Senior executives gathering for the 2014 Reuters Global Wealth Management Summit in Geneva, New York and Singapore represented a changing and challenged industry. Big brokerage firms, trying to keep their customers satisfied in an era of low interest rates, growing stock market risks and persistent skepticism about financial services, are expanding their offerings. They are leaning heavily on comprehensive fee-based planning, alternative investments, pre-mixed portfolios and the cross-selling of products from their banking parents.

At the same time, the industry is facing disruptions: an international crackdown on untaxed assets held by offshore centers has unsettled clients and cost banks billions in fines to settle regulatory probes. Many advisers are approaching retirement age and others are leaving traditional firms to go independent. There is an increased competition from so-called “robo-advisers” that automate investing, and there is a greater appetite by investors for passive investing. The wealth management industry also faces regulatory scrutiny on everything from how brokers disclose their past records to how firms earn money on their trading volume. Even so, wealth management remains a profitable and promising priority for the world’s largest banks and brokerages. The pool of high net worth and ultrahigh net worth clients steadily grows, providing stable fee income. The highly competitive retirement space remains a target as the ongoing retirement of the baby boom puts trillions of dollars of 401(k) money in play.

Industry leaders and the people who regulate them discussed these topics and more at the Reuters Global Wealth Management Summit, which will generated exclusive stories, investable insights and online videos immediately available only to Thomson Reuters clients during the closed interviews.
Switzerland’s skill and stability will help the country maintain its position as one of the world’s most popular places for foreign money, private bankers said.

A global tax crackdown and tighter regulation have weakened the Alpine nation’s appeal to the wealthy in recent years, threatening its position as the world’s largest offshore cash center with roughly 2 trillion Swiss francs ($2.22 trillion) in assets.

A survey last year predicted Singapore would dethrone Switzerland as early as 2015 as the world’s top center for managing international funds, but UBS’s (UBSN.VX) head of private banking said Switzerland’s strengths went beyond its tax-haven appeal.

“Switzerland is still attractive,” Juerg Zeltner told the Reuters Global Wealth Management Summit in Geneva. “It’s still like German cars for Germany. Switzerland has a very good reputation abroad.”

The country boasts an unemployment rate of just 3 percent, a stable and consensus-driven political system, and a safe-haven currency that is showing no signs of weakening. Its economy is forecast to grow by a solid 2 percent this year and by 2.6 percent in 2015.

Private bankers told the summit this stability, combined with a long history in private banking, will mean the wealthy will want to keep a portion of their cash in the country, even as Swiss secrecy laws are loosened.

The head of Spanish lender Santander’s (SAN.MC) international private banking arm drew parallels between Switzerland and his base of Miami, which he said was attractive because it provides the wealthy in emerging Latin American countries easy access to developed economies.

“Switzerland is becoming the same,” Alvaro Morales said at the summit, held at the Reuters office in Geneva. “I foresee that the future of Switzerland will become more similar to the Miami one.”

However, some industry observers have cautioned that, while Switzerland’s safe-haven status will continue to lead the wealthy to park some of their cash in the country, it may lose out to competitors like Singapore and Hong Kong in the race to act as primary wealth managers, the industry’s most lucrative prize.

To make up for lost earnings in the Swiss private banking business, the head of Coutts’ international operations suggested Swiss banks should look to invest in their asset management business. Switzerland is attempting to reinvent itself as a center for asset management, where it currently lags behind countries such as Luxembourg.

“I do hope Switzerland will increase its footprint and expertise in the asset management industry,” Coutts’ Alexander Clas sen said at the summit. “That’s where I think Switzerland still has a strong card to play but it will have to either develop and nurture talent locally, or attract some of the world class asset managers in the years to come.”

Editing by Elaine Hardcastle
Wall Street watchdog to review sanction guidelines

BY SUZANNE BARLYN
MON JUN 16, 2014

The head of Wall Street’s industry-funded watchdog, Richard Ketchum, said on Monday that the group will review its guidelines for imposing fines on the brokers and companies it oversees, in his first public response to criticism that the regulator’s penalties were too small to correct errant behavior.

Ketchum, chief executive of the Financial Industry Regulatory Authority, speaking at the Reuters Global Wealth Management Summit in New York, said the review will hone in on sanctions for repeat offenders and look into whether there should be a separate category for the largest brokerage firms.

Kara Stein, a commissioner of the U.S. Securities and Exchange Commission who last month said the results of FINRA enforcement cases “are too often financially insignificant for the wrongdoers,” on Monday praised the steps FINRA is taking.

“T’m pleased to learn that FINRA is reviewing its penalties and sanctions to ensure the most effective enforcement and deterrence program for both investors and the marketplace,” she said in an email to Reuters.

Stein, in her remarks to FINRA’s division of market regulation last month, had suggested that FINRA review its guidelines.

FINRA’s oversight of Wall Street has come under scrutiny in recent months, including the supervision of problem brokers and the vetting of arbitrators who hear brokerage industry cases. The regulator oversees nearly 634,000 brokers and more than 4,140 securities firms.

Under Ketchum, the regulator has been responding. In April, for example, FINRA imposed mandatory background checks for brokers every five years after it came to light that some 1,600 failed to include criminal charges and other problematic issues that should have been in their files.

The regulator also launched a program for expediting disciplinary cases involving high-risk brokers.

**SANCTIONS GUIDELINES**

FINRA uses a broad set of sanction guidelines, developed in 1993, to determine fines and other penalties in enforcement cases. The guidelines, which cover 10 areas of potential misconduct, recommend a range of monetary penalties and lay out other factors to consider in the imposition of fines, such as a firm’s history and size.

FINRA has not reviewed the guidelines in at least five years, Ketchum said.

“The basic purpose is to discourage bad behavior,” Ketchum said, adding that the guidelines are designed to be fair.

Daniel Nathan, a lawyer for Morrison & Forrester in Washington and a former FINRA regional enforcement director, said updating the guidelines would give the disciplinary process “greater predictability” by making them more consistent with FINRA’s current enforcement policy and decisions imposed by hearing officers.

“It is high time that the guidelines be brought into the modern age,” Nathan said.

**SMALL FINES**

FINRA imposed a total of $65 million in fines in 2013, compared with $69 million the previous year.

