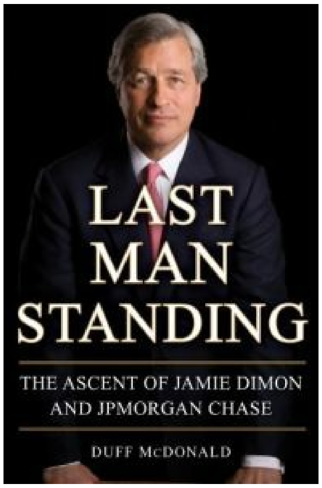

Book Last Man Standing

The Ascent of Jamie Dimon and JPMorgan Chase

Duff McDonald
Simon & Schuster, 2009

Recommendation

Duff McDonald's book covers a fascinating historical moment – the 2008-2009 Wall Street debacle – by profiling a pivotal character in the thick of it, Jamie Dimon, CEO of JPMorgan Chase. Having spent extensive time with Dimon, McDonald combines his reporting with published sources, Dimon's own writings and statements, and interviews with his associates, employees or relatives. McDonald covers Dimon's youth, business school education and evolving career. Dimon was a nonconformist in business school and politics, an astute lieutenant of his mentor Sandy Weill, and a pivotal figure in the financial crisis. Notably, he preserved JPMorgan Chase, bought Bear Stearns and helped lead the market back to stability. Readers interested in a critical take on Dimon may find the book too flattering, but if you want to see how the financial wars looked from the CEO's chair, *BooksInShort* recommends this intriguing perspective.

Take-Aways

- JPMorgan Chase CEO Jamie Dimon's grandfather and father worked in finance. He was the only one of three brothers to go into that business.
- He went to Harvard Business School, where he was a blue jeans-wearing Democrat among preppy Republicans.
- Sandy Weill, the architect of Citicorp, was Jamie Dimon's most important mentor.
- Dimon worked for Weill at American Express and Commercial Credit, but they eventually had a falling out, and Weill fired Dimon.
- He became CEO of Bank One, where he executed a successful turnaround.
- A tough, quick-tempered, quality-driven manager, Dimon is known for attention to detail.
- When he sold Bank One to JPMorgan Chase, he became CEO of the combined bank.
- Dimon was pivotal to multiple rescue efforts during the 2008-2009 financial crisis.
- JPMorgan Chase saved Bear Stearns by purchasing it cheaply, instead of letting it fail like Lehman Brothers.
- Even though it shared some of Wall Street's traumas, Dimon's bank steadied and moved ahead.

Summary

Hereditary Banker

Jamie Dimon's grandfather left Greece as a refugee, making his way to New York in 1921. He changed his surname from Papademetriou to Dimon, perhaps because the new name made it easier to get work as a restaurant busboy. Family legend says the restaurant fired him and he went to work for a Greek bank. After becoming its vice president, he moved to Shearson Hammill, a brokerage. His son, Theodore (Ted), Jamie's father, eventually joined the same firm. Jamie was born on March 13, 1956. His family lived in Jackson Heights, in Queens, until he was 11 years old. Then, they tried the suburbs, but returned to New York City in a year. In school, Jamie was a good athlete, protective of his more cerebral twin brother, ethical and willing to challenge authority over points of morality.

> "Jamie Dimon is a banker by blood."

The Dimons got to know Sandy Weill, then head of Hayden Stone, when he acquired the Shearson Hammill brokerage. Ted Dimon received considerable autonomy in exchange for staying at the firm. The families became close. Jamie Dimon wrote a paper analyzing how Weill combined "an efficient company (Hayden Stone) with an inefficient one (Shearson Hammill)" during his sophomore year at Tufts University. The paper impressed Weill and soon Jamie was working for him for a summer, speaking up and even daring to contradict his boss on occasion.

> "Almost a century after its heyday, JPMorgan Chase – and by extension Dimon himself – was once again the country's bank of last resort."

After college, Dimon worked for a small consulting firm. He boldly asserted himself when he felt he had been wronged and the experience opened his eyes to the dishonesty and bureaucracy rife in corporations. In 1980, he went to Harvard Business School, a Democrat among Republicans, wearing jeans amid a crowd of preppy grad students. At Harvard, he met his future wife, feisty fellow student Judy Kent, and graduated in 1982. The couple has three daughters, Julia, Kara and Laura. Dimon notes, "Until they were about 15, we never took a vacation without them. The kids…would say I was around a lot, even though I thought I wasn't… because when I was there, I would be there."

Sandy Weill and the Acquisition Engine

Goldman Sachs, Lehman Brothers and Morgan Stanley offered Dimon jobs, so he called Weill for advice. His family friend, now chair of the executive committee at American Express, asked Dimon to join the company. Soon, political maneuvering pushed Weill out of his operating duties. He and Dimon negotiated to buy Amex's faltering insurance unit, Fireman's Fund, with Warren Buffett's help, but the Amex board vetoed the deal. Weill and Dimon resigned.

> "Among his brothers, Jamie was alone in pursuing business."

