GREETINGS FROM DAVOS

by Steve Brown

Most likely it is because the dollar is down against the Swiss Franc (as well as most brands of cereal), that you didn't make it to Davos, Switzerland this week for the World Economic Forum. That's OK, because luckily we have well-placed sources sending us the scoop on what is happening with the financial movers and shakers of the world.

The theme at the conference this year was "Tough Choices," with a heavy emphasis on global warming. We find it ironic that leading climate experts, such as Michael Douglas and Sharon Stone, flew into Davos on their private jets to lecture the rest of us on reducing our carbon footprint. This is especially true given that this is one of the coldest winters we have had in a long time. Also under the "Irony" heading, was Bill Gates talking about how we have to be more "socialistic." Fortunately, few stayed on the stated theme for long, since there was so much going on in the market. The real talk took place in the hallways, ski slopes and restaurants - which is exactly where we got our inside information to help community bankers do a better job. Here's a summary:

Operations Risk - More controls are coming to banks. When a $140k a year salaried trader that works part-time out of his house for Societe Generale is allowed to hold a $10B position - something is wrong. The short-term takeaway is that it is always a bad idea to let kids run the global financial system. The longer term repercussions are banks will have to have better employee controls and policies in place.

SWFs - Sovereign wealth funds are all the rage. These are the government-run funds in Asia and the Middle East that keep buying chunks of our largest banks. Having a multibillion dollar, discounted stakes in a US bank is now a status symbol all over the world. Countries we have never heard were even looking to make bank investments (where is Kiribati?). Watch for this trend to continue, as "Westoxification" (an obsession with cheap Western status symbols) will grow.

The Fed - "Reckless," "risk provoking," "dangerous" and "another bubble-induced recovery" were common refrains.

The Subprime Credit Crunch - High powered politicians and financial execs still expressed disbelief over the depth of the problem. Apparently, few took the time to browse the internet or late night TV in the past 3Ys, as it was hard not to find a guy selling mortgages to people that shouldn't haveone. At one point, back in 2006, our dog was even offered a 3x1 adjustable with no points. Some comfort was taken in the fact that the executives responsible for the fiasco have been severely punished by Wall Street by being given lucrative retirement packages. On the serious side of things, the chairman of Roubini Global Economics made the statement that the current $300B in subprime losses would soon be considered "spare change," as the whole world is headed for recession. Participants were mocking the speaker until one participant pointed out that everyone laughed at Nouriel Roubini last year when he talked about an "impending economic collapse brought about by financial complexity." The crowd sobered as Roubini outlined the coming "stagdeflation" (basically the ugly brother of stagflation), where there are falling prices and slow growth (ala Japan). In this situation, the Fed would be stuck with few tools to help. The indebted state of American households, combined with huge losses at banks, could limit the effects of future rate cuts. Financial Philosopher, George Soros, picked up on the theme by declaring that the "60-year period of continuing credit based on the dollar as the reserve currency" is over. Less capital will flow into the US as a result. He also echoed that the "era of superleverage" is gone and "systemic failure" is taking place. Soros urged bank regulators to move quickly in order to "assure" the public.

There was so much doom and gloom at the conference, that if we had a dollar for every time someone said "recession," we could start our own hedge fund. Equally strange is that the same people that have been saying the consumer is dead, sold out the 2k+ conference. Most ponied up $39k in annual fees to get an invitation to Davos and $20k per person to attend. This is before the cost of private planes, limos and fancy ski outfits. How bad can things be?

BANK NEWS

Gains

A new study found that national banks have lost nearly 2% of loan and deposit market share to community banks over the past 3Ys.

Community Banking

Community banks are reporting some of the offbeat methods they have tried deliver results on the deposit gathering front. Bankers say they have increased new client acquisition by as much as 20% per year by taking deposits at assisted living centers, offering dinners to younger married couples, giving discounted travel to senior citizens and teaching banking in schools to capture parent accounts.

Expansion Halted

Citigroup said it is halting its plan to open as many as 100 branches across the US and, instead, will focus its attention and resources on large metro areas like NYC, SF, and Boston.

HSA Landmark

HSA Bank, a division of Webster Bank ($16B, CT) is the first health savings account administrator in the country to surpass $500mm in HSA deposits.