Brian Rubin, a lawyer at Sutherland Asbill & Brennan LLP in Washington who defends brokerages in FINRA enforcement cases, said the decrease is largely due to the winding down of financial crisis enforcement cases.

On Monday, FINRA fined Bank of America Corp’s Merrill Lynch unit $8 million and ordered it to repay $24.4 million to settle allegations it overcharged thousands of charities and retirement accounts by failing to waive mutual fund sales charges. [ID: nL2N0OX0LW] Merrill neither admitted nor denied the charges.

An $8 million fine against Brown Brothers Harriman in February had set a record for anti-money-laundering violations, FINRA said at the time.

“They suggest that where FINRA thinks it makes sense, they will assess large fines,” Rubin said.

Nonetheless, fines in the thousands of dollars are far more common, according to a review of FINRA’s disciplinary database.

They include, for example, a $37,500 fine against a brokerage for reporting violations. A firm that held customers’ checks for too long and also violated industry rules about keeping enough capital on hand received a $7,500 fine, according to FINRA records.

Additional reporting by Sarah N. Lynch
U.S. tax case deal to trigger Swiss bank consolidation

BY JOSHUA FRANKLIN
GENEVA, JUNE 17, 2014

A
n expected resolution to the U.S. tax evasion probe into Swiss banks will likely be a catalyst for consolidation in the country’s private banking industry, senior bank executives say.

“At the moment there’s not a lot of acquisitions because of the risks associated and uncertainties,” Georg Schubiger, head of the private banking arm of Vontobel Holding AG (VONN.S), told the Reuters Wealth Management Summit in Geneva.

“If that were resolved, then probably acquisitions would happen more frequently and the larger banks would play a more active role in consolidation,” Schubiger added.

Other speakers at the Summit, also taking place at Reuters offices in New York and Singapore, also saw scope for more acquisitions once the U.S. tax issue has been resolved - part of a slew of changes hitting one of Switzerland’s mainstay industries.

Between 2000 and 2012 the pool of Swiss banks shrank by around a fifth to stand at just under 300 institutions and the costs of increased regulation associated with the tax crackdown have long been expected to add to pressure on smaller players to sell up or close down.

But the trend has been put on hold because of uncertainties related to the U.S. investigations, which have led to multimillion dollar fines on leading players UBS (UBSN.VX) and Credit Suisse (CSGN.VX) and cast a pall of uncertainty over others in the sector.

Some 106 Swiss banks have reason to believe they may have helped wealthy Americans evade taxes and are facing fines and high legal costs. They have until July 31 to turn over the necessary information to the U.S. Department of Justice (DoJ).

The head of international operations for British private bank Coutts, whose Swiss arm is among the 106, told Reuters he hoped it would reach an agreement with the DoJ by the end of the summer.

Juerg Zeltner, head of private banking at UBS, which in 2009 paid $780 million to settle charges it sheltered U.S. citizens from the taxman, said the tax case would remain a burden for those involved.

“It’s a poison pill until it’s solved,” Zeltner told the Summit.

JOB CUTS
Despite the overhang of the tax case, there have been some deals over the past five years. Some of the largest have been foreign banks exiting the Swiss market - such as Julius Baer’s (BAER.VX) purchase of the non-U.S. wealth management business of Bank of America (BAC.N) subsidiary
Merrill Lynch in 2013, and Vontobel buying Commerzbank’s (CBKG.DE) Swiss arm in 2009.

All told such changes are reshaping an industry which remains important in the Swiss economy, where financial services provide more than 5 percent of all jobs and which ranks as the world’s largest offshore center with roughly 2 trillion Swiss francs ($2.2 trillion) in assets.

Margins in historically profitable private banking have been eroded by the crackdown on untaxed offshore assets, as well as investors’ desire to park a large portion of their cash in low-risk holdings, which generate more modest returns for banks.

Executives said the consolidation and tighter margins meant pre-crisis salaries and employment figures were things of the past. The head of Coutts’ international operations Alexander Classen even suggested three out of every 10 jobs in Swiss wealth management could be gone by 2017.

“We’re still going through a period of consolidation and transformation,” Classen told the Summit. “I wouldn’t be surprised if, in two to three years from now, we have a population of staff employed by the wealth management industry (in Switzerland) that would be 20 to 30 percent below what it is today.”

Classen said the industry would have to make due with less generous returns in future.

“I think we will have to content ourselves with lower margins, that’s for sure,” said Classen. “The margins we’ve known five, 10 years ago are nice experiences of the past.”

RBC Wealth seeking deals to boost alternative assets

BY ANDREA HOPKINS AND SVEA HERBST-BAYLISS
NEW YORK, JUNE 16, 2014

Royal Bank of Canada’s wealth management division, Canada’s biggest player in the high net worth arena, is on the lookout for acquisitions to grow its presence in alternative assets, particularly real estate, and beef up U.S. distribution.

“On the asset management side, we have a viable organic strategy but relatively small business here compared to worldwide. We would be interested in acquisitions that broadened capability in that business,” George Lewis, group head, RBC Wealth Management and RBC Insurance, said on Monday.

“The alternative space is one where we are intent on increasing our capabilities particularly on the real estate management side,” he said at the Reuters Global Wealth Management Summit in New York.

In the last six years, Toronto-based RBC has made two major acquisitions in the wealth management business, buying Phillips, Hager & North Investment Management Ltd in 2008 and BlueBay Asset Management Plc in 2010. Now Lewis said he expects another purchase can be made within the next “couple of years.”

The bank will consider acquisitions of as much as C$2 billion as it seeks to expand its wealth management unit, but the pace will be measured and careful, Lewis said.

Lewis said he would “rather be three for three than six for 10,” in terms of successful acquisitions and the integration of a new purchase into RBC, the world’s sixth largest wealth manager.

“Opportunities in that C$1 to C$2 billion cumulative range over the next couple of years, that would be very much the size we are looking for, whether that comes in one or two or three components,” he said.

“Building U.S. distribution, and increasing alternative capabilities, would be our principal focus.”

As investors and their advisers express new interest in alternative assets like hedge funds, private equity and real estate following the financial crisis, Lewis said a firm that specializes in alternative assets, particularly real estate investments, is high on its wish list.

