Morgan Stanley said its losses reached as much as $30 million only four days in an otherwise profitable quarter. A Morgan Stanley spokesman said the firm's last perfect run was the second quarter of 2007.

Given the recent turmoil, last quarter's strong showing will be hard to replicate. In 2009, the banks posted losses on less than 20 percent of the trading days; during the turmoil of 2008, losses occurred as much as 40 percent of the time.

''It was pretty smooth sailing last quarter,'' said William Tanona, an analyst at Collins Stewart. ''I would be very surprised to see history repeat.''

Document NYTF000020100512e65c0005s

The New York Times

REUTERS BREAKINGVIEWS
Business/Financial Desk; SECTB
Morgan Stanley Makes Progress

By ANTONY CURRIE and PETER THAL LARSEN
800 words
22 April 2010
The New York Times
NYTF
Late Edition - Final
2
English

James Gorman, the Morgan Stanley chief executive, failed to deliver blowout earnings in his first quarter running the bank. Trading and investment banking revenue, for example, was largely below that of rivals. But neither Mr. Gorman nor shareholders should grumble at the $1.8 billion the company earned in the first three months of the year.

The bottom line includes a $382 million tax benefit from keeping earlier undistributed earnings abroad for reinvestment. But even without this, Morgan Stanley still posted a 13.1 percent return on equity. That's not as rich as Goldman's 20.1 percent return on equity, or the 25 percent JPMorgan Chase's investment bank reported. But after a year of either losses or low returns, it's a welcome improvement.

What's more, all three of Morgan Stanley's major business units performed better. Asset management reported its first pretax profit since the last quarter of 2007, mainly from gains instead of losses from its real estate-heavy investment portfolio and a decision to sell its retail money management business. Meanwhile, despite a slight drop in revenue in global wealth management, the pretax margin jumped to 9 percent.

And Morgan Stanley's trading desks picked up, too. They were helped by not having to record any accounting losses on the company's own liabilities, But even excluding that improvement in fortunes, debt trading revenue more than doubled, to $2.7 billion, while equities trading improved 55 percent, to $1.4 billion.

Fixed income still far underperformed rivals. Bank of America, Citigroup and JPMorgan each took in at least double Morgan Stanley's tally. And Mr. Gorman's shop made only 37 percent of Goldman's take -- the same lag as last year.

That's probably the clearest indication that Morgan Stanley is still in postcrisis catch-up mode. These results don't show much evidence that 400 recently hired traders have increased the pace. But that's a comfort, too.

Had trading results taken off like a mad March hare, it could have suggested an unhealthy appetite for risk. Instead, Mr. Gorman seems to be sticking to the tortoise strategy -- and making steady progress.

Diet Plans for Banks

The global banking industry resembles an obese teenager. All the relatives agree that drastic weight loss is necessary, but each has a different diet plan.

The International Monetary Fund's splendidly named FAT tax -- or the financial activities tax -- would slim down the banking sector by aiming at profits and pay.

The tax comes in two varieties. The simple version is a straight tax on a bank's gross profits -- that is, before deducting compensation. Even a low rate could raise significant sums: The I.M.F. estimates that a financial activities tax of just 2 percent on British banks would raise $:1.4 billion to $:2.8 billion ($2.2 billion to $4.3 billion).

This simple tax would resemble a value-added tax, or VAT, for financial transactions. Most countries do not currently impose a VAT on banking activity because it is too hard to work out where value is added to loans. This lack of tax may prompt financial sectors to bulk up unhealthily.

The simple financial activities tax has drawbacks, however. Because it would affect the whole industry, banks would be able to pass on the additional cost to their customers. Also, in countries that do not have a general VAT, like the United States, this special banking tax would actually increase distortions.

The complex financial activities tax aims directly at excess bank profit and pay. This would raise less money but would address the banking sector's core problem, the implicit taxpayer guarantee that enables some financial institutions to earn consistently super profits in good times -- and distribute a large portion of the spoils to employees.

But this proposal relies on taxing amounts above an officially calculated so-called normal level of bank profits and a normal level of bank pay. Working out those levels sounds close to impossible.

Besides, global bank regulators are already pushing measures that should achieve roughly the same outcome as the complex financial activities tax. Higher capital requirements will depress returns, and programs in the works should allow failing banks to be shut down safely, helping to remove the ''too big to fail'' subsidy.

Such measures may not offer as much of a revenue increase to financially struggling governments as a financial activities tax would. But regulation is a better way than taxation to cut banking behemoths down to size.

For more independent financial commentary and analysis, visit www.breakingviews.com.

PHOTO: James Gorman, chief executive of Morgan Stanley, which reported Wednesday. (PHOTOGRAPH BY JONATHAN FICKIES/BLOOMBERG NEWS)

Document NYTF000020100422e64m00043

The New York Times

Business/Financial Desk; SECTB

Trading Unit Propels Morgan Stanley to Profit

By MICHAEL J. de la MERCED
787 words
22 April 2010
The New York Times
NYTF
Late Edition - Final
6
English

In his first quarter as Morgan Stanley's chief executive, James P. Gorman is off to a good start.

The bank reported a $1.8 billion profit on Wednesday, bolstered by trading gains as the company continued to rebuild from its near-death experience during the financial crisis.

All of Morgan Stanley's businesses improved in the three months ended March 31. Those include its core investment banking operations as well as its expanding wealth management division, a unit it is counting on to help provide growth.

In a welcome development for the company, much of the first-quarter profit arose out of its trading division, which suffered big losses during the credit crisis. The unit, which posted $4.1 billion in revenue for the quarter, has been slower to recover than those at rival firms.

''We've made progress, and we've strengthened a number of our businesses,'' Ruth Porat, Morgan Stanley's chief financial officer, said in an interview. ''Our work continues.''

Morgan Stanley's results follow largely rosy reports from competitors like Goldman Sachs, JPMorgan Chase and Bank of America. The firms have benefited from higher profits at their trading units, which have rebounded as markets have gained.

