

Stocks continued their slide in August amidst sharp volatility as investors started pricing in Europe's debt troubles and signals of slowing global growth. Large-cap U.S. stocks were down 5.5% for the month, while smaller-cap stocks lost 8.7%. Both developed-market and emerging-market foreign stocks dropped 8.5%.

Domestic high-quality, intermediate-term bonds gained 1.5% for the month, driven by a sharp rally in Treasuries at the expense of lower-quality credits. Floating-rate loans, which we hold in our conservative accounts, were down 4.4% for the month. Looking abroad, foreign bonds were up 1.9% in August, while local-currency emerging-markets bonds were flat.

## Examining Systemic Risk in the Banking System: A Conversation with Satyajit Das

This month we are sharing with you an interview of Satyajit Das, a leading expert on financial derivatives and risk management, conducted by one of our research firms, Litman-Gregory (LG). We believe this is such an important topic that we are including the highlights from the interview below.

Credit default swaps (CDS) first garnered national news headlines following the 2008 financial crisis when these derivative instruments intertwined the fates of financial firms around the globe and made determining creditworthiness with confidence almost impossible. In May 2009, LG interviewed derivatives expert Satyajit Das to better understand CDS, both in terms of the risks they presented at the time and the possible outcomes resulting from their increasing use. In August 2011, LG again interviewed Das to get his insights. As our economy continues to struggle under the weight of excessive debt, we believe it is important that we understand the systemic risks that our weak economy may be exposed to, and we think the banking system and derivatives may continue to be a source of this risk. Reviewing the research of experts like Das helps us to do a better job of understanding the potential risks in the financial system; we hope you find this interview informative.

**Satyajit Das** is a consultant in the area of financial derivatives and risk management. He was among the few who understood and predicted how hidden leverage and complexity in the financial system could lead to a widespread crisis ("Are we headed for an epic bear market?" September 2007, *MSN Money* interview). He is also the author of a number of highly regarded reference works on derivatives and risk management including the *Swaps & Financial Derivatives Library* (2006, a four-volume 4,700-page reference work for practitioners on derivatives) and *Credit Derivatives: CDOs and Structured Credit Products* (2005). He is also the author of the just released *Extreme Money: Masters of the Universe and the Cult of Risk* (2011), and *Traders, Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives* (revised edition 2010).

**Q: When we spoke a little over two years ago, we discussed the growth in credit default swaps as speculative derivative instruments, the risks these presented to the financial system, and the need for the industry to better mitigate these risks. Thinking about the two years that have passed since that conversation, can you comment on the progress the industry has made in reducing the systemic risk they pose to the financial system and talk about the risks they continue to pose?**

Derivatives, as such, were never entirely the problem. But, in some senses, they were symptomatic of a much deeper problem—which is that we had created a system that was highly leveraged, highly complex, and highly networked.

Because of the way banking regulations work, derivatives were a very neat and cost-effective way of providing leverage. But, derivatives, because of this chain of risk [they] create throughout the financial system, also create enormous systemic risk.

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There have been attempts to deal with [these risks], but all we've done is increase the complexity and the network effects, and we haven't dealt with reducing the leverage. Let me just go through each of those and what happened.

Fundamentally, the amount of debt in the system should have been reduced. I think initially what [the central banks] did was pretty sensible. They realized the system would just basically go into catatonic shock. So, they flooded the system with liquidity to manage that risk and governments basically increased their spending. What they should have realized was, that was not the cure. That was a stabilization process. They had to deal with the reduction of debt, and they abysmally failed in doing that. To some extent, they substituted private debt with public debt and now those problems are coming home to roost.

Derivatives did not cause the crisis: they just made it a lot worse. So they planned to address [derivatives] without addressing the primary issue of how much leverage we have in the system.

If you want to regulate derivatives—and that's just blindingly simple—you first have to address the size of the derivatives market. You have to ask yourself, is the volume of derivatives of about \$600 trillion in notionals—about 10x the world GDP—necessary? I don't know what the correct number is, but it would seem to me 10x GDP is a bit large.

One of the ways to bring that down would be very simple. You say OK, we'll only allow derivatives for the purpose of hedging, i.e., you have to have an underlying position you are trying to hedge. That would get rid of the daisy chain of risk because if you have lower volumes you have lower risk. Yet there is absolutely no attempt to deal with that.

