NEW YORK

Wolf's Next Challenge

An Interview with Robert Wolf,
Founder and Chief Executive Officer, 32 Advisors, LLC


Robert Wolf

EDITORS' NOTE *Prior to forming 32 Advisors, Robert Wolf spent 18 years at UBS where he held several senior positions including Global Head of Fixed Income, Group Regional CEO and Chairman, and President and Chief Operating Officer of the Investment Bank. He joined UBS in 1994 after spending approximately 10 years at Salomon Brothers in Fixed Income Sales and Trading. In addition to his role at 32 Advisors, Wolf is a member of President Obama's Council on Jobs and Competitiveness. From 2009 to 2011, he was a member of the President's Economic Recovery Advisory Board. He serves on the Undergraduate Executive Board of the Wharton School and on the Athletic Board of Overseers at the University of Pennsylvania, as well as on the boards of the Robert F. Kennedy Center for Justice & Human Rights, the Partnership for New York City, and the Children's Aid Society. He is also a member of the Council on Foreign Relations and the Committee Encouraging Corporate Philanthropy. Wolf graduated from the Wharton School at the University of Pennsylvania with a B.S. in Economics in 1984.*

COMPANY BRIEF *32 Advisors (32advisors.com) is a boutique consulting and advisory firm serving public and private companies, hedge funds, private equity firms, money managers, governments, and other institutions. 32 Advisors was officially launched in August 2012 by finance veteran Robert Wolf.*

Are you surprised at how deep the recession was and where we are today in terms of recovery?

In retrospect, we should have seen the recession coming better than we did and anticipated the heightened impact of the recession due to the leverage taken on by all the financial institutions and most households.

The year before the recession, mortgage delinquencies were coming in a little faster than expected. But at the same time, unemployment was low, GDP was strong, and housing starts were still fine – all metrics that normally point to a vibrant market.

So it was a period of rapid growth and leverage; maybe the growth was more from leverage than from actual business building.

To come out of a recession, we normally have about 5 percent GDP growth and half of that growth is typically built around housing and construction, which we obviously did not have this time around. Now, housing is starting to come back slowly – mortgage delinquencies are at near four-year lows and housing starts are near four-year highs. But we're still only talking about 2 percent GDP growth, which is a slow pacing economic recovery.

Today, while the recovery is not where we would like to be, the glass is half full. There are many positive signs that we're not acknowledging. For example, the President's export initiative is starting to work.

We have to find the balance between having an entrepreneurial and dynamic business environment and ensuring we are regulated appropriately and that our ethics are beyond reproach.

For most of our lifetime, exports as a percent of GDP in our country have been around 10 percent; but over the past three years, we've been north of 15 percent, including double-digit growth year-on-year. In addition, we're seeing a significant pick up in manufacturing where it is on pace to be the best it has been in two decades.

This country has also gained a lot in productivity, whether it was forced productivity in the downturn or part of what we'll call the technological revolution that has taken place over the past decade. The average-hour-work-week during the recession went down to mid-32 and now, it's at a prerecession level of 34.5, a gain equal to about 2 million job equivalents.

Our country is very much consumer driven; 70 percent of our GDP is still consumer oriented. Thus, the fact that there has been an increase in consumer wages – through both an increased work week and slightly higher wages – is a good thing that we're not talking enough about.

How challenging will it be to make an impact on jobs when the mentality around workforce has changed?

As someone who has been on the President's Economic Recovery Advisory Board and now the Jobs Council, the one debate we consistently have is whether unemployment is demand driven or skills driven. My guess is that it is a combination of both.

Many business leaders will tell you they don't have the demand for hiring, but an equal amount will tell you they have jobs to fill but can't find labor with the right skills.

The skills gap is something we're working on as a country, be it through community college programming or various company-driven initiatives or individuals learning on their own. We hope to continue ramping up education and training to reduce and eventually eliminate the gap.

Another thing that would help is visa reform. Mayor Bloomberg has been a thought leader on this topic for years. The idea that around 75 percent of our Ph.D.s get educated here and then leave our country when we have currently two million unfilled jobs in the tech and engineering space tells you that we need to develop and retain more engineers. We need to make sure that people who are educated here and want to stay are not – because of visa issues – forced to leave to the benefit of other countries when they could be supporting our economy and creating jobs here. At the same time, we have to make sure that our schools are emphasizing STEM (science, technology, engineering, and math) which is a priority for the President's education programs.

Has true reform taken place and are we guarding ourselves against another crisis down the road?

Reform was needed because as we saw during the financial crisis, the regulators did not have the tools that were necessary to navigate the environment.

Looking at a few key parts of Dodd-Frank, I think it's important we have a systemic regulator overseeing the entire financial services arena, not just the banks. It's important we have derivative transparency and the right settlement and clearing process. A disproportionate number of derivative transactions of the past were executed and settled in a bilateral and manual nature, and that has to change to a model where there is transparency.

Another key tenet is having a resolution authority – we need to know how to wind down firms that are large and globally connected in many jurisdictions. So the idea of a living will, which is being forced upon the large institutions, makes sense.

