THE WALL STREET JOURNAL.

EXCHANGE --- Morgan Stanley's Quarter Sullied by Archegos

By Peter Rudegeair
744 words
17 April 2021
The Wall Street Journal
J
B1
English

Morgan Stanley lost $911 million when Archegos Capital Management imploded last month, tarnishing a record-setting quarter for the Wall Street firm.

The New York-based bank reaped big gains from the euphoric market conditions of early 2021. But record performance across many of its businesses was offset by credit and trading losses Morgan Stanley booked following a fire sale of more than $30 billion of stocks tied to Archegos, the family office run by former Tiger Asia manager Bill Hwang.

Archegos used billions of dollars it borrowed from banks to acquire big stakes in ViacomCBS Inc., Discovery Inc. and a handful of other media and **technology** companies. To amass its positions, the fund entered into derivative contracts with different banks, an arrangement that concealed the size of Archegos's total portfolio from each lender. When some of its holdings started to lose value in March, Archegos was asked to post additional collateral that it didn't have, prompting banks to seize and sell Archegos's assets at depressed prices.

More than two-thirds of Morgan Stanley's losses on Archegos resulted from collateral the bank sold at lower values after Archegos was unable to repay its margin loans. The remainder of the Archegos losses came when the bank closed out smaller positions the fund had that weren't subject to margin calls, Chief Executive James Gorman said on a conference call with analysts Friday.

While those positions weren't especially problematic for the bank, Mr. Gorman said, it chose not to take the risk that they could later sour and lead to bigger losses. "I regard that decision as necessary and money well spent," he said. "We didn't want this thing to be lingering."

Archegos losses notwithstanding, Morgan Stanley rounded out an all-time great first quarter from the nation's big banks. Asset prices rallied, millions of investors traded stocks with abandon and scores of **technology** and special-purpose acquisition companies listed their shares publicly, creating an optimal environment for banks' Wall Street divisions. On Wednesday, Morgan Stanley rival Goldman Sachs Group Inc. posted record quarterly revenue and net income.

Morgan Stanley on Friday reported quarterly profit of $4.1 billion, or $2.19 a share, on revenue of $15.7 billion. That beat the consensus estimates of analysts polled by FactSet by a wide margin, thanks in part to the $5.8 billion it generated in stock- and bond-trading revenue, a 29% increase over last year's first quarter.

Morgan Stanley's E*Trade business also benefited from the burst of trading activity among individual investors. The number of retail-trading clients at Morgan Stanley increased 7% from the end of 2020 to 7.2 million, and the average daily number of retail trades the company handled for the quarter exceeded 1.6 million.

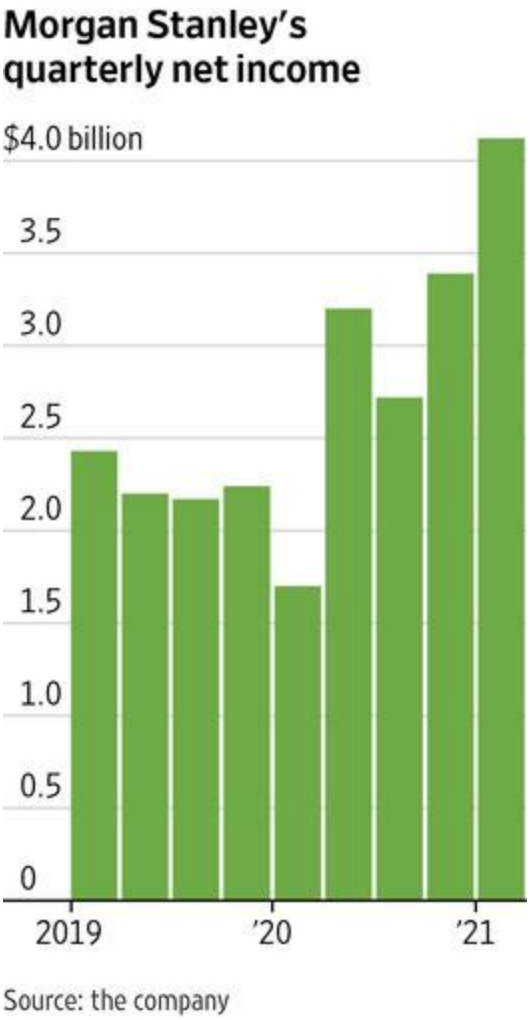
Revenue at Morgan Stanley's wealth-management division, which includes E*Trade, increased 47% to roughly $6 billion. The firm attracted a record $105 billion in net new assets, thanks to a 6% increase in both assets in accounts overseen by Morgan Stanley financial advisers and in assets on its do-it-yourself investing platforms such as E*Trade.