Even Citigroup, whose financial recovery has trailed those of its rivals, reported better-than-expected results this week. Citigroup reported a profit of $4.4 billion; Bank of America $4.2 billion; Goldman Sachs, $3.46 billion; and JPMorgan, $3.3 billion.

Morgan Stanley's profit amounted to 99 cents a diluted share. Analysts surveyed by Thomson Reuters had expected it to earn about 57 cents.

The company reported first-quarter revenue of $9.1 billion, which was up 33 percent from the fourth quarter.

Shares in Morgan Stanley rose more than 4 percent on Wednesday, to $31.68.

The stock has risen 7 percent this year, even though it and other banks' shares fell late last week after the Securities and Exchange Commissionsued Goldman on accusations of securities fraud. Ms. Porat said on a conference call with analysts that Morgan Stanley has not received a Wells notice from the S.E.C., a document that indicates the beginning of a formal investigation.

Since taking over as chief executive this year, Mr. Gorman, who previously oversaw Morgan Stanley's wealth management unit, has pushed to reduce the company's overall risk levels.

For most of 2009, Morgan Stanley has sought to recover from the series of missteps that nearly sank the company during the financial crisis, including large losses at its trading unit. Its tamping down on risky bets also cost the company some of the profits its competitors reaped in the early part of the year, and it did not turn a profit until the third quarter last year.

Morgan Stanley is seeking to shore up its core institutional securities unit, including by hiring new traders to help keep pace with Goldman, JPMorgan and others. Executives have hired up to 400 employees for its sales and trading staff worldwide, a program that was meant to have reached full speed by the first quarter.

That appears to have paid off this quarter: the institutional securities unit swung to a $2.1 billion gain in pretax income from continuing operations, from a $464 million loss last year. Fixed-income trading revenue more than doubled to $2.7 billion.

Despite a continued uptick in mergers activity, Morgan Stanley's business reported a 20 percent decline in advisory revenue from the same period a year ago, to $327 million.

The company cited a decrease in large deal transactions for the quarter.

Morgan Stanley's global wealth management business more than doubled its pretax income from continuing operations at $278 million.

The company benefited from the merger of its wealth management unit with Citigroup's Smith Barney last spring. Morgan Stanley is expected to eventually take over the joint venture, as part of its effort to rely on more stable operations.

The company also had a dramatic improvement in its asset management business, earning $173 million for the quarter.

Still, Morgan Stanley suffered some hits, including a $932 million loss on an investment in the Revel Entertainment Group, a casino development subsidiary that the company plans to sell. The company acknowledged that one of its funds is in restructuring negotiations with lenders, though it added that it is not obligated to support the fund.

It also recorded a $775 million gain related to a settlement with Discover Financial Services, the credit card issuer.

PHOTO: Outside Morgan Stanley in Manhattan. The bank outperformed expectations in the first quarter (PHOTOGRAPH BY RICHARD DREW/ASSOCIATED PRESS)

Document NYTF000020100422e64m00015

The New York Times

DEALBOOK
Business/Financial Desk; SECTB
Imagine The Bailouts Are Working

By ANDREW ROSS SORKIN
1,164 words
13 April 2010
The New York Times
NYTF
Late Edition - Final
1
English

CORRECTION APPENDED

The DealBook column on Tuesday, about the possibility of the government's making a profit on its bailout of banks, overstated the position of the economists Paul Krugman and Nouriel Roubini, at the height of the financial crisis, on nationalizing banks. While both supported guaranteeing the liabilities of the banking industry and a temporary government takeover of certain failing institutions, they did not recommend nationalization of the entire banking system.

CORRECTED BY THE NEW YORK TIMES Sat Apr 17 2010

What if, after all that panting over Washington's bailout of the financial system, we learned that it actually worked?

And what if, after all that vitriol over the government's risking hundreds of billions of dollars to rescue Wall Street from disaster, it turned out that taxpayers might actually lose nothing, or even make a profit?

Could it be? Really?

Every couple of months the Treasury Department takes a moment to strategically leak some good news about the bailouts. It happened again on Monday, when a Treasury official told The Wall Street Journal that America's coffers would be only $89 billion lighter after all accounts were settled from the rescues, down from an earlier estimate of $250 billion.

It's enough to make us all feel rich, isn't it?

Inside the Obama administration, there are whispers of even greater optimism, with some officials suggesting that if the economic recovery continues apace, the bailout program could eventually turn from red to black.

That may seem far-fetched to anyone who remembers the dire predictions about banks like Citigroup, but the numbers tell a different story. The government's $45 billion investment in Citigroup alone is on track to make a profit of nearly $11 billion, plus $8 billion or so in interest and other fees.

People inside the administration no longer refer to Citigroup as the ''Death Star''; now it is a ''profit center.''

Of course, we're still expected to lose $48 billion on the government's rescue of the American International Group. But two people close to the board suggested to me that as the company recalculates the value of assets in its portfolio that were once considered ''toxic,'' the government could actually claw its way back to even on that investment, if it holds on to its stake long enough.

A year ago, by the way, these same people told me they expected the government to take a ''$100 billion bath'' on its investment in A.I.G.

And then there are the banks that have settled up with Uncle Sam, like Goldman Sachs, Morgan Stanley and Bank of America. We've gotten all our money back from them, along with several billion dollars in interest.

Of course, there's a small problem with all this happy Washington math: it doesn't take into account the piles of cash we're likely to lose on Fannie Mae and Freddie Mac, the huge mortgage finance companies. The Congressional Budget Office estimates that figure to be about $320 billion. That would wipe away any gains made elsewhere.

The overall math also doesn't account for the more than $1 trillion the Federal Reserve pumped into the system through loans to Wall Street that were virtually interest-free.

