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JEFFERIES CEO SEES CHANCE TO EXPAND IN DOWNTURN

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NEW YORK (Reuters)

Investment bank Jefferies Group is on a hiring spree, snapping up traders and bankers laid off by credit crunched rivals despite posting three quarterly losses and facing daunting markets ahead.

Jefferies on Tuesday announced it had hired 25 equities sales, traders and research staff in Europe who formerly worked at Bear Stearns. On the same day, it added veteran Citigroup technology investment banker Mark Fisher in London.

These and a host of other moves spring from the same contrarian playbook Jefferies has used for 18 years, Chief Executive Richard Handler told Reuters. And with more top-tier talent thrown out into the streets, the hiring will continue.

“You really don’t get these kinds of opportunities unless things are pretty darn ugly,” Handler said. “You can’t build up an international equities business in a bull market. That kind of talent is just not available when times are good.”

It’s a bold bet that business will get better for a firm that lost $90 million in the past three quarters and is expected to announce a fourth-quarter loss of $9 million next month, as industrywide trading and banking activity slumps.

Jefferies slashed more than 200 jobs, reducing head count by 8 percent, during the first half. It also shored up its balance sheet by selling a 14 percent stake to Leucadia National Corp for Leucadia stock, which it later sold, and $100 million in cash.

GOING ON OFFENSE

Yet Handler stressed Jefferies did not suffer the kinds of credit losses that have hobbled its bigger rivals. The Leucadia deal quickly helped boost its supply of dry powder for the battles ahead, he said.

“We replenished our losses with extremely smart partners and we did it immediately when we saw things deteriorating,” he said. “We’re now in a position to play offense.”

Indeed, Jefferies in April expanded its mortgage securities business with 10 hires led by veteran traders William Jennings and Johan Eveland from RBS Greenwich Capital, a unit of Royal Bank of Scotland. It also hired two UBS executives to bolster its commodities team.

In late July, despite a global slowdown in merger activity, the bank hired Stifel Nicolaus aerospace and defense banker Daniel Cornell. It also added veteran industrials dealmaker Bill Parkerson from Bank of America to run its U.S. chemicals business.

Jefferies has expanded its unit that sells and trades high-yield bonds, loans and distressed debt with five former Bear Stearns staffers, led by Daniela Bar-Illan and Richard Wright. They followed Robert Harteveldt, who joined Jefferies as chairman of fixed income from Bear, where he was head of high yield, distressed and loan sales.

Overall, Jefferies has increased its work force by 5 percent since the end of June to 2,453 people. By comparison, banks and brokers have slashed about 100,000 jobs in the past year.

“I can’t tell you when the world will get better, but eventually it will,” Handler said. “If you just cut all the muscle, when the market does come back you’re a weaker player.

MORE TO COME

All these moves come as Jefferies, like its rivals, contends with a slowing economy, anxious investors and a slump in deal activity.

Handler acknowledged it’s too soon to run victory laps:

“We have a lot of work to do. We’re right in the middle of it with everyone else. We have to grind.”

Still, the hiring will continue, he said, though he declined to set a target or goal. There are certainly plenty of people to choose from as rival firms cut back in areas that have largely shut down, such as creating and trading mortgage bonds, or slowed down, such as mergers and buyouts.

“We’re seeing opportunities to either upgrade or to go into businesses that we believe we have a competence in but where we didn’t have the people before to get the job done,” he said.

Jefferies, which has made its mark focusing on small and middle-market companies, has picked through the wreckage in previous slumps. It also recruited dozens of investment bankers after the tech and telecom bubble burst in 2000.

The New York firm boosted head count by a net 129 in 2000, a 15 percent increase, and by 184 in 2001, an 18 percent surge. In all, it has nearly tripled its work force since 1999.

“We’re not doing anything different than we did in 1990, ‘94, ‘98 or 2001,” Handler said. “Each one of those periods was gut-wrenching, yet after each period we emerged bigger, more balanced, more important to our clients and more profitable.”

(Editing by John Wallace)