## **Q: Why are they not doing that?**

I'll tell you why not. The banking lobby is basically one of the most powerful in the world. If you look at the amount of money they make from derivatives . . . I've heard estimates of \$10 billion, other estimates of \$100 billion . . . no one really knows. It's a huge source of profit, and they have lobbied successfully. The regulators don't really understand derivatives-trading and what goes on in that market, so they become reliant on the banks to tell them what goes on. Wolfgang Schäuble, the German finance minister, actually summed this up very neatly. He said, "When you're draining a swamp, you don't ask the frogs for their opinion."

We are now going around having a discussion with the frogs about whether the swamp should be drained. So, the whole regulatory process is completely debauched.

You have to give banks some credit. They're incredibly smart and they're incredibly good at getting their way. What they've done is [threaten regulators] in the garb of educating them. First, banks said if you don't do what we tell you, essentially all liquidity and all capital flows and lending essentially will dry up, and the economy will collapse.

The other threat they used was, if you don't do what we think you should do, then we'll just translocate our business to a more regulatory-friendly environment. So, banks basically had control of the entire process of regulation. It's become quite apparent that that has really impeded sensible regulations.

Interestingly, there's a huge dichotomy of regulation now developing between the developed countries and the emerging countries. Individual derivatives contracts have to be specifically approved in countries like China and India. So they actually do it product-by-product. And, there are precedents for that. For instance, if you actually look at the pharmaceutical industry, are they allowed to sell everything? The answer is no. Individual products are licensed and approved through an effective process. So you could do that.

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## Q: What are your thoughts on regulators' proposal for the development of a central clearinghouse to regulate derivative contracts?

The idea is absolutely logical. Everybody's contracts go through a central counterparty, which is so secure that it can't fail, so you get rid of counterparty risk in that way. [And if everyone] deals only through one central counterparty you reduce complexity. All of which is fantastic, in theory. The practice has proved to be somewhat difficult. So, what we're going to see is a two-tiered market. The only people that are going to be included are the dealers [big banks] and, to a large extent, end users, however defined, will be excluded. In sum, you don't have all the products in and you don't have all the counterparties in the exchange system.

First, this concept of an exchange is not new. Generally speaking, the discussions went nowhere in the past because the dealers themselves didn't want the markets to put on an exchange with the natural compression of the margins that comes with increased transparency. This time around, they know they have no choice. So what they've done is masterfully weakened this whole idea.

If you had a system like this, what you [should] have is very close to what the futures market is: you'd standardize the product, it would be traded in the exchange, and then it would be cleared through the clearinghouse. Instead you can trade amongst yourselves and then transfer the contracts to the clearinghouse. The interesting thing about that process is only standardized contracts go through. Not every instrument is covered, and it creates a lot of debate. Let's say a five-year swap with quarterly re-set is standard. But, if I do one with semiannual re-set, is that standard? So, we have a problem of inclusion in terms of range of products. Also, the Americans have decided to exempt currency derivatives, I am not sure why.

The second thing is, who is subject to clearance? In other words, is it just the dealer? Or is it everybody? Lufthansa, for example, said if there was a central clearing during the crisis, they would've gone bankrupt because they would've had to make margin calls of \$6 billion-\$8 billion, which they didn't have.

Then, of course, there's the question of how is the clearinghouse itself going to manage its risk?

The interesting thing is, if you actually look at [regulators'] proposal, it's exactly like a futures market. They'll have an initial margin, they will mark-to-market the contract, and ask you to post a margin if you're under-the-money.

Now there are a couple of important assumptions. It assumes everything is liquid and tradable in the market, and you have transparent prices. We know that not every derivative trades with adequate transparency and enough liquidity to get accurate price fixes. You're not going to be able to actually mark-to-market this stuff properly. The next issue is, how do you set the initial margin if you don't have a prior history?

Given that these central counterparties are supposed to be run as profit-making businesses, there is also a competing sort of interest which creates conflict between the risk-management of the exchange and business development objectives. Because if the product is highly undifferentiated, which is what clearing inherently is, then the only way you could actually compete is on risk-management and margins, and price, which obviously then becomes problematic.

So, we have fundamental problems with the supposed risk-management of the central counterparty.

