JPM AT THE BANK OF AMERICA MERRILL LYNCH FUTURE OF FINANCIALS CONFERENCE

TRANSCRIPT

November 5, 2019

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Erika Najarian
Analyst, Bank of America Merrill Lynch

... Joining us on stage for a fireside chat is Mary Erdoes, CEO of JPMorgan's Asset and Wealth Management Division.

Although, the asset and wealth management industry is set for growth over the next few years, changes are also accelerating. Over the past several years, JPMorgan as a company has been at the forefront of adjusting for industry changes while delivering best-in-class shareholder returns, and we look forward to learning how AWM will navigate the future while continuing to deliver best-in-class performance and returns. Many thanks, Mary, for joining us today. Appreciate it.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

So happy to be here.

QUESTION AND ANSWER SECTION

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Good. So before I go into specific questions on strategies and opportunities, I wanted to start with asking you a question that has challenged everyone in this room and those listening in the webcast. So obviously, you're well-known for thinking about long-term strategy and you always discuss the importance of synergies of human capital and technology within AWM. In 2019, there's high correlation among disparate publicly traded assets. Five years from now, where do you see the future of active money management?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Oh, boy. That's a big heavy starting question. So, you asked a question about human and tech, and there's always these debates about the two. There's no debate in our firm. Everything is tech-enabled humans. Everything. And we work endlessly hard to make sure that everything that a human being is doing that a technology function can do, whether it's a bot, whether we apply AI on top of it, whether it's just basic optimization of human tasks, that we – the $11 (sic) [$11.5] billion that we spend on technology is used to constantly enhance that, so that the people can have higher and better use of their brains to be able to make – to have better decision-making.

And so, when you feed them with all the big data, you feed them with all of the technology, we think you get to better outcomes for the client. And so, the future of asset management is obviously – it's a culmination of all of that.

You pull together everything that we do from technology. So, you give a portfolio manager all that you can to make better decisions. So, all the data that they need to figure out – whether they're counting cars, whether they – you can get sentiment scores, now, if you track Glassdoor analyses and the like, and you feed it and you feed it, and you can't sort of overwhelm them. So you have to figure out how you synthesize it and feed it. And then, once you do, you still have the final decision maker, just like all of you in this room, who's got to make a decision: stock A versus stock B, or no stock at all in any sector. And the more we infuse, the better that is, the higher added value active management will be.

But, I think it's a broader discussion than just sort of what's active management. I think that the future of the asset management industry, as a whole, has to move away from thinking that all their job is, is to deliver a NAV. Like, our whole focus is to deliver a NAV, that's hopefully higher than the day before. It's got to be so much more than that in the world that we're living in. You have to figure out how you provide extra added value to the person buying the NAV. How do you provide them data to help them where they are in their journey? How do you help the holistic client? How do you help them think about information that they can use about the portfolio they have? How do you think about helping them customize everything, right?

So we think about robo-investing versus not – like, all of that is just the very nascent stages of the individual coming to you with a customized NAV, right, so that they can say, I like that strategy, but I don't ever want you to buy X, Y, and Z. ESG is in the early stages of that. All of that are just building blocks for what we need to get to, which is the end stage of the investor with the money giving the asset manager the ability to manage money, but in the way that the investor wants. So, I don't want stocks that start with the letter S. You just push a button, and the portfolio manager optimizes around stocks that don't start with the letter S; like, whatever it is.

And that – therefore, you get through all of this. You get through all of the desire to have customizable ESG portfolios. You get all the desire of having low vol, high vol, a little bit of stocks in this country, a lot of stocks in that country, a little bit of stocks in growth, a lot of stocks in value. And so, it's going to change the way we do everything in asset management because you're getting to a spot where you're connecting the portfolio manager with the end user as opposed to – the portfolio manager, right now, is generally managing a style box that someone else has put together. And I think the more we bring those two together, the more the asset management industry just grows and thrives even more than it will just from an organic standpoint of a regular sort of 6% AUM growth, as it is every year.

