VOLUME X No. 186 F R I D A Y October 3, 2008

PICKING THE WINNERS IN ORDER TO EARN A BUNDLE

Out of today's chaos are bound to emerge huge, multi-national conglomerates, more powerful than ever before in their history.

The trick for investors is, of course, to pick the winners from the losers.

Such a situation, with massive, corporate phoenixes, rising from the ashes of their dead relatives, will, undoubtedly, be the legacy of the credit crunch that has captured the world in its grasp over the past year or so.

One such entity must be Citigroup Incorporated which, on Monday, announced that it had taken over Wachovia Corporation, the fourth-largest bank in the US.

The rescue plan of Wachovia by Citigroup includes Citigroup, assuming $US53 billion-worth of Wachovia's debts and agreeing to absorb $US42 billion of Wachovia's losses.

Citigroup will take over the retail banking division of Wachovia for $US2.16 billion, satisfied by the issuance of new Citigroup stock.

At the end of the day, Citigroup Incorporated will have an expanded retail-banking empire in the US of another 4,300 branches as well as an additional $US600 billion in deposits.

Citigroup, therefore, will rival Bank of America Corporation and JPMorgan Chase and Company.

The share price of Citigroup, as at last Wednesday's close, was $US23.00, which is, still, down about 40 percent from the January 2, 2008, price level.

TARGET () is not making a recommendation to purchase the scrip of Citigroup Incorporated because that is not the business of this medium, but the facts about this huge bank are plain for anybody to see.

HSBC Holdings plc must be another banking giant which stands to gain, materially, from the current turmoil, but, in the case of this bank, which is the largest in Europe and, as such, one of the largest in the world, ranking about Number 4, according to the latest poll, it has its problems, also.

The required provisions and recognised losses in certain divisions in respect of its subsidiary in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) – Hang Seng Bank Ltd – with regard to a number of factors have yet to be known or published.

These, no doubt, will include provisions/losses for its exposure to many of the US and European bank/finance company failures, its exposure to real-estate losses in the HKSAR, as defaulters become more widely known, and recognised, foreign-exchange translation losses.

Last Tuesday, HSBC Holdings plc acquired 93.86 percent of the Issued and Fully Paid-Up Share Capital of IL and FS Investmart Ltd, a retail brokerage house in India, for about $US296.40 million.

HSBC Holdings plc is scheduled to announce its Interim Management Statement on November 10, 2008, in conjunction with the Third Quarter Results of HSBC Finance Corporation and HSBC Bank USA N.A.

The consolidated results of the 2008 Financial Year of HSBC Holdings plc will not be announced until March 2, 2009, however.

It is a wonder, actually, that this huge, international banking giant has not been more forthright and open of late in view of the international turmoil that has gripped nearly every equity market.

On the basis that Management of HSBC Holdings plc has no horrible skeletons in its closets, the shares of this bank may well merit careful consideration at this time.

TARGET could continue to select other corporate entities which appear, today, to be winners, down the road, but the list would be much too long to include the likes of manufacturers of airframes, engines, motor vehicles (yes, not all such companies are losing money), manufacturers and distributors of food products, multinational conglomerates and so on.

For investors, sitting on substantial sums of money, today may well be the time to consider, taking a nibble of certain, publicly listed entities, not just in Asia, but, also, in Europe and the US.

Exacerbating The Situation

Most banks in the HKSAR appear to be over-reacting to the current, tight-credit situation, internationally, and, if anything, their managements appear to be exacerbating the difficult and tense conditions by some of their unwarranted actions.

By tightening up credit lines, dramatically, especially to established, well-heeled entities of the territory and refusing to accept any new customers, be they individuals or corporations or firms, these banks appear to be doing a terrible disservice to their shareholders, a disservice that may well come home to bite such banks' management on their proverbial arses in due course.

As it is, many employees of HKSAR banks have informed this medium that they have been relegated to the role of salespeople. (Please see today's Betty Letter)

Also, managements of many banks have informed its senior staff that everything must, henceforth, be by the book: No exceptions will be considered or tolerated.

Such banking inflexibility stymies any objective determinations by competent bank employees, of course, especially those bank employees who have had a long and fruitful relationship with the senior managements of corporate entities that are long-standing customers of their banks and on which they are on a first-name basis.

How long the current situation will last is unknown, of course, but the banks of the territory have the ability, by accident or design, to bring down the entire HKSAR pack of cards by their actions of today.

Conservative banking practices are one thing, but the current climate, where many banks are over-reacting to the credit-crunch, internationally, is not at all a healthy sign.

Businesses in the HKSAR, as with any area of the world, cannot continue, ad infinitum, without banking support.

But that is the way that things stand in the territory, today.

One would hope that the HKSAR Government will, sooner rather than later, make a statement in respect of the above-mentioned.

It would appear that now is the time for the HKSAR Government to become proactive instead of being reactive.

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