Then, there are two other dynamics here, which are quite fundamental. The first thing is, every country wants their clearinghouse, because they don't want to cede national sovereignty. I can't see the Chinese agreeing to basically have Chinese entities clear their derivatives through a U.S. clearinghouse or anything else. So we don't actually understand

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how this will work. There might be 20 or 30 of these around the world, which might be product-based. They might be nationality based or a mixture.

That means you're going to have this hodgepodge of clearinghouses around the world [with] what they call interoperability agreements between them. And, you're also going to have to have collateral arrangements between them. That will actually open up the whole issue of cross-border bankruptcy and cross-border collateral issues. That's a highly uncertain and highly tricky area based on the Lehman experience.

And the next thing is . . . the dealers said, we can't stop this happening, so how do we maximize the benefit? The way they've done this would make Machiavelli proud.

The Swap Execution Facility, which is like a market, is used to channel the trades into the clearinghouse. This will be controlled by the dealers. End users will deal with clearing members —banks—who will clear with the central counterparty. What this effectively means is they may lodge a different collateral with the clearinghouse from what they receive, allowing them a profit margin. It's very much a prime-brokerage model, if you like, so not significantly different from the current status quo.

So, I think the idea behind the central counterparty is laudable except I think the execution is deeply flawed. The regulators and the policymakers have committed so much emotional and political capital to the idea that the economics or the financial integrity of it is now irrelevant.

**Q: The other point you made was that a clearinghouse reduces the number of counterparties one has to transact with. Doesn't that reduce the daisy-chain risk or the negative domino effect?**

Absolutely, but there are two issues, and this goes to the structure of the market. Effectively what you're going to see is all the risk [being] concentrated in the biggest too-big-to-fails. These are the counterparties themselves. And, I'm not convinced that their risk-management will stand up to a major stress event. Then the next issue is [that] you're not actually reducing the risk. Because everybody else in the market who deals will still have to deal through this small group of clearing members or large banks that are too big to fail. And that risk hasn't been removed.

So, yes, we are reducing the risk a little bit, but we are also introducing new risk into the process.

The reason banks have been extremely supportive of the central counterparties is they see this movement to a clearinghouse inevitable. However, if they can design it such that it enshrines their oligopolistic power . . . what I jokingly call the "derivatives country club," . . . they will actually get more powerful under that system.

**Q: Moving on, the International Swaps and Derivatives Association and Bank of International Settlements report that the net exposures of CDS are less than \$2 trillion, as opposed to the huge notional CDS amounts that are floated around out there. CDS are down to \$30 trillion, which is still large. Could you help me understand this net versus notional number? What number more accurately reflects the exposure the financial system may have to derivatives and to counterparty risk?**

I think the question you're talking about lies at the heart of one issue—which is the size of the derivative markets. Let me tell you the position of the industry, whether it's through [International Swaps and Derivatives Association] or other forums.

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They say the notional of the derivatives market, which would include the CDS market, is about \$600 trillion. They say you can't look at that. Instead, they say you have to look at the current market value, which is as you say, about \$25 [trillion] to \$30 trillion. Then they say you can't look at the \$25 [trillion] to \$30 [trillion] because after you net the contracts it comes out to about \$4 [trillion] or \$5 trillion. Then, you can't even look at that number because you're holding collateral of about \$4 trillion. So, by definition, the true size of the market is actually zero. That's quite an extraordinary statement.

Like any set of numbers, it depends on what you're trying to actually identify. The number they're talking about is just telling you what the current risk is, meaning, if you had to close out those contracts today how much would be owned. The analysis that we've just gone through has some logic in that context. However, the important thing to understand is that the amount that you could potentially lose or gain is actually \$600 trillion [emphasis ours].

Now, I'm not suggesting that you could lose all of \$600 trillion. But, the point is, that is the amount theoretically at risk. We all know if it's an interest-rate swap, the chances are you're never going to lose the full face value of the contract. It's highly unlikely.

I'll give you a very good example of why this type of analysis of current risk is very dangerous. Let's assume you're a U.S. bank where you have a whole bunch of clients who just basically do plain vanilla interest-rate swaps where they pay you fixed rate and you pay them floating rate. Very conventional business, very reliable, very successful business. But look what's happened to that business in the United States. Short-term rates have gone to zero. That means the counterparty now is paying you a fixed rate, which is way, way, way above where the market is. So the counterparty risk of that or the "market value" of that has exploded.