Erika Najarian **Q**
Analyst, Bank of America Merrill Lynch

So, we'll continue on with the heavy questions and heavy themes. A lot of strategists have tried to call the top of both the equity and the bond market very unsuccessfully. So, feedback from your clients, how are they thinking about investment allocation from here and, really, what concerns are you hearing from your clients?

Mary Callahan Erdoes **A**
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

Well, all of us are hearing concerns every day. I mean, who would have thought we would be up 22- plus percent in a year like this? And it certainly didn't – it wasn't a nice smooth path to get here and it's probably not going to be a nice smooth path to get anywhere else. I think the single hardest dilemma people have – we're not going to go off on a tangent about China and politics and elections and geopolitical issues and globalization, etcetera, etcetera, populism. We can have lots of time for that, not at this conference.

The issue is, with negative rates, it's almost impossible not to buy stocks. That's the problem. It's not about stock valuation versus stock valuation. Negative rates change the equation on everything. And you can't not buy the stock market. You – now, if you're very short term in nature and you think that there'll be some kind of normalization of where we've come to today versus where we should, on a regular trajectory be, fine; but we are all long-term investors. And so, when you're a long-term investor and you look at the trends of what we have, we've never before had 22% of all government bonds in the world be in negative territory. It's just like inconceivable.

So the world is going to catch up to all of you, which is to think in the real return space, as opposed to the nominal – the rest of the world doesn't think in real return space. The rest of the world thinks in nominal return space. They're going to have to start to think in real return space. And when you start to think in real return space, you're going to quickly continue to allocate assets to the equity markets.

And so, then, when you go to the equity markets, you say, okay where?

Erika Najarian **Q**
Analyst, Bank of America Merrill Lynch

Yeah.

Mary Callahan Erdoes **A**
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

And the where is very difficult. We just came out with the J.P. Morgan Long-Term Capital Markets Assumptions and it will tell you that the US – if you're thinking in the 5% to 6% range, like you should get excited about that.

Erika Najarian **Q**
Analyst, Bank of America Merrill Lynch

Yeah.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

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That doesn't mean you can't find stocks that do better than that, but just the market itself in that range. So like, oh okay, that's fine. But if you are really seeking greater alpha, you're going to have to take much greater risk. You're going to have to think about countries like India and China. You're going to have to think about alternative markets. You're going to have to think about less liquid markets. All of that. But if the world resets itself to think about real rates, you will constantly gravitate towards the developed equity markets and you will be very happy with it.

Erika Najarian
Analyst, Bank of America Merrill Lynch

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So, you have a great – oh, go ahead.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

And you asked top or bottom, there's no reason that a bull market dies of old age. It's not a thing. The thing is that it either overshoots in one direction and undershoots in another and you go through these gyrations in life. The way that the world is working with quantitative easing and globalization and the money movements of people taking money from one country to another and quickly reallocating or taking resources – human capital resources and manufacturing in one country and quickly manufacturing in another is going to smooth that effect. It doesn't mean you won't have lots of corrections and it doesn't mean you won't have recessions, but there is a path where you might have much more mild recessions and you won't have to have as deep of corrections.

And so, our job as long-term money managers is not to always be focused on that; it's to focus on where am I going in the very long-term and how do I keep my clients through that path. Because the single hardest thing we all do in life is keep our clients invested. It's the single hardest thing we do. The most dangerous thing is when the clients take the money off the sidelines, and then you just trying to get them back in. First of all, every decision is an emotionally generally wrong decision.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So, I wanted to dive into something that you started to allude to during your response. You sit in a great seat, right? JPMorgan is one of the best respected and biggest companies around the globe. As you think about the trends that you see from your seat and -- distill that into investment themes within AWM. How should we think about the – what are the big investment themes as we think about the world in the 2020s?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

It's all about technology. It's technology; it's human capital optimization. It's e-everything. And how does e-everything – so, let's just talk about banks for one second, since we're at a financial conference.

