

Wise: A Howard Marks-Style Risk Analysis

As Howard Marks often emphasizes, “*true risk is the permanent loss of capital*” – not short-term price volatility ¹. With that lens, let’s dissect **Wise plc** solely in terms of where this investment could go wrong. Below, we examine risks across macroeconomic, industry, company-specific, and behavioral dimensions, employing second-level thinking to stress-test the consensus view. The goal is an unsentimental audit of downside scenarios – *ignoring any upside potential* – to answer the key question: “**Where and how could this investment go wrong?**”

1. Mapping the Risk Landscape

Macro & Economic Risks:

- **Interest Rate Reversal:** Wise benefitted from rising interest rates, which boosted its interest income in recent periods ². If global rates decline (a high-probability scenario over a multi-year horizon), Wise’s interest-related revenue could shrink. *Probability:* High (rate cycles inevitably turn); *Severity:* Moderate – a significant earnings headwind that could slow growth and dent profits.
- **Global Recession or Slowdown:** As a facilitator of cross-border transactions, Wise’s volumes could falter if global trade, migration, or remittances slow. A broad downturn (moderate probability) would mean fewer transactions and smaller payment sizes, hurting revenue. *Severity:* Moderate-High – lower volume directly reduces fee income, and a recession would likely compress valuation multiples further, risking a permanent capital impairment.
- **Currency & Geopolitical Risk:** Wise operates in 160+ countries; capital controls, sanctions, or extreme FX volatility could impede transfers in certain corridors. While the probability of any one country’s crackdown is low, the severity could be high if Wise suddenly loses access to a major market or must absorb losses (e.g. frozen funds) due to geopolitical events.
- **Regulatory Changes:** On a macro scale, governments and central banks are working on faster, cheaper payment rails (e.g. instant payment networks, CBDCs). If regulators implement systems that mimic Wise’s low-cost transfers as public infrastructure, Wise’s value proposition could erode. *Probability:* Low in the near term (such projects are slow ³); *Severity:* High in the long run – a “**paradigm shift**” in payment technology could render Wise’s service less essential ⁴, risking permanent loss if Wise fails to adapt.

Industry & Competitive Risks:

- **Intense Competition & Fee Compression:** Wise faces a host of competitors – from traditional banks and money transmitters to fintech rivals like Remitly, PayPal/Xoom, Revolut, and others ⁵ ⁶. The industry trend is toward lower fees and transparency, *Wise’s core advantage*. If competitors (especially deep-pocketed ones) engage in a “**race to zero**” on fees, Wise could be forced to further cut its take-rate. For instance, some neobanks already “*subsidiarize*” or bundle free cross-border transfers to attract users ⁷. *Probability:* Moderate (price competition is ongoing); *Severity:* High – a scenario where money transfers become a near-zero-margin commodity would severely squeeze Wise’s profits or market share, impairing its long-term earnings power.
- **Subsidized or Big-Tech Entry:** A large player could decide to treat international transfers as a loss-leader. Revolut, for example, includes cross-border transfers “free” within subscription bundles ⁷. Tech giants or payment networks might someday enter – e.g. **Visa/Mastercard exploring cross-border payments** ⁸ – leveraging their scale to match Wise’s low fees. Although not a high probability in the immediate term, such entrants could steal share or force Wise to match unprofitable pricing. *Severity:* Moderate-High – even a temporary price war or the *threat* of one can destroy shareholder value in this

sector.

- **Alternative Technologies (Stablecoins/Crypto):** The rise of cryptocurrency **stablecoins** offers a new cross-border transfer method. In theory, a user could convert fiat to a crypto/stablecoin, move it abroad instantly, then convert back – potentially bypassing Wise. It's unclear if this can truly be cheaper or as user-friendly (each conversion carries costs) ⁹, and regulatory hurdles abound. *Probability:* Low-Moderate in the near term (the tech is nascent and not mainstream for average users); *Severity:* High if realized – a viable “*money without borders*” crypto rail could make Wise's network less relevant, a permanent competitive threat unless Wise itself successfully integrates those technologies. (Notably, management is aware of this risk and is hedging by partnering on crypto rails where possible, but the uncertainty remains.)

- **Industry Maturation:** Cross-border fintech is a growth industry now, but if it matures or consolidates, growth rates could decline. Wise's current ~30% volume growth could slow to single digits as the easy gains from early adopters fade or as they approach saturation in key corridors. *Probability:* Moderate over a long horizon; *Severity:* Moderate – slower growth in itself may not destroy the company, but if the market was pricing Wise as a high-growth disruptor, a downshift can trigger a permanent re-rating of the stock downward.

