

## The derivatives Job Market Is HOT, HOT, HOT

By Robert Hunter

If *The Graduate* were filmed today, the one-word pool-side career advice offered to Raymond might very well be “derivatives.” After three years of what recruiters call float—too many qualified people trying to fill relatively scarce positions—the derivatives labor market has reawakened. Although it hasn’t quite reached the strength of the halcyon days of the early 1990s, it has begun to flex its atrophied muscles once again.

“In the last year-and-a-half, we’ve seen a reinvigoration of the marketplace, a renewal of activity,” says Gene Shen, managing director at The Whitney Group, a New York-based recruiter. “And recruitment tends to reflect the needs and dynamics of the marketplace.” “There’s much more of a free-spending environment these days,” adds a New York-based recruiter. “It’s much looser.”

The tight talent market is making some employers desperate to hold onto their workers at all costs. Many are performing preemptive strikes against would-be competitors by bumping up compensation packages higher than ever.

One recruiter trying to fill a \$2.5 million position as head of emerging markets trading felt he was finally getting somewhere with one London-based trader, who listened carefully to his pitch and complained about being slightly underpaid. He soon got a call back. “Thanks, but no thanks,” the candidate said. “They really took care of me.”

According to John Arbolino, a recruiter at Solomon-Paige, firms are upping the ante like never before, and it’s happening virtually across the board. “You can sometimes see guys get 100 percent bonuses, because companies don’t want to lose their employees.” He notes that relatively low-paying back-office personnel, such as profit-and-loss reporters who, say, supervise a small group, can rake in close to a quarter-million dollars nowadays. “You didn’t see that a couple of years ago,” he says.

*“In the last year-and-a-half, we’ve seen a reinvigoration of the marketplace, a renewal of activity. And recruitment tends to reflect the needs and dynamics of the marketplace.”*

**Gene Shen**  
*managing director,  
The Whitney Group*

But are firms keeping their workers happy enough to stay? By and large, yes. Despite the high demand for derivatives professionals, one recruiter sees a relatively quiet winter in the flesh market. “When the big players have really big years, like they have this year, there’s less of an incentive to leave,” he says. “People are well-paid, and happy.”

### What’s hot? What’s not?

At this stage in the market, most major dealers have relatively mature derivatives infrastructures in place. Rather than large-scale buildups, there is what one recruiter terms “discrete demand”—firms are looking to plug holes as they develop, and explore sexy new areas by means of evolution rather than revolution. Massive defections are largely on the wane, even as business booms.

Firms today are hiring primarily in the newer and more esoteric areas of the derivatives market. People in credit derivatives, emerging market derivatives, global equity derivatives, insurance derivatives and energy derivatives are ideally positioned, whether they are interested in moving on to greener pastures or not.

**The reverse applies to the labor market’s aging divas. According to one prominent New York-based recruiter. “basic fixed-income stuff is nowhere.” Mortgage-backed are flat-lining as well.**

based recruiter, “basic fixed-income stuff is nowhere.” Mortgage-backed are flat-lining as well. “There’s not a lot of hiring going on in that area at all,” says Bob Olman of COR Management Services.

In the beginning of the year, foreign exchange was another bone-dry sector, as virtually no Manhattan banks were hiring foreign exchange traders. While the market may have rebounded in recent months, its future is darkened by the specter of European Currency Union.

Top-tier talent has seen comp packages return to—and sometimes exceed—those of the go-go years of the early 1990s. But what is most striking about today’s comp landscape is that packages are increasing at all levels. A couple of years ago, disparities between top- and middle-level talent were increasing dramatically. Today, middle- and lower-level positions are making sizable gains, and the barbell-shaped comp curve of 1995—in which middle-rank positions had been eliminated and employees were concentrated at the highest and lowest extremes of the pay scale—has moderated substantially. While the numbers may not approach all-time highs, “**Comp is up across the board—at least 25 percent over the past two years,**” says COR’s Olman.