In the early days of 2021, small-time investors who traded tips on internet forums like Reddit's WallStreetBets catapulted shares in GameStop Corp. and other meme stocks to new heights. E*Trade handled more than 2 million trades on a few different days in February, Jonathan Pruzan, Morgan Stanley's finance chief, said in an interview. But activity has cooled since.

In investment banking, fees more than doubled to $2.6 billion. Morgan Stanley earned a record $1.5 billion in revenue from arranging initial public offerings and stock offerings, and its revenue from advising on deals rose by a third to $480 million.

It was Morgan Stanley's obligations to an investment-banking client that prevented it from acting sooner to avoid losses on Archegos, Mr. Gorman said.

During the last week of March, the bank had a lead role arranging a sale of stock for ViacomCBS, a company in which Archegos held a large stake. Morgan Stanley waited until that offering closed before it liquidated Archegos's holdings of ViacomCBS, ceding first-mover advantage to Archegos's other lenders. Still, Morgan Stanley's losses paled in comparison to the $4.7 billion hit that Credit Suisse Group AG booked related to the Archegos meltdown.



Document J000000020210417eh4h0002r

THE WALL STREET JOURNAL.

Investing In Funds & ETFs: A Quarterly Analysis --- Winners' Circle: The Lockdown Year's Top Stock-Fund Managers --- In a chaotic time for mutual funds, Morgan Stanley's Dennis Lynch was No. 1, with a 273% surge

By Suzanne McGee
1,267 words
5 April 2021
The Wall Street Journal
J
R1
English

In late March of last year, as the world started to deal with the pandemic lockdowns, the U.S. stock market had already hit "reset."

A year later, as investors closed the books for the first quarter of 2021, they are looking back on a market rebound that outdid even the post-financial-crisis recovery for both speed and magnitude.

How did the professional stock pickers at mutual funds do? Overall, no better than an index fund. But the best of them blew away the field -- including a spectacular 273% gain for the No. 1 fund, the small-stock-focused Morgan Stanley Inception Portfolio (MSSGX).

The actively managed U.S. stock funds that The Wall Street Journal tracks (based on Morningstar data) for its quarterly Winners' Circle survey posted an average gain of 47% for the 12 months ended March 31. While that trailed the S&P 500's 56% total return for the same period -- and fell short of recovering all the losses investors incurred in the selloff early in 2020 -- the best-performing funds did far, far better.

That's a testimonial either to the pros' ability to anticipate the disruptive change that would benefit the companies they add to their portfolios, or to their ability to tweak their holdings in response to the rapidly changing market environment.

A case in point: Dennis Lynch, head of the Counterpoint Global team at Morgan Stanley Investment Management. Funds managed by Mr. Lynch and his team have routinely earned top honors in the Winners' Circle. This time, it was their small-cap growth offering, Morgan Stanley Inception.

Mr. Lynch doesn't credit his fund's outperformance to any attempt to pick the bull market's new crop of winners. Rather, his team has long emphasized identifying opportunities in the kinds of disruptive business models that emerged in the "pandemic market."