But if you can put that aside for a moment -- and I know that's difficult to do -- do any of these numbers persuade you, the skeptical public, that we might one day declare the bailouts a victory? After all, at this point in the recovery, a fair observer could be forgiven for thinking we were, at minimum, saved from an economic nuclear winter. Newsweek declared on its cover this week that ''America's Back.''

None of this math is likely to lead the American public to declare Mission Accomplished. Outside of Wall Street and Washington, the numbers will never look good enough, because to most people it's not about justifying the bailout but about avoiding another financial mess in the future. It's about moral hazard. It's about right and wrong.

You may recall that during the most perilous months of 2008 and early 2009, there was a vigorous debate about how the government should fix the financial system. Some economists, including Nouriel Roubini of New York University and The Times's own Paul Krugman, declared that we should follow the example of the Swedes by nationalizing the entire banking system.

They argued that Wall Street was occupied by the walking dead, and that no matter how much money we threw at the banks, they would eventually topple the system all over again and cause a domino effect worldwide.

So were they wrong after all?

Joseph E. Stiglitz, the Nobel-winning economist who was among the doomsayers, still isn't willing to declare victory, and he probably never will.

''I think this is disingenuous and a real attempt to distract people,'' Mr. Stiglitz, the author of ''Freefall: America, Free Markets, and the Sinking of the World Economy,'' said of the latest claims.

Mr. Stiglitz, who has made a career of seeing every glass as half-empty, said we're looking at the numbers wrong. Even if we get our money back, he says, that doesn't tell the full story. To calculate the real cost, he insists, we need to add in the lost interest on the money spent.

''Did we get back anything commensurate with the risk?'' he asked almost rhetorically, before answering his own question. ''Clearly the answer is no.''

Even at this feel-good moment, Mr. Stiglitz refuses to share in the love fest. Like many of us, he is still upset that the government didn't attach more strings to the bailouts. He also warns of the moral hazard that was created when the government made clear that it wouldn't let certain big banks fail. This, he says, will inevitably encourage more recklessness on Wall Street.

The next and perhaps final question is whether the government should hold on to its investments in companies like Citigroup rather than sell them off right away.

The Treasury has signaled that it plans to wind down its Citigroup stake. But what if Citigroup's shares continue to rise, and the government misses out on an even bigger gain? Had the government not let Goldman Sachs and JPMorgan Chase pay their bailouts so early, taxpayers would have made out with even more money.

But as the old Wall Street disclaimer goes, past performance is no guarantee of future results. I suspect that most taxpayers would be happy to take the advice of Kenny Rogers and quit now, while there are still chips to count.

PHOTO: Joseph Stiglitz, the Nobel-prize winning economist at Columbia University, said the bailout would never really be repaid. (PHOTOGRAPH BY CHRIS RANK/BLOOMBERG NEWS)(B4)

The latest news on mergers and acquisitions can be found at nytimes.com/dealbook.

Document NYTF000020100413e64d0004q

The New York Times

DEALBOOK COLUMN
Business/Financial Desk; SECTB
Big Clients Keep Their Head Start

By ANDREW ROSS SORKIN
1,045 words
23 March 2010
The New York Times
NYTF
Late Edition - Final
1
English

Wall Street hates a level playing field. What it loves is an edge, an inside track, that extra something -- especially when it comes to information that moves markets.

So it's not surprising that big banks would go to court to keep ordinary investors from getting their hands on hot stock research. What is a bit surprising is that the court would actually side with the banks.

It's one of those maddening, 'can't a little guy catch a break?' moments.

Here's what happened: A while ago, a group of banks sued a Web site called theflyonthewall.com to prevent the site from publishing news headlines about their stock upgrades and downgrades. Last week, Judge Denise Cote, of the United States District Court in New York, ruled in favor of the banks. The decision could have big implications for who gets Wall Street's hottest tips, and when.

The banks -- Barclays, Bank of America and Morgan Stanley -- argued that even publishing a headline about an upgrade or downgrade amounted to stealing intellectual property. As such, their paying customers -- which means big-money investors -- should get to see this sort of research before everyone else.

The ruling came as a shock to many on Wall Street. Judge Cote issued an injunction against theflyonthewall.com that will essentially give Wall Street's big clients a head start each trading day. The site must wait until 10 a.m. to publish news about research that was issued before the 9:30 a.m. opening bell -- giving select investors 30 valuable minutes to act before the rest of the investing public. During the day, the site must delay its headlines by a full two hours. (To be clear, theflyonthewall.com published headlines about the research reports, never the entire reports.)

While the ruling applies only to theflyonthewall.com, a small Web site with several thousand subscribers, the decision could presage a larger effort by Wall Street banks to limit the distribution of news about their research.

News organizations like Bloomberg, CNBC, Dow Jones and The New York Times routinely report on stock upgrades and downgrades as soon as they get their hands on the reports. The research often breaks news or can turn into news.

By the logic of Judge Cote, the next time Intel's stock price spikes as a result, let's say, of an upgrade by Morgan Stanley, the press should have to wait several hours to report on what was behind the big move.

In that spirit, the decision seems contrary to rules about fair disclosure (not to mention fair play) that have long applied to public companies. For years, the Securities and Exchange Commission has tried to stamp out ''whisper numbers'' about earnings and other ''guidance'' that corporate executives pass along to friendly analysts, who then pass that information to select clients. The S.E.C. even adopted Regulation Fair Disclosure, or Reg FD, to put a stop to the whispers.

Indeed, research reports, before their release, have sometimes been considered inside information because of their ability to move markets. The S.E.C. has filed dozens of suits against people who have tried to trade ahead of the release of research reports. (In fairness, a Wall Street research report is a very different animal from a company's earnings report, but it can have the same impact on the markets.)

Judge Cote, however, seemed to regard this case as simply one of copyright and intellectual property. Banks spend a lot of time and money on research. Why should everyone be able to get it? Theflyonthewall.com cited the ''fair use'' doctrine, allowing it to provide summaries of other entities' news. The judge cited the ''hot news'' doctrine, which is meant to protect organizations from theft by competitors.

