Praise for

*The Accidental Investment Banker*

“The fashion world has *The Devil Wears Prada*. Hollywood has *You’ll Never Eat Lunch in This Town Again*. Now Wall Street is getting a memoir-cum-tell-all that skewers some of the industry’s most expensive egos. . . . *[The Accidental Investment Banker]* offers the public a rare, ringside seat inside the madcap and often egomaniacal world of Wall Street’s Masters of the Universe [and] important insights into problems with Wall Street’s often ruthless and conflicted culture.”

—Andrew Ross Sorkin, *The New York Times*

“A wonderful primer for anyone who has wondered how Wall Street really works . . . Not since Michael Lewis’s *Liar’s Poker* has there been as good, as accessible or as pithy a look at the world of investment banking.”

—The Washington Post

“[Jonathan Knee] has written the best account I’ve read on how the internet boom and bust was experienced inside the investment banking department of a big Wall Street firm.”

—Michael Lewis, Bloomberg.com

“For anyone who remembers the crazy boom times, and the even crazier bust, Jonathan A. Knee’s *The Accidental Investment Banker* is a must. . . . Reveals a world that rivals 24 in intrigue and drama.”

—Fortune

“[Jonathan A. Knee] captures the glories and agonies of his profession. General readers will marvel at his discussion of banker pay, which, despite being slightly out-of-date, still seems glaringly huge. MBA students will linger over Mr. Knee’s sardonic description of a ‘sell side,’ a mandate to auction a company. In step-by-step fashion, he shows how bankers give their clients the impression of running a ‘secretive,’ selective auction but in fact do quite the opposite.”

—The Wall Street Journal

“This insider’s chronicle brims with humor and insight as it depicts a world driven mad by money.”

—Fast Company
“Studded with arresting details . . . and with often-trenchant insight.”
—Roger Lowenstein, The New York Times

“As a memoir the book lies somewhere between Michael Lewis’ crisp, and now classic Liar’s Poker and the autobiographical hagiographies penned by Bruce Wasserstein or Alan ‘Ace’ Greenberg. . . . Articulate and funny . . . makes a compelling argument.”
—MarketWatch

“Funny and knowing, this business memoir debut should appeal to a wide swath of business veterans.”
—Publishers Weekly

“Most people know by now that investment bankers are rich, secretive and powerful. But why? What do they really do? And why are they increasingly distrusted by their most powerful clients? Finally we have someone willing to lift the curtain.”
—James B. Stewart, author of Den of Thieves and Disney War: The Battle for the Magic Kingdom

“Jonathan A. Knee takes a sharp look at the fundamental changes that have taken place in the investment banking business. It’s an important story, and thanks to the skillful way Knee mixes in the tale of his own experience as a banker, it reads like a novel. The book is hard to put down.”
—Bethany McLean, author of The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron

“A terrific book—engrossing and highly instructive.”
—Mark Gerson, CEO, Gerson Lehrman Group

“The Accidental Investment Banker is a must-read for anyone in business who is impacted by Wall Street—and that is just about everyone.”
—Leo Hindery, Jr., managing partner, InterMedia Partners and former CEO of TCI

“Without a doubt, the deftest and most revealing thing I’ve read about investment banking.”
—Michael Wolff, author of Burn Rate

“Entertainingly indiscreet—Knee’s talent for wicked pen portraits is put to good use.”
—Financial Times
THE ACCIDENTAL INVESTMENT BANKER
THE ACCIDENTAL INVESTMENT BANKER

Inside the Decade That Transformed Wall Street

JONATHAN A. KNEE

John Wiley & Sons, Ltd
For Chaille Bianca and Vivienne Lael
and William Grant
who says he wants to be an investment banker
I was sitting in a darkened theater over the Fourth of July holiday weekend during a late-night showing of Superman Returns when my BlackBerry began to vibrate, easily drawing my attention away from the screen. It was two months before the scheduled publication of The Accidental Investment Banker. I had spent more than three years wrestling with both my book’s subject matter and its prospective publishers and was now quietly at peace with the final product. Through the book, I had sought to tell the history of investment banking in a way that would be accessible to a general audience but still speak to professionals working in and with the industry today. In an effort to reach both groups, I wove my own story into the narrative: how I accidentally fell into the business in 1994, and how I experienced the industry’s dramatic transformation during the decade of boom-and-bust that followed. I had realized there might be some controversy over the use of real names and situations to bring the history to life, but felt confident that anything of that nature would be both minor and manageable. Without my book in mind, I looked down at the e-mail message that had set my BlackBerry aflutter.