Name.	Rank.	Dissertation Subject
-------	-------	----------------------

Recruiters say people in the hot new areas can expect huge pay increases this year. “People who choose to stay put are probably going to get a raise that’s 10 percent to 15 percent higher than they normally would, as a result of their employers’ fear of losing them to the competition,” says Mark Moyer of New York-based Peak Search. “And of course if they switch firms, they’re going to get a 25 percent or higher bump.”

<b>Risk Management</b>	n/a	150–300	350–700	more than 800
<b>Sales/Marketing</b>	100–125	200–250	375–525	800–1,250
<b>Trading</b>	100–125	200–300	400–600	800–1,250
<b>Quant (Ph.D.)</b>	70–80	150–250	350–450	more than 600

<b>Foreign Exchange</b>	<b>Entry level</b>	<b>Three years' experience</b>	<b>Five years' experience</b>	<b>Top</b>
<b>Risk Management</b>	n/a	150–350	350–700	more than 800
<b>Sales/Marketing</b>	60–100	250–400	400–600	800–1,200
<b>Trading</b>	60–100	200–325	400–700	800–1,500
<b>Quant (Ph.D.)</b>	70–80	150–250	350–450	more than 600

<b>Equity</b>	<b>Entry level</b>	<b>Three years' experience</b>	<b>Five years' experience</b>	<b>Top</b>
<b>Risk Management</b>	n/a	150–350	350–700	more than 800
<b>Sales/Marketing</b>	110–125	300–500	450–600	more than 1,100
<b>Trading</b>	125–150	300–400	600–700	more than 1,200
<b>Quant (Ph.D.)</b>	70–80	200–300	400–500	more than 650

One recruiter reports that the salary inflation is extending down the food chain. One of his clients, a lower-level risk manager at a major New York dealer, made a total of around \$80,000 in 1996. This year, his employer offered him a base salary of around \$80,000 and promised he'd get close to a 100 percent bonus—roughly twice his salary. But another firm wanted him badly enough to offer a package of around \$200,000. While he may be involved in a unique branch of risk management, his bump in pay is not unusual. "Some people are making ridiculous jumps," says the recruiter. "[His case] was not ridiculous."

So what sort of comp should you be getting? (See chart below.) "Some traders at second-tier firms are being offered packages in the range of \$500,000 to \$800,000," says Olaf Meyer, a principal at Cromwell Partners. Similarly positioned salespeople go for about the same. "These packages are out of whack," says a prominent New York recruiter. "We had a head of global emerging markets fixed-income trading go for a million and a half. Good salespeople with a lot of clients can command even more."

"Some traders at second-tier firms are being offered packages in the range of \$500,000 to \$800,000."

**Olaf Meyer**  
principal, Cromwell Partners

One of the most notable examples of comp escalation is Nat West, which reportedly put together an unprecedented package to woo major credit derivatives talent away from Morgan Stanley. According to some accounts, it offered the two senior players on its new team a guaranteed two-year package of \$7.5 million a year and \$2.5 million to the junior players—a package that left its competitors agape. Recruiters were also surprised by the firm's initial offer to lock its team into an unusually lengthy three-year deal.

Comp packages like these puts second-tier firms in a bind: They already have to pay up to attract quality personnel, but how can they hope to match the DMGs of the world? Some think the answer lies in formulaic compensation, a strategy that began in the boom years and has resurfaced at second-tier and regional dealers. The idea is simple: on top of a generous base salary, these firms are paying people a

percentage of the revenue they generate, usually 10 percent.

Take, for example, a trader at a top-tier dealer who made \$500,000 last year while generating \$50 million. A competitor trying to attract him might offer a base of \$600,000 a year for two years, plus, say, 10 percent of the revenue he generates. If he generates the same \$50 million at the new firm, his comp becomes \$1.1 million. “More and more firms are taking a formulaic approach to compensation,” says The Whitney Group’s Shen. “We’re seeing more deals negotiated on the basis of upside incentives and a direct participation of the profitability of the group.”

