FINANCIAL CAREERS: WHAT'S HOT, WHAT'S NOT©

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2008 FINANCIAL SERVICES JOB FORECAST
WITH FIRST QUARTER UPDATES IN RED

SUMMARY:

A Shamrock snow globe seemed a fitting crystal ball to capture the spirit of the 2008 Financial Services' Job Forecast. The snow globe symbolizes that it's definitely winter, i.e., a downturn globally that I'm predicting even though Asia and Europe for awhile might appear to be more resilient than the U.S. However, despite claims by some that the U.S. economy doesn't necessarily lead the world economy anymore, the fact is that the financial industry is now truly a global industry. Therefore, because most participants now own a portion of the other countries' economies, a process that has been rapidly facilitated especially by the widespread use of derivatives, what happens in one country will eventually spread to the other financial communities.

Actually this global asset sharing has turned out to be quite a bit of good luck, hence the image of the Shamrock in a globe. First of all, because the subprime and credit situation is so widespread that it has led some to fear it could result in a total meltdown of financial systems, governments are and will be very proactive in ensuring that markets do not fail. A number of financial institutions and hedge funds are likely to go under but the markets will prevail. Second, it's been public knowledge since at least 2006 that if there was an event of considerable magnitude, such as the subprime scenario, that: the derivatives market would likely become illiquid; the way ratings were viewed would likely change; there would likely be a flight to quality and more uncertainty about the reliability of information provided by companies, which would exacerbate the financial crisis even more, leading to changes in regulation and how financial markets operate in the future. What wasn't known was when it would occur. It has occurred, it is occurring so now financial professionals will be able to change their actions in order that their careers can benefit from this latest development.

Immediate changes are likely to be a slower business environment, which permits savvy professionals to spend more time with their loved ones, take some vacation, and explore some hobbies or outside interests, all the while honing their career skills, bettering their networks, and considering repositioning their careers into other avenues of more interest to them. Yes, compensation is not likely to be as high as in 2007 but, quite frankly, compensation had become as frothy as the amount of excess liquidity flooding the markets demanding 20% or higher returns. Neither looked likely to be sustainable so it's best that this bubble has burst.

Outsourcing has slowed and unemployment was at near zero for skilled finance professionals in 2007 so those individuals caught in the fall out should be able to find new jobs fairly quickly (3 – 6 months) at reasonable compensation levels. Seasoned professionals and entrepreneurs with investment management products or risk management systems that actually deliver results—not empty marketing promises—are in the highest demand, which means that 2008 is not likely to be "the winter of our discontent" but highly likely to be a great winter to quietly grow your career.

HISTORY & PROCESS:

Since 2002 I've been presenting an annual financial services job forecast, which to date have been completely accurate. Now it's time to use the same process once again to create my 2008 Financial Services Job Forecast.

The forecast is produced 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, i.e., 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.

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.

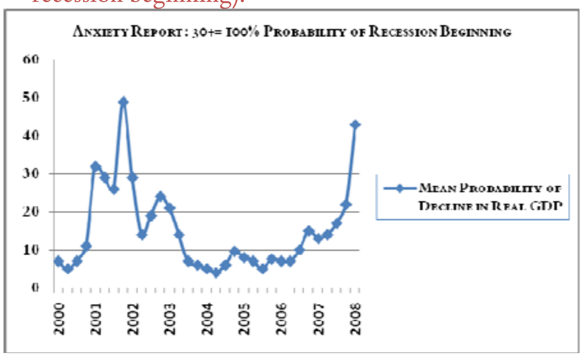
People routinely forget that much more than their own performance and education determines their pay level, the availability of positions, and even the speed of their career progression. Remembering that jobs and careers are dependent upon what happens in the underlying economy makes career decisions - and annual financial services job forecasts - more effective.