“A Wall Street Exposé With an All-Star Index,” read the headline of the article from the next day’s Sunday New York Times, which a friend had helpfully forwarded to me. At first it did not even occur to me that what I was looking at had anything to do with my book. If the movie had been better, I might not have continued reading the description of my book and its likely impact by “DealBook” columnist Andrew Ross Sorkin: “The fashion world has The Devil Wears Prada. Hollywood has You’ll Never Eat
Lunch in This Town Again. Now Wall Street is getting a memoir-cum-tell-all that skewers some of the industry’s most expansive egos.”

What followed was an out-of-context catalog of the juiciest tidbits relating to the best-known names found in the index of my book. Sorkin reported that multiple “dog-eared, bootleg copies” of uncorrected book proofs had been circulating throughout the investment banking community for weeks. Financial industry blogs in subsequent days would not only confirm this, but describe how unfortunate young bankers were directed to spend the balance of the weekend procuring and summarizing the book for their superiors. Sorkin questioned my motivations for writing the book, seemed confident that it would make me an industry pariah, and was incredulous that a working investment banker would write such a book. “Mr. Knee may really never be able to eat lunch in this town again,” wrote Sorkin.

I put down my BlackBerry and looked up at a cackling Lex Luthor on the screen. If I had been sitting in an aisle seat, I am confident I would have thrown up over the side.

Although it may seem obvious now that the book would have drawn this kind of attention, the fact is that, for a long time, The Accidental Investment Banker had been incapable of attracting any interest in the publishing community. I did eventually receive and accept an offer from a major trade house, but it became clear that this was based on the theory that I could be convinced to drop the history in favor of more salacious subject matter. “No one cares about Sidney Weinberg!” the exasperated editor shouted in our last conversation on the subject. Sidney Weinberg, the elfin former chimney sweep who built Goldman Sachs over forty years, is the hero of the book that follows. I returned the advance.

Although I had assumed the story would end there, my enterprising agent began showing the book to university presses, among them Oxford University Press, where The Accidental Investment Banker eventually found its home in hardcover. The folks at Oxford valued the book much more for its coverage of investment banking’s recent tumultuous history than for any insider dish it could provide, and this was refreshing, to say the least, after my earlier experience. At the same time I knew that publishing with a university press, even a more commercially minded one like Oxford, would probably mean a small print run and publicity budget. But this was the book I wanted to write, and I was frankly thankful that The Accidental Investment Banker would see the light of day at all at that point.

Until that night in the movie theater, neither I nor my publisher was
sure anyone would review the book, much less “break” the story of its impending publication, as The New York Times did. Sorkin’s widely read article had a dramatic impact on both the profile of the book and, I believe, the nature and extent of the reaction to it.

The book’s sales rank on Amazon.com jumped from somewhere below one million to number thirty-four in one day, based on pre-orders. Articles based on the Sorkin description of my book alone began to appear. This extended even to the United Kingdom, where I had not managed to find a publisher for the book at all.

And reaction at publication was strong. Many of the otherwise overwhelmingly positive reviews dedicated more space to speculation on my motivations than on the thesis of the book. Michael Lewis, the talented author of Liar’s Poker, was representative in this regard. Lewis said the book was “brutally honest and socially valuable” and “the best account [he has] read of how the Internet boom and bust was experienced inside the investment banking department of a big Wall Street firm.” Yet he spent far more time deconstructing my imagined unspoken objectives in producing the book. His conclusion was that the book is an effort on my part to achieve what I “really want: a life as an important person in and around Wall Street. (Though not as an investment banker.)” I am still trying to figure out what this job I apparently aspire to is. I am, by the way, still an investment banker.

