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Heard on the Street
UBS Needs the Right Scale in Wealth --- The mass-affluent market is tempting, but the benefits for its core business could be scant

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Scale is crucial in the wealth-management business, but it needs to be the right kind of scale.

Managing money for the rich is today's golden goose in banking, because it generates stable fees and has low capital requirements. Many are eager to ape Morgan Stanley, which has become a wealth mammoth following the acquisition of Smith Barney from Citi in 2009, and later Eaton Vance. Its American wealth business, which now amounts to $4.6 trillion in client assets, is so large that it yields a 29% pretax profit margin, according to estimates by Anke Reingen at RBC Capital Markets.

Meanwhile, the U.S. wealth arm of its main global competitor, UBS, has only $2 trillion in client assets and a 12% margin, even after merging with Credit Suisse last year. Globally, it has $4.3 trillion in assets and a 21% margin.

The U.S. is a difficult market for outsiders to penetrate. Top banks have a 48% market share, figures by Coalition Greenwich show, compared with a 32% world average. Retaining financial advisers is expensive because they are increasingly thriving by going independent.

Last week, executives at the Swiss bank told staff that the business will be restructured, and that a new division will focus on less-wealthy individuals. Recently, UBS Chairman Colm Kelleher, formerly of Morgan Stanley, opened the door to eventually growing through acquisitions.

Yet catering to the ultra-rich, the rich and the merely well-off are very different propositions.

The financial industry usually places the cutoff between "ultra-high net worth" and "high net worth" or "affluent" at $10 million in investible assets. Below that, in the bracket between $100,000 and $1 million, are the "mass affluent." According to credit-reporting agency Equifax, 35% of U.S. households count as mass affluent, and 10% are above that. But in terms of assets, the mass affluent account for just 27% of investible wealth, while the top 10% of the population accounts for 70% of it.

Though some mass-market brokers such as Schwab have gone upscale, high net worth remains mostly the turf of the likes of Morgan Stanley, JPMorgan, Citi and UBS. These clients pay big bucks for bespoke, one-to-one services.

Big banks are particularly well suited to cater to ultra-high-net-worth individuals who have complex needs, including complying with cross-border regulations, setting out strategies for their businesses and creating charitable foundations.

UBS is trying to build a cross-selling point by seeking a broader U.S. banking license that would make it easier to extend loans and take deposits.

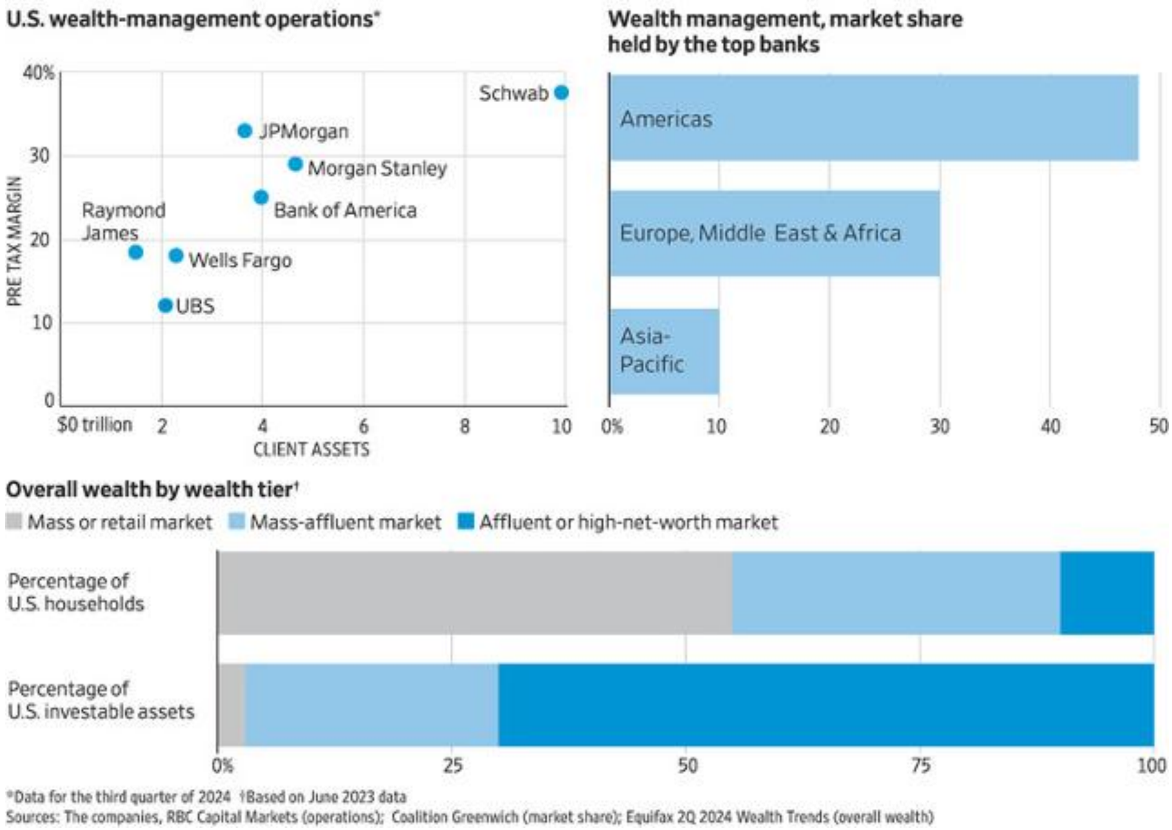
Still, making larger moves would first require fixing the cost issues of its American wealth arm: At similar size, Wells Fargo and Raymond James are more profitable.

