

WAGES ON WALL STREET vs. WAGES FOR PROFESSORS

 OF FINANCE: A CASE STUDY IN MARKET EFFICIENCY

OVERVIEW

If the capital markets are indeed efficient (i.e., price stocks and set wages correctly) then how are salaries on Wall Street to be reconciled with those of professors of finance who have assured us that security selection reduces to nothing more than a task in "risk engineering". Paradox: the salaries of real engineers are but a fraction of those for stock brokers, securities analysts, portfolio managers and traders.

ITEMS

- Michael Milken's salary at Drexel topped-out at \$550 million in 1987. Meanwhile, a 33 year old mortgage-backed security trader at Kidder Peabody earned \$15 million in 1993 while his boss (the Chairman of General Electric) only made \$4 million.
- General Motors, which has the nation's largest corporate-pension-system, is looking for a successor to its longtime pension chief, W. Gordon Binns, Jr., who is retiring in June... Because the job is expected to pay something short of \$1 million...GM may have trouble landing a pension chief from the investment management world, where top-ranked professionals can earn considerably more. [The Wall Street Journal 1-15-94]

In 1990, 106 Salomon employees made \$1 million or more each. [The Wall Street Journal 3-4-91]

Salomon's fattest pay check went to its foreign exchange-head, people familiar with the firm said. Hans U. Hufschmid, 38 years old, received \$28 million. [The Wall Street Journal 3-29-94]

Recent compensation at Bear Stearns (FY 6-30-93):

	ANNUAL	DAILY
James Cayne	\$15,900,000	\$63,600
Alan Greenberg	15,900,000	63,600
John Sites	13,800,000	55,200
Warren Spector	11,700,000	46,800
Vincent Mattone	8,800,000	35,200
Alan Schwartz	8,800,000	35,200
Michael Tarnopol	8,800,000	35,200

[Source: The Wall Street Journal 10-11-93]

Every two years, Goldman Sachs...picks a small number of new partners from among its hundreds of young executives. ...Partners typically retire as multimillionaires after only a decade or so. Winners are set for life. And while losers don't exactly get a one-way ticket to Palookaville, they're often devastated...They console themselves with their \$500,000 salaries and dreams of better luck next time...A partner's typical cut starts at \$1 million, but within a few years can balloon to well over \$10 million a year...The average retirement age of partners is just 50. ...Goldman named 32 new members to its exclusive club, now numbering 148... of the 32 people who got the good news, the average age is 36. [The Wall Street Journal 10-19-90]

The greed decade may be over, but MBA's are again flocking to Wall Street...Consider S. Rae Yerkey, a vanderbilt graduate who accepted a \$55,000 a year job at Lehman, hoping to trade derivative products. "Personally, money really didn't have much of an effect" in choosing a Wall Street career, SAYS THE 24 YEAR OLD Ms. Yerkey. She just wants to be happy in her work. "Hey, I was thrilled with the salary I got," she says. [The Wall Street Journal 4-23-92]

Fortune Magazine in April 1992 reported the following salary ranges for securities analysts on Wall Street:

Junior (3-5 years)	\$150,000 - \$250,000
Senior (10+ years)	\$350,000 - \$500,000

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Meanwhile, innumerable studies over the past 40 years have found that approximately 80% of actively managed equity portfolios underperform the S&P 500 index on an absolute basis and that about 90% underperform it on a "risk-adjusted" basis. Paradox?