Among them: Fastly Inc., whose **edge-computing** technologies helps improve the performance of cloud-based apps, including online gaming that many Americans flocked to during lockdowns. "We prioritize long-term thinking over knee-jerk reactions, especially during a period of turmoil and crisis like last year," Mr. Lynch says.

As always, the Journal isn't recommending that investors view the quarterly ranking as a shopping list. Many of the funds may have high fees, or be closed to new investors or otherwise inaccessible. But their managers may still offer insight into what's happening in the market. The survey also includes only actively managed mutual funds with a three-year record and more than $50 million in assets; it excludes sector funds, quantitative funds and funds that employ leverage.

Funds concentrating on small-cap or microcap stocks dominated. That doesn't surprise Scott Opsal, director of research for Leuthold Group of Minneapolis. "Huge returns coming off a bear market's bottom are pretty typical," he says. "In a bear market, investors turn conservative; in the first leg of a bull market recovery, they're willing to invest in less-stable businesses, to take a flier on less-established businesses and look to the future for their rewards."

"I would never in a million years have envisioned this kind of market recovery," says Darren Chervitz, portfolio manager of Jacob Discovery Fund (JMIGX), the No. 2 Winners' Circle finisher. "We've had more than 26 portfolio names post gains of more than 100% in the last 12 months." That propelled Mr. Chervitz's fund 220% higher for the 12-month period.

Jacob Discovery's assets under management ballooned in response to these returns, thanks both to capital gains and to an inflow of new cash, from only $10 million at the market's nadir in March 2020 to about $100 million a year later. Partly as a response to this and in part due to changing nature of the market, Mr. Chervitz oversaw a gradual expansion in the number of holdings from 40 to 60 companies.

"When the pandemic first hit, I sought out companies that I thought would benefit from medical innovations as well as from people staying home: that was the first wave for me," says Mr. Chervitz.

He also added to positions in companies like Arcturus Therapeutics Holdings Inc., which is developing mRNA-based vaccines (including another Covid-19 vaccine candidate) but also using the same genetic research to devise therapies to treat diseases like cystic fibrosis. The stock's price has tripled over the past 12 months, but it's the longer-term outlook that Mr. Chervitz finds intriguing. "I see the potential for this kind of new medical **technology** to significantly expand lifespan over the coming decades," he argues.

Jeff James, the lead portfolio manager of Driehaus Micro Cap Growth (DMCRX) -- which ended in fifth place with a 12-month return of 175% and rose nearly 13% in the first quarter -- also has been actively readjusting his portfolio in response to the shifts in the economy and the market. (The fund is closed to new investors, though the Driehaus small-cap fund, which Mr. James says has about a 50% overlap in holdings with the microcap fund, is open.)

"For the first half of the last 12 months, the market has really been about pandemic beneficiaries," Mr. James says, including some of the fund's existing holdings. These included Freshpet Inc., which provides pandemic puppies and kittens (and other animals) with refrigerated fresh foods, and Fulgent Genetics, which developed some of the widely used Covid-19 tests.

"As it became clear we'd have effective vaccines emerge, I've started shifting my emphasis and looking for companies that will benefit most from a reopening," Mr. James says. For instance, he took a stake in Bally's Corp., which owns casinos in a number of regional markets.

Not all top-performing fund managers relied on identifying the biggest beneficiaries of the new bull market. Baron Partners Fund (BPTRX) earned third place with a 12-month return of 212%, thanks to its managers' early decision to invest in stable but high-growth businesses.

"All of our core holdings had been in the fund prior to February 2020," says Michael Baron, who manages the fund with his father, investor Ron Baron. "We don't try to outsmart the market, but we look for high-quality businesses able to weather the storms and continue to grow."