The book was meant to be provocative and I certainly hoped it would inspire a public dialogue on the role of investment banking. Given my decision to use my own story as a tool to help paint the industry landscape, I also was prepared for a degree of personalization in response, even if not to quite the level I have received. And despite the initial horror I felt when I read Sorkin’s article, in retrospect I realize that this initial publicity had an incredible multiplying effect on how many have and will actually read the book.

After all the unexpected publicity and all the unforeseen personal and professional reverberations that have flowed from it, the biggest and most pleasant surprise has been the reaction from within the investment banking community itself. I confess that Sorkin’s article and all the subsequent press suggesting how unwelcome I would now be in the community of investment banking professionals had made me—well, a little nervous. Yet time and again, senior managers from the business have gone out of their way to compliment me on the book. Group heads from bulge bracket firms approached me to say that they purchased copies for all of their analysts and associates. A retired éminence grise from the industry sought me out
for a quiet lunch through mutual acquaintances. A cynical person might think that such flattery reflects precautionary measures in case I write a sequel. Yet this feedback has been overwhelmingly from individuals I didn’t know and would be unlikely to write about. And when I learned that one of the most prominent financial supermarkets was using my book in their new associate ethics training course, it confirmed in my mind that something more might be going on.

And then there are the other many little satisfactions that have made me feel my book has served at least some of the objectives I set out to achieve with it. A young managing director from Morgan Stanley quietly turned up with a stack of books for me to sign with dedications to his clients. I received invitations to speak about the book at law firms, where I enjoyed overflowing internal audiences who were clearly interested in understanding better what their investment banking brethren really do, but also unnerved by the parallels to their own profession. Many investment bankers, both newly minted and well-wizened, told me that they bought second copies for their mothers to help bridge the communication divide; they hoped it would help their mothers understand what they do, and their frustrations over how their profession has changed over the years.

Investment bankers young and old do not like the trends described in this book, in particular the structural obstacles to providing good, unbiased counsel, any more than their clients do. The diminishment of their roles and the roles of their once-great institutions has been demoralizing. My bemoaning the decreasing relevance of investment banking—or at least the part of investment banking that allows bankers to provide independent strategic advice to corporate clients—has been welcomed as a rallying cry against the continuing efforts to relegate this function to an increasingly insignificant portion of the portfolio of products hawked by financial supermarkets.

But let’s not get carried away. Not everyone liked the book. A great deal of criticism was directed toward the specific portraits painted of individual people and institutions. Some reviews and even Sorkin’s initial “DealBook” treatment have suggested that at least certain aspects of the narrative were “gratuitous” or “score-settling” in nature. Ironically, many of the complaints from actual investment bankers in this regard said I had been too “nice”—and came accompanied with embarrassing “deep background” anecdotes about competing investment bankers or banks for inclusion in a subsequent edition. Did I know which highbrow investment bank had offered a subsequently disgraced research analyst millions to join
them? Didn’t I hear what happened at that firm’s Christmas party? How could I not include the famous antics of this senior banker?

The criticism that certain portraits were incomplete is fair but misses the point. I used real people, situations, and institutions for the narrow purpose of explicating a particular theme or chapter in the history being related. Whether someone ended up being pleased or unhappy about his or her portrayal usually depended on what phenomenon the behavior or incident described was meant to exemplify. I did not mean to suggest that those involved were the only ones “guilty” of the identified conduct. Indeed, in most instances I made it clear that different versions of the same stories were being played out everywhere.

There has been, however, one recurring and disturbing substantive criticism of the book from investment bankers. Some charge that the book is overly sentimental and exaggerates the virtues of the golden era of relationship banking, when choosing your clients was viewed as a serious undertaking by an investment bank, one that created lasting obligations that were not lightly cast aside in favor of more financially attractive opportunities. But the deeper charge lays the blame for the decline of investment banking on the clients themselves. What is a banker to do when dealing with clients who abandon long-standing relationships in favor of bidding out every piece of business to the cheapest investment bank? Beginning in the 1970s but accelerating in the ’80s and ’90s, client loyalty indeed became more and more of an anachronism. Mercenary clients beget mercenary bankers, the argument goes, and the clients have no standing on which to complain about it.