Company-Specific Risks:

- **Compliance and Regulatory Oversight:** By operating globally, Wise must maintain ~65 licenses and adhere to each jurisdiction's financial rules ¹⁰. This is a tightrope: any compliance failure (e.g. anti-money-laundering lapse, data breach, sanctions violation) could lead to fines or even suspension of services in a region. In fact, Wise has had run-ins with regulators before (settled without major incident) ¹¹. *Probability:* Moderate (financial institutions routinely face regulatory scrutiny); *Severity:* High – beyond monetary penalties, the *reputational damage* from a serious compliance failure could be devastating. Trust is the bedrock of Wise's business – customers must be confident their money is safe and legal. As the analysis notes, Wise currently enjoys a high NPS and strong word-of-mouth, but “**trust can quickly swing the other way**” ¹². A scandal or security breach could permanently drive users away, a worst-case loss of capital scenario for investors.

- **Reputation & Brand Dependence:** Relatedly, **reputational risk** is huge in finance. Wise's brand is built on transparency and reliability. A single high-profile incident – for example, customers losing funds due to a hack or a regulatory freeze – could tarnish the brand overnight. Because much of Wise's growth comes virally through customer referrals ¹³, a reputation hit can halt the flywheel, *permanently impairing its growth trajectory*. This risk may be low-probability (Wise has a good track record so far), but the severity of a trust crisis could be existential.

- **Infrastructure Utilization Risk:** Wise has invested heavily in a unique *proprietary payments infrastructure* capable of handling “trillions” in volume ¹⁴. The bullish thesis sees this as a huge asset (and potential platform for other banks to plug into). The risk is that big banks *never* adopt Wise's rails – due to inertia, not-invented-here bias, or competing consortia. If Wise's network remains underutilized (a Ferrari that's used for grocery runs, as one analogy puts it ¹⁵), the company may never achieve the operating leverage assumed in its “scale economies” model. *Probability:* Moderate (banks are notoriously slow to change and may resist ceding control); *Severity:* Moderate – Wise would still grow with retail and SME users, but the “**infrastructure play**” would fall short, meaning volumes and margins might plateau below the optimistic case.

- **Intentional Margin Sacrifice:** A striking aspect of Wise is management's policy of **continually lowering fees (take rate)** to share scale benefits with customers ¹⁶. This long-term strategy of “investing in price” helps widen the moat (driving more volume and loyalty), but it can disappoint investors expecting operating leverage. Indeed, Wise's take rate fell ~20% over five years (0.74% to 0.59%) as it passed on savings ¹⁷. The *risk* is that management might cut prices faster or deeper than the market anticipates, crimping near-term earnings. We saw a glimpse of this in 2024: Wise projected FY2025 revenue growth of only 15–20% (versus 31% the prior year) due in part to fee reductions, and the stock **plunged ~23% in a day** on that weaker outlook ¹⁸ ¹⁹. *Probability:* High (management has

explicitly stated this is their ongoing strategy ¹⁹); *Severity*: Moderate – it’s a controlled reduction, not an overnight collapse, but if investors consistently overestimate margins, the stock could languish or decline as reality comes in lower.

- **Key Person/Management Risk**: Co-founder/CEO Kristo Käärmann owns ~18% of Wise and has imbued a **long-term, customer-first culture** ²⁰ ²¹. This is a strength, but also a risk if leadership changes. A founder’s departure or a shift in management mindset (e.g. a new CEO prioritizing short-term profits over product quality) could undermine Wise’s competitive edge. *Probability*: Low in the immediate term (the founder is still at the helm, albeit he’s faced some regulatory scrutiny personally ²² ²³); higher over a 5+ year horizon as companies naturally transition. *Severity*: Moderate – a new strategy could dilute the “scale economies shared” model, or heavy turnover could hurt execution, shortening the company’s advantage period. Wise’s success is not guaranteed to survive a managerial misstep, especially given the thin margins of error in finance.

- **Technology and Execution Risks**: Even absent external disruptors, Wise must flawlessly execute its growth. Technical outages, slow service, or failure to keep up with user features can drive customers to alternatives. Likewise, expansion into new products (like business accounts, cards, etc.) brings operational risks. While nothing in the thesis suggests imminent tech troubles, any *unseen bug or integration failure* could cause customer churn. In short, continued operational excellence is assumed – any slip can carry an outsized downside when customers have other options.

Behavioral Risks (Investor’s Thesis):

- **Overconfidence in Growth (“Too Good to Fail”)**: Your thesis notes Wise as a “*quality compounder*” in a huge addressable market. There’s a risk of **confirmation bias** here – focusing on the success stories (strong growth, global reach, customer love) and downplaying how quickly things can change in fintech. The implicit belief that “the whole world lies at Wise’s feet” (as the analysis hints ²⁴) could lead one to underestimate risks. *Probability*: High for many enthusiastic investors (the narrative is compelling); *Severity*: High – overconfidence can lead to oversizing the position or ignoring warning signs, raising the chance of a permanent loss if the thesis breaks.