I did some work with one bank and we were going through the risk that they had on their counterparties in terms of [what's] marked-to-market. We found that what they had estimated as being the amount that they would potentially be at risk for on these contracts, versus what the actual amount is, is different by a factor of 5x to 10x because interest rates have gone to exceptional levels.

The other thing that the last two or three weeks has highlighted is the amazing volatility. If the stock market moves up 4% or 5% every day, then option values [based on] marked-to-market prices are highly variable. So, you cannot look purely at the current market value. You have to have some idea of the notional.

I'll give you another good example of why this is important. When Société Générale [in 2008] managed to lose over \$7 billion that was because they looked at the net position and did not pay attention to the gross position. [Their trader's] book was neutral on a net basis. He was long \$50 billion of European stock indexes and had a false entry that he was short.

The point I'm making is you have to look at the gross because that's actually about risk. If anything is wrong on the net side—in other words if something is falsified or if something is incorrect—then the gross amounts become extremely relevant, which is the \$600 trillion.

The other thing here is that you're assuming in the derivative markets that the other party's [always] going to pay. Because, if they don't pay you have a real risk that the amount you are on the hook for becomes extremely large.

**Q: So, it seems the true economic exposure to derivatives is somewhere between the supposedly net amounts, which almost go to zero, and \$600 trillion?**

That's right. It's rather like Warren Buffett said, we will only know who was swimming naked when the tide goes out. We'll only know what the real exposure is when things go wrong.

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**Q: The amounts are beyond any government's capacity to backstop. So, what's the endgame if really bad scenarios happen? 2008 was bad enough.**

2008 was a dress rehearsal. It wasn't the real show. The real show is still to come.

**Q: So, going back to your 2007 prediction, what are you estimating or predicting from here?**

I think fundamentally we haven't felt any of the problems. The government has pumped money, and central banks have flooded the system with liquidity, but those options have narrowed very significantly. All of these problems with derivatives and so forth are still there. So, if we have a problem now, how are we going to get out of it? Everybody thinks that the problem in Europe is Greece and Ireland and Portugal. It's not.

It's already a problem in Spain and Italy. And it's very clear that there are going to be problems from France and Germany because they're trying to bail out everybody else. Once you get the strong economies of the world like Germany contaminated, it becomes very difficult.

**Q: On Europe, you seem to believe the contagion is spreading to larger countries. That's not going to be good for European banks, who are counterparties to the U.S. banks.**

Absolutely. Europeans don't know what to fix. Because where the problem was Greece, you had to let them default and restructure their debt. It's very simple. They haven't done any of this. What they're now going to do is keep throwing good money after bad. Basically, what happens then is that they're going to cause a problem with, effectively, France and Germany. I'll give you a number that's interesting.

They're talking about increasing European financial stability for up to one trillion euros. I don't think that's going to work. They're going to need about two to three trillion euros if Spain and Italy need meaningful financial support. This effectively leaves Germany and France as well as some smaller eurozone countries guaranteeing the entire bailout package. That would mean Germany would be guaranteeing roughly about one trillion of it. That would push their debt to GDP ratio, if I assume [their] guarantee [is] equivalent to debt, to around 110%. And France would be very similar.

How can they do that? I fail to understand how they can do that without bankrupting their own credit.

**Q: What would be the indirect impact on the U.S. banking system if larger countries like Italy and Spain were allowed to default?**

First of all, the European banking system would have serious problems. Around the world, banks have 2.2 trillion euro exposure to places like Greece, Spain, Portugal, and Italy. The American exposure and non-European exposure is negligible, so the bulk of that 2.2 trillion is basically European. I think the French and the German bank exposure is roughly about half a trillion each. So, basically banks would have to write off a substantial portion of that, and would need recapitalization.

My view of the French and German economies is they are caught on the horns of an impossible dilemma. They either give the money to Greece or to Ireland or to Spain or whoever, or they have to use the money to recapitalize their own banks. The one thing everybody seems to miss is, once you've made a bad loan, that money isn't coming back. So, it's a question of, what is a sensible way to actually manage that and minimize my losses? Probably recapitalizing their own banking system is the best way.

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Banks don't fail because of the potential of losses. That's not the endgame. The endgame is well before that, [when] everybody loses confidence in the banks and basically stop funding them. We're already seeing that. Most of the banks in Europe and the countries we're talking about have lost access to commercial funding. If the ECB [European Central Bank] wasn't lending them money, they would already be insolvent.