After a difficult idle period, they bought Baltimore-based consumer lender Commercial Credit. Although the firm's return on equity was lower than that of other finance companies, Weill and Dimon spotted opportunities to slash costs and take it public profitably. Dimon moved to Baltimore, while the rest of the management team commuted from New York. He mastered all the details of Commercial Credit's financial performance and brought his seniors up short when they were inaccurate. He played bare-knuckled politics, forcing his supervisor, Greg Fitz-Gerald, out of the company. Dimon was not afraid to go toe to toe with Weill, himself. Their competitive comradeship included wagering on such issues as where the door would be when the train stopped or what time the sun would rise.

> "The conventional wisdom about Dimon is that he has few interests outside the office, a simplification that irritates him."

Weill planned to turn Commercial Credit into an acquisition engine, shoring up its balance sheet and maintaining liquidity so he could snap up vulnerable competitors. The stock market crash in the fall of 1987 drove Commercial's stock down, but with most financial stocks low and investor confidence slow to recover, acquiring companies found happy hunting. Commercial's first target was EF Hutton, which Weill lost to his former protégé, Peter Cohen of Shearson. However, Weill and Dimon scored a coup with the acquisition of Primerica, a financial conglomerate.

> On "his fifteenth wedding anniversary...he gave his wife a full third of his net worth as a present."

Not long after, Drexel Burnham Lambert collapsed, shaking the foundations of the finance industry. However, Primerica's stock rose. When Dimon, then 35, became its president, no one doubted his intelligence, mastery of details and business savvy. However, he was not humble and did not share Weill's reluctance to fire people. He became the triggerman when people had to go. In 1992, Primerica invested heavily in the Travelers Corp. insurance firm, which was suffering from bad real estate investments and the consequences of Hurricane Andrew, which had devastated South Florida. Travelers eventually became the name of the overall company.

> "It's more important to do ten things and get eight of them right than to do five and get them all right." [– Jamie Dimon]

Weill and Dimon always drove tough bargains. In 1993, they bought the Shearson brokerage (they "sheared Shearson right out of Shearson Lehman") and combined it with Primerica's Smith Barney brokerage. Dimon chafed when Weill hired big-spending managers who inflated costs without, in Dimon's eyes, producing commensurate value.

Fighting with the Boss's Daughter

As the press began to pay more attention to Dimon, his already strained bond with Weill deteriorated. Weill was jealous of his reputation and angry when people said Dimon was really running Travelers. Moreover, Weill began to suspect that Dimon was keeping information from him. Dimon's relationship with Weill had been combative for years. Dimon had always been unafraid to challenge authority. Years later, Weill complained in his memoir that Dimon began to "see himself as my equal."

> "Weill did away with perks for most of the company's management ranks. He canceled all newspaper subscriptions, sending out the message that if employees wanted to read the Wall Street Journal, they could pay for it themselves."

In 1996, Dimon clashed with Weill and his daughter, Jessica Bibliowicz, who joined Smith Barney as executive VP in 1994 and became head of mutual fund sales in 1995. Dimon wanted the firm to sell no-load mutual funds; Bibliowicz and Weill disagreed. Dimon won and the no-load business worked out well. He developed doubts about Bibliowicz's business acumen. Weill, protective of his daughter, lost his temper when Dimon did not name her to a key planning committee and slighted her in other ways. Bibliowicz decided to resign. Dimon and Weill's relationship was badly torn despite public assumptions that Dimon was Weill's heir. "I have never made it clear to anybody that Jamie is my successor," Weill later told the press.

Salomon Brothers, Citicorp and Long Term Capital Management

Salomon Brothers had been Wall Street's most successful firm until a bond trading scandal required Warren Buffett to rescue it in 1991. In 1997, Buffett's chosen manager at Salomon, Deryck Maughan, approached Weill about buying it. Buffett had never intended to keep it for long. Salomon had several potential problems, including a heavy investment in derivatives and an internal culture of questionable ethics. Nonetheless, Travelers bought Salomon in 1997. Weill named Maughan co-CEO with Dimon, who was infuriated. Soon after the acquisition, the Asian financial crisis broke.

> "The transfer of power from Harrison to Dimon stands as one of the cleanest and most orderly in recent financial history. In stark contrast to the disastrous handoffs that have characterized Wall Street...it is a model of clarity and execution."

Later that year, despite their differences, Weill and Dimon planned to buy Citicorp. Its CEO, John Reed, realized that the financial industry was consolidating and was open to a deal with Weill. Dimon called it "the mother of all deals," but much to his surprise and chagrin, Weill refused to give him a seat on Citicorp's board. Other slights followed. Weill seemed to be forcing Dimon out. Meanwhile, Salomon's trading unit continued to hemorrhage money, leading Dimon to take the drastic step of closing it down. "Unwinding" its trades helped to destabilize the markets and bring about the collapse of Long-Term Capital Management (LTCM), a huge hedge fund founded by Salomon alumni. The LTCM crisis nearly brought down the world financial system.