He also said that adding some alternatives at a time when RBC is eager to flex its muscle worldwide would make sense because the bank has been a little “light” on alternatives compared with competitors like JPMorgan Chase and UBS.

But he noted that although the environment for mergers and acquisitions is more frenzied, with even private equity firms battling with banks and other traditional purchasers, RBC would prefer to enter only into exclusive deal negotiations instead of the auctions with other bidders.

Lewis stressed that the business would have to be a good fit. RBC is already very strong on the fixed income side, bolstered by the BlueBay deal in 2010, and now has clients who want more access to alternatives, including pension funds that have long liabilities and are looking for long duration assets with cash flow.

Editing by Alexander Smith and David Holmes

Editing by Leslie Adler
For U.S. retirement consultants, advisers disrupt the industry

BY LAUREN YOUNG
NEW YORK, JUNE 16, 2014

The big retirement benefit consultants are facing increasing competition as financial advisers move in on their turf, according to Chip Castille, the head of BlackRock’s U.S. retirement group.

For workers with 401(k) accounts the shift could translate into better investment choices, while for firms like Mercer and Aon Hewitt that have been big players in the $21 billion U.S. retirement business it’s a threat to their business.

In the workplace 401(k) market, Castille said he is seeing more financial advisers with a “high level of expertise” focusing on retirement plan design. These advisers tend to manage small business plans that are $1 billion-$2 billion in size.

“You did not see that two years ago,” Castille said at the Reuters Global Wealth Management Summit. “It’s shocking and extremely disruptive.”

Scott David, head of U.S. investment services at T. Rowe Price, also speaking at the Reuters summit in New York, said that now “some of the most sophisticated benefits consulting comes from advisers at the biggest brokerages.”

Both BlackRock and T. Rowe have built up sizable businesses serving the retirement workplace, competing with firms such as Fidelity Investments and Vanguard Group.

A seismic shift is happening across the wealth management industry, as more financial advisers move from commission-based businesses to ones that rely more heavily on fees. As advisers wade into the retirement world, more of them are taking on the role of fiduciary - which requires advisers to put their clients’ interests ahead of the financial firm that employs them.

Some of the biggest challenges for the retirement industry include the desire to create products that deliver fixed income to retirees; the push for lower fees; consolidation and increased regulation, Castile and David said.

The impact of the baby boomers on the financial markets - as well as the overall retirement industry - is an emerging trend that both are watching carefully.

The notion that boomers will cash out of stocks upon retirement and hurt the overall equity market is false, David said. “If you are going to retire with a 30-year time horizon, why would you pull money out of the market?” he said.

Another myth: baby boomers will stop working upon retirement. “Boomers have transformed every phase of life through which they’ve passed,” noted Castille.

A bigger concern for Castille is whether the 401(k) system will live up to its promise of securing retirement for boomers.

“I worry that the 401(k) system is going to come under pressure,” Castille said. That’s because it was built as the baby boomers moved through the workforce. “It will receive more than its fair share of blame if boomers don’t get the outcome they want.”

(In last paragraph, corrects quote to read, “It will receive more than its fair share of blame ...”, not “It will receive its fair share ...”)

Reporting by Lauren Young; Editing by Leslie Adler
New regulation is constantly driving up the cost of business for private banks, a senior executive at Switzerland’s UBS AG has warned, even as fast-changing conditions present opportunities for wealth managers.

“Unfortunately, the regulatory environment is changing by the day all around the globe and the adaptation requirements you have in our firms are huge,” Juerg Zeltner, UBS’s head of private banking, said at the Reuters Global Wealth Management Summit in Geneva.

“Thousands of new legislation (measures) coming in that need to be processed ... only means one thing - that the cost to serve our clients is going up,” Zeltner said on Monday at the Summit, also taking place in Reuters offices in New York and Singapore.

Prospects in the profitable and low-risk private banking industry have been dimmed by an international crackdown on untaxed assets being held in so-called offshore centers such as Switzerland, the world’s largest with roughly 2 trillion Swiss francs ($2.2 trillion) in assets.

Private banks are also struggling with a desire by wealthy clients, daunted by political and economic turmoil, to load up on low-risk assets, bad news for private banks which earn little from managing portfolios of cash and cash-related products.

All told, the cost of business for private banks is rising at a time when they must work hard to restore trust in the sector following a string of scandals.

Part of the reason for sizable personal cash piles is that wealthy investors are looking for clearer expert opinion on how the turmoil affects them, which Zeltner believes represents an opportunity for private banks.

“These clients ... need help, they need advice,” he said. “So the opportunity for us to build models, where we go out, where we differentiate, where were the go-to person, where we call first has never been greater.”

BIG BETS
Zeltner said the wealthy are still hesitant to make big investment bets, with some notable exceptions. While business in China is slowing somewhat, Asian investors were - for the first time - looking to invest outside their region, he said.

And the ultra-rich, generally defined as those with more than $50 million in funds to bank, are becoming active players in long-term investments and private equity investments, he said.

“If (clients) hear valuations are high and they hear China is slowing and they hear (about) inflation fears in the U.S., they’re basically not going to be 'risk on,'” Zeltner said, referring to their willingness or otherwise to take big risky positions in asset classes such as equities or emerging markets.

Stung by losses during the financial crisis, wealthy investors have kept as much as 30 percent of their assets in cash and cash-like assets, representing a setback for banks such as UBS, which earn almost no income from such holdings.

Last month, Zeltner said he expected wealthy investors to continue to park a large portion of their cash in deposit accounts and low-risk assets, because they want to see tangible signs of a broader economic recovery before stepping outside the comfort zone.

The private banking arm of UBS has become a key component of its business after UBS restructured in the wake of the financial crisis, moving an emphasis away from its investment bank to less risky wealth management.

Bankers and other experts are divided on when - and if - activity will perk up, with some saying clients are likely to keep a significant part of their wealth in cash as a haven.

$1 = 0.9005 Swiss Francs

Editing by David Holmes; Follow Reuters Summits on Twitter @Reuters_Summits
Asia’s rich wary of global banks managing money: Portcullis TrustNet

BY RACHEL ARMSTRONG AND SAEED AZHAR
SINGAPORE, JUNE 16, 2014

W

ealthy Asians are increasingly wary of letting banks look after their money and would rather use smaller asset managers instead, according to one of the region’s leading lawyers to the ultra rich.