Although tempting to dismiss as a mere self-fulfilling prophecy by greedy bankers, this is a serious argument and there is more than a grain of truth to it. At some level, there is a chicken-and-the-egg quality to the thesis—did greedy clients produce greedy bankers, or the opposite? But if one believes that investment banking is or should be a profession, then the chicken/egg conundrum becomes, to mix food-related metaphors, something of a red herring.

The very concept of a profession is of a job that owes obligations to society at large. Professor John Coffee, who in his latest book tracked the decline of a number of once-revered professions, says “This ability to do good and do well at the same time entitled the profession to aspire to loftier ambitions . . . and enjoy a higher sense of self-worth than the mere merchant or employee.” It is the antithesis of the idea of a profession to argue
that the standards to which investment banks once held themselves was simply an attribute of a grand financial bargain between banker and client that is no longer operative. Thus if the defense is valid, investment banking may have won the rhetorical battle but at the cost of its professional soul. Indeed, that this form of self-justification has so much resonance within the industry reflects the fact that many no longer think of investment banking as a professional calling.

Some of the most interesting feedback I have gotten about *The Accidental Investment Banker* has come from professionals in fields entirely outside of investment banking. Whether in medicine or law or accounting, each person spoke of a similar sense of loss of self-worth as various financial and institutional pressures have reduced their once-honorable callings to something more like serving as a “mere merchant or employee.” Each profession has its own peculiar facts surrounding the sources of its decline—the growth of consulting profits in accounting, for example, the increasing influence of HMOs, insurance companies, and litigation in medicine.

I cannot help thinking, however, that a more widespread cultural malaise has been a common source of this epidemic of professional distress. Professions came into being as a means for a newly aspirational middle class to gain a social standing previously unavailable to them. Our society’s increasing emphasis on celebrity, self-realization and personal wealth over more communal concerns has reduced the social benefits associated with pursuing a higher professional calling—at least one that doesn’t make you rich and famous.

I wrote this book because I believe that the industry can do better. I am not so naïve as to think that we can ever go back to an innocent golden age of relationship banking. The structural changes outlined in the pages that follow make that impossible. But the worst lapses described here were not the result of any structural changes, but of individual decisions by individual people who could have decided differently. To the extent that this book has encouraged a more honest dialogue both within firms and between bankers and clients, I believe it can help. But I also believe that, as a culture, in some sense we get the professions we deserve. And until we learn to honor those who pursue higher callings just because they do, our professionals are likely to continue experiencing prolonged identity crises, the ultimate resolutions of which have important implications for all of us.
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Thousands packed the pews of the Riverside Church on the Upper West Side of Manhattan that foggy, wet January afternoon for the memorial service for Richard B. Fisher, former leader of Morgan Stanley. Mayor Michael Bloomberg attended, as did David Rockefeller and other dignitaries. So did scores of young bankers who may never have met Fisher, but for whom his name was legendary.

This outpouring of affection was both touching and somewhat unexpected. By the time he died at the age of 68 on December 16, 2004, Fisher had become a marginal figure at the global financial institution with which his name was once synonymous. Fisher joined Morgan Stanley in 1962 and became its president in 1984. By the time he negotiated the fateful merger with Chicago-based Dean Witter, Discover and Co. in 1997—making Dean Witter’s Phil Purcell the combined company’s CEO and Fisher’s protégé John Mack president and chief operating officer—Fisher had been chairman of Morgan Stanley for six years.

Yet well before the recurrence of the prostate cancer that ultimately took his life, Fisher had been drifting, or rather been pushed, further and further away from the investment bank he had once led. Although Fisher became executive committee chairman immediately after the merger, this was downgraded to something called chairman emeritus in 2000 soon after he was nudged from the board. When, in 2001, a frustrated Mack resigned and Fisher asked for the opportunity to address the board, Purcell delivered the painful news: the board did not wish to hear from him. Even Fisher’s
office had been moved first off the main executive floor and then out of the building altogether, quietly banished to a place known internally as Jurassic Park—where retired senior bankers were given cubicles and secretarial support.

Among the throngs at the service were a distinguished group of seven fellow inhabitants of Jurassic Park, including Fisher’s predecessor as chairman, S. Parker Gilbert. Most of these men had grown up with Fisher in the Morgan Stanley of the 1960s. Looking around the crowded church they could not help but ponder just how much had changed since that time.

