

## FINANCIAL CAREERS: WHAT'S HOT, WHAT'S NOT<sup>©</sup>

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### **2006 FINANCIAL SERVICES' JOB FORECAST**

For the last three years, I've been presenting an annual job forecast, which to date have been 100% accurate. Now it's time to use the same process once again to create my 2006 Financial Services Job Forecast.

The forecast is created by making a list of all the economic indicators in the current year that are

relevant to predicting the next year's job status in the financial services field, which consists of the asset management, banking, corporate, hedge funds, investment banking, private equity, real estate, research, and turnaround/workout sectors.

The leading economic indicators used are: fiscal and industry statistics; status of retained search recruiters; personal perceptions of people in the different sectors (or what I call "the word on the street"); and senior financial management's outlook.

## **2006 FINANCIAL SERVICES' JOB FORECAST CONTINUED**

Then this list of economic indicators is divided into two categories:

- ones that are likely to have a negative effect on financial services job creation
- ones that are likely to have a positive effect on financial services job creation.



The last step is easy: those job holders with more negative economic impacts than positives present probably have a no growth to slow growth next year job forecast while those whose fields are affected by more positive than negative economic impacts will benefit from some job growth to really hot demand for their skills.

Analyzing the current year's economic indicators to forecast financial services job demand works because both a person's career and job are second derivatives. You see, what first determines the value of a person's skill set is the supply and demand level for the expertise stage the person whose career or job is being considered is at... BUT this first factor's value is dependent upon the status of the underlying economy, which makes a person's career and job second derivatives.

People routinely forget that much more than their own performance and education determines their

compensation level, the availability of positions, and even the speed of their career progression. Remembering that jobs and careers are dependent upon what happens in the underlying economy makes career decisions - and annual financial services job forecasts - more effective.

### THE LEADING INDICATORS SAY

#### What's negative:

- ★ **STATISTIC: LIQUIDITY SUPPLY/CHASING RETURNS:** With so much liquidity created from low interest rates, financial innovations, global diversity, leverage, and corporations with more free cash flow/net cash from recovering markets, cost-cutting and outsourcing, monies are flowing heavily into hedge funds, private equity firms, new financial products, etc... The concerns:
  - ★ Given their fee structure, hedge funds have been generating fairly low returns primarily because of low volatility. As a result, hedge funds trying to capture higher returns have ventured into a wide range of other products, including insurance/re-insurance, middle market lending, motion pictures, private equity, rare coins, real estate, trade finance, and water. A broader foray into unknown fields with different timing and risk factors can be increasing the potential for some of those hedge funds to fail.
  - ★ **WORD ON THE STREET: THE "OXYGEN EFFECT":** Private equity large deals are soaring but these large deals are eating up the funds that normally go to smaller deals that fund start-up companies...so without start-up firms being financed, where will the next generation of large deal companies come from?
  - ★ **STATISTIC: VOLATILITY:** According to the 11/1/05 article *Waking the dogs* by Buttonwood in *The Economist Global Agenda*, volatility (as measured by the Chicago Board Options Exchange's Volatility Index) "has been slowly rising since mid-July". Reasons for the increase appear to be: rising inflation and interest rates, huge global trade imbalances with their resulting potential shifts in economic power, the rapid proliferation of financial instruments not totally understood, and the combination of rising indebtedness of U.S. and U.K. households.
  - ★ **WORD ON THE STREET: THE "LIQUIDITY BLACK HOLE" DANGER:**

## 2006 FINANCIAL SERVICES' JOB FORECAST CONTINUED

When there's minimal diversity of opinion among investors in a field, how is liquidity impacted if an event contrary to held opinion occurs? Signs of this phenomenon are showing up among money managers, bulge bracket investment banks, and large hedge funds regarding interest rates movements, volatility levels, etc...

