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SECTION

Specialized Breed of Trader Manages World Bank's Huge Pool of Assets

By DANIEL HERTZBERG
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Philip Spray, who grew up on a farm outside Pittsburgh and spent four years in the Peace Corps teaching dirt-poor Brazilians how to organize farm cooperatives, says he "thought it would be interesting to see how the big boys play."

Today, Mr. Spray *is* a big boy, playing with $2 billion in a portfolio of foreign government securities and bank certificates of deposit. He's one of six international traders who manage one of the larger pools of liquid assets outside the Organization of Petroleum Exporting Countries, the $9.7 billion short-term portfolio of the World Bank. In the 12 months ended in February, the traders earned a total return of 13.47% on short-term dollar assets.

By telephone from a small room deep inside the World Bank headquarters a few blocks from the White House, Mr. Spray and his colleagues quietly hobnob with other traders and bankers in London, Bonn and New York. "Discretion is the key with them," a New York trader says.

Traders Who Think

Morton Lane, president of the financial futures trading firm of Discount Corp. of New York Futures and himself a former World Bank trader, says, "There are lots of excellent traders around who don't think and lots of excellent thinkers who can't trade. What they"—the World Bank's officials—"have done is to try to find the rare breed that can do both." John H. Gutfreund, managing partner of Salomon Brothers, New York, says, "I find them as hard-driving and professional as any operation I've seen."

To the World Bank staffers, the praise is understated. They're not only better than Wall Street's fear- and greed-ridden traders, they say, but they also work for less money.

Owned by the governments of 135 countries, the World Bank is better known for its long-term borrowing in international capital markets than for its short-term trading. Its method is to borrow largely in nations such as Japan and West Germany, where interest rates are usually low, and relend the money to poorer nations. (The bank's long-term lending policies have long remained controversial, and there's talk in the Reagan administration of cutting U.S. support for the bank.) As of Sept. 30, the bank's outstanding debt amounted to $29.7 billion, up from $12.3 billion in 1975. By shepherding a big pool of liquid assets, the bank can avoid borrowing in the bond markets when interest rates are unusually high and money tight.

Gets Immediate Gratification

To manage the cash, the bank has assembled an elite group of traders and economists. Few fit the Wall Street mold. Hani K. Findakly, 35 years old, who manages the bank's holdings of U.S. government securities, has advanced degrees in science and engineering from the Massachusetts Institute of Technology. As a civil engineer he spent three years building an airport and other projects in Iraq, his native land. "If you're an engineer, and you design a dam, it takes 20 years to see the benefits," he says. "In here, you get immediate gratification"—or something, because a trader can as easily lose $100 million in a few weeks as he can gain that much.

Other traders come from Germany and Peru. Most of the traders hold advanced degrees in science or economics. If they "weren't at the bank, they'd be teaching in a university, or they'd be major industrialists," says Eugene H. Rotberg, vice president and treasurer of the bank.

The bank's trading proceeds under tight discipline partly because of its policy of taking no risk on currency fluctuations. (Its borrowers, however, necessarily take currency risks.) That means, for example, that for every German mark it borrows, it must have lent out or bought short-term securities for an equivalent amount of marks. In its liquid-assets portfolio, at least, the bank shuns high-interest credit risks. To preserve its pool, it must rely on correctly forecasting major moves in interest rates rather than on the leveraged, day-to-day money-market speculation of the typical Wall Street financial trader.

Requires Moving Quickly

That sometimes means buying and selling shorter-term securities to reduce the average maturity of its portfolio from as long as four years to as short as two weeks, at a time when short-term rates appear ready to head unusually high relative to longer-term rates, or to reverse the process when the move has peaked. But the bank's portfolio is so huge it can't change course quickly. Traders must anticipate rate changes and move before the rest of the market.

Eugene H. Rotberg, World Bank treasurer, at bank's trading desk.

Some 70% of the portfolio is typically invested in dollar securities, such as Treasury bills and notes, bank deposits and overnight bank loans, because only the dollar market is big enough to provide sufficient liquidity.

Wall Street traders typically try to guess interest rates as far ahead as "10 minutes to two hours" in the future, says Hugo J.H. Schielke, a tall, pipe-smoking banker from Germany who works as the bank's chief investment officer. By contrast, the bank's economists must estimate rates three months ahead for the U.S. and other major industrial countries in order to trade portfolio securities in the direction of rate changes. "We try to get the big move and put a large amount of money behind it," Mr. Schielke says. By large he means between $500 million and $2 billion.

Monitor Prices Abroad

The bank's computers, programmed with mathematical models of financial risk, churn out optimum securities mixes based on interest-rate assumptions to provide the highest possible return for the least risk. Traders then try to sell and buy securities at the best prices available. The computers also monitor prices in international securities markets to flag profitable price anomalies.

It was much simpler in the old days before 1971, when U.S. wage-price controls, the elimination of gold as a standard for settling international debts, and a spurt in interest rates and inflation began to change the nature of cash management. Back then, Mr. Schielke says, "There was an old Chinese and his secretary who rolled over time deposits"—that is, renewed bank deposits at maturity. "Occasionally Gene Rotberg sent a cable to the Federal Reserve to buy some government agency bonds."

Last year, the bank's traders turned over $150 billion in 9,000 transactions. In Treasury bills, the average trade ran between $25 million and $50 million.

Traders sit around a cherrywood desk beneath digital clocks giving the hour in important financial capitals. Philip Spray chats on the phone, sometimes in German, sometimes in French; he also speaks Portuguese. Messrs. Schielke and Findakly debate the merits of two-year Treasury notes versus bills maturing in a year or less. "I'm going to buy 250," Mr. Findakly decides, and a bid goes into the Fed's weekly auction for $250 million in three-month bills.

Cite Low Pay

Although successful traders on Wall Street may earn much more, the traders get more than the minimum wage—$28,000 to $50,000, after taxes, because the bank also pays them an amount sufficient to cover their income tax. Still, the staff blames low pay for the exodus of three experienced traders in recent years. One of them, Mark Winkelman, now a vice president at Goldman, Sachs & Co., says his salary more than doubled when he left the bank. Just a few days ago, John Hill, who oversees day-to-day trading operations, submitted his resignation to join Merrill Lynch & Co.'s Merrill Lynch International. Mr. Hill is a former Federal Reserve staffer.

Unable to outbid Wall Street for experienced hands, the bank concentrates on recruiting and training younger candidates with academic backgrounds. The bank offers them time to teach and pursue research. That makes it "a very nice environment" to work in, says Mr. Winkelman. It's "totally the opposite of Wall Street."

Indeed, the bank doesn't even pay a yearly bonus, a sacrosanct practice on Wall Street. But Mr. Rotberg turned off an otherwise ebullient convention of bonus-flush traders in Boca Raton, Fla., last fall when he taunted that they could never match the skilled performance of his Ph.D.s. The reason, he said, is that the Wall Streeters worry too much about job security and compensation; his more modestly paid traders remain free to exercise their best intellectual judgment, untainted by greed. The other system, he says, makes "bad traders out of smart people."

The traders suffer other frustrations. Mr. Findakly complains that "we trade so much money, but to get an extra secretary, another typist or a research assistant is next to impossible." Some traders think the department is seriously understaffed. Mr. Schielke chafes at the bank's unwillingness to expand its conservative trading into financial futures contracts, as Wall Street firms have done. Says Mr. Rotberg: "The reason we aren't in futures isn't the bureaucracy of the bank. It's me. I'm not convinced that's necessary for the bank at this time."