A WALL STREET BESTIARY

Field Notes for Occupiers, Tourists and Reformers

A year ago, New York's Zuccotti Park was packed with Occupy Wall Street protesters. The sound of chants and drums filled the air. Orators denounced the denizens of banking. Thanks to the internet, smartphones and social media, the shame of capitalist greed was being paraded 24x7 for a worldwide audience.

Looking out the windows at the OWS encampment, the people who actually occupy Wall Street found the scene rather ironic. Employees of the besieged firms often joked that although the demonstrators were physically so close to the organizations they despised, they had discovered very little about the ecosystem inside.

Now, on the anniversary of the righteous hoopla and amid a divisive Presidential campaign, we would do well to consider lessons learned. Did OWS unmask the true nature of Wall Street culture? Where do Wall Streeters stand on the issues at stake this November?

As a project manager who has spent much of the past twenty years helping to build and maintain information systems for global investment banks, I have gotten to know my users pretty well through requirements definition, risk analysis, and usability testing. Wall Streeters are diverse and their behavior fascinating. Yet their habitat is undergoing a significant climate change. Evolutionary developments have altered the environment to a point where certain species are being displaced, while others move in and thrive. In the spirit of historical documentation (and mostly-fond satire), here is a naturalist's field guide to the current fauna in the Wall Street wild.

Warlords

In *Margin Call*, J.C. Chandor's 2011 film about the last twenty-four hours before the crash in the lives of traders at a company that strongly resembled Lehman Brothers, the scary CEO played by Jeremy Irons tells a junior quantitative analyst to keep his explanations simple because "it wasn't brains that got me here." False modesty? Not quite. Cynics claim that to become a Managing Director at an investment bank requires approximately the same human relations skillset as the leader of a drug gang. You have to relish power for its own sake. You have to enjoy that look of fear in people's eyes when you walk into the room. Proficiency in bullying is a plus. As with diplomats who patriotically lie for their country, you learn to lie on behalf of your organization and to feel righteous about it. At some point in your rise to the top you are obliged to prove your loyalty to the firm by doing harm to a blameless but weaker colleague who trusts and depends upon you – a layoff, a demotion, a scapegoating – and you cannot squirm. To prevent being held accountable for any legal or ethical transgressions, you cultivate a lofty ignorance, delegating all messy issues to subordinates and telling them, "Don't bring me problems, bring me solutions."

Margin Call's CEO was a storybook villain: creepily evil, and cadaverously ugly. In the real world of investment banking, MDs and C-level executives are typically much better-looking, and more adept at turning on the charm when necessary. They are also no longer necessarily white. Many Warlords learned their tactics by watching their parents' generation liberate their countries from European colonial rule.

With its battles for market share and profits, capitalism can be regarded as a form of warfare, one without explosives or bloodshed directly involved. If Wall Street ceased to exist, what would happen to its warlords – and to those who aspire to the job? It is not likely that their intrinsic character would change. Who else would they find to bully?

Pirates

Pop quiz: What is the most widely celebrated holiday on Wall Street? It's not Christmas, nor Hanukkah, nor Chinese New Year, nor Eid al-Fitr. It's not Adam Smith's birthday. No, the day when more people exchange greetings and participate in festivities is International Talk Like a Pirate Day.

Regardless of your native language, on ITLAPD you are likely to send/receive humorous e-mails to/from colleagues that are laced with "arrrrs" and "mateys." Eye patches, plastic sabers, stuffed parrots, and chests of tacky treasure materialize in your workplace. Rum drinks flow freely at your favorite after-hours watering hole.

Why this playful celebration of piracy? A legendary sign hung above a trader's desk pretty much sums it up: "Work is for those who do not know how to plunder."

If Plundering 101 were ever included in the business school curriculum, the first part of the course would look a lot like Entrepreneurship 101. You identify an opportunity, assemble the right people, resources and equipment, exploit it, and then share the wealth according to some predetermined scheme. However, the course would also cover other important topics such as operating beneath the radar of the firm's Risk Management department, outmaneuvering government regulators, building a crew of loyal shipmates who migrate together from firm to firm, and portraying yourselves as freedom fighters rather than outlaws.