Every financial institution has to stop thinking about what they do inside, and then what the clients buy from the outside. They have to erase that and they have to think about what is the interface that I do every day that the client can then see on that same other side; and how can I make it so that it's just a mirror image? And so, whether it's how I lend money, whether it's how I invest money, whether it's how I help them to think about the path that they're on, their overall balance sheet, insurance products and the like, how do we both drive the car at the same time?

And so, you have to basically digitize everything you do on the inside to make it digestible for the person on the outside. And the client – and the companies that do that the fastest and are completely dedicated to changing everything that's sort of like, oh this is a proprietary way that I do something inside of this firm and I can't really show you, the client, I'll just show you the end product, they're going to – they're not going to be an end game winner. Because the clients want the transparency of how things work and they would be willing to pay for the services you give them on top of that, but they need to break down the commodity-like things so that you can just interface on a commodity basis from a digital perspective, and then all the added value is the stuff that comes on top.

So, when you think about everything that we do inside of our company, it's not like squeezing out costs. It's more like optimizing the human brain, right? We need the rote things to be done by a computer and we – and so, we are constantly trying to figure out: how do we take a bot and watch what you do; and then, how do we turn that into sort of bigger learning; and then, how do we apply AI on top of that so we can make better, smarter, faster decisions?

I just got back from India last week where we had our International Council, and then we spent the week where we're going through – where we have about 35,000 people down in India doing things for us. India, for us as a company, used to be a place where you outsourced the more rote functions; like, I do something and it takes me an hour. If I could do it with lower cost of capital – human capital, I can do it in another place. They'll just do the same thing; it'll cost them less. It's like not that at all. It's 100% like a high-tech center.

So, you give them a task, they optimize it through technology and they take something that takes 30 minutes and they make it three minutes or 30 seconds on a computer. And so, their whole job is to be the technology optimization unit, even if it's an operations function. Right? And so, the more companies do that – and by the way, scale helps you.

So, I sit in asset management and I feel sorry for people that run asset management companies that don't benefit from the great scale that our asset management company does being inside of JPMorgan Chase, because I have no idea how I could get the faster learnings. When I sit in India, all of the tech teams are together. So, all the people that are optimizing the trading systems for the investment bank are the same people that I go over and I say, now, how do I optimize my trading systems for our external facing trading operations for asset management? So, everything benefits from scale and everything has a much faster self-learning; plus, just the attraction of talent.

So, imagine if you're going to choose to go to a company, I want to go to a company that has multiple companies inside of it because I can cross-train. I can learn. I can move around. I can have a very long-term career. And so, you see that the turnover of the people that we're able to – or the caliber of the people we're able to attract is very high, and then the turnover subsequently then reduces. And so, it's – yeah, it's all about the technological advances that you make, and then it's also the protection. We haven't talked about cyber, but it's the constant protection of how you protect your company from the greatest threat we all have, any company, not just financial services, is the attack on the internal systems of your company and taking it down for a minute, a day, a month, whatever. And so, a constant reinvestment in that is probably the most important thing.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

I wanted to switch gears and dive a little bit more about strategy. So on one hand, very impressive stat, 83% of mutual fund assets at J.P. Morgan have outperformed over the past 10 years. On the other hand, in the latter half of those 10 years, the demand for passive investing and ETFs have skyrocketed. So you started building your Beta business two years ago. Remind us of the progress of your ETF business and where do you see that going over the next few years?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

So, we have a very, very strong solid saying inside of J.P. Morgan Asset Management, which isn't for everybody. It's not for every asset management firm. Our goal is to be the best asset manager, not the biggest. You can definitely reverse that and, overnight, you could become the biggest asset manager. That's just about price, but you won't necessarily be the best. If you reverse it and you say you want to be the best, you may someday be the biggest. But if it's not your number one goal, and being the best is, you have a much higher likelihood, in my opinion, to succeed in the future.

