THE WALL STREET JOURNAL.

http://www.wsj.com/articles/american-express-checks-its-balance-ahead-of-the-tape-1421783247

AHEAD OF THE TAPE

American Express Checks Its Balance

Credit-Card Company Must Walk Fine Line to Satisfy Investors

Shares of American Express, led by Kenneth Chenault, have trailed those of its three main card-processing competitors over the past one, three and five years. *BLOOMBERG NEWS*

By **SPENCER JAKAB**

Jan. 20, 2015 2:47 p.m. ET

It turns out you *can* leave home without it.

American Express Co. has long claimed a somewhat rarefied spot in customer's wallets compared with other payment methods, but it hasn't earned a premium position in investors' portfolios. Over the last one, three and five years, its stock has lagged behind its three main card-processing competitors. Not the biggest in terms of customers— Visa Inc. and MasterCard Inc. are far larger—AmEx has clung to a possibly outdated reputation as being the best.

Lately, AmEx has been forced to tread a fine line between the lengths it goes to in serving customers and shareholders' demand for improved returns. In testimony last July at a civil antitrust lawsuit, chief Kenneth Chenault made some telling comments about AmEx's competitive position against larger rivals: "I can cut a lot of expenses and we can look pretty good for a year or two, but then our business goes away."

MORE

- 5 Things to Watch in American Express Earnings (http://blogs.wsj.com/briefly/2015/01/20/5-things-to-watch-in-american-express-earnings/)

Wednesday's fourth-quarter results should show good progress on the cost front as well as the benefit of a strong U.S. holiday shopping season. Analysts polled by FactSet estimate that AmEx earned $1.38 a share, up from $1.21 a year earlier. Costs have been essentially flat over the past two years.

AmEx's main profit center remains the U.S. where it had slightly fewer than half its cards in 2013. It generated $12 billion of its $18.7 billion in so-called discount revenue received from merchants at home. Even there, though, it recently was forced to share the top spot in terms of customer perception with smaller issuer Discover Financial Services , according to J.D. Power. Meanwhile, its profitability as measured by average return on invested capital lags behind peers.

In many ways this is a great time to be a card issuer. The Nilson Report estimates that between 2013 and 2018, use of cash and checks in the U.S. will drop by 34% and 46%, respectively, while credit card and electronic payments will rise by 65% and 61%.

AmEx's technology initiatives such as an early embrace of Apple Inc. 's smartphone payment system are designed to give it a big share of that growth. But convenience and quality don't come cheap—and still may not trump ubiquity.

Write to Spencer Jakab at spencer.jakab@wsj.com