Judge Cote seemed to acknowledge that the whole objective of Wall Street research is to give select investors an edge. If you're not in the club, of course, you may think otherwise.

''Timely access to recommendations is a valuable benefit to each firm's clients, because the recommendations can provide them an early informational advantage,'' Judge Cote wrote. ''Some sophisticated clients, such as hedge funds, seek to act on the recommendations before other investors do so.''

That is not to suggest that research should be free or required for public distribution, but restricting reporting on research in a timely way seems contrary to good public policy.

Glenn Ostrager, a lawyer for theflyonthewall.com, argued in court that the company was singled out because it was a small, easy target. Theflyonthewall.com, which is based in Summit, N.J., isn't exactly a titan of business news. It has a few thousand clients and charges $50 a month for access to its site. The banks' goal, Mr. Ostrager said, was to swat theflyonthewall.com, get the courts on their side -- and then take a swing at the giants.

''The plaintiff's plan or stratagem to deal with what they see as troublesome to them is to select probably one of, if not the smallest, player on the Street, with the most limited resources,'' he told the court.

Of course, it's hard to keep a lid on news of any stripe in this Internet age. ''The genie is not going back into the box. The Internet is here,'' Mr. Ostrager said.

On that point, few disagree. When information appears in one place, it moves quickly to another and then another, via Web sites or Twitter or the old-fashioned telephone. The problem is that on Wall Street, the information usually doesn't trickle down to the retail investor until the pros have had a chance to trade ahead of the unsuspecting masses.

Near the end of her decision, Judge Cote wrote, ''Research plays a vital role in modern capital markets by helping to disclose information material to the market, to price stocks more fairly and, as a result, to produce a more efficient allocation of capital.''

She may be right -- particularly if most investors don't have to wait hours to hear the news.

The latest news on mergers and acquisitions can be found at nytimes.com/dealbook.

Document NYTF000020100323e63n0003u

The New York Times

BREAKING VIEWS
Business/Financial Desk; SECTB
Hiding Money With Global Rules

764 words
17 March 2010
The New York Times
NYTF
Late Edition - Final
2
English

Lehman Brothers' now notorious Repo 105 scheme depended on forum shopping. The investment bank wasn't able to persuade its lawyers in the United States that the relevant repurchase agreements constituted real sales. So it routed them through its British subsidiary. That meant they came under the British legal system, and the law firm Linklaters was able to opine that the transactions counted as sales.

United States accounting standards apparently did the rest, allowing Lehman to shuffle $50 billion of assets off its balance sheet. Regulators in different jurisdictions need to cooperate to close all such gaps that they can.

Forum shopping, also known as regulatory arbitrage, is undesirable, but smart bankers are always going to do it. The Lehman case shows, for one thing, how bankers exploited weaknesses in United States accounting standards -- seemingly without objection from the firm's auditor, Ernst &Young. Although the transactions concerned came under British law, they were reported under generally accepted accounting principles in the United States. Those standards have lots of detailed rules, but they don't catch every eventuality. Things can slip through the cracks.

International accounting standards, by contrast, rely more heavily on broad principles. These can be better at ensuring compliance with the spirit of true and fair accounting. For example, one principle of the standards is that if companies keep substantially all the risks and rewards of an asset, they can't keep it off their balance sheets. This would seem to mean that Lehman's sleight of hand with Repo 105 would not have been possible under international accounting standards.

Lehman's other regulatory arbitrage was to park the Repo 105 transactions in Britain. If Lehman had stayed entirely at home, using both United States laws and accounting standards, it wouldn't have been able to hide assets. If the firm had hopped over the Atlantic and applied international accounting standards as well as British law, the scheme would also have failed.

The crafty Lehman bankers found a fault in the system -- the intersection of British law and American accounting standards. But that's to be expected from highly paid bankers, helped by expensive lawyers and accountants. It's a concrete reminder that those heading individual nations' reform of financial regulation need to keep thinking globally.

A Tempting Thought

Wall Street's closest link to the lyrics of ''Hotel California''had been the indulgent pink Champagne. But Senators Christopher Dodd and Bob Corker are bringing a more modern slant. A provision Mr. Corker added to Mr. Dodd's plan to overhaul financial regulation stipulates that even if Goldman Sachs and Morgan Stanley, or other banks that received funds from the Troubled Asset Relief Program, check out as bank holding companies, they can never leave the Federal Reserve's embrace.

The two firms signed the Fed registry at the height of the financial crisis in September 2008. The last surviving independent investment banks were granted bank holding company charters to gain access to emergency credit from the central bank. Two months later, the status enabled them to sell government guaranteed debt through the Federal Deposit Insurance Corporation. Goldman announced it would be the first to use the process the day its shares hit a low of $47.41.

All these carrots came with a theoretical stick: oversight by the tougher Fed instead of the more lax Securities and Exchange Commission. But with survival no longer in question, whispers started circulating that one or both banks might want to slip out the back door without paying the price -- by dropping their charters in a game of regulatory arbitrage.

The temptation must be inviting. Deposits are a complete afterthought for Goldman, and still remain a minor component of Morgan Stanley's business despite plans to add Smith Barney deposits to its brokerage and closer ties to a Japanese commercial bank. Such funds can't be used to finance investment banking activities, which remain a hallmark of both Wall Street denizens. What's more, Goldman is losing money by parking its small pool of deposits at the Fed.

It's true neither firm has said or suggested it wants out from under the Fed's thumb. But as the bankruptcy examiner for Lehman Brothers starkly reminded, Wall Street has a way of shrewdly finding regulatory loopholes. The senators are smart to stab this beast with their steely knives.