And the ECB has its own problems now. To give you some idea, the ECB has lent 400–500 billion euros to the European banking system against collateral, like Greek bonds, Irish bonds, Italian bonds, etc. That's the only way these guys can fund. And, they have five billion euros in capital, which is going up to 10. How can the ECB survive this?

Now, to answer your question: No matter what you look at from the American side, they may have no to little direct exposure to this, but they have a lot of indirect exposure to this. This is why the Fed—in the recent days—has become so interested in the funding position of European banks. I don't know if you noticed, but the Swiss National Bank drew down its swap line from the U.S. Fed to the tune of \$200 million because one of the Swiss banks was having difficulty funding in U.S. dollars. So, liquidity is already becoming a problem even for banks not directly impacted by European sovereign exposures.

The equally important question is, will this mean a tightening of liquidity conditions generally in international markets, which will affect all banks around the world? We're talking about something which isn't hypothetical. It's actually already happening.

**Q: What could be done to prevent contagion in the bigger countries like Italy and Spain? Secondly, could those steps coincide with better second-half economic growth to really get Italy and Spain off the table? If that is the case, then you're talking about just Greece, Ireland, and Portugal. How big a problem is that for European banks, if these countries were to default?**

Well, Greece, Portugal, and Ireland are a problem, but probably manageable. Using some rough calculations, Greece is about \$340 billion, and Ireland and Portugal at probably about \$400 billion on top of that. [Factoring in some recovery], you are looking at writing off 300–400 billion euros, which is manageable.

The first thing that I would do is basically throw some people out of their lifeboats in Europe. Greece, Ireland, and Portugal would probably need to restructure their debt.

Then, I'd spend time basically recapitalizing the banks that I needed to in Europe. Some banks would go. But, I would try to save the depositors, and basically I would try to make sure that the banking system—payments and basic credit provision—is functioning.

The other thing I'd do is use the European financial stability fund to make sure that Spain and Italy are viable. I think they're solvent, but they have a liquidity problem.

Then, beginning with Europe I'd essentially make sure countries like Greece, which really shouldn't be in the euro, leave in an orderly fashion.

I would have a hard-core euro, which is, say Germany, France, and a few others. And, I would basically go back to non-euro currencies for everybody else, because that's the only way they can regain competitiveness and grow.

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**Q: When analyzing banks, how do we assess what counterparty risk exposures they have. Can banks themselves be confident of assessing this exposure?**

Banks have their models. Like any other model, they are volatile and only as good as their assumption. Now their models would not have assumed zero interest rates for a prolonged period of time, necessarily. So there will be errors. The question is how conservative they are about those models, and how conservative they are in their risk management. There are commercial pressures that prevent banks from being too conservative because then they would not do any business.

In my view, banks are not stupid. They understand the risks. The people who are responsible try to behave responsibly, but the commercial pressures mean [the risk-management system] is not ideal.

The other thing is that their systems are not necessarily up to dealing with complex products and very volatile environments. Banks assess their counterparty risk through a mark-to-market system. Then they have to upload that to their counterparty risk system with a huge delay because it is such a cumbersome thing to do. The whole process has sort of lagged in these banks. By the time they know the problem, it's probably much later.

There are two ways to think about that. One is the Armageddon scenario. What happens if there are defaults? The answer is I think they will be surprised. Hopefully they will not be surprised badly in terms of what they lose. But that's the second order effect.

The first order effect is [that] the way the bank's capital is going to be held against this going forward will be much more punitive. So as these exposures become more volatile, you're going to see bank earnings—at least on a return-to-capital basis—get hurt because they have to hold more capital than they're actually priced for. I think that's the bigger problem that they have in the short run, anyway.

**Q: Talking about capital, the regulators have been coming up with new capital ratios for banks. Do the regulators really know what amount of bank capital is at risk on account of banks' derivatives exposures? Can they really come up with these 8%–9% capital ratios? Do they have enough information or transparency?**

They're trying to. I think the jury's still out as to whether they can develop a good system. You can never be 100% certain.

I think that the main thing from a performance perspective of banks is [that] the amount of capital that banks are going to hold is going to go up, which means that the return on capital for banks is going to be much, much lower going forward than it was in the golden years of maybe early 1990s to early 2000s.