In the 1960s, Morgan Stanley quite pointedly did not have a securities sales and trading operation, viewing it as a low-class business engaged in by mere, and largely Jewish, traders. In 1971, however, the bank had established its own sales and trading desk, and put Fisher, a young partner at the time, in charge. In recent years, the profits from these operations had come to dwarf those of the traditional gentleman banking in which they had engaged in their heyday. The introduction of sales and trading at Morgan Stanley coincided with the firm’s launch of one of the first mergers and acquisitions departments among the major investment banking houses. Prior to that, these firms had often treated advice on mergers and acquisitions as something given away free to longstanding clients of the firm. Within a decade or two, “M&A” would establish itself as the profit engine of traditional finance, with high-profile bankers whose names were often better known than that of either the clients or financial institutions they in theory served.

And, of course, the biggest change of all was that, with its couple of dozen partners and several hundred employees, the Morgan Stanley of the 1960s was the dominant investment bank in the world. In the competitive and labyrinthine world of contemporary finance, such overall consistent preeminence was simply not possible. But even within the relatively narrow realm that had been the core of Morgan Stanley’s great franchise—providing quality independent financial advice to the leaders of the world’s great corporations—the torch had been passed some time ago to Goldman Sachs.

If the emergence during the 1970s of sales and trading and M&A as the new profit centers planted the early seeds that changed the culture and structure of the investment banking industry and Morgan Stanley’s place in it, many other internal and external events played critical roles in bringing
the firm to the state in which it found itself in early 2005. Morgan Stanley’s own decision in 1986 to sell 20 percent of its shares to the public was dramatic both for its rejection of the private partnership tradition that had prevailed for so long and for the fact that the money was being raised to enable Morgan Stanley to participate more aggressively in the leveraged buyout (or LBO) fad then sweeping the industry. During this era, public companies perceived as undermanaged or undervalued became the target of takeover artists who financed these deals by placing previously unheard of amounts of debt. In these deals, Morgan Stanley might not only place this debt, but invest its own money to consummate a transaction. As controversial as it was for Morgan Stanley to sponsor companies with such a heavy debt burden, a more significant line was crossed when the firm moved from agent to principal and actively pursued these opportunities for its own account, even in competition with clients.

The government’s decision a decade later to allow the large commercial banks to aggressively pursue investment banking business put further pressure on the old way of doing things. The Depression-era legislation known as Glass Steagall had long insulated the rarified investment banking partnerships from assault by these better capitalized institutions. Its ultimate repeal in 1999 paved the way not only for radically intensified competition but a wave of mergers that created enormous financial supermarkets with an entirely different ethos.

But at Morgan Stanley, nothing compared with the changes wrought by its combination with Dean Witter Discover. Although billed as a “merger of equals,” it soon became clear that the most venerable Wall Street brand of all time had actually sold itself to a decidedly down-market retail brokerage and credit card company. When longtime Morgan Stanley veteran Robert Scott got up to speak at the memorial service, the small clique of Fisher’s contemporaries was reminded of just how badly things had gone for the Morgan Stanley side of the once-promising deal. Scott, although ten years younger than Fisher and not precisely of their generation, had been only the latest of a steady stream of senior Morgan Stanley executives who had been ruthlessly dispatched by Purcell once they began to pose a threat or their usefulness to him had expired. Fisher had designated Scott, a former head of investment banking, to lead the merger transition team for Morgan Stanley when the deal was announced in February 1997. But before the month was out and well before the deal closed that May, Scott suffered a heart attack. Purcell’s decision to appoint the physically
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weakened Scott as Mack’s replacement as president and COO in 2001 was widely viewed as the least threatening way to throw a sop to the Morgan Stanley side of the house in the face of their heir apparent’s departure. Two years later, after Scott’s 33 years at Morgan Stanley, Purcell told him that his services were no longer needed. The only other board seat reserved for a company executive was quietly eliminated, leaving Purcell clearly, and solely, in charge.

“Dick’s still watching over us,” Scott assured the gathering, his voice cracking with emotion.

“We’re going to be all right.”