- ★ **WORD ON THE STREET:** The value of many synthetically created derivatives and CDOs to hedge risk far outweigh the actual value of the underlying assets. Additionally some investors aren't aware of a number of portfolios in which they're contained, setting the stage for a possible "double whammy" (i.e., you think that you've hedged your risk but instead your actions actually increased your risk again without protecting you against the event you wanted to hedge) if a large adverse event occurs.
- ★ **STATISTIC:** According to *The Economist* in their 7/11/04 article entitled *Volatility: An Eerie Calm*, one of the reasons that volatility is so low in 2004-5 is that there are so many sellers of equity options, which are like insurance against falls in share prices and accordingly drives down the price of implied volatility. Selling options generates lots of revenue for investment banks, fund managers, and hedge funds but what happens if volatility rises?
- ★ **STATISTICS: THE USUAL 21<sup>ST</sup> CENTURY RISKS:** Terrorism, energy and healthcare costs plus operational risks (key person, fraud, settlement, judge track record, claim liability, disputed/contingent claims, holding period, liquidation, tax issues, compliance, IT, legal, and infrastructure, etc...) continue to be quoted by almost all of the news sources reviewed as economic growth derailment possibilities.
- ★ **WORD ON THE STREET:** Current level of foreign capital inflow probably unsustainably high, China's labor force is almost fully employed and is now demanding and getting wage increases, banks are starting to tighten up what LBO multiples they'll finance in private equity, and many venture capital firms are investing in China by placing capital with first time firms led by first time teams and sometimes even with first time venture capitalists. Some large banks are switching from more published fixed income reports to having their best debt

analysts working with traders to offer real-time trading ideas to clients.

### What's positive:

- ★ **STATISTIC: LIQUIDITY SUPPLY:** So much liquidity is flooding the markets that most economies globally are feeling the economic uplift:
  - ★ **STATISTIC: OECD/OCDE 2006 Economic Outlook:** world economic growth is looking good for 2006 for most countries.
  - ★ **STATISTIC:** Asian markets are near record highs for equity and M&A deals, with share trading turnover increasing sharply and even fixed income up because of the demand for high-yield Asian junk bonds according to Francesco Guerrera in his "'tis the season to pay bonuses" article in the 12/17/05 *Financial Times*. Source of growth is attributed to "strong capital inflows from hedge funds and other foreign investors".
  - ★ **WORD ON THE STREET:** Thailand just had its first LBO, China is slowly opening its market to more foreign investments, including private equity and real estate, and India appears to be moving towards a solid market economy while picking up more of the outsourcing because its labor force is now in many cases cheaper than China's.
- ★ **STATISTIC: VOLATILITY:** Global markets volatility is low for equities, bonds, and currencies with volatility fallen in all countries, the declines being greatest in the U.S. and Europe.
- ★ **STATISTIC: THE ANXIOUS INDEX:** The data source, [phil.frb.org/econ/spf/index.html](http://phil.frb.org/econ/spf/index.html), has a third column, "MEAN PROBABILITY OF DECLINE IN REAL GDP", that is known for rising as recessions begin, peaking during them, and then declining when recovery is imminent. From a fourth quarter 2004 score of 9.61, the 2005 quarterly scores have continued to descend, with a fourth quarter 2005 score of 7.57, which is much lower than first quarter 2001 score of 32.
- ★ **STATISTICS:** private equity is soaring with LBOs and IPOs up, terms relaxing and bankruptcies down. Healthcare costs are also slowing their increases. Investment banking is booming in almost all areas: fixed income, currency, commodities, M&A, and equities.