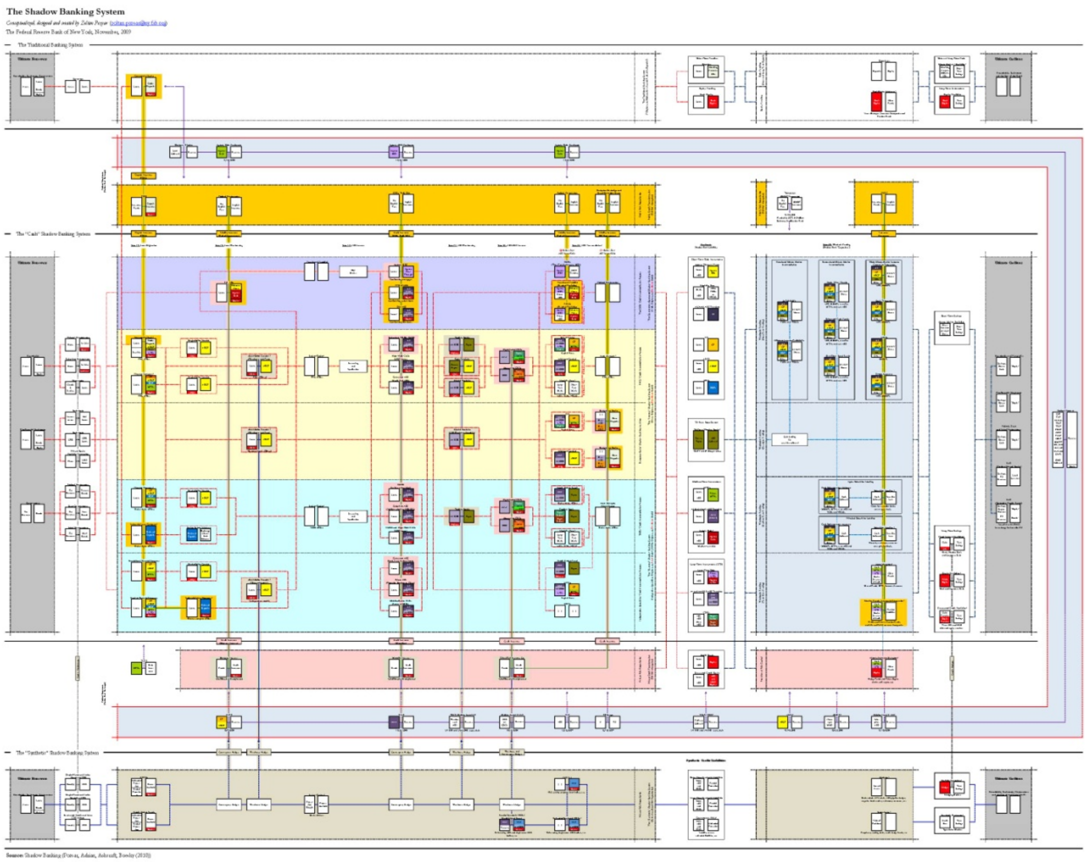
In contrast to the Warlords, who acquire and defend operational territory within an organization, Pirates thrive as independents. The adrenalin rush and roller-coaster ride of gambling in the marketplace with large amounts of other people's money satisfy their craving for thrills, their lust for competition. In other eras they might have become explorers, test pilots, and privateers, but nowadays we have machines for those sorts of messy, dangerous jobs and a life of adventure is harder to come by. If piracy is legislated out of the capital markets, where else will these people find to plunder?

IT Plumbers

When the present generation of Wall Streeters were in diapers, many of them learned by heart the lyrics of a popular song from a *Sesame Street* cartoon called “Down Below The Street”:

> All those wires, all those pipes
> Different sizes, different types
> Bring you water, bring you heat
> Down below the street.

At the time this song was composed, the financial markets still relied on paper to convey information about investment products, prices, and transactions. The digital revolution created an entirely new category of infrastructure. Telecommunications networks, servers, databases, firewalls, multi-level software applications – the IT plumbing “down below” Wall Street is fantastically complex. So complex, in fact, that regulators sometimes despair of ever making sense of it. Just take a look at the Federal Reserve Bank’s attempt to diagram the transaction flow of the market, both the institutions they supervise and the other participants (aka The Shadow Banking System).



If you're an IT Plumber, you're most happy building and tinkering. You take pride in supervising a robust operation with very few failures and very little downtime. You construct data centers in remote, hitherto low-tech areas, modernizing the surrounding towns and creating relatively high-paying jobs. You lead multicultural teams of technicians, both on-site at your headquarters and around the planet spanning multiple time zones. You protect your firm's employees and customers from hacker attacks. You're content to perform a function that may not be glamorous or exciting, but everyone knows is essential.

For about a decade, from 1998 to 2008, IT Plumbers had a metaphorical blank check to build bigger, faster, and more automated systems. Budget cutbacks following the 2008 crisis have made their lives more stressful and less creative. They are expected to maintain service levels with few people and scarcer resources. Without the promise of new construction, morale is low. The shrinkage and consolidation of the financial sector means that when Bank A buys Bank B, Bank B's systems need to be integrated with Bank A's, and territorial conflicts over design issues and infrastructure management inevitably erupt. Will the IT Plumbers become the high-tech equivalent of intransigent bureaucrats whose organizational silos and arcane procedures prevent any useful work from getting done?