Some were not so sure. Within a few weeks after Fisher’s funeral, the same seven distinguished group of Fisher’s peers that had attended joined with Scott and were at former chairman S. Parker Gilbert’s apartment actively plotting to depose Purcell. A number of them had for some time been informally discussing how best to voice their discontent with Purcell, but the emotion of the funeral served as a catalyst to action. Now calling themselves the “grumpy old men,” the eight former Morgan Stanley senior executives ultimately hired veteran investment banker Robert Greenhill—who himself had become a Morgan Stanley partner in 1970 as part of the celebrated “irreverent group of six” that included Fisher—to represent them in their efforts. Letters to the board were sent, press releases issued, interviews on CNBC given, and full-page ads taken out in the Wall Street Journal. Although Morgan Stanley would attempt to dismiss their complaints as those of out-of-touch former employees, their pedigree made this particular spin a hard sell.

But despite the group’s pedigree, or perhaps because of it, there was something strange about the campaign. They had not complained at the time of the merger with Dean Witter and over the years many had agreed to be trotted out at various events to assure the newer generations of Morgan Stanley employees that the best traditions of the past were being upheld. Furthermore, at least initially, they were not asking for a specific change of strategy and had not proposed a particular alternative management team. Beyond asking for Purcell’s head, they suggested only a few modest changes to the firm’s governance. Finally, although the grumpy old men boasted of owning 11 million shares among them—which on an absolute basis was worth over half a billion dollars—there were now over a billion shares outstanding. The grumpy old men were storming the palace gates with barely 1 percent of the outstanding shares.
At the time of Morgan Stanley’s IPO in 1986, Chairman S. Parker Gilbert alone owned almost 4 percent of the shares. When the three other management directors of the newly public Morgan Stanley were added (these were Fisher, Greenhill, and another member of the grumpy old men, Lewis Bernard) their holdings approached 15 percent. But today, taking into account the shares the group itself had sold in the intervening decades and the new shares that had been issued both to employees and in the Dean Witter deal, all the grumpy old men combined would be lucky to creep onto the list of top ten shareholders. And the company had a staggered board closely allied with Purcell that would require three-quarters of its members to remove the CEO.

So even if there were justification for many of the complaints over Purcell’s tenure as CEO, the logical course of action would be to sell one’s shares and get on with life rather than to hold a press conference. Put another way, it is puzzling why a group of otherwise intelligent financiers, some might say among the most brilliant of their generation, would launch an attack whose only realistic prospect of success as they defined it would come from creating so much turmoil at the institution they claimed to love that the board would be forced to act. And by the time the board did act on June 13, 2005, and Purcell was finally forced to resign, dozens of Morgan Stanley’s finest had departed. Some were ousted as part of the final efforts by Purcell to hold on to power. Some took financially attractive long-term contracts elsewhere as competitors exploited the instability at the firm. And some just left in disgust.

The grumpy old men had won. And the prize was a profoundly weakened, initially leaderless institution, with poorer prospects than ever of regaining its earlier glory. Although John Mack would return to take over the helm of Morgan Stanley within a few weeks of Purcell’s resignation, as of this writing, none of the senior bankers who left during 2005 have come back. In Business Week’s 2005 review of the top 100 global brands, Morgan Stanley had the distinction of having lost more of its brand value (15 percent or almost $2 billion in brand value) than any other U.S.-based peer in any industry. The management turmoil and ouster of Purcell, the magazine said, had “seriously damaged the firm’s sterling reputation.”

What explains this apparently self-destructive crusade by the scions of Morgan Stanley’s halcyon days? Mere dissatisfaction with Purcell’s management is not a credible explanation. Some less generous commentators have suggested that “the attempted putsch may represent the final death
rattle of a Wall Street era personified by . . . well-born, Ivy League educated investment bankers." In this version, the intensity of the personal animus against Purcell is heightened by the shame over their own complicity in letting the infidels into the temple in the first place. "It was a merger of patricians and plebeians, and the final irony was that the plebeians outwitted the patricians," argued historian Ron Chernow, author of the definitive history of Morgan Stanley.