- **Macro Blind Spots**: If one is anchoring to Wise’s recent performance, there’s risk of neglecting **macro mean-reversion**. Wise’s robust 2024 profits were boosted by unusual conditions (high interest yields, post-pandemic surge in digital payments). It’s easy to **anchor** to those growth and margin figures. The risk is those conditions normalize or reverse. For example, interest income climbed “behoorlijk” (considerably) in the last period ², but management only keeps 20% of interest income (giving 80% back to customers) ²⁵. If rates fall, Wise’s small retained benefit disappears – yet if rates stay high, shareholders still don’t fully benefit due to that give-back policy. This asymmetric outcome (limited upside from rates, but some downside if rates drop) might not be fully reflected in a rosy thesis. *Probability*: Moderate; *Severity*: Moderate – it won’t bankrupt the company, but could lead to earnings disappointment and multiple contraction (a recipe for permanent capital loss if one overpaid expecting continued tailwinds).

- **“Story” Premium and Valuation Risk**: The market narrative around Wise – a mission-driven disruptor taking on big banks, with **Costco-like scale economies** and a trillion-dollar opportunity – is powerful. Such stories can command premium valuations. The danger is assuming the story *guarantees* great investment returns. **No company is so good that its stock can’t be a bad investment at the wrong price** ²⁶. If your thesis doesn’t account for valuation risk (paying up for perfection), that’s a behavioral pitfall. Wise’s stock is priced well above peers on earnings multiples ($\approx 25\times$ P/E vs fintech peer averages in the mid-teens) ²⁷, suggesting the market is already optimistic. Paying a growth-stock premium is risky if growth falters – as seen when even a slight guidance miss led to a sharp selloff ¹⁸.

Qualitative Probability Key: High – more likely than not in a 5-year view. Moderate – plausible but not certain. Low – unlikely, but not impossible (worth monitoring). *Severity of Loss*: reflects potential impact on Wise’s earnings power or investor capital – from **Moderate** (manageable hit or partial impairment) to **High** (permanent loss of a major portion of value).

2. Second-Level Thinking Check

Dominant Market Narrative: The prevailing view on Wise is largely positive. The market sees Wise as a fintech “**disruptor**” revolutionizing cross-border payments much like Netflix did to video or Amazon to retail. The dominant narrative highlights Wise’s **huge addressable market** (~£27 trillion in global payments) and its superior cost structure – a **10× cheaper service** achieved through an innovative, vertically-integrated platform ²⁸ ²⁹. In simple terms, most investors believe Wise will continue to grab share from bloated banks, maintain strong growth (20%+ annually), and leverage its network effects (more users → more volume → even lower unit costs) to become an indispensable global money movement network. This optimism is bolstered by Wise’s profitability and customer love; it’s often touted as a rare fintech that’s both growing fast and generating profits, with a long runway ahead.

Non-Consensus Risk Scenarios that Could Upend the Narrative:

- **Scenario A – “Race to Zero” (Commoditization):** The consensus assumes Wise’s low fees give it a durable edge, but a contrarian risk is that international transfers become *effectively free* via either big tech or government intervention. Imagine a large competitor (say, a consortium of big banks, or a fintech like Revolut/PayPal) decides to **permanently subsidize** transfers to win customers – using profits from other products to offset losses. If cross-border payments turn into a loss-leader service, Wise’s core business model is undermined. It might respond by cutting prices to zero margin to retain users, but that means no profit for shareholders. Alternatively, consider if regulators cap fees or mandate public low-cost payment utilities. In either case, the narrative of Wise as a high-growth fee-based business would collapse. This *fee compression to zero* scenario is not consensus (few expect banks to willingly sacrifice fees long-term, or regulators to get that radical), but it’s a real risk. It would destroy Wise’s ability to generate earnings, likely causing a **permanent loss of capital** for investors. (Essentially, Wise could become a victim of its own success – proving the concept so well that others replicate or regulate it into a commodity.)

- **Scenario B – “Trust Bust” (Regulatory Scandal or Security Failure):** Another non-consensus scenario is a sudden loss of customer trust. Consensus doesn’t price in a major scandal, but second-level thinking asks “*what if?*”. For example, suppose Wise becomes embroiled in a serious **anti-money-laundering violation** – perhaps unknowingly facilitating a large illicit transfer – leading to a high-profile regulatory crackdown. Or envision a major **cybersecurity breach** that freezes or drains customer accounts. Such events are outliers, but not impossible in global fintech. If one occurred, it would shatter the narrative that Wise is the safe, transparent alternative to banks. Customers might flee en masse (particularly businesses that can’t afford compliance uncertainties). Wise could face license suspensions in key countries or be forced to drastically curtail operations. This isn’t in the dominant story at all – it’s an off-the-radar risk – yet its impact would be catastrophic, causing a *permanent loss of a significant portion of capital* as the company’s franchise value evaporates. In Howard Marks terms, it’s the kind of “**invisible risk**” that only becomes obvious in hindsight ³⁰, but prudent investors must contemplate it.