David Chong, chairman of Asia’s largest independent trust company, Portcullis TrustNet, said huge fines imposed on banks for helping clients evade taxes, along with scepticism over the objectivity of bank advice is prompting affluent Asians to look elsewhere.

“Increasingly, wealthy families do not trust the big global banks,” Chong said at the Reuters Global Wealth Management Summit.

“They certainly don’t look to the global banks to go and manage their wealth, so obviously they are looking at the boutique asset managers.”

Independent firms currently make up a tiny part of the Asian wealth management industry, which is dominated by large banks such as UBS AG (UBSN.VX) and Citigroup Inc (C.N). But the number has been growing recently, with an estimated 25 independents setting up in the past four years in Singapore alone.

The rise has been partially attributed to the objectivity afforded by firms charging set fees, in contrast to the traditional practice at banks where private bankers earn commission by selling certain products.

Independents’ popularity has also been boosted by a series of tax investigations into Swiss banks. Last month, for instance, Credit Suisse Group AG CSGN.VS agreed to pay $2.6 billion to U.S. authorities for helping U.S. clients evade taxes.

The investigations have made many wealthy people who were relying on banking secrecy realize they need to engage in proper tax planning, Chong said.

DIVERSIFICATION

Portcullis TrustNet serves thousands of wealthy Asian clients by establishing trusts and companies through which to manage their money, and Chong said the region’s rich are making sure they keep their money in several different countries.

“It’s not an issue of evasion of taxes, it’s diversification of risk,” he said at the summit, held at the Reuters office in Singapore.

“What they are trying to do is diversify risk so if any government tries to confiscate their wealth - not because they have done wrong but because they (the government) need to replenish public coffers - at least they are much more diversified.”

Last year, many Russians who had accounts at offshore banks in Cyprus lost money when the government seized money from big savers as a condition to secure a 10 billion euro ($13.62 billion) bailout from the European Union.

“There are extremely wealthy people who are extremely worried about confiscation of wealth,” said Chong.

LEAKS

Portcullis TrustNet made headlines last year when a cache of data about thousands of its clients’ financial arrangements was published by the International Consortium of Investigative Journalists (ICIJ).

The ICIJ highlighted from its “Offshore Leaks” dossier how a string of wealthy, politically connected clients of the firm, including relatives of Chinese President Xi Jinping, were using offshore financial centers to manage their money.
The ICIJ said their findings showed how financial secrecy allowed the rich to dodge taxes.

Chong said the data was stolen and that it showed he and his clients had done nothing illegal.

“If I deal with stolen property, they would call that money laundering. If journalists deal with stolen property, they call that freedom of speech,” said Chong.

He said he has since spent an unspecified “small fortune” putting in new computer systems and had a consultancy firm review the firm’s cyber security.

“Clients have been hopping mad, but they haven’t blamed us thankfully.”

The spotlight on the use of offshore centers to manage money has spurred a change though. Rather than use trusts or companies in jurisdictions typically associated with tax avoidance schemes such as British Virgin Islands or Cayman Islands, Chong said wealthy Asians are now using similar structures in Asian financial centers.

“Demand for Singapore companies has shot up, demand for Hong Kong companies has shot up, demand for offshore companies has gone down,” he said.

“The Singapore brand name is much better than an offshore company, although tax wise there’s frankly no difference,” Chong said, adding that staying in the region also suits his clients’ business needs better.

Globally, the wealth industry faces growing regulatory burden such as increased client due diligence as well as increased transparency, but this does not worry Chong from a business perspective.

“I always welcome more regulation, regulation is good for our business,” he said.

“In the past people relied on banking secrecy and obviously clients don’t need people like me if all they do is rely on secrecy - they just hide their money. Now they need to plan properly.”

$1 = 0.7345 Euros

编辑 by Christopher Cushing

**TD Ameritrade clients start using their cash**

**By Jed Horowitz**

**June 19, 2014**

The high levels of cash that TD Ameritrade customers have been keeping in their brokerage accounts since the 2008-2009 financial collapse is on the decline, a sign of growing confidence in the U.S. stock market, company executives said at Reuters Wealth Management Summit on Wednesday.

Cash represents about 19 percent of assets kept in more than 4 million retail brokerage accounts at the Nebraska-based broker-dealer. In the previous five years, cash levels averaged between 20 percent and 22 percent, said Tom Bradley, president of retail distribution.

Cash levels of investment advisers whose clients have accounts at TD Ameritrade have dipped below 8 percent, added Thomas Nally, president of the firm’s institutional division.

The investing behaviour of discount brokerage clients is closely scrutinized on Wall Street as a sign of how robustly investors are buying stocks and, more conservatively, bonds.

TD Ameritrade’s retail clients are more active traders than those at rivals Charles Schwab Corp and E*Trade Financial Corp, creating higher levels of cash than buy-and-hold investors as they trade in and out of markets.

Cash in the approximately 9 million brokerage and money market accounts at Schwab declined from a peak of about 20 percent in 2009 to 13 percent at the end of the first quarter, and generally ranges between 5 percent and 10 percent in accounts that financial advisers keep for their clients at the San Francisco-based firm, a Schwab spokesman wrote in an email.

E*Trade clients at the end of May kept 16 percent of their assets in their 3.1 million accounts in cash, down from 19 percent in March 2013, a spokesman wrote.

Separately, Bradley said clients appeared indifferent to TD Ameritrade’s disclosure that it made $236 million in its last fiscal year by selling their orders to trading firms and exchanges. The total was more than in the previous year and higher than at Schwab and E*Trade.

Discount brokers do not share so-called payment for order flow revenue with clients, but say it subsidizes low commissions and does not affect their commitment to get the best execution for trades.

On Tuesday, however, a TD Ameritrade executive told a U.S. Senate subcommittee that the company often routes orders to exchanges that pay it the most. The practice was criticized in Michael Lewis’ recent book, “Flash Boys.”

Fewer than 200 of TD Ameritrade’s more than 4 million clients questioned the practice since the book’s publication, Bradley said. But Nally said it was too early to judge the impact of a “60 Minutes” TV interview in which Lewis said U.S. markets are fixed.

“Think about Mom and Dad sitting on the couch ... and hearing the markets are rigged,” he said. “They’ll start stuffing their money under their mattress.”