Although there is more than a grain of truth to this characterization of the struggle between the old guard and the new, it does not tell the whole story. S. Parker Gilbert, stepson of Harold Stanley and son of a legendary J. P. Morgan partner who had run the Treasury Department under Andrew Mellon in his twenties, may fit neatly into the stereotype of a Morgan Stanley partner of yore. But these partners of Fisher’s generation or just after were hardly a homogeneous group and both represented and had encouraged a sharp break with that past. Fisher himself was the son of an adhesives salesman and struggled valiantly with the physical constraints imposed on him by childhood polio. Lewis Bernard was in 1963 the first Jewish hire at Morgan Stanley—made only after carefully checking with selected clients, one of whom embarrassingly turned out to be Jewish—and an important strategic innovator at the firm. Even Bob Greenhill, also the son of immigrants, was highly controversial as he became the first bona fide celebrity of the early M&A wars of the 1970s. Ironically, Greenhill had been a rival, not a friend, of Fisher’s and did not attend his funeral.

As revolutionary as Fisher’s generation was at the time, it was not really hypocritical for them to now claim the mantle of Morgan Stanley family values. For all the dramatic changes they produced, they always abided by J. P. Morgan, Jr.’s, simple dictum about the firm only doing “first-class business in a first-class way.” The depth of the anger and frustration voiced by the grumpy old men can only really be explained by the extent to which they had seen this very fundamental value systematically challenged. But the disturbing changes at Morgan Stanley over the past decade were not primarily the result of Phil Purcell’s leadership. Rather they, and corresponding changes at all the major investment banks, were driven by the unprecedented economic boom and bust that placed extraordinary pressures on the values that had once prevailed at these institutions.

Much has already been written about the various economic “bubbles” of the late 1990s—the Internet bubble, the telecom bubble, the technology bubble and the stock market bubble. Much has also been written about
the role of investment banks in fueling these ephemeral bubbles. Much less has been written, however, about the investment banks’ own bubble. While the investment banks in some ways made possible all the other bubbles—by, for example, legitimizing hundreds of speculative start-up companies for public market investors and opining as to the “fairness” of incredible values placed on these businesses—these institutions themselves were fundamentally transformed by the unprecedented number of deals the forces they unleashed created.

With roots going back over a century, the major investment banking houses largely eschewed publicity and had developed their own idiosyncratic cultures built on notions of exclusivity, integrity, and conservatism. This culture served a valuable self-regulatory function in an era where governmental institutions were not equipped to provide that service. And it provided CEO’s finding their way in the newly globalizing consumer society with faithful financial advice about the increasingly complex markets in which they found themselves.

Suddenly these investment bankers found themselves cast as principal players in the free wheeling go-go Internet economy complete with their very own public celebrities. There was a corresponding emergence of the celebrity CEO, who no longer saw loyalty to a financial advisor as in his short-term interest. And in this environment, investment bankers’ ability to take market share from their competitors often became a function of their willingness to relax previously held corporate values. The boom accelerated what had already been an emerging shift in the self-conceptions of investment bankers themselves—from discreet trusted advisors to increasingly mercenary deal hounds for whom not just profitability but now publicity became prime objectives. No longer mere agents for their corporate clients, banks and their star bankers now positioned themselves as prime actors in the unfolding economic drama.

Once the bubble burst starting in 2000, these banks were barely recognizable from what they were before. Their efforts to re-establish their former cultures, reputations, and profitability in the face of a shrinking business base and increased regulatory scrutiny once again severely tested the organizations’ leadership. And with much of that leadership having ascended to power during and because of the earlier boom, the results were predictably uneven and highly ironic. The “celebrity” bankers of the era had made many enemies—within their own institutions, among regulators, and even in some cases among their formerly loyal corporate clients.
Some were pushed out, some were indicted and some managed to re-invent themselves and survive. The industry that these changes left behind was both less trusted and less profitable.

In 1994, I was a midlevel airline executive. More by accident than by design, I ended up with a front row seat for both the boom and the subsequent bust at the two most prestigious investment banks on Wall Street. This book tells the story of the past decade from that unique vantage point. I use my own experiences first at Goldman Sachs and later at Morgan Stanley as the launching pad to tell the story of the transformation of the industry as a whole. In doing so, I aim to provide candid and accessible descriptions of how these firms operate, what investment bankers actually do and how “deals” are done. More broadly, however, I tell the story of how these firms and the industry responded culturally and structurally first to their unprecedented expansion and then to the devastating retrenchment of the new century.

