

press release

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Is there value in the banks?

With the banks the focus in the headlines last week Graham Spooner, investment adviser at The Share Centre, shares his views on the sector.

“The sector has suffered a great deal of reputational damage and there is no doubt that the majority of investors remain tense. With the Eurozone and US debt crisis coming to a head there is a lack of confidence in the sector and new regulations and European directives mean increased capital requirements are adding to the pressure.

“However, UK banks don’t have as much exposure to Europe as some of the other countries such as Germany and France and it appears those willing to accept a higher degree of risk are braving the more troubled waters. Our customer trades have shown the banking stocks very much in favour since the market fell in early August. We still feel however that this sector will remain extremely volatile over the coming weeks and believe banks should not be viewed as a short term recovery play.”

“The way the recovery pans out is dependent on multiple caveats, for example bank stocks are only perceived as cheap or oversold if the economy doesn’t face a double dip recession. However some analysts believe that the release of the Independent Commission on Banking review last week has removed some of the uncertainty in the sector and subsequently have upgraded their recommendations on some of the banks to a ‘buy’.

“The less risk averse investors may want to look for a play in the sector. Barclays has the biggest exposure to capital markets which means it could be subject to a significant increase in costs over subsequent years. However, it is encouraging to see the directors buying shares in the company over the last couple of days. This could mean they feel there is value in the company longer term

and are confident they can manage under the new regulations given the generous seven year timescale for implementation.

“Standard Chartered's exposure to Taiwan, Korea, China, Pakistan, India and Thailand, along with other emerging markets, makes it stand out - over 90% of its earnings are from east of the Suez. It therefore hasn't been as affected as others in the sector, although its share price has still fallen. Standard Chartered is a play on Asia and the emerging market story.

“HSBC has a large retail deposit base with most of its business outside of the UK. It is one of the few banks with an attractive yield which is more appealing for investors.

“The banking sector is not for the faint-hearted and lower risk investors should steer clear. However, given a fair wind we believe there may be some value in the banks in the long term for those prepared to take the risk. We don't see any significant recovery happening quickly so would strongly recommend only drip feeding into the stocks or watching closely from the side lines.”

---Ends---

Note to editors:

Our stance on the banks

Barclays – Buy

HSBC – Hold

Lloyds – Hold

Royal Bank of Scotland – Sell

Standard Chartered - Buy

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The Share Centre was established in 1990 to provide value-for-money share services for private investors. Its range of services includes buying and selling shares (by Internet, telephone and post) and a comprehensive share administration and safe custody service. Tax-efficient investment 'wrappers' including ISAs, CTFs and SIPP's are also available.

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