

Street Fight

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THERE'S NOTHING LIKE a good barroom -- excuse us, please, make that boardroom -- brawl. Especially in the hoity-toity precincts of what used to be the quintessential white-shoe brokerage house, good old Morgan Stanley.

Technically speaking, it's not really a boardroom brawl, not yet, anyway. It's more guerrilla warfare, pitting a band of fuming old-guard alumni against the current top dog, Philip Purcell. And, in truth, the kneecapping has been going on ever since the elite Morgan Stanley and plebeian Dean Witter merged back in 1997.

Right before the happy event, we penned a column entitled "Silk and Polyester?" -- not entirely seriously -- lamenting the end of Morgan Stanley as we knew it. We were politely invited to breakfast with the then-reigning potentate at Morgan, where we were graciously provided with food for thought as well the tummy.

More specifically, we were fed a lengthy bit of blah-blah, the upshot of which was that our tepid view of the coming union was all wet; that it was, in fact, a dream of a deal; and, in any case, not to worry, Morgan would be firmly in control. This last assurance was delivered by the Morgan chieftain with a Cheshire grin (we're a little hazy on this point; perhaps it was just his normal frightening grin, or merely gas).

What we do remember is that the orange juice was fine, the banana for our cracked wheat squishy and the fellow who delivered the sermon on the great blessings that would be bestowed on the firm by grace of joining forces with -- pardon the expression -- a retail-brokerage outfit was rather unceremoniously dispatched not all that long after the corporate nuptials were consummated.

The long-simmering tensions between Mr. Purcell, who had run Dean Witter before the fateful merger, and the Morgan Stanley legions erupted right out there for everyone to see last week when the aforementioned old guard petitioned the board to depose Mr. Purcell and then published their plea in a full-page ad in *The Wall Street Journal* (which, as an employee and shareholder of Dow Jones, we heartily commend).

The insurgents' most telling beefs were that Morgan Stanley's stock has been a feeble performer the past five years, dragging behind that of other publicly owned investment firms (it's selling at virtually half its peak in 2000), and earnings growth during this stretch was negative. If, touched by their plaint, you were thinking of sending them a few bucks, we urge you to hold off. For the eight angry alumni collectively own 11 million of Morgan Stanley's shares, and their circumstances are otherwise anything but strained.

Rooting for one set of millionaires against the other rarely rises to the level of a worthwhile exercise. But the furious infighting can be great fun for unengaged spectators. The one abiding moral we take away from this particular fracas is that hell hath no wrath like an investment banker scorned.

At week's end, Mr. Purcell was rallying the troops for a counterattack. So far, the Morgan Stanley board has remained staunchly supportive of Mr. Purcell. And why not? The directors pretty much all owe their jobs to him, and to make room for them he had to bounce any number of the stalwarts appointed by the old Morgan Stanley crew. But the board did forcefully demonstrate its independence by refusing to be unduly influenced by the lackluster performance of the stock last year: It voted Mr. Purcell a token-of-their-affection raise of \$5 million, lifting his yearly take to \$22 million, not counting perks like free breakfast.

Such generosity is by no means an anomaly, we're pleased to say. A recent study by Lucian Bebchuk of Harvard Law and Yaniv Grinstein of Cornell confirmed that corporate boards are far from stingy in compensating their companies' brass. Further, the study, carried out under the aegis of the John M. Olin Center for Law, Economics and Business at Harvard Law School, disclosed that, in rewarding the captains of commerce and industry for their labors, the boards do not place inordinate reliance on such chancy considerations as the growth in a company's earnings.

Thus, comparing the ratio of the aggregate compensation of the top five officers of public companies to those companies' earnings in 2001-2003 with 1993-1995, the study found that in 2001-2003, executive pay totaled 10.3% of profits, or more than double the 4.8% of profits it accounted for in '93-'95. That's what we call progress, especially if you happen to be a top exec.

And you might ask, if you're the nosy kind, what exactly were the criteria used by corporate directors to shell out a total of \$290 billion in the decade ended 2003 to those cadres of top five officers? Hard to say, we gather, but no doubt the firmness of their handshakes and the unerring ability to slap a director on the back not too hard and not too soft ranked high up on the list.

Whatever the longer-term impact, going public with the smoldering conflict at Morgan Stanley lit a fire under its snoozer of a stock. On Thursday, the shares came to life, roused by speculation that the outcome of the struggle would be Mr. Purcell's departure or a lacerated firm so weakened that it'd be easy prey for an acquirer. What's happening at Morgan Stanley might be something for investors who've been sitting forever with a dead stock to fruitfully ponder. Even a rumor that the guy running the show is in jeopardy of losing his job might be just the ticket for -- what's the cliché of choice? -- enhancing shareholder value.