- **(Scenario C – “Tech Leapfrogging”): [Optional]** The market currently underestimates how quickly new technology could change the game. For instance, if **central bank digital currencies (CBDCs)** or a new blockchain-based system achieved seamless, near-instant cross-border transfers *without* needing a middleman, Wise’s role could diminish. Perhaps a few years from now, sending digital dollars to Europe is as easy as sending an email – no 0.5% fee to Wise needed. This scenario is not consensus because most believe Wise will adapt and that such tech is years away ³¹. But if it materializes faster, Wise might find its competitive moat suddenly much shallower. In that case, the bullish narrative breaks, and investors could face a permanent loss as Wise’s growth stalls (or its pricing power disappears).

Each of these scenarios challenges a consensus assumption (that fees will stay low-but-not-zero and Wise keeps an edge; that Wise will maintain trust and smooth operations; that no disruptive new rail will emerge too fast). Second-level thinking requires us to imagine how the consensus could be

spectacularly wrong ³² . While none of these outcomes is certain, they illustrate how capital could be destroyed in ways the market isn't currently expecting.

3. Cycle & Timing Risk

Where Are We in the Cycle? Wise and its industry are in a growth phase, but the broader context might be late-cycle. The global economy in 2025 has seen a strong post-pandemic expansion with rising interest rates; we may be approaching a plateau or slowdown in the economic cycle. Wise's cross-border payments business tends to thrive in expansionary times – globalization, high employment, and strong travel/remittance flows boost transaction volumes. Indeed, Wise's recent growth benefited from robust consumer and business activity (and abnormally high interest yields).

However, cycles inevitably turn ³³ . A shift into the **downturn** phase of the cycle could hurt Wise in several ways:

- **Cyclical Earnings Pressure:** In a recession or sharp slowdown, fewer people will move abroad for work, and businesses will scale back international operations. Discretionary flows (like tourism spending or study-abroad payments) would decline. This means Wise's transaction volumes could stagnate or even drop in affected corridors. The **consensus growth expectations (high teens or more)** would prove too optimistic, leading to earnings misses. Unlike some businesses that are counter-cyclical, money transfer volumes have some economic sensitivity – for example, remittances can hold up for necessity, but corporate and e-commerce payments might fall if global trade contracts. A downturn would test how much of Wise's volume is resilient vs. economically driven.
- **Valuation Multiple Contraction:** High-growth fintech stocks tend to trade at premium multiples during boom times when investors are optimistic. In a late-cycle or recession scenario, risk aversion spikes – investors pay less for future growth. Even *stable* earnings can get valued at lower P/E ratios when the market's risk appetite wanes. Wise currently trades around ~25× earnings, a premium to financial sector norms ²⁷ ³⁴ . In a downturn, that could easily compress. For instance, if the sector average P/E is ~12× ³⁴ , a shift to "risk-off" sentiment could re-rate Wise closer to that level – *cutting the stock's valuation roughly in half* independent of its operational performance. This cycle risk is significant: even if Wise's business proves resilient, the *market* might not be, leading to a lower stock price through diminished multiples.
- **Liquidity and Funding Risks:** Wise is profitable and has no net debt ¹⁶ , which insulates it from credit-cycle risk to a degree. However, in a severe financial crunch, liquidity can dry up in unexpected ways. Wise holds **over £16 billion of customer cash** in its accounts ³⁵ . In a sharp crisis, if many customers withdrew funds simultaneously (say, due to fear or need), Wise would need to redeem those promptly. Normally that money is held in safe liquid assets, but extreme events (e.g. a sudden freeze in money markets or a bank default affecting those funds) could create a temporary liquidity stress for Wise or at least spook investors about it. Additionally, if Wise wanted to raise capital for expansion or regulatory requirements during a downturn, it might face a tougher, more dilutive equity raise or constrained credit from banks.
- **Economic Cycle and Fee Strategy:** It's worth noting that Wise's strategy of lowering fees continually is easier to sustain in a growing revenue environment. Should volume growth stall in a downturn, continuing to cut prices (to stay competitive or spur demand) could squeeze margins from both ends. In a late-cycle context, Wise might be caught between rising costs

(inflationary pressure on salaries/tech spending) and a reluctance to hold prices due to their philosophy. The result could be a sharper profit decline just when the market least forgives it.

In summary, Wise appears to be in an **early-to-mid expansion phase** of its corporate growth, but the **macro cycle** could be teetering toward a slowdown. A phase change to recession would likely hurt Wise's **earnings (through lower volumes and interest income)** and its **valuation (through risk-aversion and multiple contraction)**. Timing matters: an investor who bought at the cycle peak, when optimism and valuation were high, could suffer a permanent loss if the cycle turns and the stock price lags well behind their purchase price for years. Howard Marks often reminds us that *"nothing goes in a straight line forever"* ³³ – Wise's business and stock will not be exceptions if the economic winds shift.