Mathletes

Another true-to-life aspect of *Margin Call* was the fact that the hero held a Ph.D. in physics and his last job before joining the investment bank had been as a research scientist.

Policymakers and pundits have been complaining for some time now about the brain drain that has sucked a large proportion of highly-educated scientists and mathematicians out of the staider precincts of industry, government, and academia into the carnival of unregulated financial services. The assumption – sometimes stated, sometimes not – has been that their primary motive is greed.

While it is true that compensation is generally higher in finance than in other sectors, it's a rare quant who signs on exclusively for the paycheck. After all, if the lure of the big bucks were so strong, would he/she have chosen a math or science major in the first place? Or invested many years of hard work in a graduate degree?

No, rather it is what rich companies' money can buy that creates the allure. If you're a brilliant quant, more than anything you enjoy turning your brain loose in the conceptual laboratory. You like to play with formulas, algorithms, data models. You appreciate the egalitarian environment where social position, attractiveness, nationality, ethnic background and other external variables mean nothing – only intellect counts. You compare your work environment, your tools, and the resources at your command with those of your colleagues in other industries and sectors and you count your professional blessings.

Ah, to be a Wall Street quant circa 2006! In high school you had been a nerdy geek, sidelined while the smoother, handsomer, dumber guys got all the action. Now those guys may be Managing Directors – but look how they cater to you and coddle you. Enraptured by your intelligence, they ask no hard questions about the formulas churning on your powerful data servers. You have succeeded in persuading them that equations can eliminate risk and make the world a better place. Sweet revenge!

All that, of course, has changed, at least in the U.S. and Eurozone. Quants have not disappeared from Wall Street: as The Economist reports, with nearly 70% of equities transactions now conducted via automated systems, and with the ongoing technological arms race to trade ever faster, there is still plenty of work to go around. Hedge funds and divested bank trading units that are not subject to government regulation offer opportunities for creativity. Yet the high priesthood of quants has largely been defrocked, and academic programs in "financial engineering" attract fewer students. The Mathletes are one species we need not worry about; if their population in finance shrinks, what more worthwhile activities might benefit from their migration?

<u>Stoics</u>

High school guidance counselors who ask students about their dream jobs rarely hear "manager of compliance documentation" or "engineer in charge of an IT firewall." Unsurprisingly, most of the rank-and-file who work for banks are in it for the money. And not the greed-is-good sort of money motivation. It's survival, support, self-sacrifice.

You're a hardworking breadwinner with a large family. You're a divorced parent raising small children on your own or making large payments to your ex. You've got medical bills. Your mortgage is under water. Your parents need hired caregivers. You're trying to put your kids through college. Your spouse is unemployed, or an artist, or a graduate student, or a semi-pro athlete, or is starting a business, or is saving the world by toiling away for a non-profit. You dream of moving away to greener pastures but are tied down by too many debts, family obligations, and long-term commitments. You live near a financial center and gravitate to Wall Street the way workers near Detroit once gravitated to the automobile industry.

Walk up and down the rows of cubicles, and the stories people tell are variations on the same theme. This is where responsible folks end up when they need to take care of dependents and earn the highest possible income.

Once upon a time, until 2008, these jobs may have been stressful and unglamorous but at least they were steady and provided a stable income. No more. The financial sector has eliminated 200,000 jobs since the beginning of the crisis, and the shrinkage continues. Compensation has been cut by 30% to 50% – permanently, with no hope of it ever regaining the levels upon which Stoics based their domestic arrangements, their educational plans, their house purchase, etc.

Of all the species found on Wall Street, this one is the most vulnerable to changes in the ecosystem. Like steady workhorses, they tend to plow the same rut and get bewildered if they need to go in search of new pastures by themselves. They're the B and C students. They're people people. They celebrate team members' birthdays, organize baby showers, and attend funerals. Their responsibility, commitment, and willingness to do what is necessary build effective communities within the organization.

Will it be possible to create new jobs for these Stoics near their present homes by promoting growth in other industries, or will they and their families continue to fall through the social safety net and face a bleakly downsized future?

Apparatchiks

Back in the early days of the Obama administration, after the critically wounded investment banks accepted infusions of capital from the federal Troubled Asset Relief Program in order to survive, a new category of workers was spotted at the firms involved. Although camouflaged by the firms' own ID badges, the members of this invasive species could easily be identified by their inside-the-Beltway fashion sense and stern demeanor: the Federal Reserve Bank regulators.