I could never understand why people were so bullish on banks. My fundamental premise is banks make the bulk of their money by lending money. So, if there's less lending of money [due to deleveraging], I could never figure out how they were going to do very well in that environment. That's been proved out because their loan books are largely static.

The U.S. banking system is fascinating. Their cash and government securities' holdings are larger than their commercial and industrial loans. I've never seen that in my working life. It doesn't make any sense. Point is, banks have earnings problems. They've compensated in the near term by trading, but that's not a really high P/E multiple business because it's so uncertain.

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**Q: A few of the managers we invest with point to banks' current high level of earnings. They say in a normal, even muddling-through economy, these banks will generate very high levels of earnings. Moreover, they say that some of the negative impact of the bad loans made pre-crisis has been getting off of their books, and that during the past few years they've been making good loans so their earnings are likely going to be higher quality. And, their earnings levels are high enough to cushion against any potential losses and litigation-related payments that still remain. Some of the numbers that come from banks in terms of their earnings power are quite strong, and hard to deny. What would you say to these arguments?**

I think that argument has some [merit]. The thing I worry about with the banks is [that] a lot of their earnings are coming from the positive yield curve slope. That will obviously continue for some period of time and that will help.

I also think they made some good loans [around] 2009–2010 because they could price very aggressively. But, after that we saw the collapse of credit spreads.

So, I'm not convinced that the quality is uniformly as good. But, I think if you go through that there are going to be banks that are likely to have good earnings. It's a matter of finding them.

The other thing is, it's like having a nice house in a bad neighborhood. If there's a problem in the banking system overall, even if your bank is well-insulated from that, you're going to get some sort of beta effect on those banks, anyway. It's always possible to make money [in banks]. You've got to make sure that your stock selection is absolutely spot-on. And, even then you have to sort of say a Hail Mary under your breath and hope that you haven't missed something or that something systemic doesn't derail your stock selection.

**Q: Thinking about just the banking system at a 30,000-foot level, a fractional reserve banking system, such as ours, is always subject to runs, as we all know. We talked about the crisis of confidence and the beta impacting even good banks. Given the issues we've talked—risks posed by derivatives and the lack of transparency in banks in general, and the ongoing deleveraging of the public and private sector in much of the developed world—do you think that these factors combined have increased the risk of bank runs versus two decades ago?**

Yes. That's why I still am very, very cautious about investing in banks. There are so many uncontrollable [factors]. It's like basically buying a business that's a fantastic business, but then finding in the short run that you get completely obliterated for reasons that you can't control.

If you didn't have to mark-to-market some of those positions, life would be a lot easier. You basically have your dividend stream protected and in 10 years when this washes out the bank will be a winner . . . you can hold it. In the short-run, if you have to mark that position to market, then you get into huge, huge problems.

**Q: Has the Financial Accounting Standards Board [FASB] tweaked the rules so banks really don't have to mark-to-market some of their loan books or positions?**

Yes. There's been a lot more generosity in the treatment of loans. So if there is lots of stuff in the accrual book, that doesn't help you. That creates an enormous degree of uncertainty, where the analysts look at a bank and say, "you're not actually marking everything to market." So we really don't know what level of provisioning is adequate. They may actually mark banks down because they do not understand what's happening. No matter how much you say that your loan book is fine, nobody's going to believe you under those conditions.

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# Investment Commentary



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**Q: You have, in the past, written about how the problem of too-big-to-fail banks remains. At the same time, there has been much popular anger against banks. If banks end up in major trouble again, as they did in 2008, do you think the government will be under pressure from the public to actually not bail out banks this time? As a result, does that actually raise the risk of a debt-deflation spiral?**

I think that's the real risk. You are absolutely correct, and I think that is one of the fundamental things that the banking sector is missing.

There is an enormous amount of cognitive dissonance, and the bankers are now puzzled. [Bankers] don't understand that once you move outside the island of Manhattan and a few other financial centers, there is real palpable and visceral anger at what happened. There will be no mileage at all for politicians to be sympathetic to the argument that we have to bail banks out because otherwise we will have these huge economic problems.

I wouldn't say it's a high risk, but it is entirely possible that problems snowball so quickly that you get another Lehman-type of episode and a freezing up of markets, with the requirement for massive intervention of the banking system.

Thanks for speaking with us.

—CB&T Investment Team (1/11)

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