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ThinkAdvisor

11 Best & Worst Broker-Dealers: Q1 Earnings, 2016

Results for financial firms were generally the same — bad, with one standout

The news for banks, broker-dealers and other large financial-services firms is not good for 2016.

In fact for some firms, the first quarter of 2016 proved to be the worst since the financial crisis of 2007-2008.

A number of issues are causing trouble for the group, including slow economic growth in China, low oil prices and weak interest rates, not to mention continued market volatility. And many banks are struggling to improve their fixed-income results, as well as proprietary trading.

Of the 11 broker-dealers analyzed by ThinkAdvisor, 10 had negative earnings growth in the first three months of 2016 vs. the same period of 2015.

Analysts say they worry about Q2'16 and the rest of the year, since falling revenue can make it tough for companies to both cut costs and produce higher earnings, of course. Plus, the poor showing of the capital markets is poised to continue, at least in the short term, they caution.

As for the latest trading results, the performance says a lot: The Financial Sector SPDR ETF (XLF) is down about 2.5% for the year through May 12 vs. a nearly 1.3% increase for the S&P 500.

After a bad first quarter, "We don't think that necessarily gets recovered in the back half of the year," said Jerry Braakman, chief investment officer of First American Trust, which owns shares of Citigroup, JPMorgan, Wells Fargo and Goldman Sachs, in an interview with Reuters last month. "There are a lot of challenges ahead."

Read on for the latest rankings of how the broker-dealers performed in the first quarter.

WORST BROKER-DEALER

11th Place
UBS (UBS)
Group AG's first-quarter **profits fell 64%** to 707 million Swiss francs, or about $741 million, missing missed analysts' estimates on weak results in investment banking and trading.
Meanwhile, revenue dropped 23% to 6.8 billion francs in the first quarter.

"This cocktail of macro issues, geopolitical issues is now coming on," CEO Sergio Ermotti said in an interview on Bloomberg Television.

The global wealth-management unit's pretax profit fell 41% from last year to 557 million Swiss francs on low transaction volumes, as revenue weakened 16% to 1.885 billion Swiss francs. But the Wealth Management Americas unit reported revenue that outpaced these results – at 1.889 billion Swiss francs, up 5% from a year ago. Pre-tax profits for the Americas unit, however, were 211 Swiss francs (about $212 million), representing a year-over-year decline of 17%.

Assets per advisor in the Americas stands at $147 million, and the level of average fees & commissions per rep is now $1,064,000. Advisor headcount in the Americas totals 7,145.

10th Place

GOLDMAN SACHS (GS)

Goldman Sachs' **net income tumbled 60%** to $1.14 billion, or $2.68 per share, on revenue of $6.34 billion in the first quarter of 2016.
"The operating environment this quarter presented a broad range of challenges, resulting in headwinds across virtually every one of our businesses," said CEO Lloyd Blankfein in a statement.

Trading revenue came in at $3.44 billion, down 37% from the same quarter a year ago, while fixed income, currency, and commodities revenues weakened 47%. Meanwhile, investment-banking revenue worsened by 23% to $1.46 billion.

In addition, investing and lending revenues came in at $87 million, down from $1.67 billion from the year-ago quarter.

May 16, 2016

9th Place

MORGAN STANLEY (MS)

Morgan Stanley explained that it **net income fell 53%** in the first quarter to $1.1 billion, or $0.55 per share, vs. $2.4 billion, or $1.18 per share, last year. Revenue declined 21% year over year to $7.79 billion. The company adds that last year's Q1 results included a tax benefit of $564 million or $0.29 per share. (Earnings beat analysts estimates, though sales fell short.)

"Obviously, 2016 got off to a difficult start," said Chairman & CEO James Gorman on a call with investors, adding that "retail activity was extremely subdued."

Despite the "more challenging revenue environment," Gorman explained, "all was not lost. Wealth Management generated a pretax margin greater than 21% …, [and] we made real progress in our expense discipline ..."

Morgan Stanley's Institutional Securities business, its largest, had a 66% drop in net profits to $591 million vs. last year, as revenue slumped 32% to about $3.7 billion. In investment banking, the volume of IPOs was down 82% quarter over quarter, CFO Jonathan Pruzan said during a conference call with equity analysts.

Wealth Management's net income declined 8% from last year to $493 million. Sales weakened about 4% from the year-ago quarter to $3.67 billion.

