Overview

You've seen all the headlines over the past few years deriding Wall Street firms. You've seen the news photos of disgraced research analysts who recommended certain stocks to the public even while they trashed them in emails to colleagues; you've heard about the nine-figure fines investment banks have had to pay for transgressions such as conflicts of interest. Still, there's something intriguing about the industry—the legendary long hours and mega-bonuses—and you like to imagine yourself a pinstripe-wearing, jet-setting investment banker. But suddenly it dawns on you: What the heck is investment banking? You panic. What do investment bankers do? What's the difference between sales and trading and corporate finance? More to the point, why do you want to be a banker?

The intensely competitive, action-oriented, profit-hungry world of investment banking can seem like a bigger-than-life place where deals are done and fortunes are made. In fact, it's a great place to learn the ins and outs of corporate finance and pick up analytical skills that will remain useful throughout your business career. But investment banking has a very steep learning curve, and chances are you'll start off in a job whose duties are more *Working Girl* than *Wall Street*.

Wall Street is filled with high-energy, hardworking young hotshots. Some are investment bankers who spend hours hunched behind computers, poring over financial statements and churning out spreadsheets by the pound. Others are traders who keep one eye on their Bloomberg screen, a phone at each ear, and a buyer or seller on hold every minute the market's in session. Traders work hand in hand with the institutional sales group, whose members hop from airport to airport trying to sell big institutions a piece of the new stock offering they have coming down the pipeline. Then there are the analytically minded research analysts, who read, write, live, and breathe whichever industry they follow.

So where do you begin, and how do you focus your job search? Let's begin with an important reminder: Investment banking isn't one specific service or function. It is an umbrella term for a range of activities:

- Underwriting, selling, and trading securities (stocks and bonds)
- Providing financial advisory services, such as M&A advice
- Managing assets

Investment banks offer these services to companies, governments, nonprofit institutions, and individuals.

Traditionally, commercial banks and investment banks performed completely distinct functions. When Joe on Main Street needed a loan to buy a car, he visited a commercial bank. When Sprint needed to raise cash to fund an acquisition or build its fiber-optic network, it called on its investment bank. Paychecks and lifestyles reflected this division, too, with investment bankers reveling in their large bonuses and glamorous ways while commercial bankers worked 9 to 5 and then went home to their families. Today, thanks to the repeal of laws requiring the separation of investment and commercial banking, many firms have a foot in both camps, thus blurring the lines and the cultures. The action and players are still centered in New York City and a few other money centers around the world, but the list of players is getting smaller as the industry consolidates. Today, leading banks include Merrill Lynch, Goldman Sachs, Morgan Stanley, Citigroup (whose investment banking arm was until recently known as Salomon Smith Barney), Lehman Brothers, Credit Suisse, and JPMorgan Chase. These and other firms are regular visitors to campus career centers.

But before you get excited about the promise of riches (and bid all your on-campus interview points), you'll want to do a little research on the industry and think about whether investment banking is a good career for you. One thing is certain: You shouldn't go into banking just for the money—the lifestyle is too demanding. To survive in investment banking—much less to do well—you'll need to like the work itself. And, quite honestly, even if you love the work, an investment banking career can still be a tough road. If the market or your industry group is in a slump (or if your firm suddenly decides to get out of a certain segment of the business), there's always the chance that you might find a pink slip on your desk Monday morning.

Things are looking good on Wall Street these days—which marks a change from the early 2000s, when the tech bubble of the 1990s burst and the stock market tumbled. Remember all those dotcom initial public offerings (IPOs)? That business dried up in a hurry for investment banks, as hundreds of dotcoms went out of business. In 1999, there were 480 initial public offerings, which raised a total of $91.7 billion. In contrast, the first quarter of 2003 saw only five IPOs, worth a total of $1 billion. Meanwhile, the rest of corporate America drastically tightened its purse-strings, which resulted in very little new-stock issuance or mergers and acquisition activity. The extended market decline hurt the profits of I-banks' brokerage operations, as investors (and the commissions they pay each time they trade) dropped out of the market. One result of all this turmoil on the Street has been layoffs: By 2003, according to some, Wall Street employment levels were some 25 percent lower than they were at their peak in 2000.

But things have been looking better of late. The stock market has had a strong couple of years until recently—meaning more trading commissions, and more equity-underwriting activity. According to Thomson Financial, in 2002 there were 83 IPOs by U.S. issuers, worth a total of $22.6 billion; in just the first half of 2006, by contrast, there were 92 IPOs by U.S. issuers, worth a total of $24.6 billion. The economy has gotten stronger, and industry is spending money again, meaning more mergers and acquisitions. Indeed, some $2.9 trillion worth of mergers and acquisitions were announced in 2005, up more than a third over 2004 and more than double 2002 global M&A volume. Many banks have enjoyed record revenue and earnings results in recent quarters, and most banks have been hiring aggressively as a result.