



RBC Wealth Management®

*Royal Bank of Canada*

# The Global Economic and Financial Crisis

A solid partner that you can trust

# The Global Financial & Economic Crisis



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- Global asset prices have collapsed
- Hard currency loans very expensive and hard to get
- Lack of bank liquidity
- Commodity prices have collapsed
- Currencies and fuel prices extremely volatile
- Global trade is extremely depressed
- Global economic power shifting east

# The Global Financial & Economic Crisis



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- A bust in the US in the 1870's after the railroad boom
- Bank crises in the US in 1913 leading to the creation of the Fed
- Great crash of 1929 and the Depression
- Oil crisis of 1974
- The LDC crisis of 1982
- The Crash of 1987
- The Savings and Loan crisis of the late 1980's

# The Global Financial & Economic Crisis



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- The breaking of the Japanese bubble
  - Stock market fell 91% to its lows
  - Still down 75% from its high today
- The burst of the technology bubble in March 2000
  - NASDAQ down 77% over the next 3 years

# The Global Financial & Economic Crisis



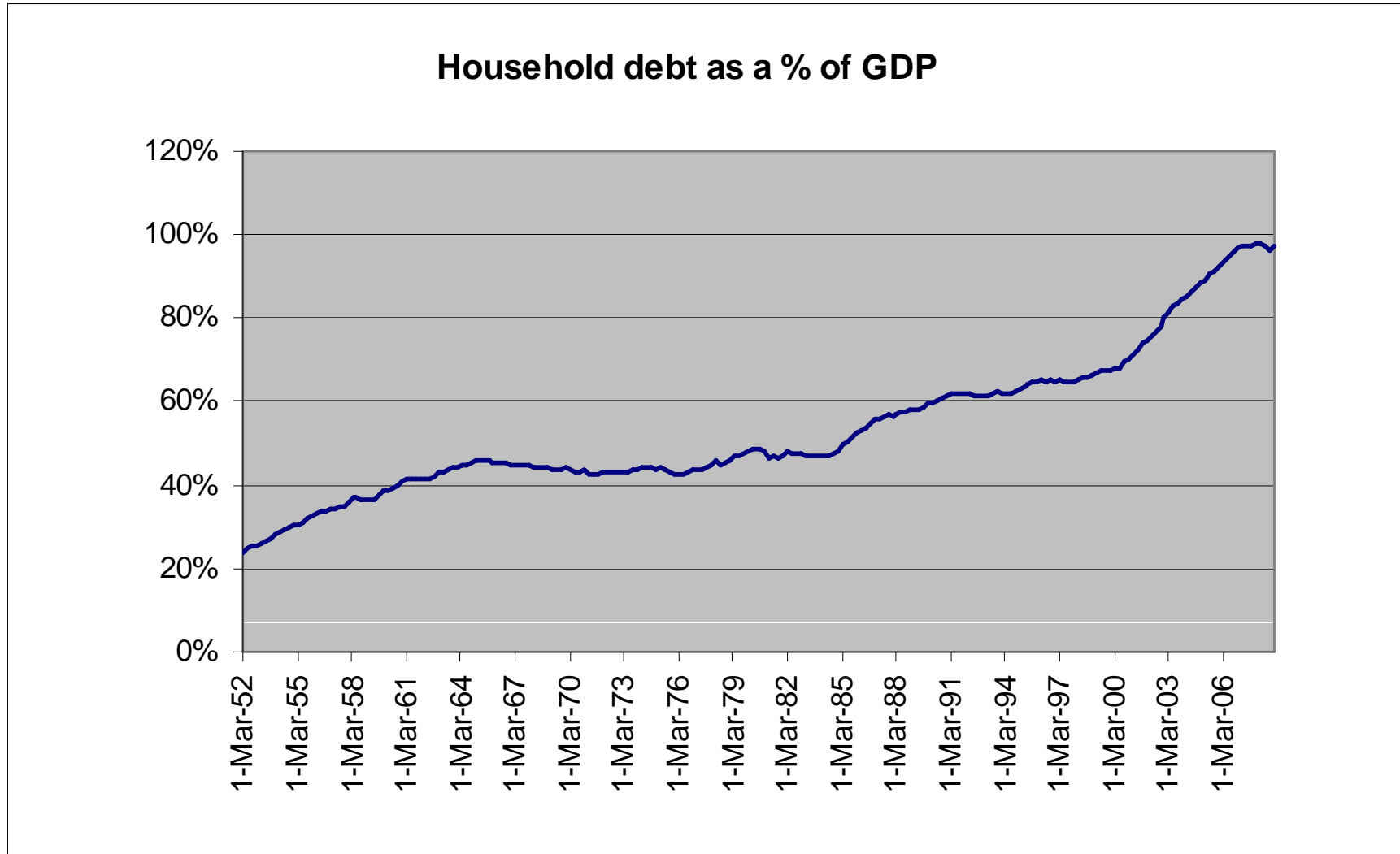
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- Over Optimism – The Herd Mentality
- Greed by Financial Institutions and Investors
- Excessive Leverage and Bank Lending
- Banks Borrowing Short Term and Lending Long Term
- Flawed Financial Innovation
- Regulatory Failure
- FRAUD and CORRUPTION