But even prior to all the regulation taking effect, firms themselves realized that it was time to de-lever and many have now de-leveraged by over 50 percent. Through this process, we learned that equity is equity and everything else is not, which is why today everyone is looking at Tier 1 common equity as the more important metric for many firms as opposed to leverage or balance sheet size, which is what we looked at in the past.

At the end of the day, part of your business is taking risks. Is that being hindered by regulation?

I was at the White House the day Dodd-Frank was announced. Let's just say I liked it more when it was an 85-page Treasury blueprint.

In all seriousness, we have to find the balance between having an entrepreneurial and dynamic business environment and ensuring we are regulated appropriately and that our ethics are beyond reproach.

I would like the regulation to be more principles based; you can't address everything because we are constantly evolving.

The original principles of The Volcker Rule make a lot of sense – an institution like a bank holding company with a liability stream that is deposit-based and has FDIC insurance behind it should have parameters around what type of activities it is involved in and what kind of risks are deemed acceptable.

My view has always been that bank holding companies don't necessarily need to compete in the private equity space. I believe that when it comes to a great business acquisition idea, give it to your client. It doesn't make sense to me that a financial services business is buying, for instance, a manufacturing company.

What was the idea behind creating 32 Advisors?

I wanted to start a company that gave me the freedom to do many different things and not only transaction based work. My goal was to start doing more advisory and consulting work. I have a rolodex that is broad and deep, and friends who want to partner with me on different ventures.

I will be focused on a few different areas: one will be helping start-ups, whether venture capital or private equity; another will be advising a few CEOs who I've been dealing with for many years or joining a few corporate boards. I will also be doing more media and I am excited to be hosting a cutting-edge weekly webcast with the Reuters channel on YouTube called *Impact Players*. Finally, I hope to be more involved with helping President Obama get reelected.

What do you hope your UBS legacy will be?

I feel fortunate that UBS will be my first client, so I look forward to working with the bankers and sales teams on pitching business, winning mandates, and growing their U.S. investment banking business.

I think it's important we have a systemic regulator overseeing the entire financial services arena, not just the banks.

I would like people to say I was an honest, hard-charging thought leader with an open door policy who always spoke the truth in a constructive and transparent fashion.

How critical is it for New York City to have a mayor that understands business?

Mayor Bloomberg is exceptional. When you're in government, you need to understand the private sector and he certainly does. He understands public/private partnerships, the need for infrastructure, and of course the financial industry, and he has been a steady hand for New York during these tumultuous times. In a city that is heavily financial services and private-sector driven, someone like Mayor Bloomberg is indispensable.

His stance on issues like immigration and gun control has been outstanding, and he's well respected throughout the country as a leader. More importantly, he's a great sounding board. Financial services and technology have driven the city over the past 20 years and he understands both well.

You are a strong supporter of President Obama, but CEOs across the board harp on his insensitivity to the business community. What do you see that they don't?

The President understands the private sector. His initiatives around small business, foreign direct investment, and infrastructure, to name a few, are private-sector driven. In addition, his export initiative has been one of the most important initiatives to begin shifting our country from being predominantly consumer driven to one that is making and exporting made-in-America products again.

Over the past 28 months, four-plus million private sector jobs have been created. Where we have lost jobs has been mainly in the public sector. In this country, we strive to find the balance between fiscal responsibility and the need to reduce unemployment, but we are headed in the right direction.

What would you say to those who think you should enter the political arena?

I am fortunate to be able to call the President a close friend and it has been an honor to serve as an outside advisor, but I like that I get to come home to my family at night.

You have advocated for the creation of a national infrastructure bank. What is your vision for it?

I've been pushing this idea of a national infrastructure bank for many years and the President is a big supporter of it. Early on, I wrote an op-ed with Laura Tyson and I also testified to the U.S. Senate Committee on Banking, Housing and Urban Affairs on why investing in infrastructure creates jobs and would grow the economy. In a time where we need to grow our country, it's the fastest multiplier of GDP: for every dollar spent, it multiplies GDP by 1.6 times; for every billion spent, it creates 25,000-plus jobs.

Some unfortunately think of a national infrastructure bank like the next Fannie and Freddie – it's nothing like that. It's a public/private partnership, more like project finance where loans would be deployed at a project level, placing the burden for funding on sources other than the federal taxpayer.

An infrastructure bank that is merit-based and can execute big national projects is important. Not only would it be good for the economy, but it is needed in our country where the infrastructure is given a D rating by engineers. I'm not only talking about bridges, tunnels, and ports; we need a national electric grid, next generation air traffic control, rights-of-ways going through rural areas; and, we absolutely should have a "dig once" process so when new roads are being built, we put the pipes in place to house fiber-optic cables instead of having to keep digging them up.

Finally, infrastructure investment is a bipartisan issue. Mayor Bloomberg, Governor Rendell, and former Governor Schwarzenegger notably created a coalition to encourage direct federal funding for infrastructure investment. It's a no-brainer. ●