> "No company has ever had much of a future by cutting costs alone. Success is measured by top- and bottom-line growth." [– Jamie Dimon]

Although regulators approved the Travelers-Citicorp merger, frictions between Dimon and Maughan intensified, in the boardroom and even in social settings. Reed and Weill decided to fire Dimon. He was shocked and "devastated," but gracious in defeat. His wife saw it differently: "Even though Jamie was at peace with himself," Judy Dimon said, "I was a raging maniac because of the way he'd been treated." Dimon even cooperated with publicly presenting his departure as a mutual agreement. Weill later blamed the breakdown in their relationship on Dimon's eagerness to replace him. Dimon's critics thought he was self-centered, quick-tempered and grasping, but his defenders say Weill expected Dimon to do the hard work while others – including Weill – took credit. Dimon later said, in brief, that he knew he'd been aggravating. "I stuck my finger in Sandy's eye," He said. In the wake of Dimon's departure (with $30 million severance), Citicorp's stock fell, and other top people left the bank. Dimon, then 42, got many job offers, but waited almost a year and a half before accepting one.

Bank One

Bank One, led by John McCoy, was a product of a series of deals that cobbled regional banks together into a decentralized entity with incompatible cultures and systems. Its First U.S.A. credit card subsidiary had a reputation for poor service and led the industry in customer complaints. First Chicago NBD was, itself, the product of a merger that had not yet quite jelled before it was rolled into Bank One. McCoy, the architect of this unwieldy combination, allowed the managers of the banks he acquired to go on doing what they had always done, running their companies as they pleased. While this made executives more willing to sell their institutions to him, it also made operational synergies difficult, if not impossible, to realize. Interestingly, when the Bank One's board ousted McCoy, he himself mentioned Dimon as a possible replacement.

> "Dimon has always kept a one-page piece of paper that includes companies his firm might buy, merge with, or sell to, developed with the help of his management team and shared with the board."

Dimon negotiated an attractive deal that gave him the authority of both chairman and CEO. He reached out to McCoy's father, John, who had run the bank for decades. He reduced the size of the board and consolidated his power. He hired some of Citigroup's leading stars; his severance agreement kept him from courting them, but they came on their own. He offered them short-term contracts and lower salaries, but Bank One's potential growth made it worthwhile. He also took tough measures with shareholders, including cutting dividends. Dimon intended to focus on the nitty-gritty details of banking, not on ambitious acquisitions and sexy financial engineering. He cut 12,000 employees, introduced branch-level financial reporting and emphasized incentive pay. He demanded fast action. He got rid of consultants, ended the outsourcing of information systems and dropped unprofitable customers from the corporate loan portfolio. Bank One posted profits during the Internet bubble collapse and the aftermath of Sept. 11, 2001.

JPMorgan Chase

In 2003, William B. Harrison Jr., the CEO of JPMorgan Chase, was looking for a successor. He approached Dimon with the proposition that JPMorgan Chase buy Bank One. The deal went through in 2004 and Harrison made a graceful exit. Jamie Dimon, now CEO of the combined banks, approached his new job with the same diligent, detail-oriented management that had characterized his career. He made an important decision to keep out of the mortgage securitization market. He initially pushed to have the bank build business in this market, but he recognized the risks by 2006 and sold $12 billion in subprime mortgages the bank had originated. This moved the bank "out of the way of the oncoming subprime train." Analysts criticized, but with the following deterioration of this market, the decision proved prescient. In 2007, JP Morgan Chase swallowed home equity loan losses of $564 million and boosted reserves by $1 billion.

> "One of his favorite mantras is, 'More, better, faster, quicker, cheaper'."

In March 2008, Dimon helped rescue the financial system from the dangerous impact of failing institutions by purchasing on-the-brink-of-collapse Bear Stearns (for $2 a share and with government backing) after 48 hours of tense negotiations. That August, Lehman Brothers needed a similar rescue. JPMorgan, Citibank and Bank of America (which did buy Merrill Lynch) studied the situation, but no one bought Lehman. JPMorgan insiders pushed Lehman's leadership to seek emergency contingency plans, like an industry bailout or government support. Those efforts failed – though the government rescued AIG days later – and Lehman's fall sent the markets plunging. Dimon played an active role behind the scenes in every facet of the corporate response to the crisis. JPMorgan Chase lost $18.8 billion, a giant amount of money, but less than the losses of other major banks.

> "Jamie is either in agreement with you or he's going at you." [– JPMorgan Chase executive]

Even amid these traumas, as the market staggered and companies fell, Dimon's bank suffered its own difficulties, and then steadied and moved ahead. Like other banks it received government financial support toward its recovery, but it eventually gained market share and began acquiring attractive targets again. As Dimon said, "We're going to succeed because over an extended period of time we built a good company, and not because one of our competitors runs into a lamppost and is critically injured… Everybody's got their own value system. In mine, I want to be buried with a little self-respect one day."

About the Author

Duff McDonald is a contributing editor at *New York* magazine and the recipient of two Canadian National Magazine Awards.