4. Valuation & Margin-of-Safety Audit

Even a great company can be a poor investment if bought at too high a price ²⁶. Thus, we stress-test the key valuation inputs in your Wise thesis to see where optimism could lead to regret:

- **Revenue Growth Assumptions:** How fast do you expect Wise's revenues to grow long-term? If your thesis assumes, say, ~20% annual growth for a decade, consider a stress test: what if growth falls to 10% or less after a few years (due to competition or market saturation)? Many high-growth firms hit a wall unexpectedly. *Regret Risk:* High – **anchoring** to high growth can be dangerous; if Wise's growth decelerates sooner (for example, recent guidance is already down to ~15–20% for next year ³⁶), the valuation you pay today might prove too steep, yielding poor returns or losses. Always ask, *"What if the future is only half as rosy as I assume?"* In Wise's case, even half the growth rate could justify a far lower valuation.
- **Take Rate & Margin:** Wise's profitability is a function of its take rate (fees as % of volume) and its operating leverage. Management **intends to keep cutting fees** over time ¹⁹ ¹⁶, targeting an EBITDA margin of ~20-23% (down from ~28% today). If an investor assumes current high margins will persist or improve, that's likely optimistic. Stress-test the margin: what if EBITDA margin settles at 15% (below guidance) because competition forces deeper fee cuts or costs rise? *Regret Risk:* High – overestimating margins would inflate any DCF or earnings multiple valuation. Wise has an unusual policy of *voluntarily* thinning its margins to boost growth; the upside of that strategy accrues to customers (and future business health), but in the near term it caps profit expansion. An overly bullish margin assumption could lead you to overpay for earnings that never materialize.
- **Interest Income & Other Revenue Mix:** As noted, ~1/3 of Wise's revenue recently came from interest on customer balances and other products ². That portion spiked with rising rates. A prudent valuation should **haircut or even exclude** this transient boost. If you assumed those interest revenues persist or grow, try a scenario where interest rates normalize to, say, 1% (as they were in much of the 2010s). Wise's interest income could drop dramatically, or vanish in some markets, since the company only retains a small fraction of interest spread (20% of yields under its policy) ²⁵. *Regret Risk:* Moderate – this is a visible factor, but it's easy to get lulled by the recent earnings jump that high rates provided. If rates mean-revert, Wise's growth and profit will be lower than the last year's trend suggests. Failing to bake that into your valuation could mean you think the stock is "cheap" when in reality earnings are temporarily inflated.
- **Customer Acquisition & Operating Costs:** Wise's model relies on low customer acquisition cost (viral growth) and high volume per cost dollar (operational efficiency). If one assumes these remain excellent (e.g., marketing spend stays low, word-of-mouth drives adoption, and no need

for heavy promos), that's generally fair given history. But what if competition forces higher marketing spend, or new user growth becomes harder (requiring incentives/referral bonuses, etc.)? Operating expenses might grow faster than expected. *Regret Risk*: Moderate – a core part of the bullish case is Wise's efficiency and lean cost structure. We should stress it: e.g., if customer growth slows, Wise might invest more in marketing or new features (higher R&D), pressuring the bottom line. A valuation that assumes steady or improved operating leverage could overstate intrinsic value.

- **Terminal Value and Exit Multiple:** In valuations, often the bulk of value comes from the terminal value (often implicitly assuming Wise can trade at a high multiple far in the future). Test a scenario where the **market values Wise at a more mundane multiple** once it's a mature company. Currently the stock is ~25× TTM earnings. The average financial services stock or a mature payments company might trade closer to 15× or lower in a normal cycle ³⁷ ³⁴ . If Wise's growth slows and it gets treated more like a bank or utility, a **cycle-average P/E** in the low-to-mid teens could apply. *How far could the price fall?* Let's estimate: if earnings in a few years are, say, £0.50 per share (which assumes some growth from the current £0.40 TTM ³⁸) but the market applies a 15× P/E, the stock would be £7.5 – *well below* the current ~£10+ price. In a harsher scenario, if a downturn hits and earnings dip (or barely grow) and the market de-rates Wise to, say, 12×, that could imply a share price in the £5–£6 range. For context, a DCF-based fair value has been estimated around **£6.87**, which is about 50% lower than recent prices ³⁹ . So a 30–50% drop is not far-fetched if the market's rosy assumptions unwind. That represents a *permanent loss* from today's levels if realized. This isn't a prediction, but it shows the **margin of safety is thin** – there's not a lot of buffer if things go even modestly wrong.

In sum, the valuation audit suggests many inputs where optimism could mislead: high growth, high margins, sustained interest tailwinds, and strong market multiples. Each of those, if dialed back to more conservative levels, yields a much lower intrinsic value for Wise. The stock is **priced for a bright future**, so any disappointment can cause a disproportionate drop. A prudent investor should incorporate a **margin of safety** – in Howard Marks' words, "*always invest with a buffer...no asset is so good that it can't become a bad investment if bought at too high a price.*" ²⁶ ⁴⁰ Right now, Wise's price leaves little room for error, which is itself a risk factor.