HUGO DIXON and ROLFE WINKLER

PHOTO: Senator Bob Corker supports more restrictions for banks that got U.S. money. (PHOTOGRAPH BY CHIP SOMODEVILLA/GETTY IMAGES)

Document NYTF000020100317e63h00047

The New York Times

Business/Financial Desk; SECT
Deal Seen for Stake in China Investment Bank

By DAVID BARBOZA
394 words
24 February 2010
The New York Times
NYTF
The New York Times on the Web
English

SHANGHAI -- Kohlberg Kravis Roberts &Company and TPG Capital have tentatively agreed to pay close to $1 billion to acquire Morgan Stanley's 34 percent stake in China's leading investment bank, according to people who have been briefed on the deal.

The deal for a stake in the China International Capital Corporation would be one of the largest single foreign investments ever made in China's financial services industry. It is the latest sign that global private equity groups are making a huge push to enter a market that has long been restricted to outside investors.

Morgan Stanley and one of this country's biggest banks, the China Construction Bank, helped form China International Capital in 1995. But for more than a year Morgan Stanley has been trying to sell its stake to focus on establishing a Chinese joint venture that would give Morgan Stanley more management control.

The deal has not been completed and must still get the approval of regulators. People involved in the deal said an agreement was weeks or months away.

Morgan Stanley and China International Capital officials declined to comment Tuesday, and spokesmen for K.K.R. and TPG Capital also declined to comment.

A report that K.K.R. and TPG Capital were close to a deal with Morgan Stanley was reported on Tuesday in The Wall Street Journal.

American private equity groups and global investment banks are moving aggressively to increase their presence in China's booming economy and its sizzling hot market for initial public stock offerings.

The Blackstone Group, the Carlyle Group and other firms are even forming private equity funds denominated in China's currency, the renminbi. China International Capital, which is run by Levin Zhu, the son of the former Chinese prime minister Zhu Rongji, generates hundreds of millions of dollars in revenue and usually tops the list of Chinese stock underwriters.

But for years, Morgan Stanley has had little or no role in the company's management decisions, having lost much of its control after rocky relations in the earliest years of the venture.

Now, Goldman Sachs, Morgan Stanley, UBS and other investment banks are trying to strengthen their business here and also form securities firms to compete with China International Capital and Chinese brokerage houses.

Document NYTF000020100224e62o0001c

The New York Times

Business/Financial Desk; SECTB
In Disclosure to S.E.C., China Lists $9.6 Billion in Shares of U.S. Companies

By DAVID BARBOZA and KEITH BRADSHER; David Barboza reported from Shanghai and Keith Bradsher from Hong Kong.
1,015 words
9 February 2010
The New York Times
NYTF
Late Edition - Final
4
English

SHANGHAI -- Flush with cash despite the global economic downturn, China's sovereign wealth fund quietly bought more than $9 billion worth of shares last year in some of the biggest American corporations, including Morgan Stanley, Bank of America and Citigroup.

Although most of the stakes were small, the China Investment Corporation, the government's $300 billion investment fund, now owns stock in some of the best-known American brands, including Apple, Coca-Cola, Johnson &Johnson, Motorola and Visa.

The detailed list, which contained holdings totaling $9.6 billion as of Dec. 31, was disclosed Friday in a filing with the Securities and Exchange Commission; it lists stakes only in companies traded in the United States.

The filing offers a glimpse of how China is trying to diversify its more than $2 trillion in foreign currency holdings with stock, rather than investing almost entirely in United States Treasury bonds and other debt securities issued by governments and by government-sponsored enterprises like Fannie Mae.

Prime Minister Wen Jiabao of China and other officials have repeatedly expressed worry about how the country's holdings of Treasury securities could be hurt by inflation or by mounting United States debt. By buying the securities of international companies, China is trying to spread its fast-growing wealth more widely. It is also seeking to acquire strategic stakes in companies that could feed its hungry economy with a range of commodities.

The China Investment Corporation, already one of the world's largest sovereign funds, was formed in 2007 with about $200 billion. It now has assets of nearly $300 billion and, according to state-run news media, is expecting another large injection of funds.

A spokeswoman for the corporation, which is based in Beijing, did not return e-mail messages or phone calls seeking comment. But analysts said the filing showed that the fund had invested only a small portion of its $300 billion in American stocks, and the fund seemed to be following a cautious strategy to diversify globally after initially having put its biggest investments into shoring up the capital of Chinese banks.

''This is still a relatively small amount compared to the total size of the fund,'' said Chang Chun, a professor of finance at the China Europe International Business School in Shanghai.

The sovereign wealth fund got off to a rocky start in 2007 and early 2008 by acquiring a $3 billion nonvoting stake in the American private equity firm Blackstone and paying $5 billion more for a 9.9 percent stake in Morgan Stanley.

Shares of both companies plummeted in 2008 during the financial crisis, leading to a storm of criticism directed at the wealth fund. But analysts say the fund performed well in 2009, particularly because it was buying aggressively as the market recovered.

Exactly when the investment corporation bought the shares of various companies was not disclosed in the filing. Its acquisition of nonvoting units of Blackstone and its early stake of preferred shares in Morgan Stanley are not listed in the filing, apparently because they are not traded equities.

The filing indicates that the corporation owns about $19 million worth of Bank of America stock, close to $30 million worth of Citigroup shares and about $333 million worth of shares in Visa, as well as holdings in various index funds.

The fund's largest listed holdings were $1.7 billion worth of shares in Morgan Stanley and nearly $650 million worth of shares in BlackRock, the New York money management fund.

The Morgan Stanley stake was acquired last June, when the investment bank issued about $2.2 billion worth of common shares to help repay the United States government under the Troubled Asset Relief Program. The Chinese fund acquired about $1.2 billion worth of shares at that time.

Some United States politicians in both parties have been nervous about China's growing financial reach, and have been particularly wary that China might seek political influence in the West commensurate with its corporate stakes. Four years ago, Congress discouraged Cnooc, a state-owned Chinese oil company, from buying the oil company Unocal, which instead merged with Chevron.

