BONUSES SHRINK

By ERICA COPULSKY

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'Tis the bonus season, but investment bankers aren't too jolly.

With the holidays around the corner, it's always the No. 1 question on everyone's mind: How much money will be in my Christmas stocking?

But this year, with firms scrambling to cut costs amid one of the biggest profit droughts in over a decade, bankers are afraid to ask.

Wall Street firms have cut tens of thousands of staffers over the last two years in an effort to offset a slump in their core investment banking business.

For those bankers still employed, average bonuses are likely to be 40 percent to 50 percent lower than last year's, which was down 50 percent on average from 2001, according to Wall Street executives and recruiters.

Equity professionals will be down 50 percent to 70 percent, while fixed income pros will be down 20 percent to 30, depending on the mix of their business.

Some of the Street's top stars will see their pay packages slashed by as much as 35 percent. Underperformers and those working in slumping business lines could be down 60 percent to 75 percent.

The bottom 20 percent of bankers on Wall Street may not receive any bonuses at all, said Laura J. Lofaro, president of Sterling Resources International Inc. "Looking on the bright side, however, they still have their jobs and an opportunity to prove themselves next year."

Last year, managing directors - Wall Street's highest-ranking employees under senior management - on average, took a 35 percent to 40 percent hit. "This year, they'll be down on average at least

another 45 percent," Sterling's Lofaro said.

They aren't the only ones. This time around, recruiters say individuals throughout the director and vice president ranks are also going to be down anywhere from 25 percent to 30 percent. Luckily, they're not going to be hit as hard as last year, when they were down 35 percent to 60 percent.

Bankers in some of the firm's most depressed businesses, including mergers and acquisitions, equities, telecommunications and technology underwriting, will likely feel the most pain.

On the other hand, bankers who cater to financial institutions, healthcare and general industrial companies as well as those who work on corporate restructurings should feel less of a pinch.

Arguably the biggest reversal of Wall Street fortunes will be felt by the equity research analysts. In recent years, soaring stock market values and a closer alliance with investment banking had sent analyst pay skyrocketing to the point at which even well-paid bankers were salivating.

But those out-sized paydays for research are long gone, say recruiters.

Pay for analysts in the most active industry sectors will be down 30 percent to 45 percent. Analysts in other less active industries, who had been swept up by the investment banking frenzy, will be down 50 percent to 65 percent.

The painful bonus cuts come as securities firms look to bring their high compensation costs in line with much lower profits. Just a few years ago, firms, desperate to grab their fair share of the robust banking business, handed out outrageous bonuses to attract and retain talent.

These days, as firms are trying to scale back staff, there is concern about losing talent by not paying at the top end of the range. "Institutions have historically paid professionals at the level necessary to keep them," notes Russ Gerson, head of financial recruiting at A.T. Kearney, Inc. "If there is less demand, pay does not need to be as high."

Already, some firms have taken creative steps to bring their compensation expenses down. Goldman Sachs, for example, has quietly told some of its bankers they will be getting no bonus.

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