In addition, the average yearly fees and commissions for its financial advisors, which number 15,888, declined by 4% from last year to $923,000. Total assets for the unit dropped slightly, 2%, to about $2 trillion.

8th Place

STIFEL FINANCIAL (SF)

Stifel Financial had first-quarter 2016 net income of $27.1 million, or $0.36 per diluted common share, **down 37%** from a year ago. Net sales, though, grew 11% year over year to $620.0 million. Total net revenue in the global wealth management segment was $380 million, up 9% sequentially and 15% year over year. GWM's brokerage revenue grew 4% sequentially and 10% from last year to $173 million.

The group includes 2,849 financial advisors – 688 of whom are independent contractors; this is down from 2,819 in the prior quarter but up from 2,097 a year ago.

7th Place
CITIGROUP (C)

Citigroup's net income **weakened 27%** in the first quarter to $3.5 billion compared to the same period a year earlier. Total revenue fell 11% to $17.6 billion on decreased global consumer banking, institutional clients and core Citicorp operations.
Earnings per share of $1.10, though, did beat analysts' expectations.

"While our market-sensitive products clearly suffered from weak investor sentiment during the quarter, we continued to make progress in several key areas," Citi CEO Michael Corbat said in statement.

"We grew loans and deposits in our core businesses, reduced our expenses while absorbing a significant repositioning charge, utilized additional deferred tax assets, and generated capital in excess of what we returned to our shareholders."

Citigroup's allowance for loan losses dipped 2% to $12.7 billion, compared to a year earlier. The company has $619 billion in loans on its books, unchanged from the first quarter of 2015. Deposits rose 4% to $935 billion.

6th Place
BANK OF AMERICA (BAC)

Bank of America reported that its first quarter **net income dropped 13%** from a year ago on weaker trading revenue and interest income. Like other banks, including Wells Fargo, it put aside more energy-related loan loss reserves.
BofA's net income was $2.7 billion in Q1'16 vs. $3.1 billion in Q1'15. Earnings per share were $0. 21, just beating equity analysts' average estimate.

Total revenue, including net interest income and non-interest income, was $19.7 billion – a drop of 7% from last year and below analysts' estimate of $20.3 billion for the quarter.

The wealth and investment management unit's revenue dropped about 2% to $4.4 billion on weaker non-interest income. The unit's net income, though, rose 13% year over year to $740 million due to "solid expense management" its pre-tax margin for the period was 26% vs. 23% in Q1'15.

The number of advisors with Merrill Lynch stands at 14, 413, up slightly from the prior year's headcount of 14,185 but down from the earlier quarter's 14,499.

Advisors produced an average level of yearly fees and commissions of $983,000 as of Q1'16 vs. $1.04 billion in the year-ago period and $995,000 in the prior quarter.

Total client balances were $2.46 trillion vs. $2.51 trillion a year ago. Moreover, client flows went into negative territory at -$600 million in Q1'16 vs. positive flows of $14.7 billion in the year-ago period and $6.76 billion in the prior quarter.

5th Place
AMERIPRISE FINANCIAL (AMP)

Ameriprise Financial said its **net income declined 7.4%** year over year to $364 million in Q1'16, though its EPS figure improved slightly to $2.09.
The earnings results, though, missed estimates, and sales weakened to about $2.8 billion from roughly $3.1 million in Q1'15 — with wealth management sales off 2% from last year at $1.2 billion.

The financial-services company said "client activity slowed given the markets." Operating earnings fell to $378 million, or $2.17 a share, from $412 million, or $2.18 a share.

Total assets under management and administration were $773 billion, and the company had 9,766 total advisers.

“The strength of the Ameriprise brand and our reputation is an important differentiator,” said Jim Cracchiolo, chairman and CEO, on a call with equity analysts. “We are back on the air with our successful Be Brilliant advertising … As a result, Ameriprise brand awareness hit an all-time high in the quarter.”

4th Place
JPMORGAN CHASE (JPM)
JPMorgan Chase reported profits that beat Wall Street estimates but were **down 6.7%** to $5.52 billion, or $1.35 a share, from $5.91 billion, or $1.45, a year earlier.
The firm trimmed bankers’ pay over the past three months. Trading revenue weakened by not as much as many equity analysts had anticipated.

On an adjusted basis, per-share earnings were $1.41, beating the $1.25 average estimate of 29 analysts surveyed by Bloomberg.

“While challenging markets impacted the industry, we maintained our leadership positions and market share,” said CEO Jamie Dimon, in the statement. “Even in a challenging environment, clients continue to turn to us in the global markets.”

