



WEALTH INSIDER
— NETWORK —

Bank shares are being Battered – WHY?

This past week has seen massive toward moves on banking shares with a bounce up on Friday.

But why has this happened?

Generally the explanation is three-fold. Firstly, the concern is slowing economic growth as highlighted by the head of the Fed's Janet Yellen's statement to Congress last week. She did indicate that the expected quarterly interest rises in the U.S. may not materialize.

But what really spooked the markets was further negative interest rates, of -0.50%, being declared in Sweden.

So how does this affect the banks? Well basically the Central Bank is telling the regular banks "we will charge you from now on for keeping your money rather giving you a small amount of interest on your deposits".

That drives up the costs of the regular banks. At the same time that keeps down the rates that banks can charge for loans. So banking profits are squeezed.

Now I know that most people don't get too upset when hearing that banks are having their profits squeezed! But this has made investors nervous and they started to dump bank shares. Bank share values have gone down this year over 18% (which is about twice the amount that oil related shares have gone down by this year).

So the consequence of this fall has led to people getting concerned about the stability of the international banking system. On the back of this concern the markets took a downward dive.

But this effect is the exact opposite to what Central Banks with negative interest rates are trying to achieve. The purpose of Central Banks from Europe to Japan are trying to do is to get regular banks to increase their loans rather than to keep their money with them.

Thirdly, the concern is how much exposure does the banking sector to the energy sector in terms of loans that may turn bad?

However, as I write this article I am seeing on Bloomberg TV that a major banking insider is making a move of confidence. Jamie Dimon the CEO of JPMorgan Chase appears to have bought 500,000 shares of JPMorgan Chase. That's a US\$26 million purchase!

So we currently have four holding of banks in our WIN Growth Portfolio and I thought it would be timely to take a closer look at them and our views.

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To your investing success.

Pedro Robert

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