THE LEADING INDICATORS SAY

What's negative:

- **STATISTIC: The 2008 OECD Economic Outlook:** sees U.S. economy slowing but no major recession although OECD's report caveats their outlook with the following statement, "The trouble is that the probability distribution around this outcome has a fat tail on the downside. The main negative risks include a more pronounced or generalized cooling of housing markets than projected; additional turbulence in financial markets; and further upward pressures on already high commodity prices."
- **STATISTIC: The Chicago Fed National Activity Index CFNAI-MA3**: The latest (11/26/07) 3-month moving average declined to -.56 in October from -.25 in September, suggests that national economic growth was below average. When—and if—the CFNAI-MA3 value moves below -.7 following a period of economic growth, there is an increasing probability that a downturn has begun. (Note: the February 2008 CFNAI-MA3 was -.87, the January 2008 CFNAI-MA3 was -.73, and the December 2008 was downwardly revised to below the -.7 marker, making the latest CFNAI-MA3 the third consecutive month the CFNAI-MA3 remained below the -.7 benchmark.)
- **STATISTICS: The Anxious Index**: The Federal Reserve Bank of Philadelphia issues a quarterly Survey of Professional Forecasters. Although the actual predictions by this esteemed group of 50 forecasters is not always correct, buried within the report is Table Four, which is the Estimated

Probability of Decline in Real GDP. The mean probability on Table Four has been dubbed "The Anxious Index", because that number is known for rising as recessions begin, peaking during them, and then declining when recovery is imminent (see chart below). The numbers are climbing and quick jumps to numbers 30% and above are not unusual (see first quarter 2001), with any percentage at or above 30% a 100% indicator of a recession beginning. (Note: First Quarter 2008's number was 43 while Fourth Quarter 2007's initial number was 22 (any percentages in the mid twenties up to thirty indicate a 50/50 chance of a recession beginning).



- ✪ **STATISTICS: The Usual 21st 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.
- ✪ **SENIOR MANAGEMENT: Conference Board's 2008 CEO Economic Forecast Survey**: dropping again for the second year in a row: in 2007 54% see business going forward not as strong or the same as it was in 2006 while in 2006 only about 33% of the CEO's surveyed thought that business in 2007 would be not as strong or the same and in 2005 only about 16% thought that business in 2006 would be not as strong as or the same as in 2005.
- ✪ **STATUS OF RETAINED RECRUITERS**: it was a great year until after August 2007, when searches slowed down in the U.S. By December my U.S. clients were getting calls from recruiters they hadn't heard from in years and the number of financial association events not having the usual retained recruiting firms' sponsorship appeared to be on the rise. (Note: by February 2008 U.S. retained firms were reportedly cutting their fees significantly with NYC especially hard hit.)
- ✪ **WORD ON THE STREET:** Since the subprime event in August, the word has been that there's a lot of subprime paper sitting in many corporate, money management and financial institution's portfolios that hasn't been disclosed yet. Worse news should surface in first quarter 2008 when above companies need to start disclosing their losses, which are likely to have been even further negatively impacted by the probable resulting derivative instruments' illiquidity.

What's positive:

- ✪ **STATISTIC: The 2008 OECD Economic Outlook:** sees U.S. economy slowing but able to withstand recent shocks without triggering a recession.
- ✪ **STATISTIC**: **The Anxious Index**: shows numbers still climbing but not quite near even a 50/50 chance of recession although quick jumps to those types of numbers have occurred before.
- ✪ **SENIOR MANAGEMENT**: **The 2008 CEO Forecast** shows firms planning on hiring about equal to those planning layoffs, which is a positive factor in a zero unemployment environment that was overheating because of too few qualified workers for the number of firms wanting to add staff.
- ✪ **SENIOR MANAGEMENT**: **7/07 McKinsey Global Survey of Business**: states that the number of companies planning on hiring just about equals the number of firms planning on layoffs, which is a positive factor given the current unemployment level. Also the rush to outsource has ebbed.
- ✪ **STATUS OF RETAINED RECRUITERS**: Financial services searches, particularly in investment management—both traditional and alternatives, including commodities—were very busy in the U.S. for most of the year and continued the entire year to be robust overseas.
- ✪ **WORD ON THE STREET**: The slow leak of the news of this "double whammy" of a subprime event likely to cause the derivatives market to become illiquid is actually a good thing because if the entire losses became known at one specific moment, it could be a large enough effect to have collapsed financial markets.
- ✪ **WORD ON THE STREET**: The global nature of the sales of these subprime mortgages and derivative instruments (compounded with the lack of transparency as to who actually owns what and in what quantity because a number of these transactions occurred through third parties to keep identities unknown and/or the original paper has been divided up and sold to numerous other parties) means that this situation will be in the interest of most governments to get resolved quickly so as to minimize the potential negative impact on financial markets and local economies.

