
Skittish Clients, Investors Bruise Charles Schwab 2

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Even the top executives at Charles Schwab will admit 2023 has been a trying year.

The largest publicly traded U.S. brokerage just laid off roughly 2,000 employees. An integration of customers from Schwab's acquisition of TD Ameritrade has been less than smooth for many clients. Widespread concerns about bank-deposit flight sent Schwab shares tumbling this spring -- and the stock has yet to recover.

"We know this has been a challenging year, and that today was hard," Chief Executive Walt Bettinger and President Rick Wurster said in an internal message seen by The Wall Street Journal about the layoffs.

Schwab is among the worst-performing financial stocks in the S&P 500 in 2023. Shares are down 33%, compared with the index's 14% rise and the S&P 500 financial sector's 1.5% decline.

The stock dropped sharply in March when the collapse of several regional banks spooked investors worried about the impact of rising interest rates on deposits.

For most of the past decade, customers were generally content parking their cash at banks despite getting little yield in return. There just weren't many alternatives. When the Federal Reserve started raising interest rates rapidly in 2022, people had incentive to shift their idle cash into assets, such as money-market funds, with robust payouts and little risk.

Bank deposits at Schwab have fallen for six consecutive quarters. Most of Schwab's deposits are gathered by its brokerage arm, where the firm sweeps investors' cash into its banking unit.

When deposits flee, banks often have to turn to more expensive sources of funding. Schwab earlier this year borrowed from the Federal Home Loan Bank and issued certificates of deposit.

Investors also were concerned about Schwab's bondholdings. Schwab and other banks tied up chunks of their balance sheets in longer-term bonds when rates were low. When rates rose, the value of those bonds fell.

"They've had to bear the brunt of high-cost funding, without the benefit of getting the higher yields on their assets," said Devin Ryan, director of financial-**technology** research at Citizens JMP Securities.

Ryan has an "outperform" rating on the stock, believing Schwab's outlook is improving as the movement of cash into higher-yield assets nears an end.

In its latest quarterly report, Schwab said the pace of client cash leaving its bank has eased, even though interest rates continued to rise in the third quarter. The firm has said client cash leaving the bank has largely stayed at Schwab, and bank sweep deposits increased month over month in September for the first time since March 2022.

Revenue and profit at Schwab have fallen for four straight quarters. Net interest revenue -- the difference between what the bank makes from interest and what it pays in interest -- comprises the largest portion of Schwab's revenue and declined for three consecutive quarters.

Meanwhile, trading lost some of its shine for everyday investors, pressuring the company's brokerage arm.

Clients' daily average trades in the third quarter fell to their lowest level since Schwab acquired TD Ameritrade in 2020.

Schwab's integration of TD Ameritrade has hit snags, too. Over Labor Day weekend, the company converted millions of individual-investor and investment-adviser customers from TD Ameritrade to Schwab accounts.

Ahead of the transition, clients from TD Ameritrade pulled a net \$23.2 billion of assets in August, the company reported.

Although Schwab has called the integration a "tremendous success," some clients complained about its platforms and wish they could have their TD Ameritrade account back.

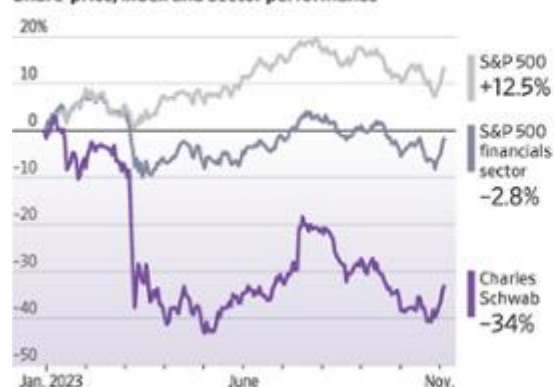
Schwab told investors over the summer it planned to save \$500 million a year by reducing its office spaces and trimming head count.

Those plans came to fruition last week when the company gave pink slips to 5% to 6% of its workforce, which totaled nearly 36,000 at the end of September.

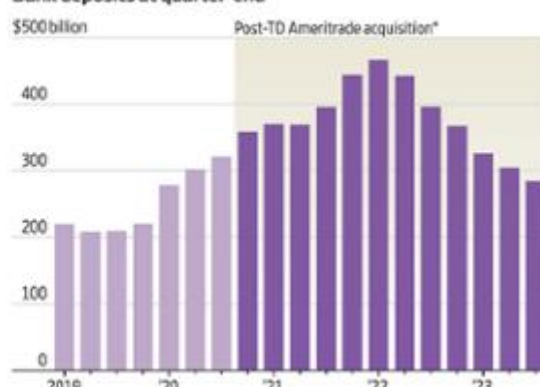
"There are no additional meaningful position eliminations under consideration at this point in time," Bettinger said in a video to employees Wednesday, a transcript of which was seen by the Journal. "Circumstances can change, but there is nothing in the works at this point."

Charles Schwab

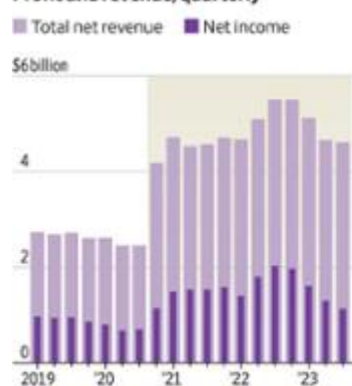
Share-price, index and sector performance



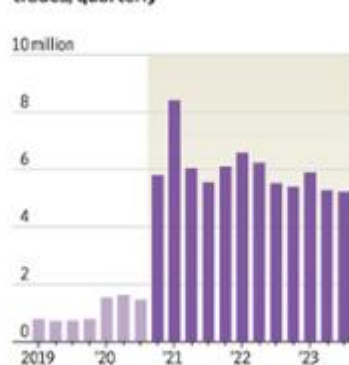
Bank deposits at quarter-end



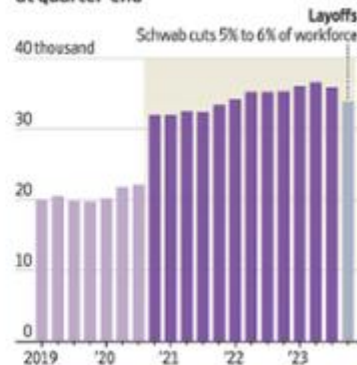
Profit and revenue, quarterly



Clients' daily average trades, quarterly



Full-time equivalent employees at quarter-end¹



¹TD Ameritrade results included from Oct. 6, 2020, forward. ¹Fourth-quarter 2023 figure is a rough projection.
Sources: FactSet (performance); the company (deposits, profit and revenue, trades, employees)

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