

## Wall Street's Old Guard in Emerging Markets Heads Out

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NEW YORK (Dow Jones)--The ranks of emerging market pioneers on Wall Street are thinning out as a growing number retire to college campuses, coral reefs and old stone houses.

The latest departures are Arturo Porzecanski and Thomas Trebat, two high-profile economists at major investment banks who recently decamped after more than a quarter of a century crunching numbers in an asset class that finally appears to be coming of age.

They belonged to a shrinking group of fixed-income analysts who tracked developing economies before the advent of the Brady bond era of the 1990s and the wave of commercial loan defaults in the 1980s – long before the term emerging markets was even coined.

"There aren't too many of the old buzzards left, and I guess I'm one of the old buzzards," said Chip Brown, who's 60 years old and heads Latin American economic research at Santander Investment Securities.

The 55-year-old Porzecanski began as a Latin America economist for J.P. Morgan in 1977 and worked at several other banks before resigning as ABN AMRO's chief emerging markets economist in late February to enter teaching full-time. He is giving economics courses at New York University and Williams College in Massachusetts.

Trebat, who's 59 years old, got his start on Wall Street in 1978 at Bankers Trust and later joined Chemical Bank and Citigroup. He left Citigroup, where he had been head of Latin American economic research, late last month to become executive director of the Institute of Latin American Studies at Columbia University in New York.

They both witnessed their fair share of drama over the years, including some spectacular blow-ups. Mexico stopped servicing its foreign loans in 1982, triggering a dizzying sequence of defaults in other parts of Latin America and ushering in what quickly became known as the "lost decade." The debt was eventually securitized in the early 1990s, sparking a volatile decade of booms and busts that included Mexico's "Tequila Crisis" at the end of 1994, the Asian meltdown in 1997, the Russian collapse in 1998 and Argentina's record-setting default in 2001.

The asset class finds itself on much more solid footing today. Holders of emerging market bonds have booked three straight years of double-digit returns and about half the debt is now investment-grade. Risk premiums are at record lows, with bond spreads having dropped to a bit more than 3 percentage points above U.S. Treasuries after ballooning to 17 percentage points in 1998.

But the role and the reach of the Wall Street analyst also is undergoing changes and faces fresh challenges. Many investment banks are overhauling their research departments after a wave of scandals in U.S. equities exposed glaring conflicts of interest. In emerging markets, some investors are doing their own analysis by firing up the Internet or calling up increasingly accessible government officials as financial markets go global and the asset class becomes increasingly mainstream.

"There are a few places that are still exotic, but it's getting to be fewer and fewer," acknowledged Larry Brainard, who went into semi-retirement in 1999 after building emerging market research powerhouses at several U.S. banks.

Brainard, now 60, moved into a 400-year-old farmhouse about two hours outside of London several years ago. He works three days a week as a senior analyst for West LB, a German bank, but also is busy on other fronts. He said he has started "a rather serious" collection of orchids, plans to open a patisserie and generally is regarded as "the crazy American" in the village of 45 people that he now calls home.

His career on Wall Street began in March of 1973, when he joined Chase Manhattan as an international economist, a rarity at the time.

"Basically, when I got there, there was nothing," said Brainard.

Chase recently had opened a bank in Moscow and one of his first assignments was to figure out indebtedness in Eastern Europe – the kind of research that until then, he said, was only being done by the Central Intelligence Agency.

By October of that year, when Arab countries began an oil embargo and prices for crude spiked, "suddenly people discovered there were things they didn't know much about," added Brainard, who later headed research groups at Bankers Trust and Goldman Sachs before returning to Chase Manhattan in the mid-1990s.

Wall Street was still getting its feet wet on the subject of international debt in the late 1970s, when Porzecanski and Trebat arrived on the scene.

Emerging markets didn't exist in name, and the countries were referred to as 'LDCs', or less developed countries. Loans, not bonds, were in circulation, and commercial banks had the business to themselves. Information remained scarce, involving plenty of airplane rides to pry basic numbers out of government officials who had no interest in releasing them.

Porzecanski recalls being rebuffed in one of his early fact-finding trips by a Brazilian official who told him, "Listen, if you don't trust us to manage things well, then we don't want your money."

Trebat, who was hired by Brainard, remembers a Mexico City dinner in early 1982 with a high-ranking government official who let it slip that Mexico had \$44 billion in gross borrowing requirements that year – far higher than had been imagined.

"He spilled his drink over the table at that point. I think he was just upset with the situation and obviously worried because he was at that time responsible for Mexican borrowing," said Trebat.

Later that year, Mexico, which had been the recipient of big 'petro-dollar' loans when global oil prices were high, ran out of money, sending tremors through U.S. bank portfolios.

Sitting next to Trebat at that dinner was John Purcell, a former professor of comparative politics who had joined Bankers Trust in 1980. Three years later, Purcell joined Salomon Brothers, the first investment bank to catch the scent that a bigger market was around the corner.

"There were 40 people when I left. When I started it was just me," said Purcell, who headed emerging market bond and stock research at Salomon before retiring in 1996.

Purcell, now 65 years old, has spent the last several years studying the dispersal of coral reef fish in the Caribbean. He will be defending his Ph.D thesis at the University of Miami in May.

He said he was hired by Salomon partly because the trading house had a large position in a recently issued Venezuelan bond that suddenly was looking very shaky. That "scared" Salomon because it realized it really didn't know much about the country and risks.

