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J.P. Morgan Commodities Chief Takes the Heat

By DAN FITZPATRICK And CAROLYN CUI

On July 21, J.P. Morgan Chase & Co. investment-bank chief Jes Staley was on an airplane when he punched out an email to Blythe Masters, his embattled head of commodities.

"I will not give up on you and your vision," he wrote, reassuring her.

Mr. Staley's note came after a series of setbacks for Ms. Masters. One of J.P. Morgan's most powerful executives, the 41-year-old Ms. Masters is charged with turning around the commodities operation and building it into the biggest on Wall Street. And though the blunt executive has been given many resources, her division recently has suffered defections and miscues while falling far short of expectations in 2010.

"I think she is feeling a little heat," said a person close to her.

Barring a remarkable turnaround, commodities will end the year far behind a \$1.78 billion revenue goal. Part of the problem was a loss on a bad coal bet in the second quarter. The third quarter improved, with a gain of about \$154 million in revenue through Sept. 30. But commodities is up only about \$189 million in revenue for the year, said a person familiar with the results.

That disappointing performance comes after a costly and bold effort to build the commodities division, one of the bank's biggest bets. Since 2008, the bank spent more than \$2 billion buying commodities-trading operations, including Bear Stearns, parts of UBS Commodities and, most recently, assets from RBS Sempra Commodities in 2010.

Globally, trading of commodities has been rising for years, largely due to the expectations for higher

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demand for fuel and food from emerging markets. As a result, individual investors and hedge funds have included commodities in their portfolios as an asset class, and Wall Street firms have expanded their operations to cope with the demand.

The bank's push into commodities roiled a lucrative sector dominated by Goldman Sachs Group Inc. and Morgan Stanley as J.P. Morgan poached executives

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from rivals and boosted its work force from roughly 125 in 2006 to 1,800 today. That makes the commodities desk the biggest on Wall Street that trades everything from power to silver.

Yet it remains trailing its top two rivals in market share. According to people familiar with the situation, the unit has duplicative systems and overlapping technical and support staff, despite 100 job cuts this year. Company executives, acknowledging the problems, are addressing them, the people say.

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Falling short on goals will continue to attract scrutiny. If results dip below \$1 billion in 2011 Mr. Staley intends to re-evaluate the business with Ms. Masters, said a person familiar with his thinking. In a statement, Mr. Staley said, "Blythe has built this business from the bottom up in only four years and today we have the scale to serve all of our clients' needs."

Ms. Masters has had a meteoric rise. Born in Oxford, England, she grew up in a family of means that lost money. Educated at Cambridge University's Trinity College, Ms. Masters started with the bank as an 18-year-old intern on the London commodities desk. While still in her 20s, she was among a team that sold regulators and investors on the use of newly invented

credit-default swaps to shift risk off the bank's books. At 28 she became a managing director, the youngest woman to achieve that status in the firm's history. Chief Executive James Dimon came to know Ms. Masters while she was chief financial officer of the investment bank from 2004 to 2006. Mr. Dimon, a numbers junkie, would meet with her regularly, and she proved that she had a grasp of details and could defend her positions forcefully, said a person who worked with both executives. He approved her appointment as head of commodities in late 2006 with instructions to reduce volatility in the group. Revenues doubled between 2006 and 2009 as Ms. Masters increased the unit's reliance on client revenue over proprietary trading. A business that had a couple of hundred clients in 2006 now has 2,500. Ms. Masters routinely became the face of J.P. Morgan in Washington, where she frequently represented the industry on everything from potential curbs on commodities trading to the financial regulatory overhaul. "I don't believe they could have sent a more thoughtful advocate," said Robert Holifield, staff director for Senate Agriculture Committee Chairman Blanche Lincoln (D. Ark.).

And she isn't afraid to speak her mind. In a 2009 meeting she clashed with White House economic adviser Larry Summers over financial overhaul. She was the only person in the room who told Mr. Summers that she didn't agree with his agenda, said Tim Ryan, chief executive of the Securities Industry

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and Financial Markets Association trade group. "She said things everyone else in the room felt but they weren't willing to say," he said.

But Ms. Masters was in the eye of the controversy over derivatives when they helped trigger the 2008 financial crisis. She was branded "the woman who built financial weapons of mass destruction," she acknowledged in an October 2008 speech, even though she rejected the characterization. "It is important to distinguish between tools and their users," she said.

The same qualities that distinguished her as an executive have on occasion made her seem combative, said people who have worked with Ms. Masters. At a private meeting with U.S. senators in the summer of 2008, she pointedly disagreed with an expert in the room who said J.P. Morgan had an incentive to drive oil prices higher.

"Are you calling me a liar?" she said, according to a person who witnessed the exchange.

"She is definitely not a shrinking violet," said Bart Chilton of the Commodity Futures Trading Commission, who had several meetings with her on potential regulatory changes.

But Ms. Masters has been uncharacteristically rattled, people close to her say, ever since a trader earlier this year made a bad bet on a decline in European coal prices and lost \$130 million when prices jumped. The loss spawned bad press and, concerned about leaks, Ms. Masters curtailed a distribution list in July for

the group's profit and loss statements and risk limits.

On a July 22 conference call with her group, she speculated about whether competitors had planted stories about the business and encouraged her employees to speak up if they knew the source, according to a recording of the call. She assured employees on the call that rivals are "scared s—less of us" and promised that "we are going to build and finish building the No. 1 commodities-trading franchise on the planet."

When she took over the commodities business in 2006, Ms. Masters clashed with several high-profile traders who weren't as enthusiastic about their new boss and where she wanted to take the unit, people familiar with the matter said.

One specific point of disagreement, these people said, was whether J.P. Morgan needed a larger presence in developing and trading carbon credits for companies that need to mitigate their emissions. Another person involved in the discussions said the dispute centered on the amount of risk being taken by the group.

Some physical-oil traders who came with the Sempra deal, including Glenn Oztemel and Michael Livingston, recently left because they were concerned about cultural differences and compensation structures at such a large commercial bank, according to people familiar with their thinking. By focusing on client fees, instead of making potential windfalls wagering the bank's own money, trader upside was limited, they said.

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On Sept. 21, Ms. Masters had to go before the board to discuss the coal trade and the state of the business, among other subjects. That was after she assured her bosses that, despite the disappointing results for the second quarter, the bank remains on track to unseat larger rivals.

Ms. Masters enjoys the support of Mr. Dimon and Mr. Staley and she recounted their "atta boys" to her employees. And she cited the reassuring email Mr. Staley wrote on the airplane. In it, he made a typo, telling her, "You are one stough kid."

"I think he meant I was one 'tough' kid," she told employees. "I will be checking that with him."

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