Charles Schwab Chief Executive Officer Walt Bettinger recently suggested that firms disclose how much they receive for each trade order on a customer’s confirmation statement.

“I wouldn’t have a problem with that,” Bradley said at the Wealth Summit.

编辑 by Lisa Von Ahn
BlackRock Inc (BLK.N), already the leader in alternative funds aimed at retail investors, is planning to roll out a new fund that will take big bets on interest rates and currencies, a company executive said on Wednesday.

The firm plans to launch a new Global Macro fund aimed at retail investors in the next couple of months, said Frank Porcelli, head of BlackRock’s U.S. Wealth Advisory Business, at the Reuters Global Wealth Management Summit in New York.

“We’ve been working on it for a while,” Porcelli said, noting that his team plans to engineer their fund differently from the competition. “There are slightly different flavors out there, but I think this is a true Global Macro fund and will be a nice fit for advisers looking for uncorrelated returns and access to those markets.”

The firm is targeting returns for the fund that will be cash plus 6 percent. Porcelli said BlackRock plans to leverage its existing relationships with alternative managers to construct their offerings and put them into a ‘40 Act mutual fund.

BlackRock is rolling out the new offering at a time so-called global macro funds that take big directional bets have struggled, with some top fund managers bemoaning that there hasn’t been a real trend to sink their teeth into.

Global macro hedge funds have inched up only 0.31 percent in the first five months of the year, far less than the average hedge fund’s 1.99 percent gain this year, HFR data show.

With hedge funds delivering generally more lackluster returns over the last years, investors have begun complaining about their high fees and demanding these types of strategies at lower costs.

This helped spark the quick-paced creation of so-called alternative mutual funds or liquid alts at some of the industry’s most storied investment managers.

It has also become an increasing point of focus for BlackRock, the world’s largest money manager that now manages more than $4 trillion in assets.

Alternatives currently represent about 30 percent of all asset management industry revenue, according to BlackRock, with an opportunity to grow by $23 billion through 2016.

BlackRock launched its first retail alternatives funds in 2011: a long/short emerging markets fund, a commodities strategies fund and a long/short credit opportunities fund.

According to Morningstar, the alternatives category has grown by 36 percent over the last year with funds taking in $927 million in April, which helped boost the year-to-date total to $11.6 billion.
Vanguard bond head warns of risk in yield hunt

BY ROSS KERBER AND LUCIANA LOPEZ
NEW YORK, JUNE 18, 2014

Vanguard Group Inc’s new bond chief on Wednesday said investors could be ignoring warning signs in less stable countries in their search for yield.

Recent bond sales have underscored how eager investors are for higher returns - even in countries that could face significant risks, Gregory Davis, global head of fixed income for Vanguard, said at the Reuters Global Wealth Management Summit in New York.

“It has to start raising a red flag in your mind that things are starting to feel a little bit overheated,” Davis said, citing recent debt sales in countries such as Spain and Ecuador.

Spain, for example, sold bonds at record low yields recently, despite its role as a major driver of the European sovereign debt crisis and an unemployment rate above 25 percent.

Just this week, Ecuador’s 10-year bond issue was oversubscribed at a final yield of 7.95 percent, despite the country’s 2008 default on an unwillingness to pay.

“At some point there will be a repricing,” Davis said. When investing in such countries, he said, “You are taking on additional risk, and the question is are you being compensated enough.”

Overall, Davis offered a relatively upbeat economic outlook and said he shares a view among many economists that the U.S. economy, the world’s largest, will grow by around 3 percent going into 2015.

The 43-year-old Davis, who took over as head of Vanguard’s fixed-income operations earlier this year, oversees about $800 billion of assets; Vanguard’s assets in total are more than $2.5 trillion.

Because central banks in many developed countries have kept interest rates around zero to boost their flagging economies, many investors have turned to riskier instruments to extract higher returns.

With the yield on the U.S. 10-year Treasury note US10YT=RR hovering around 2.6 percent, investors have poured money into other debt instruments. High-yield corporate bond funds, for example, have seen net inflows every week but five so far this year, according to data from Lipper, a Thomson Reuters unit.

On the other hand, some investors have favored the United States among developed countries because of what Davis called a “pretty compelling” outlook. “The only challenge is the U.S. is probably further along in the economic recovery relative to Europe,” he said.

“As a result, our rates are probably going to rise sooner than you’ll see in continental Europe, so that will cause a bit of a concern for some investors,” Davis said.

The European Central Bank, for example, continues to ease, with policymakers there imposing negative rates on overnight depositors this month.

In contrast, the U.S. Federal Reserve is slowly pulling back on its crisis-era accommodative stance, decreasing its monthly bond purchases. The Fed later on Wednesday is expected to maintain that stance.

Editing by Leslie Adler
Bank of America Corp (BAC.N) is seeding its investment banking teams with financial advisers from its wealth management businesses in the hope that banking clients will give them personal money to manage, a top executive said on Tuesday at the Reuters Global Wealth Management Summit.

Teams of advisers from both Merrill Lynch Wealth Management, which caters to people with over $250,000 in investible assets, and U.S. Trust, which focuses on those with higher net worth, have been assigned to different industry groups within the investment bank to build the relationships necessary to deepen the bank’s ties with its existing customers, said John Thiel, the head of Merrill Lynch Wealth Management.

“That opportunity is really one of the profound opportunities we have as an organization,” Thiel said.

There is also scope for the financial advisers to refer their clients whose companies need to raise debt or equity to Bank of America’s investment bank, a practice that was not always done well across the industry.

Thiel recalled a meeting with the chief executive of a networking company when he was running the San Francisco office of Merrill Lynch’s private bank. After his fi-
nancial advisers left, the executive had an appointment with bankers from Goldman Sachs Group Inc who pitched the company on an offering of convertible preferred shares.

Avoiding missed opportunities like that is “a great reason to connect, because we’re not going to lose market share,” Thiel said.

Many financial advisers are wary of introducing their clients to unknown bankers, even at their own firms, since they have no control over how well their colleagues would serve their clients.

Thiel said that there was no more friction between investment bankers and financial advisers than “between any two beings that don’t know each other.” Also, he was hopeful the collaboration would work out because Bank of America chief executive Brian Moynihan has made it a priority.

