

THE WALL STREET JOURNAL

MONEY & INVESTING

©2003 Dow Jones & Company. All Rights Reserved

THURSDAY, MARCH 6, 2003

Small Brokerage Firms Go on Hiring Binge

By JATHON SAPSFORD
And SUSANNE CRAIG

SECOND-TIER brokerage firms are hunting for treasure on Wall Street.

As the big brokerage firms and banks cut back on personnel, such firms as **Jefferies Group Inc.**, **First Albany Cos.** and even the much smaller **Think Equity Partners** of San Francisco have gone on hiring binges in recent months, snapping up both individuals and whole trading groups that are suddenly available.

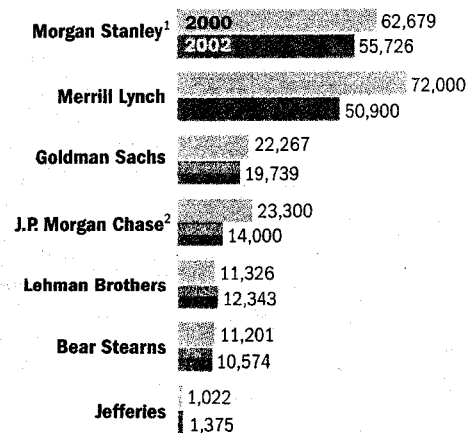
First Albany is an upstate New York company whose First Albany Corp. brokerage unit has hired more than 60 traders, analysts, salespeople and investment bankers over the past year, including chunks of people dismissed from units of **J.P. Morgan Chase & Co.** and **FleetBoston Financial Corp.** First Albany, whose own stock trades on the Nasdaq Stock Market, opened a Nasdaq stock-trading desk in San Francisco last year that started with six traders hired en masse from J.P. Morgan's **Hambrecht & Quist** unit. That desk now has 14 traders.

Other small brokerage firms are also hiring. Ranks at New York-based **Jefferies Group**, whose shares are traded on the New York Stock Exchange, have swelled by 35%, or more than 300, to 1,375 employees since the end of 2000, while staffing across Wall Street is down by nearly 10%.

"We wouldn't be able to do this in a bull market," says Rob Gales, First Albany's head of equity-capital markets, who is in charge of building

A Smaller Wall Street

Changes in head counts at some Wall Street securities firms

¹Includes credit-card segment²Investment banking division

Source: the companies

the firm's stock team.

These firms are, of course, small opportunists in a market dominated by huge financial institutions with global reach. Yet their hiring right now—often at rock-bottom prices—marks a postscript to

Wall Street's consolidation and the attempt of commercial banks to jump into the stock business. Last month, U.S. **Bancorp** acknowledged that its five-year-old acquisition of regional brokerage firm **Piper Jaffray Cos.** hadn't panned out, and announced plans to spin it off. J.P. Morgan has been scaling back **Hambrecht & Quist**, and **Fleet** last year shut down its **Robertson Stephens** unit after failing to find a buyer. As a result, hundreds of bankers and analysts are looking for work.

But hiring refugees from these mistakes isn't a surefire strategy. The market's slide has sent investors of all stripes into hiding and has dented trading revenue across Wall Street, regardless of the size of the bank. Officials of the smaller banks say they are aware of the risks, but are charging ahead regardless. **Piper Jaffray** is hiring even as it parts ways with U.S. **Bancorp**, picking up more than 20 bankers who used to work at **Robertson Stephens**, including its convertible-bond team.

"If your plan is to get rich fast, it is a bad plan," says **Deborah Quazzo**, president and head of banking at **Think Equity**, a San Francisco investment boutique. "But it is a great time to put a business together."

Behind that bet is the view that consolidation on Wall Street has gone too far. Over the past two decades, the brokerage industry merged into a handful of megafirms stumbling over each other to serve Fortune 1000 clients.

Smaller corporate clients, including the more

Please Turn to Page C10, Column 1

THE WALL STREET JOURNAL

THURSDAY, MARCH 6, 2003

-2-

Recruiting From the Big Guys

Continued From Page C1

than 2,000 publicly listed companies with market caps of between \$100 million and \$1.5 billion, were left to a handful of smaller brokerage firms, including Hambrecht & Quist, Robertson Stephens, Montgomery Securities, and Alex. Brown.

But even these niche players ultimately were acquired by the big commercial banks, which coveted their equity businesses, but often had tried and failed to find merger partners among bigger brokerage firms.

When the markets deflated, the bankers at brokerage firms gobbled up by the big commercial banks were the first to go, even though those same workers were often the reason their firms were acquired. "In difficult economic times, often the wrong people get downsized," says Henry Hu, a corporate and securities-law professor at the University of Texas.

The upshot is that firms like First Albany and Jefferies see a shortage of brokerage firms ready to serve smaller firms when the markets recover. "First Albany may be an experiment, but the sector it serves is not," says Peter McNierney, head of investment banking at First Albany, who worked for Robertson Stephens before Fleet closed it last July.

First Albany itself hasn't been immune to the market's woes. In 2001, the firm began a drastic renovation that cut the equity staff to roughly 70 from 140. Now it is rebuilding, hoping to find value amid the detritus of mistakes by bigger firms. "We had anticipated an opportunity to recruit," says Chief Executive Alan Goldberg.

In recent months, there are some early signs that its strategy is working: The company's share price, for example, had languished for years. But closing at \$7.63 yesterday in 4 p.m. Nasdaq Stock Market trading, it is up about 69% from a July 2002 low of \$4.52. Profit for the

fourth quarter, meantime, was up 15% to \$43.3 million.

While smaller firms can't match the pay packages of their bigger rivals—though even the big firms are slashing bonuses in the downturn—new recruits are being offered pay deals more closely tied to performance that could grow if the firm does well. At Jefferies, for example, traders are paid about 20% of the commissions they generate, as well as a modest salary and equity in the firm.

Jefferies has hired a slew of employees from Robertson and elsewhere. Chief Executive Richard Handler says Jefferies has been concentrating on bringing in "rainmakers" such as Robert Lessin, former head of investment banking at Salomon Smith Barney, a division of Citigroup Inc.

After a long career on Wall Street, Mr. Lessin got the dot-com bug in 1998 and left Salomon for Wit Capital. Last year, he decided to return to Wall Street, but says he turned down a number of offers at larger firms in favor of Jefferies because he wanted to be at a firm that was growing, not cutting back. Jefferies's net income continues to advance despite profit drops at many of its larger Wall Street rivals, climbing to a record \$62.6 million in 2002, up from \$59.5 million the previous year.

Traders such as Tom LaBenz feel like they are returning home. Mr. LaBenz traded Nasdaq equities for Hambrecht & Quist in San Francisco before the firm was acquired by what would become J.P. Morgan. After J.P. Morgan decided to move Hambrecht's traders to New York, Mr. LaBenz began considering his options.

When First Albany came along with an offer, he was intrigued, and now says he is excited about rekindling the spirit of working at a small firm, something he had last known before H&Q was sold. "I don't think we knew how great it was at H&Q until we lost it," says Mr. LaBenz.