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**LIFE WILL GO ON WITHOUT LEHMAN, MERRILL AND BEAR STEARNS (and as for Nomura!)**

When I started my career back in 1986 one of the first stockbrokers I was introduced to worked at the investment bank Paine Webber. I was then introduced to other stockbrokers at Goldman Sachs, Salomon Brothers, Drexel Burnham and Wertheim. These were all firms that AIB dealt with at the time when dealing in American shares. Other firms that were hoping to do business in American shares with AIB included Dean Witter and Oppenheimer.
Here we are 22 years later and only two of these companies still exist, Goldman Sachs and Oppenheimer and as we now know Goldman Sachs is in the process of converting itself into a deposit taking bank and will therefore be quite different to the investment bank of old.
Paine Webber was bought by UBS (Union Bank of Switzerland) in 2000. Salomon Brothers became part of Citicorp in 1998. Drexel Burnham went bankrupt in 1990 and at the time was the biggest bankruptcy in the history of Wall Street. Wertheim merged with Schroders and ultimately also became part of Citigroup. Dean Witter merged with Morgan Stanley in 1997.
My point in listing out all these changes is to highlight the constant state of flux that exists in the investment banking industry. Change has been dramatic over the years and the current period is just the most extreme example of that change.
Lehman, Merrills and Bear Stearns may have many years of history behind them and their demise may appear shocking but in reality it will just be like all the other investment banks where the name has disappeared. No one will care in a few years time. People will move on. Some employees may leave the industry completely but the work done by investment banks will have to be done somewhere.
Ironically in the foreseeable future Barclays might be one of the main players with their purchase of some of the Lehman business. I say ironically because I remember dealing with BZW (Barclays de Zoete Wedd) the last time Barclays attempted to be a major player!

Over the years the people that I have met that have worked in these companies tend to realise that investment banking is a high risk high reward type career. They realise that there is a culture of hire and fire. They know that in the next downturn they could be one of the unlucky ones. They therefore tend to be driven into a culture where the next bonus or career move is the biggest issue on their mind. The long term is not worth thinking too much about as no one has a clue where they will be next year let alone in five years time. In this type of culture it is easy to see how people might lose sight of common sense and just go along with the current fad in the hope that it lasts long enough for them to get that big bonus!

I wish I knew for sure how to change this system. One suggestion might be to pay a bonus in shares and limit the ability of the person to sell those shares until a time when it is clear that the bonus was not based on another one of Wall Street's fads.

This might also force people to care about what the people at the very top of the organisation are doing and earning!

From the time I started KIC I have completely avoided investing in pure investment banks. I have struggled to see a sustainable franchise due to the characteristics of the industry I described above.
I note with interest the recent investment by Warren Buffett in Goldman Sachs. He believes that they do have a franchise and he believes that its value has become too cheap. I do not think I will follow Warren this time because I just cannot get out of my head something that Stephen Hay (my Goldman Sachs salesman) said to me many years ago..... "If we are the best I would hate to see the worst".

All of the above is in stark contrast to the Japanese market and Japanese investment banks. During my time as a Japan specialist I was introduced to brokers at Nomura, Daiwa, Nikko, Yamaichi, Okasan and DaiIchi. (In fact you can see a couple of photographs in the background section of the website).
Yamaichi went bankrupt during the Japanese banking crisis of 1997 and Dai-Ichi was merged into Sanwa in 1999 but apart from that all of the other institutions mentioned above are still in existence to this day and I would hazard a guess that a number of the Japanese people I dealt with are still working in those companies today.
The hire and fire culture is not as prevalent in Japanese investment banks but the financial rewards tend to be lower.
As an example of just how different things can be in Japan I was told by one of my contacts in Okasan that his bosses tried to arrange a marriage for him with a number of the women that worked in the office!
The Japanese approach may sound better than the western approach but unfortunately my experience was quite negative. My contacts tended not to think for themselves and they did not show much imagination or ability. They worked long hours and tried hard but in a knowledge driven entrepreneurial economy they were pretty poor. Promotion was by seniority rather than ability. Women were second class citizens. Job rotation was common.
In other words I can never see the Japanese as world leaders in investment banking.
I therefore worry about Nomura buying parts of Lehman. I think the cultures will clash and Nomura will struggle against Goldmans, Morgan Stanley, JPMorgan, Credit Suisse etc.

In conclusion investment banking will survive and move on to the next big thing. I just hope that the western approach can be improved in such a way that I do not have to live through too many more crisis situations and as for Japan, I just hope they can shake things up a bit.