“Brian is leading it, and he’s expecting it, and he’s encouraging it, which I’ve never seen happen in my career,” Thiel said.

Phil Sieg, the head of ultra high net worth client solutions and segments at Merrill Lynch’s private bank, is leading the joint effort.

*Editing by Andrew Hay*
Asia’s wealth spurs competition for private bankers: Citi

BY DAVID HENRY
NEW YORK, JUNE 18, 2014

Asia is the most competitive region in the world for bankers catering to the very rich, but also presents great opportunities for private bankers, the head of Citigroup Inc’s (C.N) private bank said.

“We are very focused on covering places like China, India and Hong Kong because of the industry growth over the next five years that is going to generate new wealth,” Mark Mason of Citigroup said on Tuesday in New York at the Reuters Global Wealth Management Summit.

Citigroup was the second largest private bank in Asia last year after UBS AG, (UBSN.VX) according to Asian Private Banker.

“Asia is particularly competitive for bankers,” who face pricing pressure there, Mason said, but it is especially promising for those who can offer full-spectrum wealth management services, including loans, to clients.

Figures from Boston Consulting Group earlier this month showed that private wealth in Asia-Pacific, excluding Japan, rose by 30.5 percent in 2013 compared to a year earlier to hit $37 trillion.

That trend is expected to continue as hundreds more companies from the region go public in the next five years. Alibaba Group Holding Ltd, the Chinese e-commerce giant, is expected to create a long list of multi-millionaires just from its partners in the company when it goes public later this year, in what could be the biggest technology-sector initial public offering in history.

UBS has also been trying to bolster its ranks in the region, increasing its wealth management staff by 8 percent this year to 1,120.

Though Citigroup as a whole is pressing to reduce costs, Mason said the company is backing new hiring and investments in technology in the private bank to win more of the business growth in Asia.

“We are investing in bankers in Asia and covering China in particular,” said Mason. He declined to say how much more money Citigroup is spending on bankers, new products and a new information system for clients and bankers to use to track accounts.

Clients, who must have $25 million in assets under management to qualify for a Citi private bank account, increasingly want to borrow money against their investments, Mason said.

“We have had good lending growth,” he said. “They are using that money to reinvest in other portfolios with us.”

Citigroup’s private bank reported $2.5 billion in revenue in 2013, about 3 percent of the total for the New York-based company, which is the third-largest U.S. bank by assets and does about half of its business outside of the United States.

Returns are high for the amount of capital the business requires, Mason said, which is another reason for the intense competition from other global institutions, as well as regional players.

Every week, Mason said, seems to bring another report of a competitor adding staff or allocating more capital to lend to the wealthy.

Additional reporting by Rachel Armstrong in Singapore; Editing by Linda Stern and Leslie Adler
Spain’s Santander (SAN.MC) is looking to tap a $140 billion pool of assets held by newly-arrived U.S. immigrants as it grows its private bank, a top executive said, adding the unit aimed to double its funds under management globally in coming years.

Recent immigrants to the United States, particularly Latin American entrepreneurs, are a growing market for local wealth managers and potential new entrants such as Santander, according to Alvaro Morales, head of the lender’s international private banking arm.

“We see a lot of opportunities in the domestic U.S. market,” Morales told the Reuters Wealth Management Summit in Geneva.

“What we are seeing is that a lot of Mexican or Venezuelan clients who are sending their kids to U.S. universities, then their wives move (there), then (they) move for the weekends. And at the end they become U.S. tax residents.”

Santander’s private bank, which is present in the United States but serves non-resident clients there, is considering opening a branch geared toward new U.S. tax residents, Morales said.

He put assets up for grabs from potential clients who had arrived in the United States in the past few years at about $140 billion, adding that pool would in future be “huge”.

U.S. wealth managers are also eyeing this market, though Santander hopes to capitalize on its Latin American franchise to win over new customers. The Spanish bank as a whole makes roughly half of its profit in Latin America, where Brazil is its single biggest market.

MORE LATIN

“It’s people that have just come to the United States in the last two to three years and they are still more Latin American than American,” said Morales, who is based in Miami, adding Santander would have less of a chance of cracking the U.S wealth management market if it was targeting “Mr Smith.”

Santander is also making a push to grow its broader business in the United States, including through its retail banking unit based in the northeast of the country. Earlier this year the bank also listed its U.S. consumer financier business, Santander Consumer USA (SC.N), on the New York Stock Exchange.

Santander’s private bank globally ended 2013 with about $190 billion of assets under management, which it wants to double over the next few years.

Outside the United States the private bank primarily wants to grow in its existing markets, Morales said. The unit is present in Switzerland and has several U.S centers, but does not operate in major wealth hubs such as Asia or the Middle East and has no plans to move there for now, he added.

“If we see any opportunity in the future that could be adapted to our model, why not?” Morales said, referring to potential acquisitions, though he stressed purchases were not a core part of the private bank’s strategy. “We want to grow in an organic way,” he said.

Additional reporting by Joshua Franklin;
Editing by David Holmes
The head of international operations for British private bank Coutts on Monday welcomed the U.S. Department of Justice’s extended deadline for banks to track down and hand over client data in a tax probe.

The Swiss arm of Coutts, whose parent is state-backed Royal Bank of Scotland, is one of 100-plus Swiss banks who have reason to believe they may have committed tax offences by helping wealthy Americans evade taxes - and are eligible for a non-prosecution agreement if they come clean and face fines.

At the start of June, the U.S. Department of Justice extended the June 30 cut-off point by one month to turn over the necessary information for these so-called category two banks.

Coutts Chief Executive Alexander Classen told the Reuters Global Wealth Management in Geneva that the extension was a boost for the bank as it seeks to complete the tricky task of tracking down the necessary data.

“They have fortunately extended some of the deadlines, which is good as the amount of work that’s required to trace in particular former clients is massive and is very resource-intensive,” Classen said at the Summit, also taking place at Reuters offices in New York and Singapore.

Classen said he hoped the bank would settle a non-prosecution agreement with the Department of Justice by the end of the summer, adding the bank was expecting to take a “significant” hit from the investigation.

“We have estimated the cost of the whole project for this year to be somewhere between 5 and 10 million Swiss francs and I wouldn’t exclude the final amount to go above that,” said Classen. “This is significant for a bank of our size.”