Most sovereign wealth funds, with the exception of Norway's, disclose few details about their holdings. But the Chinese fund made its list available for the first time on the S.E.C.'s form 13F, which is filed quarterly by institutional investors and mutual funds in the United States.

Ben Simpfendorfer, an economist at the Royal Bank of Scotland, said the Chinese sovereign wealth fund's decision to disclose its holdings could limit concerns about secrecy in government holdings.

''This should help reassure politicians that Chinese sovereign wealth funds can take minority positions responsibly,'' he said.

The Chinese fund's holdings outside the United States are substantial and growing. In Canada, it owns a $3.5 billion stake in Teck Resources, a mining and resources company listed in the United States, and a $1 million stake in Research In Motion, the maker of BlackBerry mobile phones.

The sovereign wealth fund has also been buying small stakes in Australia's biggest banks and paid $646 million last autumn for a stake in the Noble Group, a diversified commodities company based in Hong Kong with operations around the world in industries like iron ore mining and sugar mills.

Executives whose companies have accepted investments from the Chinese fund tend to defend it as apolitical.

Richard S. Elman, the founder and chairman of Noble, said last month that executives of the Chinese fund had been businesslike in their approach to the investment.

''They are hugely commercial, and they want results,'' he said. ''They do not interfere in the day-to-day operations.''

PHOTO: Prime Minister Wen Jiabao is among the officials who have expressed concern about China's holdings of United States debt. (PHOTOGRAPH BY FENG LI/GETTY IMAGES)

Document NYTF000020100209e6290002x

The New York Times

National Desk; SECTA
Irked, Wall St. Hedges Its Bet On Democrats

By DAVID D. KIRKPATRICK
1,189 words
8 February 2010
The New York Times
NYTF
Late Edition - Final
1
English

WASHINGTON -- If the Democratic Party has a stronghold on Wall Street, it is JPMorgan Chase.

Its chief executive, Jamie Dimon, is a friend of President Obama's from Chicago, a frequent White House guest and a big Democratic donor. Its vice chairman, William M. Daley, a former Clinton administration cabinet official and Obama transition adviser, comes from Chicago's Democratic dynasty.

But this year Chase's political action committee is sending the Democrats a pointed message. While it has contributed to some individual Democrats and state organizations, it has rebuffed solicitations from the national Democratic House and Senate campaign committees. Instead, it gave $30,000 to their Republican counterparts.

The shift reflects the hard political edge to the industry's campaign to thwart Mr. Obama's proposals for tighter financial regulations.

Just two years after Mr. Obama helped his party pull in record Wall Street contributions -- $89 million from the securities and investment business, according to the nonpartisan Center for Responsive Politics -- some of his biggest supporters, like Mr. Dimon, have become the industry's chief lobbyists against his regulatory agenda.

Republicans are rushing to capitalize on what they call Wall Street's ''buyer's remorse'' with the Democrats. And industry executives and lobbyists are warning Democrats that if Mr. Obama keeps attacking Wall Street ''fat cats,'' they may fight back by withholding their cash.

''If the president doesn't become a little more balanced and centrist in his approach, then he will likely lose that support,'' said Kelly S. King, the chairman and chief executive of BB&T. Mr. King is a board member of the Financial Services Roundtable, which lobbies for the biggest banks, and last month he helped represent the industry at a private dinner at the Treasury Department.

''I understand the public outcry,'' he continued. ''We have a 17 percent real unemployment rate, people are hurting, and they want to see punishment. But the political rhetoric just incites more animosity and gets people riled up.''

A spokesman for JPMorgan Chase declined to comment on its political action committee's contributions or relations with the Democrats. But many Wall Street lobbyists and executives said they, too, were rethinking their giving.

''The expectation in Washington is that 'We can kick you around, and you are still going to give us money,' '' said a top official at a major Wall Street firm, speaking on the condition of anonymity for fear of alienating the White House. ''We are not going to play that game anymore.''

Wall Street fund-raisers for the Democrats say they are feeling under attack from all sides. The president is lashing out at their ''arrogance and greed.'' Republican friends are saying ''I told you so.'' And contributors are wishing they had their money back.

''I am a big fan of the president,'' said Thomas R. Nides, a prominent Democrat who is also a Morgan Stanley executive and chairman of a major Wall Street trade group, the Securities and Financial Markets Association. ''But even if you are a big fan, when you are the pinata at the party, it doesn't really feel good.''

Roger C. Altman, a former Clinton administration Treasury official who founded the Wall Street boutique Evercore Partners, called the Wall Street backlash against Mr. Obama ''a constant topic of conversation.'' Many bankers, he said, failed to appreciate the ''white hot anger'' at Wall Street for the financial crisis. (Mr. Altman said he personally supported ''the substance'' of the president's recent proposals, though he questioned their feasibility and declined to comment at all on what he called ''the rhetoric.'')

Mr. Obama's fight with Wall Street began last year with his proposals for greater oversight of compensation and a consumer financial protection commission. It escalated with verbal attacks this year on what he called Wall Street's ''obscene bonuses.'' And it reached a new level in his calls for policies Wall Street finds even more infuriating: a ''financial crisis responsibility'' tax aimed only at the biggest banks, and a restriction on ''proprietary trading'' that banks do with their own money for their own profit.

''If the president wanted to turn every Democrat on Wall Street into a Republican,'' one industry lobbyist said, ''he is doing everything right.''

Though Wall Street has long been a major source of Democratic campaign money (alongside Hollywood and Silicon Valley), Mr. Obama built unusually direct ties to his contributors there. He is the first president since Richard M. Nixon whose campaign relied solely on private donations, not public financing.

Wall Street lobbyists say the financial industry's big Democratic donors help ensure that their arguments reach the ears of the president and Congress. White House visitors' logs show dozens of meetings with big Wall Street fund-raisers, including Gary D. Cohn, a president of Goldman Sachs; Mr. Dimon of JPMorgan Chase; and Robert Wolf, the chief of the American division of the Swiss bank UBS, who has also played golf, had lunch and watched July 4 fireworks with the president.