It is a portrait of how the culture that emerged during the boom undermined the integrity of these institutions in a way that will make it difficult if not impossible for them ever to regain the role they once held. New organizations such as multibillion-dollar hedge funds and LBO firms have begun to step in and play some of the roles once dominated by the investment banks. Whether our financial markets or culture are better off with these new and largely unregulated institutions is very much open to question. As either providers of capital or as providers of a preferred home to our best and brightest graduates, hedge funds and LBO firms raise important issues relating to the transparency and risk profile of our economy as well as the values that economy promotes.

The fundamental shift in investment banking to a more aggressive, opportunistic, and transactional business model from one rooted in long-term client relationships and deeply held business values was not a product of the Internet era in particular. A variety of structural and regulatory changes had incrementally moved the industry in this direction over the previous decades. The boom of the late 1990s simply accelerated the rate of change so that many of these institutions became unrecognizable from their former selves in the space of a few short years.

At one time, the investment banker viewed his interrelated obligations as to the client, the institution, and the markets. The client might have been with the firm for generations. The institution’s reputation was viewed as its most important asset. Internal standards went well beyond any regulatory requirements to protect investors. And investment bankers advanced
based largely on their success in simultaneously serving the client, preserving the franchise, and protecting the public.

In place of this ideal a culture of contingency emerged, a sense not only that each day might be your last, but that your value was linked exclusively to how much revenue was generated for the firm on that day—regardless of its source. At the height of the boom in 1999, I had recently left Goldman Sachs for Morgan Stanley. Once white-shoe Morgan was now locked in battle with relative upstart Donaldson, Luksin and Jenrette to claim the mantle of junk bond king, up for grabs since the final implosion of Michael Milken’s Drexel Lambert in 1990. The popularization of junk bonds by Drexel had made the debt markets available to all manner of highly leveraged speculative companies—companies, in short, that were the antithesis of Morgan Stanley’s once-pristine client list. Morgan’s primary weapon in this war was its willingness to sponsor debt for “emerging” telecom companies that required huge capital investments. This represented a new level of risk because, unlike even most junk issuers up to that point, these companies had generally never generated any cash flow and their business models in some cases were entirely new. Although the same could be said of the Internet start-ups of the period, those companies usually at least had the good sense not to borrow money.

The bankers who pressed these questionable telecom credits at Morgan in their quest for market share, fees, and internal status coined an acronym that could well be a rallying cry for what the entire investment banking industry had become more broadly. “IBG YBG” stood for “I’ll Be Gone, You’ll Be Gone.” When a particularly troubling fact came up in due diligence on one of these companies, a whispered “IBG YBG” among the banking team members would ensure that a way would be found to do the business, even if investors, or Morgan Stanley itself, would pay the price down the road. Don’t sweat it, was the implication, we’ll all be long gone by then.

In April 2005, Daniel H. Bayly, the former head of investment banking at Merrill Lynch, was sentenced to 30 months in jail for conspiracy and fraud in connection with a now-infamous Enron transaction. Merrill had “purchased” a stake in three Nigerian barges to allow Enron to book a profit in time for its earnings announcement. Enron had secretly agreed to buy the holding back in six months from the investment bank, which hoped to secure future banking business for its trouble. After Bayly and three other ex-Merrill executives were convicted for their role in the transaction, a
collective cry arose from the investment banking community. But instead of denouncing the decline in standards in their industry, the complaint was of prosecutorial overreach. Just beneath the surface of these bankers’ high-minded policy arguments about the dangers of criminalizing merely aggressive business practices, however, lurked a more visceral sentiment: there but for the grace of God go I.

It is tempting to dismiss the “grumpy old men” as an anachronistic throwback to a reactionary era better left behind. But for these men and their generation, doing “first-class business in a first-class way” actually meant something. It is not excessively romantic to think that on the road from this one-time credo to “IBG YBG,” something meaningful was lost. And maybe the true aim of their ultimately successful quest to unseat Phil Purcell was to remind the world of what investment banking once was, and to force ourselves to ask whether there might be some good reasons to want it to be that way again.