Editing by David Holmes
Super rich develop a passion for cars, wine and property

BY SARAH WHITE
GENEVA, JUNE 20, 2014

From Spanish shopping centers available at bargain prices to wine, art and classic cars, so-called alternative investments are gaining appeal to the world’s rich as returns elsewhere wane, wealth managers say.

The super rich - typically those with a fortune of $30 million or above - have increasingly been straying from investing in conventional financial products, some private bankers noted, as low interest rates reduce the lure of cash piles or bonds.

The proportion of so-called “passion investments” in portfolios has gone up about two to three times in the past five years, according to Alexander Classen, who runs the international arm of British private bank Coutts.

“Clients have become increasingly skeptical about traditional investing,” Classen told the Reuters Wealth Management Summit in Geneva. “And ... they started witnessing some of the returns they can achieve in real estate, in old watches ... while having fun at the same time.”

To be sure, combining investing with hobbies is far from a new trend among wealthy families, whether they are patrons of painters as in the Renaissance or are members of a newer wave of Asian money snapping up vineyards in France.

“All this type of luxury is part of the portfolio of a very rich person,” said Manuela D’Onofrio, head of global investment strategy at the private banking arm of UniCredit (CRDI.MI), adding she had one client who had as many paintings by Italian master Canaletto hanging in his apartment as the Metropolitan Museum Posters she had in her own.

But there are also signs these bets have been paying off in recent years. An index created by Coutts to track the profitability of 15 passion investments such as jewels and art showed in January these had returned 77 percent since 2005, compared with a 53 percent return in the MSCI All Country Equity Index, in dollar terms.

Classic cars were the best performers over that period.

The number of millionaires in the world, meanwhile - of which ultra-high net worth individuals made up 0.9 percent - rose by 2 million last year, and the group grew nearly 14 percent richer.

PROPERTY SPREE

Real estate investments are also an increasing draw for such clients and some see the prolonged property slumps in some corners of Europe such as Spain as an opportunity.

“Some Latin American clients want to invest ... in the current Spanish market,” said Alvaro Morales, who heads Santander’s (SAN.MC) international private banking business.

“It’s any commercial centers, buildings, offices ... it’s something they are buying for rental income,” Morales said, adding clients from the region wanted to diversify with investments in other countries.

Real estate investments make up between 20 and 30 percent of the portfolios of Santander’s private banking clients, Morales added.

Spanish house prices have slumped about 40 percent from their 2007 peak and are still falling, while banks which got lumbered with properties on their books are increasingly keen to sell them, even at discounts.

Retailers, manufacturers and traders of luxury products are also taking note of millionaires’ shifting investment tastes.

Wine Owners, an online trading and valuation business whose website features some fine wines offered at 26,600 pounds ($45,400) for 12 bottles, this month launched a platform aimed at wealth managers, so they can offer their clients a wine portfolio tracking service under their own brand.

In their investments and in their private lives, however, most of the world’s rich are still shunning very exotic avenues, wealth managers said, adding they still spent money on more traditional luxuries such as yachts and houses.

“One of the things we have not seen, and it seems to be picking up in the U.S., is ... space travel,” said Norman Villamin, chief investment officer for Europe at Coutts & Co. “I haven’t talked to any of my clients who’ve said, I’m getting ready to go to space.”

Additional reporting by Joshua Franklin and Maria Pia Quaglia; Editing by David Holmes
Wealth managers look online to bolster advisory services

BY SARAH WHITE AND JOSHUA FRANKLIN
GENEVA, JUNE 18, 2014

Wether it’s allowing smartphone-touting millionaires to track their investments on the go or plan new positions by videochat, wealth managers are moving into the digital age.

Firms are racing to invest in new technologies, private bankers said, as they try to catch up with advances in other areas of banking where mobile and internet usage is widespread.

“People who do not invest on the digital front will not be here in 10 years, they will be forced to buy in, sell out, team up,” Juerg Zeltner, head of UBS’s (UBSN.VX) private bank told the Reuters Global Wealth Management Summit in Geneva.

Zeltner added UBS was investing hundreds of millions of francs every year to improve its offering and was already planning a digital-only approach in China.

The upheaval is a particularly awkward challenge for a corner of the banking market still deeply reliant on advisory services and close personal ties with clients.

Shielding customers’ fortunes from cyber hackers and other confidentiality breaches is another headache, while firms also have to cater to the varying demands of different geographies and generations in an industry still weighted towards older customers, though client needs are starting to converge.

“You’d be surprised how many more mature clients are requesting digital uses these days. It’s not only an age thing,” said Alexander Classen, head of international operations for British private bank Coutts.

Finding the right formula to replicate the tailored advice wealth managers aim to provide is probably the toughest task.

Mobile phone or tablet applications allowing customers to see how their portfolios are evolving, or read daily trade execution summaries, are some of the ideas banks like Coutts and Switzerland’s Vontobel (VONN.S) are either considering or already rolling out.

The private banking unit of Italy’s UniCredit (CRDI.MI) is even planning to give its clients tablet computers, according to Manuela D’Onofrio, who runs global investment strategy there. These devices will allow secure video conferences with their advisers or get research on trends and strategies.

FACE TO FACE

“We will have to invest to make parts or even the whole process (of advising clients) available through different channels,” said Georg Schubiger, head of the private banking arm of Vontobel Holding AG. “Wealth management is still done very much face to face. But it’s something we have to think about very carefully.”

Already a big chunk of investment in new technologies is being eaten up by IT security to fend off the rising threat of attacks from sophisticated hackers, private bankers said.

Cyber crime costs the global economy about $445 billion every year, according to a study by the Center for Strategic and International Studies, and Coutts’ Classen estimated security could end up representing about 30 percent of private banks’ technology budgets.

vDavid Chong, chairman of Asia’s largest independent trust company Portcullis TrustNet, told the Wealth Management Summit in Singapore his firm had already spent heavily on computer systems and security, though he saw hacking as still a big threat.

“I tell clients that if the NSA (U.S. National Security Agency) cannot prevent ... theft from their systems, we don’t have much of a chance,” Chong said.

Clients’ broader use of the Internet is further complicating private banks’ tasks, some said, though customers still demand the same standards of confidentiality from their advisers.