Lobbyists say they routinely brief top executives on policy talking points before they meet with the president or others in the administration. Mr. Wolf, in particular, also serves on the Presidential Economic Recovery Advisory Board led by the former Federal Reserve Chairman Paul A. Volcker.

Mr. Wolf was the only Wall Street executive on the panel and became the board's leading opponent of what became known as the Volcker rule against so-called proprietary trading, according to participants. Such trading did nothing to cause the crisis, Mr. Wolf argued, as the industry lobbyists do now. (The panel concluded that the crisis established a precedent for government rescue that could enable big banks to speculate for their own gain while taxpayers took the biggest risks.)

Mr. Wolf and Mr. Dimon, who was in Washington last week for meetings on Capitol Hill and lunch with the president, have both pressed the industry's arguments against other proposed regulations and the bank tax as well -- saying the rules could cramp needed lending and send business abroad, according to lobbyists.

Both men are said to remain personally supportive of the president. But UBS's political action committee has shifted its contributions, according to the Center for Responsive Politics. After dividing its money evenly between the parties for 2008, it has given about 56 percent to Republicans this cycle.

Most of its biggest contributions, of $10,000 each, went to five Republican opponents of Mr. Obama's regulatory proposals, including Senator Richard C. Shelby of Alabama, the ranking minority member of the Banking Committee.

The Democratic campaign committees declined to comment on Wall Street money. But their Republican rivals are actively courting it.

Senator John Cornyn of Texas, chairman of the National Republican Senatorial Committee, said he visited New York about twice a month to try to tap into Wall Street's ''buyers' remorse.''

''I just don't know how long you can expect people to contribute money to a political party whose main plank of their platform is to punish you,'' Mr. Cornyn said.

Document NYTF000020100208e6280002o

The New York Times

Business/Financial Desk; SECTB
Taking Their Cut

By ERIC DASH
1,347 words
27 January 2010
The New York Times
NYTF
Late Edition - Final
1
English

Finding the winners on Wall Street is usually as simple as looking at pay. Rarely are bankers who lose money paid as generously as those who make it.

But this year is unusual. A handful of big banks that are struggling in the postbailout world are, by some measures, the industry's most magnanimous employers. Roughly 90 cents out of every dollar that these banks earned in 2009 -- and sometimes more -- is going toward employee salaries, bonuses and benefits, according to company filings.

Amid all the commotion over the large bonuses that many bankers are collecting, what stands out is not only how much the stars are making. It is also how much of the profits lesser lights are taking home.

To compete with well-heeled rivals, banks like Citigroup are giving their employees an unheard-of cut of the winnings. Citigroup paid its employees so much in 2009 -- $24.9 billion -- that the company more than wiped out every penny of profit. After paying its employees and returning billions of bailout dollars, Citigroup posted a $1.6 billion annual loss.

Granted, the bankers and traders who work for Wall Street's biggest moneymakers are still collecting the richest rewards. But this bonus season, banking executives are rethinking how to divide the spoils.

Goldman Sachs, that highest of highfliers, is doing the unthinkable. It is giving its employees an unusually small cut of its profits -- about 45 cents out of every dollar -- even though its paydays will, in dollar terms, rank among the richest of all time.

That 45-cent figure, known as the payout ratio, represents the amount of compensation that Goldman is meting out relative to the pool of profits available for compensation. Until recently, the ratio for most Wall Street banks hovered around 60 cents of every dollar, in line with other labor- and talent-intensive industries like retailing and health care.

Most Americans would be thrilled to collect a Goldman-style paycheck. If compensation were spread evenly among the bank's 36,200 employees, each would take home about $447,000.

But to keep up with the Goldmans, laggards like Citigroup are handing out fat slices of their profits, leaving little left over for their shareholders. Citigroup is, in effect, paying its employees $1.45 for every dollar the company took in last year. On average, its workers stand to earn $94,000 each.

Bank of America, meantime, is spending 88 cents of every dollar it made in 2009 to compensate its workers. At Morgan Stanley, that figure is 94 cents.

JPMorgan Chase, which has fared better than those three, paid out 63 cents of every dollar.

Citigroup, Bank of America and Morgan Stanley -- all of which have repaid their federal aid -- defend their pay practices. Press officers for the banks say a number of factors, from one-time accounting charges to the constant need to lure and retain top producers, drove decisions about compensation.

But some analysts and investors say these and other banks are rewarding their employees at shareholders' expense. The banking industry is quick to pay its workers when times are good but slow to penalize them when times are tough. Pay for performance? Not on Wall Street, the critics say.

''The investor in America sits at the bottom of the food chain,'' said John C. Bogle, the founder and former chairman of the Vanguard Group, the mutual fund giant. ''The financial industry gets paid before their clients, and we get paid whether times are good or bad.''

Institutional investors are alarmed by what they characterize as excessive rewards for bank employees. While banks are increasing salaries and bonuses for many employees, many have yet to restore dividends that were cut during the financial crisis.

''It's not a fair shake,'' said John A. Hill, chairman of the trustees at Putnam Funds, another big mutual fund company. ''I think the shareholders who paid for building that franchise should be getting a bigger share of the franchise's profits.''

Even now, after all those big bonus numbers, the pay-to-profit ratio for the financial industry might come as a surprise to many people. The five largest banks on Wall Street -- Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley -- earned a combined $147.4 billion before paying compensation and taxes last year. They plowed back a combined $31.2 billion into their companies and returned a total of $2.1 billion to shareholders in the form of dividends. They paid $114.1 billion to their employees.

Wall Street giants like Goldman Sachs and Morgan Stanley traditionally set aside about half their revenue for compensation. Big diversified banks, like Citigroup and JPMorgan Chase, typically set aside about a third. Most banks have typically viewed compensation as the cost of bringing in new income, even though the main concern for most shareholders is profits.