To be fair, the Swiss bank isn't oblivious to this, which is why it is cutting compensation for lower-performing financial advisers. Nor is it attempting an in-house version of its failed Wealthfront takeover: The new division will still be adviser-led, and only service people with more than $500,000.

The name of the game in today's mass-affluent market is doing everything digitally and automatically, be it financial planning or tax optimization. Big banks that try to grow in that direction risk finding themselves in a technology race they have so far proven ill-equipped for, and which is of little help to their core, high-end relationship business.

Yes, digitally onboarding younger, up-and-coming people might serve to eventually channel them to human advisers, where the bank can charge a 1% fee. But it might equally convince them that the roboadvisory tier that charged them 0.3% is a perfectly adequate place to leave most of their money.

And why would big banks want to do that?



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Markets & Finance: Stock Spotlight

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Coinbase, MicroStrategy, Marathon Digital and Robinhood

Crypto-sensitive stocks jumped as the price of bitcoin surged past $87,000. Coinbase rose 20%, MicroStrategy leapt 26%, Marathon Digital climbed 30% and Robinhood added 7.4%.

Tesla

The electric-vehicle maker's stock rallied 8.9%, as the "Trump trade" continues. The company is run by Elon Musk, the company's chief executive and ally of President-elect Donald Trump.

Cigna

The health insurer said it wasn't seeking to buy Humana, countering speculation that Trump's election might revive previous deal talks. Cigna shares jumped 7.3%; Medicare-focused Humana slipped 2%.

JPMorgan Chase, Goldman Sachs, Morgan Stanley

Bank stocks extended recent gains, driven by investor hopes of a revival in dealmaking, looser regulation and a faster-growing economy. JPMorgan Chase edged up 1%, Goldman Sachs rose 2.2% and Morgan Stanley climbed 3.1%.

Super Micro Computer

Shares fell 5.3%. Ernst & Young bailed as the AI server maker's auditor in late October, prompting a slide in its stock.

Chipotle Mexican Grill

The restaurant chain named its interim chief executive, Scott Boatwright, as permanent CEO. Shares edged up 0.8%.

Mattel

The toy company said the web address printed on the packaging for dolls tied to the new film "Wicked" was mistakenly that of a pornography company instead of the official website for the coming Universal Pictures release. Shares slipped 0.5%.

AbbVie

The drugmaker said its recently acquired experimental schizophrenia drug failed to significantly improve symptoms in trials, sending shares sliding 13%. Meanwhile, Bristol-Myers Squibb, whose novel treatment for the condition was approved in September, rallied 11%.

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