

## CastleOak Securities Revs Up Hiring Engine

**Like other minority-owned boutiques, this one sees opportunities to expand as major firms fall back**

By [Paul Burton](#)

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**David Jones**, the founder and chief executive of **CastleOak Securities**, compares his firm to a sports car.

"You talk about going from zero to 60. We're trying to get to 60," he told *IDD* in an interview this week at his firm's midtown Manhattan headquarters.

His firm is almost there; since the start of the year, its staffing has increased 32.5%, to 53. Jones gives a simple explanation: Good people became available, both from bulge-bracket firms and minority-owned investment boutiques such as his.

Since Jan. 1, CastleOak has added 13 institutional sales, trading and research professionals, including an executive vice president and a municipal finance team. Over the next 18 months, it plans further expansion across its practice groups, he said. "We don't have any specific areas in mind. We just want the right people in here."

The five-year-old firm provides equity and debt capital markets services, fixed-income sales and trading and merger and acquisition advice. Like other minority-owned investment banks, it has been climbing the league tables by stealing talent from bigger rivals and focusing on customer service.

Downsizing by large banks "has given smaller firms like ours the opportunity to hire some good people," he said.

Some hires have come from companies such as **Goldman Sachs**, **Morgan Stanley** and **Bank of America**, but Jones said roughly 30% to 40% of CastleOak's employees have come from other minority-owned firms, including **SBK-Brooks Investments** and **M.R. Beal & Co.**

“Just because someone comes from a bulge-bracket firm doesn’t mean the person is necessarily the best fit,” Jones said. “Is that someone really good, or good because they’re surrounded with the trappings that make them good?”

CastleOak and its peers are underwriting and managing more stock and bond sales these days. Last year, minority-owned investment firms underwrote \$232.3 billion of U.S. common stock and investment-grade corporate debt deals, or 28% of the industry total, according to data provided by **Thomson Reuters**. In 2007, that percentage was only 17%.

Jones said his firm has participated in the underwriting of \$669 billion debt and equity transactions since 2006, including \$141 billion last year. It gets 60% to 70% of its business from the fixed-income side, and its preferred sectors are banking and finance, utilities and retail.

Because **Cantor Fitzgerald** owns 44% of it, CastleOak can tap Cantor's resources for capital and support in such areas as technology and back-office work, he said. "That enables a 50-person firm like ours to focus more on the production side."

This structure has precedent among minority-owned firms tapping Wall Street for access to capital. For example, **John Utendahl** enticed **Merrill Lynch** in 1992 to buy a 20% stake for **Utendahl Capital Partners**, which he ran for 18 years before becoming **Deutsche Bank's** vice chairman for the Americas. **Ron Blaylock** established his namesake **Blaylock & Co.** (now **Blaylock Robert Van**) in Oakland, Calif., in 1993, with **Bear Stearns** obtaining a 25% stake. (**Cantor Fitzgerald** said its officials were not available to comment on this article.)

CastleOak's first major move this year was hiring **Donna Sims Wilson** in January as executive vice president. Wilson was the president of M.R. Beal.

"She fills a senior role within the firm," Jones said. "She's developed a lot of contacts with Washington, corporate America and with minority firms the past 15 years."

The following month, CastleOak hired a team of six municipal finance and institutional sales and trading specialists from SBK-Brooks, which Blaylock Robert Van purchased in 2008. Despite a drop in issuance, municipal bonds have drawn interest because of their comparatively high yields backed by strong pledges.

**Guggenheim Partners**, **Berenson & Co.** and **RBC Capital Markets** announced expansion efforts in that area at roughly the same time.

**Eric Small, Nick Potonak** and **William Matlock** are heading the team. They are three core members from SBK-Brooks. Small, now a senior managing director at CastleOak, coordinates the Midwest activity.

Potonak and Matlock are managing directors. Completing the group are **Gregory Reynolds** and **Matthew Middendorf**, directors in the public finance group, and **Jonathan Ly**, the group's financial analyst.

"Bringing in a team of six will enable us to leverage our offerings through our distribution system," said Jones. The new team will concentrate on Ohio, Indiana, Wisconsin and Illinois, but "there are other markets we want to get into," such as New York, California and Texas.

Hiring entire teams is nothing new for CastleOak. Last year, it added six people from **Finacorp Securities**, an Irvine, Calif., firm that dealt in government bonds and mortgage-backed securities before closing. That team, headed by **Dan Davis**, works out of Portland, Ore., CastleOak's first West Coast office. (It also has offices in Atlanta and Chicago.)

In 2009, the **Federal Reserve Board** designated CastleOak as an agent for its Term Asset-Backed Loan Facility, along with two other minority-owned nonprimary broker-dealers: **Loop Capital Markets** of Chicago and **Williams Capital Group** of New York, both of which Jones considers his firm's main competitors.

Jones, 47, founded CastleOak in 2006 after working on Wall Street for 14 years. Right before starting his firm, he was head of investment banking capital markets at Blaylock & Co.

Two of the three partners he brought over from Blaylock — general counsel **Nathaniel Christian** and chief financial officer **Philip Ippolito** — still hold the same titles at CastleOak.

CastleOak moved quickly in its first year. Cantor Fitzgerald announced its investment in May, and by July, the **National Association of Securities Dealers** had given the firm approval to underwrite debt and equity securities. That month, it landed its first deal, a \$300 million floating-rate bond issued by **General Electric**.

In March of this year, CastleOak co-managed bond deals for **Wells Fargo** (\$2.5 billion) and **Alabama Power** (\$250 million), and it underwrote for **HCA Inc.** (\$3.8 billion) and **Metropolitan Life Insurance** (\$6.3 billion).

Jones said maintaining a high level of client service is paramount for CastleOak; many new recruits brought client lists from them from bigger firms.

"During the crisis, there was turmoil on the coverage side at the bigger firms," he said. "Clients didn't know who was covering them. We were viewed as a more stable alternative." By the time the crisis hit, "we had already established ourselves."

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**Lucy Reuben**, a professor at **Duke University's Fuqua School of Business**, said many minority-owned investment firms are more visible today, because they have established track records.

"We now have role models and mentors that we didn't have a couple of decades ago."

Interest in business ownership among minority students has risen, she said. "In the African-American communities, as students are focused on getting jobs, there is a growing interest in entrepreneurship. Affiliating with minority-owned firms gives them a sense of opportunity."

Reuben, who teaches courses on topics such as minority banks and entrepreneurship, cited a spike in enrollment in a course on "emerging domestic markets finance," which concentrates on challenges and opportunities for minority- and female-owned businesses.

"There is more of a focus by students on ownership and entrepreneurial businesses at my school and, from what I've heard, others, as well. The last few years of uncertainty have contributed to that trend."

**Ronald Hill**, a professor at Villanova University's School of Business, acknowledged that large-bank downsizing has opened up opportunities at minority-owned investment firms. Nevertheless, "other things are afoot, as well," he said. "Most investment firms say they want to be big on diversity, but in general they haven't developed it on a consistent basis. You often see one or two minorities among a large group. Some African-American or Hispanic financial executives with fire in their bellies will see in minority-owned firms an opportunity to do very well."

Jones says it is good for his firm to be identified as a minority-owned one. "We want all the business we can get. If you're going to do business with a minority-owned firm, then why not me?"