Wall Street Grinch: No Big Bonus for Money Pros

Experts See the Annual Bonus Bonanza Shrinking by $10 Billion

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The subprime mortgage mess has turned into a grinch, sneaking around Wall Street taking hefty bonus envelopes out of stockings and from underneath Christmas trees.

Some of the big brokerages and banks are feeling a cash pinch thanks to almost $100 billion in losses from investments in home loans that have gone bad.

"We're looking for a 30 percent decrease [in the bonus pool] for this year," said Frank Braconi, chief economist in New York City Comptroller's Office.

Braconi said that drop translates into $10 billion less in Wall Street's pay envelopes this year compared to last. That is a substantial reduction from the record $33.6 billion bonus pool of 2006.

Times are so tough that the top brass at two major firms -- Bear Stearns and Morgan Stanley -- are reportedly forgoing their year-end bonuses as the firms report massive quarterly losses and have to start making tough choices about who will get extra pay and who will not.

A major problem for the troubled firms is retaining smart, proven investment talent during the slump.

That's tough to do even in good times. When there is a downturn -- and the bonus envelopes are light or nonexistent -- many top employees start looking elsewhere.

"I think that some of these banks are going to lose some of their really key people," said Sandy Gross, founder of the hedge fund recruiting firm Pinetum Partners. "You want to retain your good talent, and they need to find a way to do that, and with decreasing the bonuses like this, it's hard."

On Wall Street, it is common practice for employees to get a bonus that is significantly larger than their base pay.

"I know people who have had huge swings in their compensation," said Gross. "From a base salary of $200,000 with a bonus of $2 million one year and then the next year, there's no bonus."

Many experts say having top executives forgo bonuses will give the companies compensation committees extra money to disburse to keep their top talent happy and off the market.

It's not just investment professionals who are losing out as bonus pools dry up.

"The income on Wall Street tends to ripple through the economy," said Braconi. "So the people that depend on that spending will also feel a pinch. Whether it be real estate brokers or clothing retailers or auto salesmen, whatever it may be."

And New York City is set to lose out, too. Braconi says every billion dollars in lost bonuses means $20 million less in income tax revenue for the city. If his worst-case scenario is realized, the local government could be short $200 million in direct tax revenue alone.

But year-end bonuses are not completely gone. One major firm made an exit from the risky mortgage market and placed bets against the real estate market's health.

Goldman Sachs reported record profits earlier this week, and at the same time provided data that showed that average compensation for its 30,000-plus work force would be more than $660,000 this year.

And certain hedge and private equity funds, which pursued broad strategies outside the mortgage market, had great years.

"I don't think that once you're in, you're guaranteed anything in this industry," said Gross. "I think that you're only as good as you can predict the market, and we've seen people that have done very well and people who have done very bad this year."