## **2006 FINANCIAL SERVICES' JOB FORECAST CONTINUED**

- ★ **STATISTIC:** Hedge funds searching for returns have entered the European corporate markets where their influence is driving major structural changes.
- ★ **STATISTIC:** U.S. is still the strongest economy despite deficits and interest rates rising so foreign capital inflows are skyrocketing: according to Michael Lewis from Free Market Inc. ([www.freemarketinc.com](http://www.freemarketinc.com)) in his 10/20/05 newsletter, total foreign purchases of U.S. bonds and notes have raised from an average of about 2% of GDP to nearly 7.5% of GDP in 2004.
- ★ **STATISTICS: THE USUAL 21<sup>ST</sup> CENTURY RISKS:** Most news sources reviewed agreed that the robust nature of the 2005 U.S. market in quickly weathering multiple serious hurricanes, more financial scandals, and large deficits was outstanding and a leading indicator of the depth and resiliency of one of the largest economies whose health level seriously impacts other economies.
- ★ **HEADHUNTERS ARE DOING GREAT:** How retained executive search firms are faring is an outstanding leading indicator. A search normally takes between three to six months to complete and involves a significant fee with an increased compensation/benefits expense commitment - all factors that a firm anticipating economically challenging times will avoid. Retained executive search firms are doing quite well at the end of 2005, with many future 2006 searches already in discussion. Hot areas continue to be anything to do with accounting, compliance, commodities, or wealth management.
- ★ **HEADHUNTERS & WORD ON THE STREET:** Money management compensation and positions are on the rebound as investors return to the asset management firms for investment advice/wealth management.
- ★ **WORD ON THE STREET:** Global competition is up in almost all financial sectors driven by the liquidity inflows, which is helping to keep inflation in check and fostering creativity as evinced by the large number of new financial products and new lines of business that financiers are creating and entering. Hedge funds' inroads into European corporations are challenging management to be more profit-oriented and to eliminate inefficiencies. Emerging real estate markets are picking up while the U.S. real estate market might be slowing.
- ★ **SENIOR MANAGEMENT'S OUTLOOK:** With any score above a 50 indicating an outlook of economic expansion, the Business Roundtable's December 2005 CEO Economic Outlook Survey weighed in with a total of 101.4, "a high second only to the reading of 104.4 in the first quarter of 2005". This survey, as a leading indicator for the state of financial services job growth, has yet to be wrong so the fact that 40% of their respondents expect to increase their U.S. employment and another 41% plan on keeping the same number of U.S. employees is a very good sign.
- ★ **SENIOR MANAGEMENT'S OUTLOOK:** McKinsey's Global Survey of Business Executives in October 2005 shows that twice as many global executives plan on increasing their company's workforce as those that say that they will decrease it.

### **New additions to the "hot" positions are:**

- ★ **Global investment management, global private banking and global distribution positions.** Why? A world economy's now a reality and regulations are at an apex so professionals are needed to house and manage those assets where they're purchased and to transfer the correct information/paper to the investor's location as needed.
- ★ **Intellectual property (IP):** with intangible assets accounting for way over 75% of S&P 500 market capitalization PLUS China finally interested in IP rights for itself, watch for many new products - which will require finance professionals to create, launch and implement them - emerging in 2006 and beyond.

### **THE 2006 JOBS FORECAST**

Although there are potentially negative impacts present that could pop up in 2006, these factors tend to be either elements that take more than a one year period to develop or are epsilon events that most should have covered already by contingency plans and/or reserves. So, given the larger "more short-term until the impact is felt" factors present at the end of 2005 that are positive,

- ★ **2006** is going to be **A GOOD YEAR FOR FINANCIAL SERVICES JOBS WORLD-WIDE** with a substantial number of choice positions, increasing compensation, and interesting new products to work with.

## 2006 FINANCIAL SERVICES' JOB FORECAST CONTINUED



### Non-growth Jobs/Careers

#### IN GENERAL:

↓ **Unspecialized workers**, people **lacking technical skills or credentials**, and individuals in positions where **personal relationships** with clients are **not important**: Back in December 2003, my career advice was that financial professionals needed to “adapt/expand their personal sustainable competitive advantage to a global workforce”. Many yawned because people had been talking about globalization forever and it hadn’t happened yet. 2004 definitely did negatively impact financial careers (in back office/IT/operations especially) with the first major wave of outsourcing to China and India. Today the **globalization trend continues** with the latest development being the **preference of major corporations for their finance professionals to have more than a Bachelors degree**. In fact, lately it seems that whenever an individual with just a Bachelors degree is caught in a major corporation’s layoff, he’s usually unemployed longer and being rehired by smaller firms than his more degreed colleagues.

