

## The future of banking

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Vincent Freeman | "The Baltic Times"

"It was the best of times, it was the worse of times" — the opening lines of Dickens' "A Tale of Two Cities" — could easily be said about the current turmoil sweeping the financial markets.

Just two weeks ago, it was inconceivable that all four U.S. investment banks would disappear or change status, or that half of all Britons would be with the same bank, or that there would be chaos in Hong Kong as depositors tried to get their money back.

New York, London and Hong Kong may seem a long way from the Baltics, but the economic crisis will affect all of us. Swedbank, the region's biggest, is heavily invested in the U.S., especially in the toxic bad debt. As we reported in The Baltic Times last week, the bank was exposed to Lehman by 1.3 billion dollars (921.4 million euros). Despite assurances that most of the debt is secured there has been a mini-run on the bank in some Nordic countries, as reported in the press in Finland and Sweden.

The stock market plummeted between Sept. 15 and Sept. 19 as the bad news kept coming in, only to rebound on Sept. 22 on the news that the U.S. Treasury is going to bail out the financial system.

"There probably isn't a single happy investor on the Tallinn stock exchange right now; both old-timers and newcomers have been losing money. Unless one badly needs money, there's no point in selling shares at present," trader for Marfin Pank Eesti, Kristjan Tolmats, told the Baltic News Service.

And it isn't just the bad news coming out of the United States that has investors worried. The real estate market is in a dreadful state and the industries that depend on it have all suffered.

Latvia is now in recession, a situation analysts don't expect to change in the near future.

"Looking at these trends, I'm quite sure we will see worse numbers in the coming two quarters," Zigurds Vaikulis, a Parex Asset Management economist, told Bloomberg.

"The good thing is that inflation is dropping," he said. Latvian inflation, at 15.7 percent in August, is the fastest in the EU. The overall euro zone inflation rate is 4 percent.

Analysts say that profits will be small for investors.

"Private consumption is expected to decline this year. We also expect investment to fall markedly in 2008 as construction loses steam," Anssi Rantala, chief analyst with Nordea, said.

Rantala did put in a note of good news despite soaring inflation of prices. "We expect inflation pressures to ease gradually, as the substantial commodity and food prices increases are over now and wage hikes will be moderated by a softening labor market," Rantala said.

There is no doubt that some people are scared. When The Baltic Times contacted local banks about how they plan to make money for their investors, they didn't seem to want to talk.

There are mutterings that a big regional bank could go under.

"It could be a bloodbath," one source, who didn't wish to be named, told TBT.

But what hope is there for the investor? When the entire paradigm has been destroyed, where is the careful investor to turn?

Some analysts and financial experts believe that now is actually an excellent opportunity for investors to make money. As companies consolidate and others go to the wall, a shrewd investor could find rich pickings in funds invested in distressed capital, mergers and acquisitions and private equity funds.

"The current market condition presents an excellent opportunity to pick up assets at attractive levels," Mattias Wallander, chief of investment at Evli Bank in Estonia, said.

Wallander said that he believed that the waters needed to clear a little before investors and their advisor would know how and where to invest.

"I still believe the best opportunities will come in 2009. For well-funded buyers, it could definitely be interesting to start looking at the Baltic region," Wallander said.

Some say that for investment companies starting out right now, the timing couldn't be more perfect.

Maximus Capital, which set up shop this week, said they feel that there is a number of strong arguments in favor of starting a financial services firm exactly at this very moment.

"The financial turmoil has triggered industry consolidation and there is a surge in demand for fresh capital, and significant [mergers and acquisitions] activity, primarily driven by market consolidation, is behind the strong influx of new business along the lines of investment banking services that we are offering to our clients," said Gene Zolotarev, founder and CEO of the company.

Zolotarev believes that the personal touch of putting the customer first will become a mainstay in the future investment landscape.

"We are not offering our own funds, as we feel that might create a conflict of interest and

limit our investment horizon to the selected number of in-house products. Instead, Maximus Capital is being entirely focused on delivering absolute returns in any market conditions," Zolotarev said.

Maximus Capital was set up by a team of financial experts who saw the potential for a fresh approach to investment opportunities.

Many of the old maxims have gone out of the window. The recent market developments have clearly shown that the size of the financial player does not mean that it will be successful.

Maximus Capital does not offer any proprietary funds and does not sell any in-house products. This gives them the flexibility to follow the market objectively and offer truly unbiased advice to the investors. Maximus point out that unlike the bigger players, they are able to provide individual service geared towards the specific needs of their clients and communicate with their clients at all times.

Maximus admits that the current economic climate does provide an opportunity for rich returns for smart investors. "We are planning to capitalize on the unique investment options present in several fragmented and somewhat distressed sectors of the Baltic and CIS region," Zolotarev said.

"Finally, the time is ripe to capitalize on the fresh prospects that are emerging for the private equity investor — the opportunities in distressed investing have never been so lucrative. We will turn the credit crunch around and use it to offer our clients direct access to new investment options with unique profit," Zolotarev said.

Analysts agree that the current market conditions lend themselves to companies being merged and bought up.

"The CIS region saw a lot of M and A activity recently, and the volume of this business is likely to increase in the future," Zolotarev said.

The financial turmoil in the global markets brought about the strong consolidation tendencies among financial services providers as well as corporations. Maximus Capital believes it can take full advantage of its broad network of industry contacts in order to further expand this business area.

"Our brokerage clients tend to be very dynamic individuals with knowledge of the markets who value rapid execution, low cost and best market pricing, while our investment clients are drawn to our network of relationships," Zolotarev said.