5. Hidden Asymmetries and Downside Amplifiers

Here we identify subtle areas where the downside risks might be larger or more likely than the corresponding upside in your thesis – these often lurk in things not immediately obvious from the balance sheet or headline numbers:

- **Customer Funds & Off-Balance Sheet Exposure:** Wise holds massive customer balances (£16+ billion as of last report) in its multi-currency accounts ³⁵ . This isn't traditional debt, but it is a liability of trust – akin to deposits at a bank. The upside of holding these funds is limited (Wise only invests them conservatively and keeps a small interest spread). However, the **downside risk** is significant: if anything jeopardizes those funds or customers' access to them, Wise could face a run or regulatory action. For example, if a partner bank holding some of Wise's float failed, or if a technical glitch blocked withdrawals, the **loss of confidence** could be severe. This kind of risk is not fully captured on the balance sheet – the funds are backed by assets, but the *behavioral reaction* of customers is not in any financial statement. It's an asymmetric risk where one slip-up (even if funds are eventually safe) could permanently damage Wise's reputation. In short, Wise gains relatively little from being the custodian of so much money (they're even **prohibited from**

paying interest in some regions under licensing rules ²⁵), but bears significant responsibility – a classic case of more downside than upside.

- **Regulatory Capital and Legal Obligations:** Wise's global operations mean it must continuously satisfy capital adequacy and compliance in dozens of jurisdictions. There may be **off-balance-sheet commitments** or contingencies – for instance, guarantees required by regulators, or potential legal liabilities if something goes wrong in client funds handling. While Wise's reports likely enumerate risk factors, investors may overlook that a small change in law (say, higher reserve requirements for payment institutions, or an expensive new compliance mandate) could hurt profitability disproportionately. There's little upside if regulations ease, since Wise is already operating, but substantial downside if regulatory burden increases (more staff, systems, or capital tied up unproductively). As Howard Marks would note, financial institutions often appear low-risk until suddenly they're not – because the **"hidden leverage"** or obligations only bite in stress times.
- **Management Incentives & Shareholder Alignment:** The co-founder CEO's large equity stake is often seen as a positive (skin in the game) ²¹ . However, his incentives and the typical public shareholder's may diverge. Käärman and the team prioritize long-term mission (fair fees, maximum customer growth) – they famously *lower* prices when they technically could make more profit ¹⁶ . The **upside** of this policy is higher customer loyalty and potentially a larger business in the very long run. The **downside** is that near-to-medium term earnings are sacrificed, which can hurt outside shareholders who paid a high price expecting faster profit growth. Additionally, if insiders ever decide to cash out a portion (18% stake is huge – even gradual sales could put downwards pressure on the stock), investors could feel a pinch. We also note that the CEO had a lapse in personal tax compliance (fined by the FCA) ²² . While the issue is closed, it underscores that even management can make mistakes. If any future incident raised doubts about management's integrity or focus, the downside for investors would outweigh any upside – trust in management is crucial in a company handling money flows. Overall, while management's philosophy is admirable, one should recognize it can create **asymmetric risk for shareholders**: management might willingly trade short-term downside (lower margins, stricter compliance costs) for long-term gains, but if those long-term gains don't materialize, investors bear the loss.
- **Capital Structure Quirks:** Wise's lack of debt means no leverage to turbocharge returns – which is fine, but it also means equity holders bear 100% of the business risk with no cushion. In a highly profitable scenario, the absence of debt doesn't really cap upside (except that returns on equity could be higher with prudent leverage). But in a downside scenario, having no debt doesn't completely save equity either – if earnings collapse, the stock can still lose significant value. One might argue that *not* using debt is actually an asymmetry favoring safety (and it does reduce bankruptcy risk). However, consider that Wise's growth is effectively "funded" by reinvesting profits and customer float; there's a dependency on those sources. If growth investment needed to accelerate just as profits fall, Wise might have to consider dilutive equity raises – a downside for current shareholders that isn't an obvious factor day-to-day. No debt also means the company can't easily optimize its cost of capital – again, not a big issue now, but a subtle strategic limitation (e.g. if Wise ever needed to acquire a competitor or undertake a huge project, it might have to issue shares at an inopportune time). The key point: there may not be hidden leverage in the traditional sense, but **hidden dilution risk** is present if things don't go according to plan.
- **Off-the-Books or Underappreciated Commitments:** Wise's business model relies on partnerships (with banks, payment networks, etc.). Any long-term contracts, indemnities, or

performance guarantees in those partnerships could pose risks. For example, if Wise guarantees certain service levels, a failure could lead to penalties. Or if Wise has minimum volume commitments with a banking partner, a shortfall could cost them. These don't show up as explicit liabilities yet can create downside. There's little "upside" to these commitments beyond maintaining business as usual, but if triggered, they can cause losses. Similarly, Wise's expansion strategy (entering new countries) often requires investment upfront (regulatory approval, setting up local entities) whose benefits only come later. If a country's plan flops, those sunk costs are a permanent hit. Individually small, collectively these are asymmetrical – lots of small downsides that can add up, whereas upsides from each new expansion are incremental and already expected by the market.

