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Banks Holding On To Wealthy Clients, So Far

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Alan Lancz, a financial adviser for the wealthy, received an unusual call last week. A rich retiree asked him if his $6 million retirement account with a major bank was safe. Lancz says he's never heard such a concern about a bank so large and reputable in his 19-year career.

But these are unusual times. Financial companies in investment banking are already reeling from the subprime fiasco, the implosion of debt markets and liquidity crunches. Now, a new problem could be brewing: trying to keep rich clients in their wealth management divisions.

Russ Alan Prince, a consultant who studies the habits of the wealthy and wrote *The Middle Class Millionaire*, asked over 400 of the rich about their financial managers earlier this month. They aren't happy with them, he says. Almost two-thirds said they are likely to ditch their current adviser.

"People have lost a lot of confidence in their financial advisers," says Prince. "They have a very sour taste in their mouths."

It's easy to see why. With most financial markets tumbling, most investors are losing money. According to Prince's survey, 97% of the wealthy have seen the values of their portfolios decline since the beginning of the year.

Not helping is that wealth managers with investment banking operations have taken some serious dings to their reputation. Many financial players dangerously overextended themselves during the past couple of years by plowing into exotic investments. With nobody willing to buy those securities today, the companies have been forced to announce over $100 billion in embarrassing write-downs since last summer.

Further eroding trust is the shocking fall of **Bear Stearns** (nyse: BSC - news - people). A Fed-brokered buyout from **JPMorgan Chase** (nyse: JPM - news - people)only narrowly saved the brokerage from collapse. Bear Stearns manages about $45 billion for wealthy clients. (See: " Dimon's (Re)done Deal").

Yet despite the worries, **UBS** (nyse: UBS - news - people), **Citigroup** (nyse: C - news - people) and Merill Lynch--the three biggest players in wealth management--are holding their own. Their most recent financial releases show that each posted only a slight quarter-over-quarter decline in assets under management at their wealth management divisions. Analysts say that could have more to do with the shrinking value of investments than clients taking flight.

UBS, the world's biggest wealth manager, had $2.5 trillion in assets at its wealth management segments at the end of last year. It's a crucial business for the Swiss bank. "Wealth management is the rock on which UBS' foundation is built," says Morningstar analyst Ganesh Rathnam.

Souring mortgage holdings and other investments forced the UBS to announce $18 billion in write-downs over the past year. UBS quickly reassured wealthy clients that it remained well-capitalized by taking an $11.5 billion infusion from a Singaporean state fund and an unnamed

Middle Eastern investor. A UBS spokesperson says the company's advisers have been reaching out to clients to keep them informed on issues impacting the company and financial markets.

Citigroup has $1.8 trillion in assets under management at its global wealth management group. Alex Samuelson, head of media relations for the company's wealth management segment, says they have made extra effort to provide reassurance to clients through phone calls, informational materials and meetings. "Advisers are telling me that they have long-term relationships with our clients, and the clients have a perspective on the larger industry issues," he said.

Merrill Lynch (nyse: MER - news - people) also has $1.8 trillion in client assets under management. A spokesperson for the company declined to comment on the current state of the business because of a quiet period pending an earnings release. He did point though to the company's fourth- quarter results, which showed total client assets rising 8% from a year ago.

Still, some concerns remain. Dick Bove, an analyst at Punk Ziegel, says companies that pushed exotic investments on private clients will see departures. **Lehman Brothers** (nyse: LEH - news - people) has already seen at least one such defection.

After M. Brian and Basil Maher sold their shipping business for over $1 billion last year, they handed off several hundred-million dollars to Lehman Brothers. Lehman invested much of the money in obscure bonds known as auction-rate securities. When the credit markets crumpled, demand for the bonds evaporated. According to *The Wall Street Journal*, the Mahers can't find any buyers for securities that cost them nearly $300 million. They won't be sticking with Lehman.