Non-Growth Financial Services Jobs/Careers

IN GENERAL:

↓ **Most financial niches and positions** because overall available capital is likely to be pinched, which means new hires will be a slower longer process plus less frequent and raises smaller.

JOB SEARCH CAREER ADVICE: If you're not in a growth area, immediately
1. **broaden your search perspective**
2. **look at a larger geographic area if possible**
3. **count more on your network and less on recruiters to find you that next position.**

BANKING:

⇔ Hard to say as it's dependent upon what's in their portfolios and how middle market firms and consumers are impacted by negatives.

CONSULTING:

↓ **New positions outside of accounting, compliance, legal, workout/turnaround or risk management** as this field will have enough work to keep it busy but probably not much more.

CORPORATE:

↓ **Most financial 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:

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

INVESTMENT BANKING:

↓ **Most positions at most investment banks** that get hammered from multiple sides (mortgages, derivatives, losses from their hedge fund and private equity clients, investment management possible losses on their holdings, etc…)

MONEY MANAGEMENT:

⇔ Hard to say given the likely market volatility - private banking should be at least stable.

PRIVATE EQUITY:

↓ **Most positions**, especially ones with larger deals.

REAL ESTATE:

↓ **Most residential** and, if the downturn widens, more corporate positions as vacancy rates increase or expansions dwindle in similar proportions to the changing prospects of their corporate occupants.

RESEARCH:

↓ **In most fields considered "non-essential"**, again, because overall available capital is likely to be pinched and research is a niche that's usually one of the first areas to feel those cut back effects.

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.

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Growth Job Areas:

IN GENERAL:

The usual downturn growth positions: legal and turnaround/workout/valuations. Accounting and compliance will still be in demand both in corporations and hedge funds. Risk management also will continue to be desired as hires at both the portfolio level in addition to at specific asset class levels because current products and/or implementation degrees are considered by many as not being adept and/or extensive enough to capture the information about situations before they explode. Commodities for obvious reasons are still "hot" although I suspect that they—and, therefore, the positions for this area—are at the top of their cycle… so who knows how much longer these will be "hot"?

THE HOTTEST NEW JOB GROWTH AREAS:

- ↑ **EXCHANGES**: When volatility is up, so are the number of opinions about the market, which makes the exchanges, even with all the consolidation, a major source of financial services hiring.
- ↑ **ENTREPRENEURS**: There is an increasing level of frustration among hedge funds, pension funds, and corporations with the lack of products in 2 areas:
  - Investment management products that deliver returns while minimizing risk that are truly innovations that work—not marketing gimmicks or rehashes of an old concept.
  - Risk management products at a portfolio level that actually minimize risk.

  Given that innovation seems to be best suited to entrepreneurs or those employees in the research departments of entrepreneurial mind set firms, 2008's financial product needs are screaming for someone to please invent the above items.
- ↑ **SEASONED PROFESSIONALS**: In potentially difficult situations, experience with past blow-ups and their successful solutions becomes a very desirable quality.

2008 Financial Services Job Forecast:

WINTER CAN BE A LOVELY SEASON if you're prepared for it: i.e., it's a downturn all year as the excesses of too much liquidity and too little actual product delivery are worked off. Business outside of the growth areas will probably be slower no matter what part of the globe you're located in. However, it doesn't look like "the sky is falling, the sky is falling" as some are predicting nor does it look like it will be "the winter of our great discontent"…unless OECD's downside fat tail emerges and the world's governments are unable to curtail those results or, of course, an epsilon event of one of the 21st century's usual risks spirals out of control.

Yes, a number of people (especially in the U.S.) will probably be losing their jobs during 2008 but they should be able to find another one fairly quickly (3–6 months) at a reasonable compensation—it just won't be at the large increases that hires in 2007 were gaining.

Enjoy 2008 because your career

can blossom even in a downturn.

Best Career Strategy:

1. **WEAR YOUR HAT, SCARF, AND GLOVES**: i.e., now's probably not the time to buy the yacht as it's more likely a better time to pay down debt, live nicely but not extravagantly, put more emergency money away and treasure what you have.
2. **WATCH THE WEATHER**: if the OECD storm warnings appear and governments are not able to contain effects, jobs could disappear more quickly so be or get prepared now just in case.
3. **ENJOY THE WINTER SEASON**: slower business means that you have the time to do those hobbies/interests and/or spend time with those people that will help you later or that you enjoy but that before you've been too busy with work to find the time for them.