At some banks, the relationship between pay and profit is a bit tenuous. In 2005, for instance, Morgan Stanley made a pretax profit of $7.4 billion. That year, compensation at the bank averaged $212,000 for each employee. Last year, Morgan Stanley made about $857 million before taxes. But compensation averaged $235,000 for each employee.

In other words, Morgan Stanley employees collected roughly 61 cents out of every dollar the bank made in 2005, and about 94 cents of every dollar last year.

Mark Lake, a Morgan Stanley spokesman, said that 2009 compensation per employee was the lowest in at least seven years if the business then looked as it did today, and that adding thousands of Smith Barney brokers and a large accounting charge led to a higher payout ratio.

Bank of America traditionally paid out a small sliver of its profits to workers and maintained a relatively high dividend. But the bank reversed course after its acquired Merrill Lynch and Countrywide Financial. Now Bank of America has more than doubled the share of earnings it sets aside for employees. It was forced to cut its quarterly dividend to a penny as a condition of its second government bailout and has yet to restore it.

Scott Silvestri, a Bank of America spokesman, attributed the higher compensation costs to a ''change in the business mix'' after the Merrill Lynch deal. ''We must pay those, or we have no company,'' Mr. Silvestri said.

Shareholder advocates maintain that Wall Street pay works in favor of management and employees rather than shareholders. The industry's bonus culture is widely viewed as having helped foster the excessive risk-taking that led to the financial crisis.

In the three years before the crisis, the five Wall Street giants set aside a total of $295 billion in compensation. Had they not handed out bonuses or shifted more compensation into stock, pay experts estimate, those banks might have kept $118 billion of additional capital in the financial system. That is almost equal to the $135 billion of bailout funds that taxpayers poured into those five institutions.

''It's heads I win, and tails they don't lose too badly,'' said Jesse M. Fried, a professor at Harvard Law School and co-author of ''Pay Without Performance.''

Some investors and Washington policy makers argue that shareholders should get a say on pay, even if their vote is nonbinding. Mr. Bogle, of Vanguard, says big investors need to be vigilant.

''If the shareholders would wake up, executive compensation would not be what it is,'' he said.

PHOTO: Last year, Morgan Stanley made about $857 million before taxes, and pay averaged $235,000. (PHOTOGRAPH BY CHESTER HIGGINS Jr./THE NEW YORK TIMES)(B8)

DRAWING; CHART: How Much Big Banks Pay: Of the total amount of earnings that Wall Street has available to split between workers and shareholders, about 60 cents of every dollar, on average, went to employees. But amid the crisis, workers' share of the 'profit pool' has risen at Citigroup, Morgan Stanley and Bank of America. It has fallen at Goldman Sachs and remained about the same JPMorgan Chase. (Sources: company reports)

Document NYTF000020100127e61r0004y

The New York Times

EDITORIAL
Editorial Desk; SECTA
Restarting Financial Reform

559 words
25 January 2010
The New York Times
NYTF
Late Edition - Final
16
English

In calling for new limits on the size and activities of big banks, President Obama has given the effort to enact serious financial regulatory reform something it lacked: a rational starting point.

The premise of the White House's earlier approach to reform was that behemoth multitasking banks were an immutable fact of life and the best way to cope with them was to ensure that their failures would not endanger the rest of the financial system. As a response to the worst financial crisis since the Great Depression, ''make the world safe for giant banks'' was unsatisfactory.

It ignored history, and suggested a devotion to the status quo that made real reform seem unlikely. It also ignored that large and complex banks are a problem long before they fail: an overgrown banking sector diverts resources from more productive uses and, in the process, amasses riches at the expense of everyone else. The entire country can see the evidence of that in stagnating wages, disappearing retirement savings, vanishing home equity and taxpayer-supported bonuses.

Mr. Obama's new proposals begin to correct those problems. They would ban banks with federally insured deposits from making risky bets in the capital markets. And they would prevent the banks from owning, investing or sponsoring hedge funds and private equity funds. Mr. Obama has also called for new caps on the size of banks, to limit the damage that a failure could inflict and to promote healthy competition.

Affected banks would include giants like JPMorgan Chase, Bank of America and Citibank. Goldman Sachs and Morgan Stanley would also fall under the new rules because they were converted to bank holding companies during the crisis so they could qualify for help from the Federal Reserve. But if regulators allow them to drop their bank charters, they would escape the new rules.

The new proposals have yet to go through Congress, so it is not yet clear exactly how much they would restrict or shrink today's banks. But it is clear that they could separate the casino of Wall Street from the banking system on which everyone relies.

That, in turn, would reassert the principle -- lost through the bailouts -- that the government does not support or stand behind Wall Street-style trading. The proposals would also enshrine in law the principle that the nation does not want and will counter outsized banks with huge concentrations of the nation's financial assets. At the very least, a cap on size could stop a dismaying trend of big banks getting ever bigger and more powerful.

Of course, it's not enough to be right on principle. But with core and credible principles reasserted and reflected in law, the other pillars of financial regulatory reform take on a coherence that has been missing.

There are several ways to pursue the bedrock principles of controlling size and risk, including higher capital requirements, the regulation of derivatives and the creation of an independent consumer financial protection agency. It is also imperative to develop a resolution authority that would force shareholders, creditors and the financial industry to bear the cost of failures, while precluding the government from rushing forward with bailouts.

Now that Mr. Obama has set the stage and committed to leading the effort, those and other crucial reforms may yet happen.

Document NYTF000020100125e61p0002m

Search Summary

All of these words	
At least one of these words	
None of these words	
This exact phrase	
Date	01/01/2002 to 12/31/2013
Source	The New York Times
Author	All Authors
Company	Morgan Stanley
Subject	Economic News Or Corporate/Industrial News Or Commodity/Financial Market News
Industry	All Industries
Region	All Regions
Language	All Languages