So, when I talk about the fact that, in JPMorgan Chase at large, it's all about human capital, it's ever more so with inside Asset Management. Everyone I hire, I want to be creating smarter beta, not just basic beta, or alpha. Right? Or all sorts of other things that come around that patina of what we're going to try and put together that becomes more than just a NAV, right? And so, it's the big data; it's the making clients smarter. It's making decisions smarter. So, when you go through how do you think about alpha and beta, we don't think about it that way anymore. We think about it as solutions. And so, everything that we – I mean yes, of course, we have a large cap growth portfolio that outperforms and has a fabulous track record. Those are very important sleeves, but much more importantly is the client that I met with this morning that comes to us and say, I need you to solve for X% return with Y% volatility, help me across the spectrum of public assets. Plus, if – I'll give you a sleeve of illiquid assets. How do you construct that? How do you put that together?

Nobody cares about whether it's alpha or beta. You care about optimizing the whole. And so, people have to move away from that conversation. And you can buy commodity-like things, right, which is beta. And then, you only should seek alpha where you think you have a competitive advantage. So, that's how we think about creating the two.

Our Beta business continues to grow quite nicely, mostly, because it's within the world of how we think about the solutions and we're putting it inside of different portfolios. So, we've had very strong growth there, and we continue to have flows – positive flows in almost every single asset class that we've had this year. And that feels really good, but it's not – it's because we piece it all together from a solutions perspective.

And so, I think that's the future of asset management. I don't think people – I think clients should get exposure where they think that they have added value, but I think, probably, the most important thing for those of you in the room covering asset management firms, not just broader financial services, you have to have an honest group of people at the top of these asset management firms not hanging on to the last drop of assets in a strategy that's not going to outperform for the long-term. You have to have the courage and the conviction that it's okay to shut down a strategy that isn't going to deliver the alpha – extra added alpha net of fees that you promised in the past.

That doesn't mean you won't have periods of time where you won't be able to outperform, because markets zig and sometimes your portfolio managers zag and you have to know the difference – your investment committee has to know the difference of whether it's the markets going offsides or whether it's the portfolio managers sort of losing their way. And we've had many pockets of that. I use large cap growth as always the most extreme example, which is like – you love to hate it when it's underperforming. And then, when it's outperforming by 1,500 basis points, you love it. You have to know the difference between how it got there. There's also alpha that can be too good to be true.

So we shut down several hundred strategies over the past couple of years, because you have to say to yourself, this is not the right thing for the client over the long-term. And by the way, clients don't let you shut down these strategies sometimes. They say no, no, no, I like the way it is thank you, but no. We're going to either merge it with something else, or you're going to take this money back. You're welcome to give it back to us somewhere else. But it's oddly one of the most difficult things you will do, as an asset manager, is to give the money back.

Erika Najarian
Analyst, Bank of America Merrill Lynch

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So you often get asked about the potential cannibalization between active management and the Beta solutions. And it seems that, based on your response, J.P. Morgan really thinks about it from an umbrella perspective and – am I putting words in your mouth into thinking you really have to think about what the client's strategy is and you're really agnostic as to...

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

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Absolutely.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

... how you get there.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Absolutely. Otherwise, you'll just have food fights with inside of your company as to how you – what's your philosophy on how you make things. The answer is always, what are we trying to solve for for the client, and then what component pieces are we going to put together, to be able to do that? So it's like any manufacturing company. It wouldn't say you only want high added-value parts if like the thing that you need to make is very basic and could be cheaper, more effective, more efficient if you just put basic commodity-like parts in it. And that's the asset manager of the future.

Erika Najarian
Analyst, Bank of America Merrill Lynch

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So I'm actually going to broaden this question relative to the way this is written on my sheet. The race to zero pricing, I'm going to leave it there and ask you to comment on that, generally, for your business because, again, you have You Invest. You have the Beta business.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes. Yes. We could all super fast-forward and just put everything at zero really quickly, just for a second, right? Let's put all asset management products at zero. Okay? And that's fine and, if you have sec lending, you'll make a little bit on the side. So you'll maybe – if you have enough scale, you could maybe cover your costs.

What will happen? Well, you won't attract the people in this room, or the people that – in the portfolio manager landscape or the research analysts who you want to work for you, because you're trying to pay them extra added value for their brain, okay? So that – first thing will happen is you won't be able to keep the talent that you have. And the second thing that you – that will, therefore, happen is that you will never add any value over whatever basic commodity-like index exposure you can get. Okay?