- **Reputational/Operational Gearing:** One could think of Wise as having a form of operational leverage not in the financial statements: a single mistake can have an outsized effect (because of the interconnected, global nature of the business). For example, a **system outage** in Wise's platform could simultaneously affect millions of customers worldwide. The immediate financial cost (compensating some fees, fixing the bug) might be minor (and thus not scary from a balance-sheet view), but the reputational damage and loss of future business could be huge – far larger than the cost to fix the issue. This is an asymmetry where a small operational issue can cascade into a large loss of trust capital. Conversely, a positive surprise (say Wise's system is exceptionally reliable for a year) doesn't suddenly double the customer base – the upside of flawless execution is mostly expected, but the downside of a serious failure is greater than expected.

In all these cases, we see areas where **downside risk either exceeds upside reward or is more likely to materialize than the bullish case assumes**. A wise investor will keep an eye on these asymmetries. The *biggest* asymmetry of all, as the analysis aptly put it, is that *"the biggest risk is the one you don't see"* ⁴¹. By nature, negative surprises tend to hurt more than positive surprises help. Thus, one should approach Wise with an appreciation that, despite its wonderful business model, the **unseen or underappreciated risks** could cause far greater damage than any single "extra" upside scenario would compensate for.

6. Behavioral & Process Risk

Investors, being human, are prone to biases – and your thesis on Wise may have a few of these creeping in. Identifying them is key to managing risk, since psychological pitfalls can lead to costly mistakes. Let's highlight potential biases in your approach and recommend **guardrails** (as Howard Marks might) to keep your decision-making rational and risk-conscious:

- **Anchoring Bias:** You mentioned the time horizon is long and that you already own the stock – this hints you may be anchoring to your **purchase price or initial thesis**. Perhaps you bought Wise at a certain "bargain" price, or you're anchored to the glowing research that convinced you (e.g. comparing Wise to Adyen or calling it the "Costco of fintech"). Anchoring can make you reluctant to change your view or sell if conditions change, simply because you reference that initial anchor (price or narrative). *Guardrail:* Deliberately *re-underwrite* the investment periodically **from scratch**. Ask yourself, "If I didn't own this already, would I buy it today at this price?" Ignore your cost basis – the market doesn't care what you paid. Have an **exit strategy** or review price: if the stock exceeds your estimate of fair value by a certain margin, consider trimming (don't anchor to only buying more). Conversely, if new information deteriorates the thesis (even if the price is down), be willing to cut losses rather than anchor to "I thought it was a sure thing."

Essentially, update your appraisal as if you never heard of Wise before, to see if you'd still reach the same conclusions. This breaks the anchor and forces unbiased evaluation.

- **Confirmation Bias:** You've done deep research on Wise, which is great – but there's a risk you **sought out mostly positive information** or interpreted data to confirm the bullish thesis. The analysis you provided is enthusiastic about Wise's strengths, and while it lists risks, it ultimately concludes Wise is a "quality compounder" with the potential for positive surprises ⁴². It's natural to latch onto analysis that agrees with our optimistic stance. *Guardrail:* Make a conscious effort to **seek disconfirming evidence**. Read bearish takes (if any exist) – for example, find analysts or investors who *avoid* Wise and understand why. Create at least one **devil's advocate scenario** for your thesis (e.g., "Wise's growth falls to 10%, margins to 15%, what is it worth then? Would I still hold it?"). Write down the conditions that would make Wise a *sell* – before you need to, so that emotion doesn't cloud judgment later. Another technique: discuss the stock with a skeptical friend or fellow investor and *don't defend* your position; just listen to the critiques. The goal is to **avoid only hearing the good news**. Remember Marks' advice that *"the consensus is often right, but when it's wrong, it's really wrong"* – so actively probe whether consensus might be wrong here ³².
- **FOMO and Social Proof:** Wise has been called a "darling" of fintech and is widely used by customers worldwide. It's easy to feel that this is a must-own stock – especially if you missed other big fintech rallies. Fear of Missing Out can push investors to jump in hastily or hold on too long because "everyone knows Wise is great". Also, being part of an investor community that likes the stock (you mentioned a community analysis and podcast) can create **groupthink**, where dissenting voices are drowned out. *Guardrail:* **Separate the product from the stock**. Loving Wise as a service (or seeing it praised everywhere) is not a sufficient reason to own more stock. Institute a **checklist** before adding to the position: for example, *"If this weren't a hyped fintech, would the fundamentals and price still compel me?"* and *"Am I buying more just because it's going up or popular?"* For position sizing, set a rule based on your portfolio risk – e.g., no single growth stock exceeds X% of the portfolio. This prevents the excitement from leading to an overly concentrated bet. Additionally, try to **document your rationale** in writing (as you've started with tasks like these). Having a written thesis with explicit risk factors makes you less likely to act on FOMO impulses because you can refer back to a sober plan.
- **Endowment Effect & Thesis Creep:** Since you already own the stock, there's a bias to value it more just because it's "yours" (endowment effect). One might also start bending the thesis to justify holding ("Sure, competition is rising, but Wise will figure it out because it always has..."). *Guardrail:* **Position-sizing rules** can mitigate the emotional attachment. For instance, if a stock doubles and becomes too large a part of your portfolio, trim it back – this forces disciplined profit-taking rather than falling in love with the holding. Conversely, if bad news hits, don't automatically double down because it's cheaper – revisit the thesis first. You might set a personal rule like, *"If the stock drops 20% below my estimate of value due to a clear risk factor materializing, I must revisit my thesis with fresh eyes before deciding to hold or add."* That pause can prevent knee-jerk reactions driven by attachment or ego. Also, explicitly schedule a **full thesis review yearly**: pretend you're making the initial decision anew, and be willing to say "maybe this doesn't belong in my portfolio anymore" if the facts no longer justify it.
- **Herding & Narrative Overload:** There is a very coherent narrative around Wise (disruptor, huge TAM, founder-led, etc.). It's almost *too* coherent – and in markets, when everyone can neatly explain why something is a winner, much of the upside might already be priced in. Howard Marks often warns against investing based purely on the prevailing story. *Guardrail:* Use **second-level thinking** questions regularly: "What could go wrong that the market isn't

