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SPECIAL REPORT -- TERROR IN AMERICA -- WALL STREET

The View from Ground Zero

Some small firms blasted out of existence were key players

One moment, Joseph F. Campbell Jr., an analyst at Lehman Brothers Inc., heard the unexpected whine of a plane. The next, he watched the aircraft crash into One World Trade Center, sending many to their deaths. Campbell got out of Lehman's headquarters in the nearby World Financial Center, alive but shaken. "Our colleagues who worked in the Trade Center tower are less fortunate," he says. "We all are going to have friends who died in the fires."

When terrorists leveled the World Trade Center, they did much more than destroy a landmark. They obliterated the offices of Wall Street investment banks, mutual funds, and hedge funds, where thousands were preparing for the stock market to open at 9:30 a.m. Juggernauts including Morgan Stanley Dean Witter, insurer Aon, Bank of America, and Lehman scrambled to locate legions of brokers, traders, and technicians based at the World Trade Center. "It's just devastating," says Richard H. Repetto, a research analyst at Putnam Lovell Securities Inc. "The World Trade Center was the symbol of American capitalism."

WIPED OUT. At some firms, many escaped before the buildings collapsed. Morgan Stanley said a high percentage of its 3,500 workers at the complex were safe. But their offices were wiped out. And many smaller outfits, such as investment banking boutiques Keefe, Bruyette & Woods and Sandler O'Neill, feared they had lost between one-third to two-thirds of all of their employees.

Many foreign firms also lost key parts of their operations. The U.S. headquarters of five major South Korean securities firms, including Hyundai Securities, and 16 Japanese banks, including Dai-Ichi Kangyo and Fuji Bank, were destroyed in the blast. "The New York subsidiary is our international operation's most important pillar," says Suh Jong Won, manager at Hyundai Securities in Seoul. "With the office wiped out, we'll have to give up business there for the time being."

Wall Street will never be the same. The loss of life is catastrophic in an industry that relies on personal relationships. In some specialties, business may be crimped for months because of the loss of traders and analysts. Nasdaq worried that 19 of its 32 market makers in the Twin

MARKET INFO

DJIA	9834.68	-66.70
Nasdaq	1875.05	-5.46
S&P 500	1137.03	-5.63

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Towers were lost. Cantor Fitzgerald, which made roughly a quarter of the \$300 billion of daily trades in U.S. Treasuries, feared it had lost almost all of the 1,000 employees at its headquarters. "Wall Street will be able to resume when the switch is [turned] on," says Ray Soifer, an independent banking consultant. "But not every firm."

Even Merrill Lynch & Co. and Goldman, Sachs & Co., whose offices were not reduced to rubble, may find their operations crippled for months. Engineers fear that the Wall Street's infrastructure has suffered grave damage that may not be fully apparent even after the wreckage has been cleared up. Consider the communications networks on which the Street depends. Verizon Communications said on Sept. 12 that 20% of the New York Stock Exchange's high-speed data lines were out of action, and the rest were operating only sporadically. "The area of attack is probably the most telecom-intensive spot in the world," said Larry Babbio, vice-chairman and president of Verizon's telecom group. "This could be a very long process."

Wall Street's large firms say they were ready to cope with the stock market's planned Sept. 17 reopening. Most have offices around the globe and extensive backup systems. "A lot of the firms have contingency plans for setting up operations elsewhere, and they have duplicate records," says Robert G. Pickel, executive director of the International Swaps & Derivatives Assn. Lehman used its London and New Jersey offices to coordinate the evacuation of 6,000 staff from its headquarters in the World Financial Center, across the street from the disaster. Morgan Stanley moved fast to reassure clients. "In spite of this tragedy, all our businesses are functioning and will continue to function," said CEO Philip J. Purcell in a statement. "All our clients should rest assured that their assets are safe."

Still, the backup systems won't solve the woes Wall Street faces. For a start, many surviving offices are potentially unsafe. "The World Trade Center was one of the last buildings filled with asbestos," says environmental consultant Wayne Tusa. "The entire downtown of Manhattan may be contaminated for some time." Besides, Wall Street has to unravel a tangle of paperwork. Some of the firms blasted out of existence likely were parties in long chains of interlinked contracts that need to be unwound without hobbling others involved in the deals. "There is going to be a terrible mess" sorting out the transactions, says Steven C. Leuthold, a Minneapolis money manager.

Every day the markets operate at less than full speed, Wall Street's earnings will be cut. Securities firms earned about \$800 million in revenues daily in the second quarter, according to statistics from the Securities Industry Assn. And those revenues are more important than ever to bankers as they wrestle with a stock market stuck in a decline, a dearth of initial public offerings, and dwindling numbers of mergers and acquisitions. "You could have some further damage to financial markets in the near term, which would simply continue the trend on the Street of declining business volumes," says Guy Moszkowski, a financial-services analyst at Salomon Smith Barney.

VAST SCALE. But that may be the least of Wall Street's worries. Some analysts figure it may be months before the Street begins to overcome the trauma of the Sept. 11 attacks--because of the sheer scale of the human

tragedy. "The fallout from this will be incredible," says Putnam Lovell's Repetto. "It's going to take a while to recover."

And the longer that takes, the longer the world's biggest economy will have to wait for Wall Street to raise the billions of dollars it needs to get back on track and pull the rest of the world out of its funk.

By Emily Thornton and David Henry, with Steve Rosenbush in New York and Stanley Holmes in Seattle

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