So then, clients will say, fine. I'm so excited I get this for free. And five minutes later, they're going to say, but I want more. I want something that does better than my friend who buys the commodities next to me. So can I find someone who's smarter than that? And they'll go start a new asset management company that hires really great smart people who can add value over that.

And so, of course, fees are always under hugely competitive pressure. I just – the clients will always pay for the value that they get, always, over the course of time. That doesn't mean you should charge excess fees when you can't. And that's where, again, it comes down to an investment committee needs to be hyper, hyper focused on what is the added value after fees that I am going to deliver to the client, because that's my fiduciary obligation to make sure that I'm doing the right thing for the client.

When you get into much lower scale, early investor affluent things – I'm going to just shift, because it's a little bit different than a big, active asset management how do you add value. I think it's probably the greatest thing that's going to happen to our society, is to be able to get somebody to invest their first dollar at a very almost free cost, either by buying a stock for free or by buying a mutual fund for free. And by the way, fractional shares – everything makes it – you used to be able to only get mutual funds long ago, like, $10,000 minimums. Then they were $5,000. Then they were $2,500. Now, they're – like, it should be a dollar. You can buy a mutual fund for a dollar. You can buy a stock for a dollar. You can buy a basket of stocks for a dollar, you just get fractional shares.

You should be able to gift shares to somebody so that, instead of giving those stupid $100 gift cards that you give to everyone, how about we start giving our kids gift cards of shares, that then plugs them right into an app that they start to watch the way – the world of investing, because we all know that the greatest problem we have, particularly in this country, is the retirement crisis. And we know the way to solve it is to get people to invest early and be savvy about it. And the only way to do that is to get them to be able to do it with much smaller sums of money and access to markets that are interesting to them. So, it will be very interesting to them if you can make it a gamification kind of way, if you can put it on an app, if you can do that.

So that's our quest, as we think about things like You Invest, is it's a much different goal. The goal is to get every investor to at least just start with $1, $10, $100. If I can get you to start at the age of 21 with your – when you come out of college, or 18 with your first job or whatever it is. I know you have such a higher likelihood of having a successful retirement in the future because you will have learned the discipline of investing early and often, and creating streaks of investment and incenting them to keep at it in good times and in bad, and learning what savings is and not trying to discover that at age of 45 when they're thinking, oh gosh, now I need to save my money for retirement, which is generally what happens in the United States of America.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So Alex and Johnny, if you're in the webcast, you're getting shares, not skis for Christmas. Just taking a step back, again, you're well-known for private banking and, clearly, a lot of marketing involved in You Invest. What about the top end of mass affluent and high net worth within Chase Wealth Management? What are your plans in terms of expansion here, and how big do you want to be in this category?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

So, we provide the investments for everybody in the branches of Chase Wealth Management – sorry, of Chase through something that we call Chase Wealth Management and it is – been much greater success than any of us inside of J.P. Morgan could ever have imagined. Because there has been a constant rhetoric, a little bit like, you know, beta – there's never going to be and no one's going to pay for alpha anymore. Well, there's also in all these firms that you follow, no one's ever going to walk into a branch anymore. False. Both of those are false. People walk into branches. People need help. People need to think about – help me. I need to borrow money, or I have money and I need to invest money. And sure, there are computers that can help me to do that and apps that can do that, but sometimes I just want to talk to a really smart person to just give me the gamut. And that's what Chase Wealth Management has been, which is right in our branches.

We – people walk in and they say, I have a lot of money and I need some help; or, I have a little bit of money, but I'm going to get a lot of money and I want to start now and I want – and so, we have thousands of people across the country that are trained by the Global Wealth Management business. They are on the Global Wealth Management morning meeting every morning, learning about all of the optimization that we're doing, long-term capital markets assumptions, something new that's coming out in the market. They learn all about the private side markets, hedge funds, private equity, even though very few of those are ever appropriate for their client base.