## Go West...or East

As healthy as the derivatives labor market is in the United States, it’s positively explosive overseas. A shortage of talent and a booming derivatives market have shot the demand for front-through-back-office staff sky high around the globe. “There seems to be even more interest in experienced derivatives professionals in Asia and Europe than in the United States,” says Ken Randel, a recruiter at The Options Group. His firm has become increasingly international in scope as a result. Opportunities in Hong Kong, Australia, Singapore and in the money centers of Europe are abundant. But comp is different from place to place—in Asia, pay is typically higher than in the United States; in Europe, it is frequently lower.

Wall Streeters who are looking for a change of scenery but who don’t want to bother with passports and immunization shots are looking to jobs in the Western United States. The deregulation of the energy market is sending power suppliers—many of whom are based west of the Mississippi—scurrying to find energy quants and traders to staff a newly competitive marketplace. Bases rarely exceed \$150,000, but they offer intangibles the Street can never deliver: cheap real estate, scenery and workdays that end at 5 P.M. “We’re seeing a lot of derivatives quants leaving to become risk managers at large utility companies,” says a New York-based recruiter. “There’s a big demand nationally, particularly the Pacific Northwest.” That demand is expected to increase substantially as deregulation kicks into full gear.

Although the good times have been rolling for a while now, a market crash or a recession could lead to another round of investment bank purges. Recruiters advise derivatives Cassandras to do more than save their money—they should start preparing now for the lean years. **“A person really needs to decide now which firm has the wherewithal to stick around,” says Olman, “because when everybody’s on the street, that’s a bad time to be looking.”** Small and regional dealers, he warns, may lack the capital to sustain a market collapse, particularly smaller firms that have undertaken tremendous technological and regulatory costs to get pieces of immature markets with fat spreads. “When the flow disappears, they’re out,” he says. “They’ll just trash everybody.” The classic choice between higher comp today and stability tomorrow still applies.

## The Skills To Pay the Bills

Firms are looking for a number of basic—and not so basic—skill sets, and are willing to pay up to get them. Here are a few that head-hunters think are most important these days:

- **Corporate finance problem solving.** The trade of the day is out. Nowadays everybody professes a sincere interest to genuinely listen to their clients’ needs. As a result, people who say they can structure solutions to complex client problems are highly sought-after, particularly in credit derivatives. “Everything now is in the context of solving a problem, and not simply selling today’s product of the day for the traders,” says Penny Simon, partner of Ray and Berndtson. “So people with a corporate finance background, or at least a corporate finance approach to client issues, are more in demand today than they ever were before.”
- **Systems trading. Proprietary trading is still the dominant force at many dealers, and derivatives traders with experience trading off statistical models are still a hot**

**commodity.** “I can name a dozen banks and brokerage firms off the top of my head that have told me ‘If you come across someone with good system trades off a model, we’re very interested,’” says Olman.

- **Model verification.** Every quant wants to create the next Black-Scholes. But caffeine-driven mad scientists need patient and methodical model verifiers to make sure their creations don’t blow up the company. “Verifying that a model makes sense is critical, but it’s after the fact, so not many people want to do that,” says a recruiter. “A lot of firms need that, and the people aren’t out there.”
- **ISDA compliance.** “There is an enormous—in fact, an almost unbearable—demand for people with documentation and legal skills,” says Mark Moyer of Peak Search. “They are difficult to find, and everybody needs them.” The demand for people experienced with the International Swaps and Derivatives Association’s (ISDA) master agreements is so high that Moyer’s firm considered launching a training program to bring documentation and legal people up to speed—for a fee, of course. Sadly for aspiring trainees, the plan never came to fruition. But great for people who already have these arcane—and sorely needed—skills.
- **Risk management.** These two words are on the lips of recruiters around the world. High-profile derivatives disasters have inspired ambitious global risk management plans, but firms still have a long way to go. “Risk management has become a very serious and proactive role, as opposed to more of a reporting function, as it had been in the past,” says The Options Group’s Randel. The ultimate risk manager, he says, understands not just profit-and-loss and legal issues, but also trading, sales and overall business risk.

—R.H.

Was this information valuable?

Subscribe to Derivatives Strategy by [clicking here!](#)