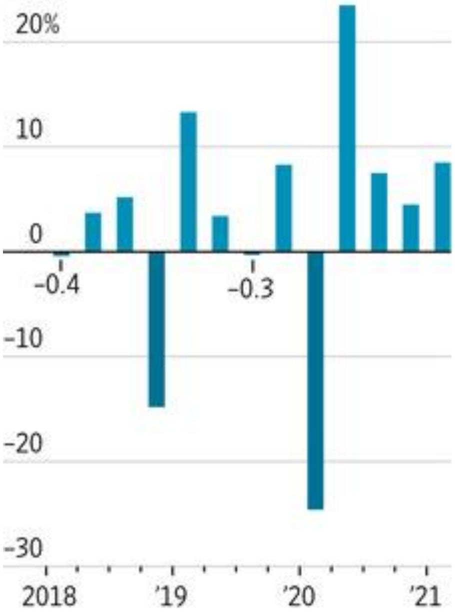
Mr. Baron attributes the outsize gains in many growth companies, and especially among smaller stocks, to the fact that the pandemic seems to have accelerated the pace of economic change. Disruptive companies offering new models were able to capitalize. For instance, Zillow Group Inc. already has captured more attention from eager home buyers (encouraged by ultralow interest rates) reluctant to tour homes in person with an agent.

The No. 4 finisher was Hodges Fund (HDPMX), with a 182% gain under Craig Hodges. It employs a "go anywhere" approach that enabled Mr. Hodges to add (and later subtract) pandemic-economy winners like Zoom Video Communications Inc. More recently, it has diversified, with small positions in sports betting firms (DraftKings Inc.) and food-delivery companies (Waitr Holdings Inc.). Like Mr. James at Driehaus, Mr. Hodges benefited from a stake in fitness-equipment maker Nautilus Inc., and he ventured further into the outdoor-sports arena with a stake in Callaway Golf Co.

Ms. McGee is a writer in New England. She can be reached at reports@wsj.com.

Score at the Quarter

Stock funds rose for the fourth straight quarter, following the first-quarter 2020 debacle. Average total return for U.S. diversified funds.



Source: Refinitiv Lipper

Document J000000020210405eh4500002

Search Summary

Text	(technology OR "AI" OR fintech OR "digital banking" OR "cloud computing" OR blockchain OR cybersecurity OR "machine learning" OR "data analytics" OR "big data" OR "predictive analytics" OR "cloud migration" OR "edge computing" OR "5G banking" OR "API banking" OR "open banking" OR "data governance" OR "data monetization" OR "digital transformation" OR "quantum computing" OR "AI-driven banking" OR "AI in compliance" OR "AI-powered fraud detection" OR "AI in customer service" OR "AI in investment banking" OR "conversational AI" OR "generative AI" OR "robo-advisors" OR "natural language processing" OR "algorithmic trading" OR "automated risk assessment" OR "AI regulatory challenges" OR "embedded finance" OR neobanks OR "Banking as a Service" OR "BaaS" OR regtech OR suptech OR "decentralized finance" OR DeFi OR "cryptocurrency adoption" OR "Central Bank Digital Currencies" OR CBDCs OR tokenization OR "real-time payments" OR "Buy Now Pay Later" OR BNPL OR "cyber resilience" OR "Zero Trust security" OR "identity verification" OR "fraud detection" OR "insider threats" OR "AI-driven cybersecurity" OR "financial data breaches" OR "data privacy laws" OR GDPR OR CCPA OR "operational risk management" OR "regulatory compliance technology" OR KYC OR "Know Your Customer" OR AML OR "Anti-Money Laundering" OR "hyper-personalization in banking" OR "customer-centric banking" OR "omnichannel banking" OR "digital wallets" OR "contactless payments" OR "voice banking" OR "biometric authentication" OR "wearable banking" OR "banking UX/UI innovations" OR "financial inclusion technology")
Date	04/01/2021 to 06/30/2021
Source	The New York Times Or The Wall Street Journal Or The Economist Or Forbes
Author	All Authors
Company	Morgan Stanley
Subject	All Subjects

Industry	All Industries
Region	All Regions
Language	English
Results Found	2
Timestamp	6 March 2025 1:46 AM GMT