But they understand the full gamut, so their – the education is very, very wide and deep. And then, we deliver to them portfolios that are very easy to implement and get them on their path to investing. So, it's a – it's the phase in between the lower end that we were talking about there, up into the high end. And to work across that continuum has been a journey over the past 10 years that continues to be just incredibly successful, every minute new assets come in.

And we have 60 million households across the United States of America, and our job is to figure out how to help them invest well, borrow well, and have a secure financial future. And they're going to take many permutations of that over their life, and that's what we think a local branch does. You can do it from remote advice. You can do it from an upstairs office. It doesn't make any difference to us. As JPMorgan Chase, we want to be there for you in every step of your life cycle.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Would you ever consider inorganically growing your staffing in that business?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes. Well, we consider inorganically growing everything at JPMorgan Chase. You should just assume at every moment in time, we have SWAT teams of people looking at everything out there. It would be irresponsible for a firm like us not to be looking at everything at all times. It doesn't mean that we buy anything, but you have to know what's out there and there is a price for everything. And I'll just leave it at that.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So, what about ultra-high net worth internationally? Will – your organic strategy here, and also, same question, would you consider inorganic opportunities internationally in ultra-high net worth?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes. So, JPMorgan Chase has all of our lines of business here in the United States, but it's really a wholesale business internationally. And internationally, we carefully and cautiously follow our clients around the world where they are, 107 different countries.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Yes.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

But not all of them are countries that we would bank the ultra-high net worth clientele, or we would do it remotely from a city like London or Hong Kong or somewhere like that. The growth in that area has been nice and steady, but if you really want to have wholesale moves, you would think about an inorganic strategy; and again, that has to come at the right price.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So, you mentioned that you won't necessarily bank in every single country where you follow your client. From a geographic standpoint, where in the world would your best opportunities be for continued expansion? And I wanted to ask you, specifically, about your businesses in China and the partnership with CIFM and how that's evolving?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes. So, I think that opportunities internationally are endless. I mean, I would even say, if you think about the areas where you think that they're maybe saturated and the growth isn't as high and – like somewhere like Europe, we're having phenomenal growth. Why? Because sometimes there's an unlevel playing field of things that are happening in a particular region and you're there to be the steady ship that continues to gather assets from clients that want to have a firm that they know is going to be there.

When you're talking about super large corporations that we bank in the investment bank, or super wealthy individuals, you're not thinking about hiring a firm that's going to be there for the next three, five years. Your mind shifts to what firm am I going to invest my own time in, as the matriarch or the patriarch of these assets, that's going to be there in 30 years or 50 years or 150 years, because that wealth is going for a long period of time, despite how much people might try and spend it. There's a lot of it.

And so, when people make those decisions, it narrows the field down into the number of firms that they could choose that really are going to be there for 30, 50, 150 years. And so, we are the endgame winner of that decision making.

But the growth opportunities everywhere, Latin America, Europe – but I would say Asia is the highest growth opportunity. The number of opportunities for people to continue to generate wealth is endless. The work that we're doing in China – we serve wealthy individuals from an offshore basis in China, but onshore in China we have an asset management joint venture, which as you know, the rules have changed and have now allowed for up to 100% ownership. So we really treasure that relationship we have. We also think – by the way, just as an aside, I know we're talking about wealth management, but we have a whole bunch of really smart equity investors.

I think anyone that is not – have access to what is happening on the ground in China is doing a disservice to whatever stock they're picking in another country. I just – I think it's almost irresponsible to not have on the ground research access capabilities. You all should be visiting yourselves. You just talked about getting back from Dalian and understanding – not the fancy visit to Beijing...

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Yes.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

...and Shanghai, but what actually is happening in China is going to shape everything that you invest in around this world. And so, if nothing else, if we were only a on the ground 100%-owned research house in China, that would be endlessly valuable for the rest of the franchise. But you have to own it, so that those component pieces can – piece A in China can talk to piece B in Tokyo, and in Hong Kong and in London and in New York, so that all the people who are doing research can share those learnings and insights, and then take them – as opposed to when you're not part of the same team, you won't absorb them and take them. And it has to be a seamless network of people.