The dust-up, if nothing else, provided a welcome touch of excitement to what has been rather a dreary Street scene most of this year. For one glorious session last Wednesday, investors were treated to a glimpse of the promised land: the Dow posted a triple-digit gain and Nasdaq and the S&P 500 also enjoyed their best day in four months. But -- sigh! -- the skies were blue only that single session and then the market lapsed back into backing and filling, with the emphasis on backing. In fact, the stimulus for the abrupt advance was probably nothing more the usual

goosing of their positions by mutual funds and other heavyweight investors, anxious to put the best face possible on their performance in a losing quarter whose end was looming.

The market continues to be weighed down by a mean combo of factors, tangible and psychological, which in concert are pretty potent stuff. For openers, the Fed's nickel-and-dime tightening is finally, after all these months, having an effect, although you can argue that more decisive and less protracted action might have cleared the air a heck of a lot more efficiently. Moreover, the effect seems to be more evident on interest rates than inflation, but then you can't have everything.

Mr. Greenspan and his colleagues would like us to believe this "measured" approach to raising rates is deliberately designed to cause the least amount of pain. The truth, we suspect, is that it reflects a sorry lack of conviction about the economy, inflation, the twin deficits and the dollar, let alone a clue as to what should be done about them.

Oil continues on its most unmertry way to the moon, getting a fresh lift, as if it needed any, from Goldman Sachs' prediction of a "super spike" that might carry the price of a barrel of crude as high as \$105. That, incidentally, sounds like one of those numbers, like the Dow at 36,000 or Google at \$400 a share, that are the product more of fantasy than analysis. But they inevitably make quite a splash.

However high it's going, oil already has come a frighteningly long way. Last we checked, crude was at a new high of \$57.27 a barrel and gasoline was averaging around \$2.25 a gallon. The toll such elevated prices are taking on the sentiment (and pocketbooks) of ordinary folks and of investors, whether ordinary or not, can't be easily calibrated. But it's ponderable and growing.

And, on that score, we have to think that the steady stream of revelations about the malefactors of great wealth, or, more to the point, the vivid telling of through what maleficence they got their great wealth, is not exactly nourishing investor confidence or, for that matter, the public's. Warren Buffett's mug cropping up all over the financial pages the past few weeks in connection with a probe of one of his insurance companies' dealings with the benighted American International Group can only have evoked a general unease.

Buffett, of course, has been a straight-shooter from the get-go and the ultimate good guy; any suggestion to the contrary is spawned either by malice or stupidity. Could somebody working for him have made a dumb decision or knowingly cut too cute a deal? Obviously. But, come on, does that make him complicit? Which seems to be the very impression some of the frenzied coverage by our esteemed colleagues in the financial press seeks to convey. Tabloid treatment of someone like Buffett does affect the public perception -- and this is our point -- of the way the world works and especially that little slice of it occupied by Wall Street, and not exactly for the better.

What we find truly bothersome is that neither these nor some of the other things that have conspired to put the market in rather a funk -- evidence that Iraq, election or no election, is still pretty much of a bloody mess with no easy exit, the erosion of Mr. Bush's sure political touch as

underscored by his difficulty in persuading the country on the wisdom of changing Social Security -- appear likely to disappear anytime soon.

That doesn't preclude a rally, even one that might last more than a day. And it is April, spring is here, the crocuses are beginning to bloom and spirits lighten and all that. Gosh knows, we're hardly immune from the tugs and pulls of this rejuvenating season. But we have to confess, there's something about the darkening investment landscape that has a bear-market feel to it.

Looking over that melancholy litany above gives even us the willies. We don't mean to paint a black on black portrait of the economy. It obviously has more than a few bright spots, some of them quite bright, indeed. Corporate profits are a glittering example. And the consumer, whatever the diminution in his confidence and the daunting balances due on his credit cards, has yet to stop consuming.

Trouble is, every time we decide to speak kindly about the economy some unpleasant truth intrudes and forces us to tone down, if not turn off, our chirping. A case very much in point was Friday's release by the Bureau of Labor Statistics of last month's employment data. The good news was that the jobless rate declined to 5.2%, from 5.4%, and hourly earnings bounced back by 0.3%. But otherwise -- there's no way out of it -- the report was pretty darn wretched.

To begin with, the usual-suspect cockeyed seers had their sights set on 213,000 payroll additions for March and the more ebullient among them were joyfully predicting upwards of 260,000. In cold, hard fact, only 110,000 new jobs were created and too many of those were in health care, restaurants and bars, not typically big-wage locales. Furthermore, February's perky gain of 262,000 was shaved to 243,000.

Sadder still, manufacturing employment, which for a spell there stirred hopes of sustained improvement, sagged again: 8,000 slots disappeared and the manufacturing work week contracted for the second month in a row. There were fewer temps hired last month, as well; for some reason, we don't hear much talk these days from the bullish pundits about how temp hiring is a great indicator of the employment trend.

As Philippa Dunne and Doug Henwood dryly put it in their estimable commentary, the Liscio Report: "The labor market is still exhibiting a considerable capacity to disappoint." It grieves us to say that with the economic recovery fast attaining a certain age, chances are it will continue to disappoint in the months ahead.