The global wealth management group had revenues of $1.5 billion in the period, roughly unchanged from a year ago, and a pre-tax margin of 26%. Part of the asset management unit, the global wealth group has 2,750 financial advisors.

May 16, 2016

3rd Place
WELLS FARGO (WFC)
Wells Fargo said its first-quarter **profits dropped 6%** from a year ago, weakening to about $5.5 billion vs. $5.8 billion a year ago. Earnings per share were $0.99, which beat analysts' estimates of $0.97 cents, but fell short of last year's EPS of $1.04.
Revenue for the quarter grew 4% $22.2 billion, topping estimates of $21.6 billion.

In the first quarter, Wells Fargo charged off $204 million in energy loans, a jump of roughly 75% what it charged off in the fourth quarter. The bank also added $200 million to funds for loans that could be hurt due to weakness in the energy and its impact on the bank's oil and gas portfolio.

Wells Fargo's wealth and investment management unit had a 3% year-over-year decline in revenue to about $3.9 billion. Net income also dropped 3% year over year and 14% from the prior period, weakening to $512 million on lower brokerage transaction revenue and asset-based fees. The unit's total assets were $1.6 trillion, down 2% from last year.

Client assets for the retail brokerage – which includes 15,064 financial advisors – also fell 2% to $1.4 trillion. Advisory assets of $428 billion were down 1%.

May 16, 2016

2nd Place
LPL FINANCIAL (LPLA)
LPL Financial said its **net income fell 1%** from a year ago in the quarter to $50.4 million, as revenue declined 9% to $1.005 billion.
"We are pleased that our diverse gross profit streams and tight expense management delivered strong financial results despite the extremely volatile environment in the first quarter," said Chairman and CEO Mark Casady, in a statement.

The DOL fiduciary rule is focused on brokerage retirement assets and accounts, which make up 30% of the firm's assets, Casady said.

During a conference call with equity analysts, Casady said that while the best and first use of its capital "is in organic growth of the platform … [which can create] recruiting opportunities …, the second place would be M&A …"

In the first quarter, commissions brought in by LPL-affiliated reps dropped 17% year over year to $436.7 million, while advisory revenue declined 7% to $319.4 million. Combined, total gross dealer concessions – or advisor production – was $756.2 million, a drop of 13% from last year and 4% from last quarter.

Asset-based sales, though, grew 13% to $136.3 million, while transaction and fee revenues improved 1% to $102.7 million.

The number of advisors improved by 39 from last quarter but fell by five from last year to 14,093. The amount of custom-clearing subscribers (or reps affiliated win insurance firms working with LPL) stands at 4,177, down 3% from a year ago.

May 16, 2016

BEST BROKER DEALER

1st Place

RAYMOND JAMES (RJF)

Raymond James' **profits rose 11%**, the only one of the 11 to do so, in the first quarter to $125.8 million, or $0.87 per share, vs. $113.5 million, or $0.77 per share, a year earlier.
The company improved revenues 2% from last year to $1.31 billion. Both earnings and sales results in the quarter beat analysts' estimates. Excluding $6 million of expenses associated with its acquisition of the US Private Client Services unit of Deutsche Bank Wealth Management, adjusted net income for the quarter was $129.7 million, or $0.90 per share.

"Considering the extremely challenging market environment, we are pleased with the solid results we generated in the first half of the fiscal year, which reinforce the value of our diversified business model and long-term focus on serving our clients," said CEO Paul Reilly, in a statement.

"The records we achieved for client assets under administration, the number of Private Client Group financial advisors and net loans at Raymond James Bank bode well for results in the second half of the fiscal year," Reilly added.

The company's employee and affiliated advisors brought in net revenue of $880.3 million, up 1% from a year ago and from the prior quarter. Pre-tax income grew 10% to $83.2 million vs. the year-ago period and 20% from the earlier period.

Assets under administration expanded 3% from the year-ago and prior quarter to $485.6 billion, while the number of reps grew to 6,765 – an increase of 78 from December 2015 and 381 from March 2015.

"Our continued success recruiting and retaining financial advisors has resulted in new records for client assets under administration and the number of Private Client Group financial advisors," explained Reilly.

"This momentum should continue given the strong recruiting pipeline and the planned acquisition of the US Private Client Services unit of Deutsche Bank Wealth Management, as over 90% of those advisors have committed to join us to form the new Alex. Brown division of Raymond James upon closing."