considering?” (We did some of that above.) And ask, “Is this narrative truly unique, or have I heard similar stories that didn’t pan out?” Make sure you are *measuring* the business results against the narrative every quarter: if there’s any divergence (say, customer growth slowing while the narrative still preaches unlimited growth), take note. By being vigilant for when reality and story diverge, you can avoid riding a hype cycle all the way down.

Process-wise, ensure you have a *risk management routine* around this investment. For example, set **pre-mortem analysis**: imagine it’s 2028 and the Wise investment failed – write down the reasons why it might have failed (many of which we’ve covered: new tech, competitors, etc.). This can immunize you against blind spots. Also, maintain an **investment checklist** that you run before any major decision (buy more, sell, etc.), which includes items like “Have I considered the base rate for companies like this?” and “Am I acting out of emotion or analysis?”. As Marks would advocate, focus on **what you can’t know** as much as what you do know – humility can be a great defense. Finally, consider **position sizing** such that even a worst-case (say 50% or more drop) would not be ruinous to your overall portfolio – that way, you can withstand the unexpected and “*live to fight another day*”, a principle Oaktree lives by.

By instituting these guardrails and being self-aware about biases, you greatly reduce the chance that *you* (the investor) become the cause of permanent capital loss through imprudent actions. In the end, controlling one’s own behavior is as important as analyzing the business. Howard Marks often emphasizes risk control and avoiding pitfalls – in practice, that means setting up processes to counter our human tendencies toward error.

Overall Risk Assessment: Moderate. Wise is a high-quality business with excellent market positioning, but **the investment’s risk is moderate** because the stock’s price assumes a lot must go right, and there are multiple avenues (competitive, regulatory, macro) where things could go wrong and lead to a *permanent loss of capital*. In one sentence: *Wise offers substantial long-term promise, but the margin of safety is thin – making this a moderate-risk investment that requires careful monitoring and discipline.* ²⁷

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¹ ²⁶ ³² ³³ ⁴⁰  Have You Misunderstood Risk?

<https://samridhslibrary.com/have-you-misunderstood-risk/>

² ³ ⁴ ⁵ ⁶ ⁷ ⁸ ⁹ ¹⁰ ¹¹ ¹² ¹⁴ ¹⁵ ¹⁶ ¹⁷ ²⁰ ²¹ ²⁴ ²⁸ ²⁹ ³⁰ ⁴¹ ⁴² 6f91d301-2947-4e07-b4b9-482bd8068f0c_Wise_analyse (1).pdf

file://file-KAhhpxsLrUgXWHuzcy3gAb

¹³ ¹⁸ ¹⁹ ²⁵ ³⁵ ³⁶ Reduced pricing plan sees Wise shares slump despite profit surge | CFO Dive

<https://www.cfodive.com/news/reduced-pricing-plan-sees-wise-shares-slump-despite-profit-surge/718903/>

²² ²³ Wise boss fined £350,000 for not telling FCA he had failed to pay tax | Financial sector | The Guardian

<https://www.theguardian.com/business/2024/oct/28/wise-ceo-fca-tax-payments-kristo-kaarmann>

²⁷ ³⁴ ³⁷ ³⁹ Wise (LSE:WISE) Stock Valuation, Peer Comparison & Price Targets - Simply Wall St

<https://simplywall.st/stocks/gb/diversified-financials/lse-wise/wise-shares/valuation>

³¹ Wise and Stablecoins: The \$32 Trillion Cross-Border Play

<https://www.ainvest.com/news/wise-stablecoins-32-trillion-cross-border-play-2507/>

³⁸ Wise (LSE:WISE) PE Ratio (TTM) - GuruFocus

<https://www.gurufocus.com/term/petm/LSE:WISE>