UBS Private Wealth Arm Sets Sights on Further Expansion

By Steve Garmhausen

April 20, 2009

With a difficult 2008 behind it, UBS AG's New York private wealth management unit is plowing ahead with its program of opening more U.S. offices, according to John Straus, the head of the unit and the chairman of its UBS Private Bank.

This year the unit has opened offices in Louisville and Dallas and plans to open its 12th in Washington, Straus said in an interview last week; setting up shop in Florida is also a possibility. "We have the same aggressive build-out plan we set out many years ago," he said.

In fact, the private wealth unit expanded last year by opening two offices, despite the market meltdown and an uproar over auction-rate securities sold by the UBS AG unit and others.

Nevertheless, the unit also spent much of the year helping clients understand the market turmoil and rechecking their risk tolerance levels, Straus said. "There was a fair amount of being on the defense."

His unit opened a pilot private wealth management office in 2006 added more in 2007. In an interview last year, Craig Walling, the chief executive of UBS Private Bank, said he wanted to double the unit's market share of assets invested by wealthy individuals and families within two years.

That share, which the unit put at 3% at that time, probably has not changed significantly, said Straus, who declined to reveal assets under management.

The unit still wants to double its market share, but the landscape has changed, Straus said. For one thing, the stock market's woes and the recession have diminished the ranks of the very wealthy, he said. A year ago UBS said that there were 140,000 U.S. households with more than $10 million of assets under management, and that it expected that total to triple over the coming decade.

Straus says the market downturn could hamper that growth, though the goals for the private wealth

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management business remain reachable, in part because the unit has been on a hiring tear, doubling its number of client-facing financial professionals over the past year, to 280.

UBS has had success recruiting investment bank veterans by emphasizing a long-term commitment to wealth management in these turbulent times, Straus said.

Jason Kirkland, the national director of recruiting for the recruiting firm RJ & Makay, said UBS is probably having an easy time landing professionals from wire houses. As those big operations merge and consolidate, the idea of prestigious, small offices, very wealthy clients and probably "some warm leads at the top" must be appealing.

UBS created the private wealth management offices for those with more than $10 million to invest. They combine brokerage, trust and private banking services in one location to provide these services seamlessly.

The advisers in those offices spent much of last year dealing with clients' concerns about auction-rate securities. In August, UBS Securities LLC and UBS Financial Services Inc. reached an agreement with the Securities and Exchange Commission to spend more than $20 billion repurchasing the securities from investors. The auction-rate market had collapsed six months earlier, leaving more than 40,000 UBS customers with illiquid securities, even though UBS had marketed them as cash alternatives, according to the SEC.

Straus said the fact that UBS was not alone in marketing the securities did not much matter to clients who had bought them. "With clients that had them, initially it was very challenging for us. If they are just a client of UBS, they don't care whether it's an industrywide problem."

The unit tried to differentiate itself from its competitors by being the first to lend clients, at a low interest rate, 100% of the face value of the securities, he said; nevertheless, the episode was a big distraction. "The ARS issue was all-consuming for clients and the industry's professionals for months last year," Straus said. "When you are talking about that, you not talking about other things."

He also said clients and their advisers appear to be turning the page on another unpleasant topic that dominated 2008: the slump in equities.

Those conversations were made particularly difficult by the fact that so many asset classes lost ground in lockstep, he said, and part of the unit's challenge now is persuading discouraged investors to get back into the market.

The stock market's 20% rise in recent months helped make that case, he said. "That 20% is a very significant market move — if you miss that 20%, it's hard to recapture it."

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