“Sometimes I actually have to smile when people tell me ... can you still guarantee everything, and then you look up their yacht and their houses and their families on Facebook,” said UBS’s Zeltner.

Additional reporting by Rachel Armstrong in Singapore; Editing by David Holmes
Jack Bogle, founder and retired CEO of The Vanguard Group, speaks during the Global Wealth Management Summit in New York June 17, 2014. REUTERS/SHANNON STAPLETON

Facing price wars and robots, wealth managers push advice

BY LINDA STERN
NEW YORK, JUNE 20, 2014

Jack Bogle, the founder of Vanguard Group Inc and the pioneer of low-cost index investing has won. Data shows investors have steadily paid lower mutual fund fees every year since 2003. Some 35 percent of all money in mutual funds is managed passively by computer models instead of humans. The average upfront sales fee paid to brokers by mutual-fund investors has fallen 74 percent since 1990, according to the Investment Company institute, a trade group.

This week at the Reuters Global Wealth Summit, “transparency” and “fees” were among the most popular words spoken by top wealth and asset management executives.

“All of the sudden, everybody understands that high cost is your enemy and low cost is your friend,” said Bogle, 85.

Yet he is not ready to rest on his laurels and that is bad news for the rest of the industry.

The win for budget-minded investors presents a dilemma for investment management firms ranging from Charles Schwab Corp and Morgan Stanley to Blackrock...
Inc. How do they remain profitable when their bread and butter, transactions, are being commoditized?

Furthermore, coming down the pike behind the low-cost indexers is the next generation of robo-advisers: Algorithm-driven, web-based advisory startups such as Wealthfront, Hedgeable and SigFig that promise to manage portfolios for just a few cents on the dollar.

Some speakers at the summit hypothesized that average advisory fees ultimately could collapse to 0.50 percent of assets under management under those competitive pressures.

Executives from mainstream firms are taking a few different tacks. Most, such as Schwab and Morgan Stanley, are de-emphasizing investment products, and focusing instead on offering advice to consumers, a trend that has reached critical mass.

In 2013, Morgan Stanley’s wealth management unit made $7.6 billion, or 54 percent of its revenues, from asset management fees, instead of commissions, which made up only 15.5 percent of net revenues. The remainder was in investment banking, investment income and some other categories.

The firm currently has 37 percent of its assets in so-called fee-based advisory accounts and is aiming at 40 percent, wealth and investment management head Greg Fleming said at the summit.

At Schwab, originally conceived as the firm for do-it-yourself investors looking for low-cost trading, all the talk is about connecting on a human basis.

There is a “relentless move to, ‘I would like a person to talk to about my goals and markets and my portfolio,’” said John Clevelin, executive vice president and co-head of the firm’s retail business.

“We launched our first advisory solution in 2002. Fast forward to today and we have $163 billion in client assets in advisory solutions,” the main Schwab fee-based approach.

Bank of America’s Merrill Lynch is recruiting new advisers who will take up its emphasis on a “goals-based” approach, said John Thiel, the head of US Wealth Management and Private Banking at Merrill.

“We knew we could do a better job where we talk about life priorities versus just numbers,” he added.

Even Blackrock, with almost $1 trillion in assets in its low cost, indexed iShares exchange-traded funds, is intent on marketing its higher-fee products, such as hedge-fund-like ETFs, to advisers.

Frank Porcelli, managing director and head of Blackrock’s U.S. retail business, said his firm sends experts out to talk to advisers about how alternative funds can fit into advisory plans.

“Advisers are moving from the traditional business model to platforms where they charge one holistic wrap fee and then they can put anything in that portfolio they want. They are positioning themselves as portfolio managers,” he said.

THE 0.50 PERCENT SOLUTION

But beyond all the lip service given to human advice in the post-2008-crisis marketplace is the fact that advice might be the next big area of commoditization.

Virtually all of the large and small brokerage firms that sent speakers to the summit talked about wanting to win assets from the under-40-year-old demographic. But they will be marketing themselves to generation Xers and millennials against (currently miniscule) data-driven upstarts such as SigFig, which aggregate portfolios of any size for free and offer fee-cutting investment advice for $10 a month.

Mike Kane, chief executive officer of Hedgeable, another automated advisory firm, told summit attendees he expects the industry average fee to coalesce to around 0.5 percent, 50 percent lower than the current 1 percent industry standard. That was the same figure Bogle said he saw in the future for financial advice.

Although global wealth and the number of wealthy individuals continue to grow and the competition is fierce, even the upstarts do not expect to replace the old line multi-trillion dollar brokerage/asset management firms any time soon.

There will be room for multiple models; for clients who want algorithms and clients who want to talk to humans and clients who want to buy specialized products that will cost more than the Bogle bottom line, said Kane.

“My dad is a financial planner,” he added. “I don’t want to put my dad out of business.”

With reporting by Reuters Wealth Management teams in New York, Boston and Toronto. Editing by Andre Grenon
Summit Speakers

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U.S. Trust--Bank of America Private Wealth Management

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T Rowe Price

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CEO and Chairman  
Stifel Financial Corp

Jack Bogle  
Founder, Ex-CEO  
Vanguard Group Inc

Gregory Davis  
Head of Fixed Income  
Vanguard Group Inc

George Lewis  
Group Head, RBC Wealth Management and RBC Insurance  
Royal Bank of Canada

Tom Bradley  
President, Retail Distribution  
TD Ameritrade Holding

Manuela D’Onofrio  
Head of Global Investment Strategy  
Unicredit Group

Mark Mason  
CEO  
Citi Private Bank

Chip Castille  
Head of U.S. Retirement Group  
BlackRock

Joe Duran  
CEO and founding partner  
United Capital

Alvaro Morales  
CEO  
Santander Private Banking International

David Chong  
Chairman  
Portcullis Trustnet

Gregory Fleming  
President of Morgan Stanley Wealth and Investment Management  
Morgan Stanley

Tom Nally  
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Alexander Classen  
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Coutts and Co Ltd

Mike Kane  
CEO  
Hedgeable

Adam Nash  
CEO  
Wealthfront

John Clendening  
Executive Vice President and co-head, Retail Business

Richard Ketchum  
Chairman and CEO  
Financial Industry Regulatory Authority

Frank Porcelli  
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Todd Thomson
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Dynasty Financial Partners

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