**CAREER ADVICE:** If you’re a finance professional with just a Bachelors degree, go get CFA, CPA, JD, or MBA certification ASAP because it will make your future.

#### CONSULTING:

↓ **New positions at workout/turnaround firms** as this field will have enough work to keep it busy but probably not enough to justify new hires.

#### CORPORATE:

↓ **All positions at some corporations** that land up on the wrong side of their forecasts because of the differences between their assumptions and real world market conditions.

#### HEDGE FUNDS:

↓ **All positions at some hedge funds** that land up on the wrong side of their forecasts because of the differences between their assumptions and real world market conditions.

**CAREER HINT:** if you’re a finance professional looking at corporate or hedge fund positions, thoughtfully review how their corporate strategy is likely to unfold before accepting an offer.

#### PRIVATE EQUITY:

↓ **All positions at start-up companies** because they might not have the excess capital from private equity firms to hire as many.

#### **What to do if you’re in a potential Non-Growth area**

1. Dust off that resume and update it.
2. Review your updated resume: does it show
  - a. what you’ve made, saved and/or achieved in each of your positions?
  - b. a clear picture of continuous promotions or increasing responsibilities?
  - c. the right education and training expected for someone at your level?
  - d. stability in the length of time spent with each firm...or a clear reason why there was a short duration?
3. Include items mentioned in #2 that weren’t initially in your updated resume. Explain any short periods.
4. Make plans to upgrade any education and/or training that’s suboptimal given your level.
5. Make a list of other positions/fields that your skill set and personality could easily transfer to. If uncertain what those might be, hire a career coach, visit your university’s career development center, or identify other possible sources of help through your local business library.
6. Attend events held by associations in your potentially new field/position to develop relationships and confirm/disconfirm your interest in these other possibilities.

## 2006 FINANCIAL SERVICES' JOB FORECAST CONTINUED



### Growth Job Areas:

(just about everyone else)

#### IN GENERAL:

- ↑ Accounting/compliance: for hedge funds, corporate, money management firms - you name the sector - **it's all still hot** ...so much so that **this area is one of the first to start hiring "one-offs"**, i.e., individuals working in other relevant fields that would be easily able to pick up this sector because of the similarities between their current and future positions.
- ↑ Risk management, especially given the number of new credit derivative products recently developed and the number of new areas financial firms are entering.

#### ASSET MANAGEMENT:

- ↑ **A new asset class - intellectual property (IP)** - is born, which means that IP product creation and analysis plus new business development jobs are also formed and increasing in demand.
- ↑ Portfolio managers and the positions that support them, both for domestic and world-wide investments.

#### BANKING:

- ↑ Commodities: trade finance, structured, traditional, trading, corporate - you name the variety - **it's all still hot** ...so much so that **this area is one of the first to start hiring "one-offs"**, i.e., individuals working in other relevant fields that would be easily able to pick up this sector because of the similarities between their current and future positions.
- ↑ Global securities distribution positions, especially new business development.

- ↑ Private bankers and the positions that support them, both for domestic and world-wide investments.

#### CONSULTING:

- ↑ Intellectual property product and new business development.

#### CORPORATE:

- ↑ New CEOs/CFOs to run companies where volatility/organizational risk/fraud has eliminated previous teams PLUS all financial positions.

#### HEDGE FUNDS:

- ↑ Almost all financial positions at most hedge funds.

#### INVESTMENT BANKING:

- ↑ Almost all areas.

#### PRIVATE EQUITY:

- ↑ Larger deals globally.

#### REAL ESTATE:

- ↔ Most areas will remain status quo.

#### RESEARCH:

- ↑ In a changing world environment flooded with liquidity and uncertainty, research positions to support bankers, money managers, hedge funds, or private equity are in demand.

Enjoy your 2006 year



because if your position is  
on this page, you won!