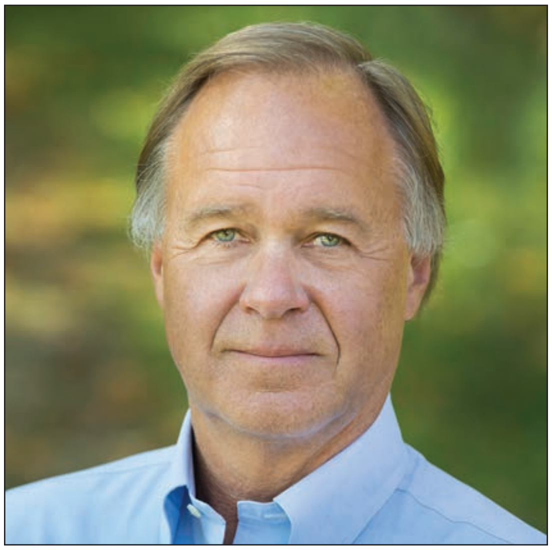
# The True History of Merrill Lynch



*Winthrop H. Smith, Jr.*

**An Interview with Winthrop H. Smith, Jr., former Chairman, Merrill Lynch International, Inc.**

**EDITORS' NOTE** *Winthrop Smith was also Executive Vice President of Merrill Lynch & Co. He spent 28 years at Merrill Lynch beginning in 1974 when he received an M.B.A. from Wharton. He is a 1971 graduate of Amherst College. He began at Merrill Lynch as an investment banking associate and, for the past 10 years of his career there, he was responsible for growth outside of the United States. Since retiring in 2002, Smith has been involved in entrepreneurial activities and private investment. He is Chairman and CEO of Summit Ventures NE, LLC, which owns Sugarbush Resort in Warren, Vermont and serves as a director of Eaton Vance Corporation, AGF Management in Canada, the Richardson Financial Group, Richardson-GMP in Canada, the National Ski Areas Association, the Vermont Ski Areas Association, and the Lake Champlain Regional Chamber of Commerce. He is also currently Vice Chair of the Vermont Business Roundtable. Smith has written a book about the history of Merrill Lynch titled,* Catching Lightning in a Bottle: How Merrill Lynch Revolutionized the Financial World.

**Throughout its history, what made Merrill so special?**

It goes back to Charlie Merrill. He was a brilliant young entrepreneur and a charismatic visionary who held the core belief from the beginning that the customer's interests had to come first. At the age of 25, he wrote an article about that in *Leslie's Weekly*. When he started his firm at 29, this is the mantra he passed on to his partners and to my dad, who joined him two years later, and to everyone down the line.

As the firm evolved, there was another concept that emerged: that of building a company around the family values of mutual respect, which leads to respect for the client. It is the concept of teamwork and of being involved in the community, and most importantly, of acting with integrity at all times.

These values created the North Star for the firm. So if we made mistakes, we always had that to come back to.

Through different leaders, this was the fundamental element that became known as Mother Merrill.

**There is a long history behind Merrill, but it suffered a very quick downward trajectory. Did that surprise you?**

It did. When I left, I thought the current leadership would compromise the firm because there was no understanding of our history nor appreciation of our culture. I didn't think it could nearly bring the whole thing down. The balance sheet was so severely leveraged and they had gotten into a business that we had traditionally shied away from – the mortgage-backed business – and they continued to add leverage to the point where it was almost 36 to 1.

**I hope the regulators are not going to allow that degree of leverage again.**

**Why did you think the timing was right to publish your book and what is its focus?**

I published it on the fifth anniversary of the final shareholder meeting. I gave a strong speech at that meeting. Also, the 100th birthday of Merrill Lynch was January 6, 2014, so those were the coincident dates.

I wrote it so people would know the true history of Merrill Lynch, not the revisionist history. I wrote it to bring some closure for myself. And I wrote it for the many Merrill Lynch families, former and current, that loved the firm and for whom I could bring back fond memories as they read the book.

**Were you surprised by the speed and severity of the economic and financial crisis?**

I was surprised but, in hindsight, all the signs were there.

One of the things that was changing on Wall Street, which some of us missed, was that many of the firms were not being run by traditional client people anymore. There became a different culture – a deeper focus on short-term profitability and on maximizing return, and not necessarily a focus on clients. The old dangerous words in investing are, "this time it's different;" but it wasn't different.

**Have the proper financial reforms been enacted and are safeguards against another crisis now in place?**

I hope so. I hope the regulators are not going to allow that degree of leverage again and that they're going to require more capital – that was probably the most important thing to address.

At day's end, you can't regulate stupidity and greed. You need good corporate governance and ethical people, and the boards of directors have to do their jobs.

**Is there such a thing as too-big-to-fail or do companies need the size and scale to compete globally today?**

This is where the debate lies. When we were Merrill, we believed we had to be big and global. But at some point in time, there are dis-economies of scale and, if you're going to be everywhere, you have to have an extraordinarily good management team.

On the other hand, U.S. firms are competing against global banks, so you have to recognize the global reality as well.

**What defines an effective board today and what do CEOs need to foster to get the guidance they need?**

The board's most important function is the selection of the CEO. Too often, they look just at the technical requirements when they need to spend more time looking at character, integrity, and some of the softer skills. They need to make sure a CEO candidate is right for that particular company's culture which, in the case of Merrill Lynch, wasn't done.

Boards also have to have a skill set of their own so as to know how to ask the right questions and evaluate management performance. On a board like Merrill Lynch's, if you have members with no understanding of the financial markets, it's easy to blow things by them.

**What key lessons can young people take from what happened to Merrill Lynch?**

First, you need to love what you're doing. Second, values and principles are key, and you want to be associated with people of principle. You want to practice adhearing to those principles yourself, and you want to have integrity. If you live your life that way, you will end up doing well. ●