And I think that when you're analyzing companies, knowing who has access to information on the ground inside in China will be the companies you should favor versus the ones that don't.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So going back to what you were saying as one of the – the investment theme in the world in the 2020s, technology, and applying that to AWM, how should we think about how your tech budget is split today in terms of what Jamie would call table stakes versus innovating ahead of peers? And over the next few years, what are the top technological priorities within AWM?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes. So we call it run the bank versus investment spend. And if it was possible to get run the bank down to nothing, we would still spend every single one of those same dollars on investment spend. So ours is not a constraint of dollars. We think that the dollars invested in technology inside of JPMorgan Chase are the most valuable dollars that we have. Ours is a, how much can the system handle? How many new things can you be putting into the processes and procedures of the firm?

So, the faster we do that and the faster we innovate, the better that is, but there's only so much you can get accomplished in any one year. So, the most – by the way, the most important thing inside of our firm, and if you've ever heard Jamie talk about it, like the budgeting for technology is like a sign-off-in-blood process. You have to – at the end of the year, the entire – each operating committee – and then, of course, the operating committee of the firm signs off that they have not reduced any technology spend that would help make the firm better, like you didn't cut tech so that you could spend more on something else over on the side. Technology is the Holy Grail. It's everything that we do, and then everything else comes around that. So, everything we do is centered around there.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So, in that vein, when do you expect the cost curve to flatten a bit within AWM, such that the benefits from previous investments begin to help fully fund some of those incremental spend on the investment side and start supporting pre-tax margin improvement?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yeah. If we ran Asset & Wealth Management for just pre-tax margin, we just would do that today. But I'm – have a great officiary from being part of this wonderfully successful massive financial institution, and so the last thing that this wonderfully successful massive financial institution wants me to do is optimize for the margin. They want it to grow. And so, every day, we make the decision how much can we invest, where can we invest, obviously with a responsibility to the shareholders, but not margin for the sake of margin.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Yeah.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

It's for the sake of growth. And in our business, it's responsible growth, right, because I could tomorrow hire 100 portfolio managers. I could hire 2,000 financial advisors, asset management side, wealth management side. But I have to be incredibly careful that each one of those portfolio managers is going to be added-value to what we do and the brand and who we are and the ecosystem of how we manage money. And the same thing from the financial advisors, I could certainly go hire 1,000 financial advisors, but what would I get? Well, it's really hard to find 1,000 people that have J.P. Morgan first-class business in a first-class way, everything about them, the way that our people – so each and every human being that we hire is hand-picked, hand-trained, long time period before we let them out.

And so, ours is a very curated, highly optimized thing, which is why we think long and hard about each and every hire. We think long and hard about each and every team that we hire. And then, we think long and hard about any inorganic strategies that you asked about, and it would have to be the right fit from a culture standpoint, because the single most important thing for JPMorgan Chase to succeed in the future is to keep the culture that we have.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

So, to wrap everything up that we talked about before we turn it over to the audience, let's sort of conclude on what those catalysts are, if fee pressure is persisting in the industry, for AWM to deliver 25%-plus ROE?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

AWM will deliver very strong margins and ROE, without a doubt, if it continues to deliver strong investment performance. At the beginning and the end of every day, that's all we do, is deliver strong investment performance; doesn't matter how we get it, strong investment performance, net of fees, with very high service and added value around the client and that high service and added value around the whole client. Right? Their lending side, their investing side, their entire solutions side if they're a sovereign wealth fund. Irrespective of what they do with us, we're trying to solve for their entire sets of problems, helping them to have thought leadership within everything that they do and be strategic partners with us; we'll be an endgame winner.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Great. I'd like to turn it over to the audience for any questions you may have for Mary. Anyone in the audience? There's one. Let's take this one first.

Unidentified Participant

Q

Hi, Mary. Thanks for coming for today. You mentioned that volume trading costs and fractionalization will likely spur people to invest sooner...

Mary Callahan Erdoes

Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes.