Until then, investment banks had been loosely regulated by a plethora of agencies such as the Securities and Exchange Commission and the Office of the Comptroller of the Currency. On a regular basis violations were discovered and fines levied. The banks were amassing such large revenues, however, that they could afford to regard the fines as speeding tickets – a routine and predictable cost of doing business.

Wall Street firms also had been accustomed to performing internal audits. Once a year, the checklist-toting investigators from the Internal Audit Department would conduct reviews of operations and record the problems they found in a database. Access to the database was not exactly classified, but it was highly restricted to internal users on a need-to-know basis.

Unhappy Fed regulators can now impose financial penalties far more painful than a routine speeding ticket. They can conduct their own audits, identify issues they consider problematic, and give a firm a checklist of evidence that the problems have been fixed. They also have the right to inspect the records of a firm's Internal Audit database. Banks are obliged to comply, but some managers protest that the process is too doctrinaire and intrusive. They claim it is as though the federal government had been given authority to review their personal health records, make diagnoses, and mandate treatments without the benefit of appropriate medical training.

If you're a federal regulatory Apparatchik, you feel righteous about your work. You know you are helping to clean up a mess and protect the average citizen from being swindled by a ruthless, unprincipled elite. You believe that financiers are smart but too narrowly focused upon their own self-interest, but in contrast you can see the forest for the trees and have the common good at heart. You also soon develop a carapace of cynicism from negotiating with managers whose operations you find problematic, who say things like, "What do we need to do to be *seen as being* in compliance?"

The rapid proliferation of the apparatchik species in the Wall Street ecosystem is causing concern among observers who feel that its consumption of available resources may cause other important species to become extinct, disrupt the food chain, and create an economic wasteland. Is the Apparatchik here to stay, or will another climate change curtail its growth? Should we regard it as an invasive, destructive species, or as a sign that pollution is being cleaned up and the environment becoming healthier overall?

Family traits

Just as planetary climate change impacts multiple species all at once, for example causing a shift in a family's feeding patterns or breeding areas, certain effects of the economic climate change can be observed in every one of the creatures described above.

The most significant is an increased wariness of predators, resulting in a tendency to seek protective camouflage. The following conversation overheard recently on an elevator in an investment bank captures the mood.

Banker A: Hi, how's it going?

Banker B: Okay, all things considered. Hey, guess who I ran into? [Names a colleague.]

Banker A: Yeah? Is he still bragging about inventing credit default swaps?

Banker B: No way. He's been laying low in case there's a war crimes tribunal.

To an eavesdropper the most striking aspect of this exchange was B's tone. During the pre-crisis bubble years, his last remark would have been delivered with a cynical smirk. No longer. Rather it called to mind Bruce Springsteen's snarling lyrics in his song *Shackled and Drawn* where "up on Banker's Hill the party's going strong" while everyone else is "trudging through the dark in a world gone wrong."

Bitterness, anger, shame – as a Wall Streeter these emotions trouble you because you feel the industry to which you belong has been dishonored. The folly and greed of a few people have turned a once-respectable livelihood into a stain on your resume. You know who the miscreants are. You know where they are hiding out and have a good idea who is protecting them. Perhaps under our laws they cannot be convicted of any crimes, but you wish they could be brought to justice, held accountable for their mistakes, and publicly shamed. Only then, you believe, will banking recover its sense of purpose, confidence, and decency and be able to contribute constructively to a healthy economy. Will this ever happen in your lifetime, or will it be the task of future historians to name those names and explain which decisions caused the most damage?

Moreover you are dismayed by the emergence of a 1% vs. 99% split within the Wall Street ecosystem. Beginning in the 1980's with the introduction of desktop computers and the repeal of the Glass-Steagall Act, you witnessed the domain of finance rapidly change from an elite club restricted to graduates of the right schools to a wide-open field of opportunity. You can remember the disdain of the old guard when suddenly their brightest new colleagues were members of the working class, minorities, immigrants from former colonies, or women. You saw the wealth shared – not always wisely, but widely. Then in 2008 the trend reversed. Nowadays bank CEOs are taking pay cuts, and some major-league executives' and traders' bonuses are capped at six figures. Yet as wages, job security, and working conditions deteriorate for most bank employees and contractors, you notice the gap growing and opportunities for advancement shrinking. Will shareholders and customers exercise their influence to level the playing field, or will careers in financial services again become a pastime of the privileged?

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It remains to be seen how cohesive and influential a revived Occupy movement will become in this election year. If the encampments return, perhaps protesters will observe the Wall Street ecosystem more closely. Then they and their audience may get the punch line of the natives' joke: in many important respects the attitudes of the people toiling behind the firewall are not so different from those outside chanting slogans and banging drums.