Bank Earnings Worry Investors (Wall Street Journal) -- April 13, 2012 -- By DAN FITZPATRICK

Two of the nation's largest banks released first-quarter results on Friday that disappointed investors, underlining the industry's struggles with a sluggish economic recovery and the long hangover from the financial crisis.

JPMorgan Chase & Co.	**Sparring Partners** Sizing up two large U.S. banks	Wells Fargo
$2.32 trillion	ASSETS	$1.33 trillion
$1.13 trillion	DEPOSITS	$888 billion
$5.4 billion	1ST QTR EARNINGS	$4.2 billion
$721 billion	LOANS	$766 billion
$171.2 billion	MARKET CAP	$182.3 billion
$27.4 billion	1ST QTR REVENUE	$21.6 billion
261,453	EMPLOYEES	264,900
5,541	BRANCHES	6,200
10.4%	TIER 1 COMMON CAPITAL*	9.95%

*High-quality capital as a share of risk-weighted assets, a measure favored by federal banking regulators

Source: the companies

The Wall Street Journal

J.P. Morgan Chase & Co. and Wells Fargo & Co., two of the strongest banks in the U.S., faced a barrage of questions from analysts over their problems containing expenses, which increased largely because of legal problems stemming from the housing bust. Although earnings at both banks exceeded Wall Street estimates, that was largely because both are scaling back the amount of money they have set aside to cover future losses.

Shares of both companies fell along with the rest of the financial sector Friday as investors worried that a market shock or economic downturn could derail the banking-sector recovery. The Dow Jones Industrial Average fell 1.1%, in part due to broader global concerns: China's economy expanded last quarter at its slowest pace in three years, and rising bond yields in Spain intensified concerns about Europe's sovereign-debt crisis.

New York-based J.P. Morgan posted a $5.4 billion quarterly profit, down from $5.6 billion in the year-earlier quarter. Revenue rose 6%, to $27.4 billion, but noninterest expenses rose more than twice as

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Mr. Dimon called the controversy "a complete tempest in a teapot." Chief Financial Officer Doug Braunstein said the bank unit in question invests in a way that hedges, or protects, other positions on J.P. Morgan's balance sheet.

J.P. Morgan and Wells Fargo have emerged as two of the sturdiest large U.S. banks in the aftermath of the 2008 financial crisis. Both largely sidestepped problems that bedeviled the rest of the industry and were able to scoop up weakened rivals.

J.P. Morgan remains No. 1 in the nation based on assets, an important measurement in the banking industry. It is far larger than Wells Fargo outside the U.S. and in the investment-related businesses that give it clout on Wall Street.

Since September, however, Wells Fargo has eclipsed J.P. Morgan as the country's largest bank by stock-market valuation, an important yardstick for investors. It has more U.S. branches and employees, and it is alone among the six biggest U.S. financial firms in trading above its per-share book value, a measure of net worth based on the difference between reported assets and liabilities.

Shares of Wells are up 20% this year and fetch 29% above the company's reported March 31 book value. By contrast, even after a 32% rally this year, J.P. Morgan trades 9% below its reported net worth. The discounts at other large financial firms are considerably steeper.

Wells Fargo's quarterly profit rose 13%, helped by better-than-expected revenue growth with help from strong mortgage banking. David Benoit reports on Markets Hub. Photo: Reuters.

Wells Fargo decided this year to move up the release of its first-quarter results so it would share the first day of earnings season with J.P. Morgan. The opportunity to set a tone for the rest of the industry traditionally has been exclusive territory for J.P. Morgan and Mr. Dimon.

"There is an element of us wanting to tell our story without having a lot of the other banks report first," Wells Fargo Chief Financial Officer Timothy Sloan said Friday in an interview.

fast, jumping 15%. In addition, the bank added $2.5 billion to a reserve for litigation largely tied to mortgage woes.

At San Francisco-based Wells Fargo, net income rose 13% from a year ago to $4.2 billion, as revenue increased 6%, to $21.6 billion, outpacing a 2% rise in costs.

J.P. Morgan profit fell 3.1%, beating estimates, but revenue rose. The bank raised its dividend and unveiled a $15 billion stock buyback. David Benoit reports on Markets Hub. Photo: Reuters.

Shares of J.P. Morgan dropped $1.64, or 3.7%, to $43.20, and Wells Fargo fell $1.18, or 3.5%, to $32.84. The results sent shares of other big banks tumbling. Another season of lackluster earnings could spook investors who have piled back into banks in recent months. The KBW index of commercial-bank stocks is up 20% this year.

J.P. Morgan Chief Executive James Dimon said Friday that the economy "looks OK," even though "we all wish it were a little stronger. Whether we have a strengthening recovery, we don't know yet."

J.P. Morgan and Wells Fargo both offered assurances that the housing market is reaching a turning point. Wells Fargo originated $129 billion of mortgages in the first quarter, up from $84 billion a year earlier, and its mortgage applications were up 20%.

J.P. Morgan's mortgage unit swung to a $461 million profit from a year-earlier loss of $1.1 billion. "Housing is getting very close to the bottom," Mr. Dimon said.

But signs were mixed on whether lending is turning around. J.P. Morgan cited increases in loans to large and small businesses, but Wells Fargo said its core loans climbed by just 0.1%.

J.P. Morgan's quarterly profit got a $1.8 billion boost because the bank reduced the amount it sets aside for future losses—the kind of earnings lift that doesn't reflect growth of its core business.

Paul Miller, a banking analyst for FBR Capital Markets, said it was good that both banks notched profits. "But was it a good quality number?" he asked. "Mortgage banking and capital markets tend to be lesser quality earnings as compared to loan-portfolio earnings."

In conference calls with analysts and reporters, J.P. Morgan executives addressed recent controversy over derivatives trading in London by a trader who works for the bank's chief investment office. The Wall Street Journal reported this month that the trader, Bruno Iksil, amassed a large position in credit-default swaps tied to corporate bonds. His purchases were so large they roiled markets.

Still, J.P. Morgan made sure that it had the first say Friday. It moved up its conference call with reporters so that it ended before Wells Fargo put out its earnings release at 8 a.m.