Unidentified Participant

Q

...younger in life. Some industry participants have cited those trends as actually maybe driving toward something called Index 2.0, where you'd be mass customizing, perhaps for tax loss harvesting, and other technologies; and perhaps, even replacing the ETF wrapper entirely.

Mary Callahan Erdoes

Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes.

Unidentified Participant

Q

What do you make of that argument that technology – and how's that driving your vision for J.P. Morgan, your business?

Mary Callahan Erdoes

Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Yes. Great question. So again, I use the word – I like to use the generic word customized indices management, right, which is the same thing. So if I could just plug-in my age, my name, my risk profile, the taxes that I have outside my life, what I think is going to happen between now and the end of the year, how much money I'm going to give, the kind of stocks that I like, the kind of stocks that I don't like, the kind of products I like, the kind of products I don't like, the countries I like, the countries I don't like, give me a band, do it all, and it was all on a master dashboard and you could just, poof, make a portfolio and it was just for me, we will be there. The industry will be there faster than you think. It's not going to happen tomorrow, but it will be.

And so, yes, ETFs are a step toward – that was a great way to have a tax-optimized wrapper and not have to import somebody else's taxes that they had from investing 10 years ago in a mutual fund. And so, I always say there's not going to be a mutual fund in the future. There's going to be nontransparent ETFs. And then, after – meaning that you can't see the alpha that's being manufactured. And then, after nontransparent ETFs, those will go away and everything will just be customizable.

So, yes, that's – but that's out there because first we need to get to the first step, which is nontransparent ETFs for everybody. So, everything is in that form, because why would you put something – someone's going to wake up some day and say, do you remember those old fogey people that used to trade at 4:00 every day? They only traded at 4:00 every day. You could only buy something and sell something at 4:00 every day. Isn't that weird? That's what they're going to say about all of us that managed mutual funds.

Erika Najarian

Analyst, Bank of America Merrill Lynch

Q

We had one question in the middle. Right over there.

Unidentified Participant

Q

Thank you, Mary, for joining us. Times are good, returns are good. What are you doing now to prepare your clients, at least somewhat mentally, for the next recession, decline in values, whether it's mild recession or more of a standard recession?

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

It's a great question. Remember when I said it's really hard to give money back on a strategy that you're managing that you may – until you tell the client, we're going to retire this strategy, and they're sort of angry with you. It is just as hard to tell a client to take money off the table.

And so, a lot of the conversations that we have – and so, the hardest thing is to keep clients invested, right, because they want to be invested when they look and their neighbor has 20-plus percent returns and they want to make sure that they have those. But the hardest thing is to say, I want you to take the profits off the top. That part is not so hard. I want you to take the – so, you put $100 in, it's now worth $110. Let's take the $10 off. You made the $10 – now, where do you put it? The second part is the hardest. Would you like me to put it in negative yielding bonds? Would you like to put it in cash that doesn't earn anything? Would you like to put it in another stock market around the world that might feel scarier to you or you're not as familiar?

So, it's the where you put the money next that's the hardest decision. But we have to have people understand, you have to have a safety net of money for when things go wrong and it can't be illiquid. So you see a great sums of money, not in the affluent and mass affluent sectors, but in the higher end sectors all the way up to the sophisticated institutional where everything they can gobble up in the illiquid alternative space is what they're buying. And for many of them, that's a very, very good strategy because they don't need the money and they shouldn't be paying for liquidity every day. They should not be having their stakeholder's money in things that are daily liquid, because that's a waste of their money.

But, the figuring out where you are in that journey of how much liquidity you do need is one that I don't think people have stress-tested enough. And that would be the stress test that I think everybody should go through, particularly as we're headed into the end of this year, because next year is for sure a volatile year.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Great. So, we'll end there. Thank you, Mary for your time. We appreciate it.

Mary Callahan Erdoes
Chief Executive Officer-Asset & Wealth Management, JPMorgan Chase & Co.

A

Well, thanks to Bank of America for having us. I think this is a fabulous conference that you do, and you're a terrific competitor to us as a firm.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Great. Thanks.