But there still weren't a lot of bonds from developing countries in circulation, and Purcell said he spent much of his time in the early years doing risk analysis of investment-grade issuers from disparate places like Denmark and the province of Manitoba.

Trading of developing country debt in the 1980s was mostly confined to "cocktail swaps" as commercial banks exchanged loan packages of loans – many of them in default – among each other. There was also a market for debt-for-equity swaps in a handful of countries, led by Chile.

"The volumes in those days were nothing like what they are today. Once the defaulted sovereign loans were securitized, that's when the market exploded," said George Grunebaum, who is stepping down as head of emerging markets credit trading at J.P. Morgan Chase in the coming weeks after a career that spans back to 1985.

The explosion came in 1989, when Mexico, with the help of the U.S. Treasury, reached an accord with banks to restructure defaulted commercial loans into Brady bonds. Mexico began to issue more than \$30 billion of the bonds, which were named after then-U.S. Treasury Secretary Nicholas Brady, in early 1990. Other countries from Latin America, Asia and Africa followed in rapid succession, raising the stock of Bradys to more than \$150 billion.

Suddenly, investment banks and investors had something to trade and the newly minted asset class – dubbed emerging markets as a marketing ploy – began grabbing some attention. Investment banks began expanding research groups and some of their reports read like journalistic dispatches from far-off – and often dangerous – places that spent as much time addressing political risk as macroeconomic data.

Among the new generation of analysts leading the charge was Joyce Chang, who joined Salomon in 1989 after Purcell snatched her from Princeton's graduate school, where she picked up a degree in development economics. She also had worked for USAID in India, Jordan and the Philippines, in addition to a stint in journalism.

Chang became an intrepid explorer for the bank, visiting Panama not long after the U.S. invaded the country in 1990, poking around the southern Mexican state of Chiapas after a rebel uprising in early 1994 and walking into a cloud of tear gas in the Venezuelan capital of Caracas in the mid-1990s.

She was also in Algeria in June 1992, when President Mohammed Boudiaf was assassinated. Salomon, fearing for her safety, ordered her to leave the country, but she still was able to make a market call.

"I had a very strong view that they would pay the bonds, which they did," said Chang, who later joined Merrill Lynch and now heads emerging markets research at J.P. Morgan Chase.

A lot of calls by research analysts didn't go nearly as well. Many investors were caught off-guard when Mexico devalued its currency in late 1994 and almost defaulted on its obligations. The scene repeated itself in Asia and Russia a few years later when financial markets cratered.

Critics pointed out that research departments at investment banks were reluctant to skewer a country at the same time that their bankers were jockeying to underwrite its bonds and generate the revenue that paid their bonuses.

Still, the flow of information in markets has continued to improve as governments are pushed to be increasingly transparent in return for fresh capital. When Argentina defaulted on its foreign bonds in December 2001, many investors saw the warning flags ahead of time.

Investment banks have taken steps in recent years to eliminate conflicts of interest in a bid to resuscitate the reputations of their research divisions. But some wonder if their value has declined as emerging markets become more of a known quantity, storm clouds subside and U.S. mutual funds beef up their own research teams.

"You don't need someone to come into your firm and tell you Mexico does a lot of trade with the U.S.," said James Barrineau, head of Latin American research at Alliance Capital Management, which has about \$8 billion invested in emerging markets and is in regular contact with government officials around the world.

Porzecanski estimates that when he began on Wall Street, information in Latin America was so tough to come by that analysts would spend 80% of their time gathering facts and 20% interpreting them, whereas now it's the reverse.

He added that a recent wave of mergers among investment banks has turned research into "a musical chairs game with fewer and fewer chairs available" and that the days of huge bonuses are over now that analysts' pay can no longer be tied directly to the underwriting business.

"I would not encourage anybody who's young to go into research," said Porzecanski, who also held positions at Republic National Bank of New York, Kidder, Peabody & Co. and ING Barings during his lengthy career.

Trebat is more sanguine, though. He notes that a whole new frontier is opening up in emerging markets as U.S. investors voice interest in higher-yielding local debt markets after

crowding into dollar-denominated Bradys and Global bonds that trade in New York and London.

He reckons a growing number of emerging market analysts at U.S. investment banks will be located in cities such as Istanbul and Mexico City. And rather than just telling clients whether they think Ecuador's bonds will blow up or not, more specialized teams of strategists are focusing on what part of the country's debt curve to invest in and whether to opt for credit default swaps or structured notes.

He also points out that powerful investment banks continue to have better access than most portfolio managers to government officials, giving them the inside track in the information game. As soon as there's a sharp downdraft in U.S. Treasuries or a firestorm in an emerging market country, "you're going to see people's confidence in their own ability to analyze plummet," predicted Trebat.

Chang said she spends about 60% of her time on the road these days, similar to when she started out in 1989, and that it's still pretty hard to find solid data about countries such as Nigeria or the Ivory Coast. Her research department at J.P. Morgan Chase, numbering 45 people, organizes trips for clients to countries such as Ukraine and Serbia that weren't on most investors' radar screens a few years ago.

"I don't think the process of how you do the research is that different. You have to do it in a holistic way," said Chang, who's in her late thirties and also oversees global foreign exchange and commodities research.

Brown, at Santander, said he's traveling less these days but doesn't have any plans to follow Porzecanski and Trebat out the door any time soon.

"As long as Santander will have me, I'll stay here," said Brown, who began tracking Latin America for Wells Fargo in 1981 before moving on to several other banks.

"Teaching is for young people, as far as I'm concerned," he added.

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