# The Global Financial & Economic Crisis



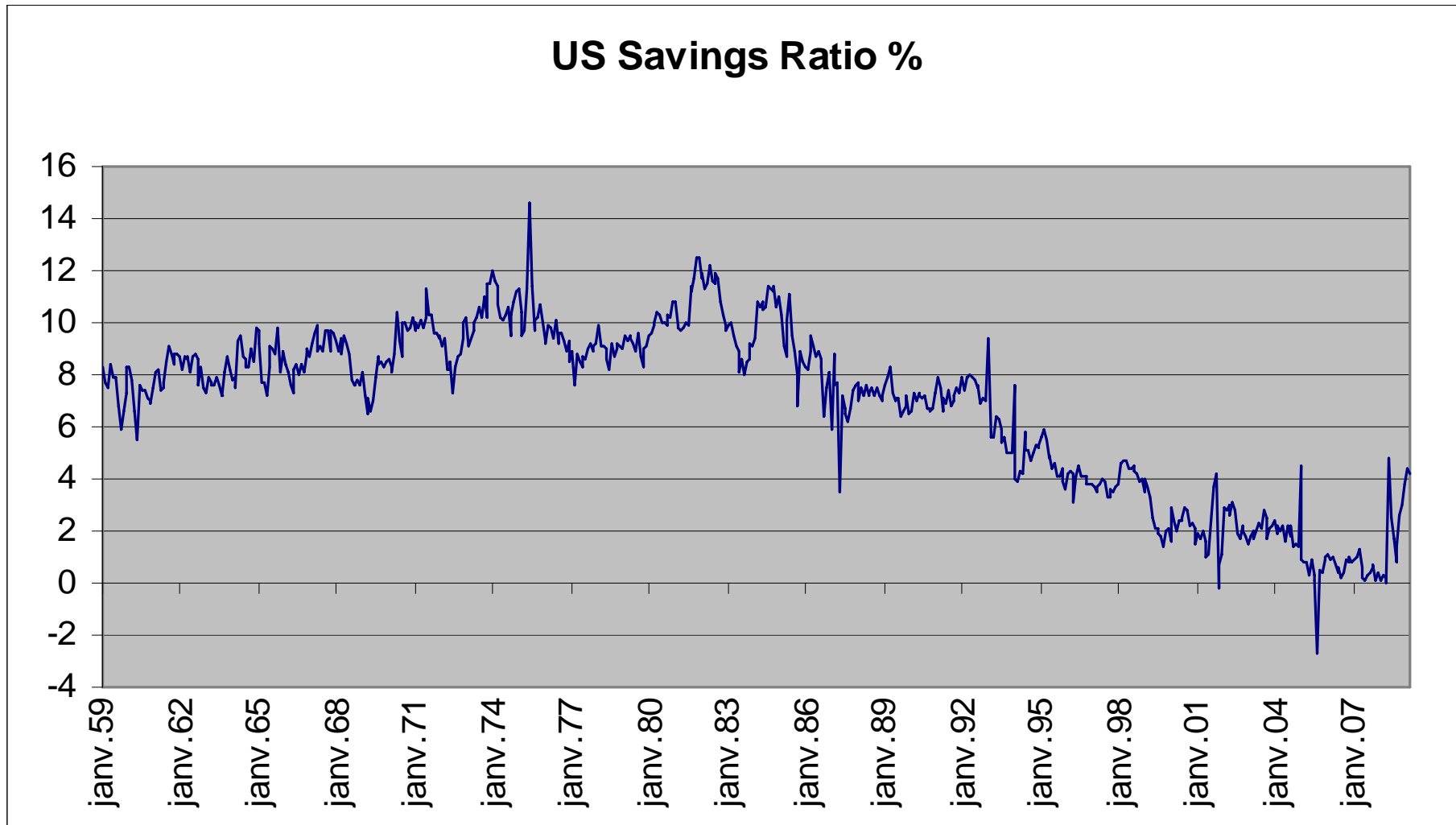
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# The Global Financial & Economic Crisis



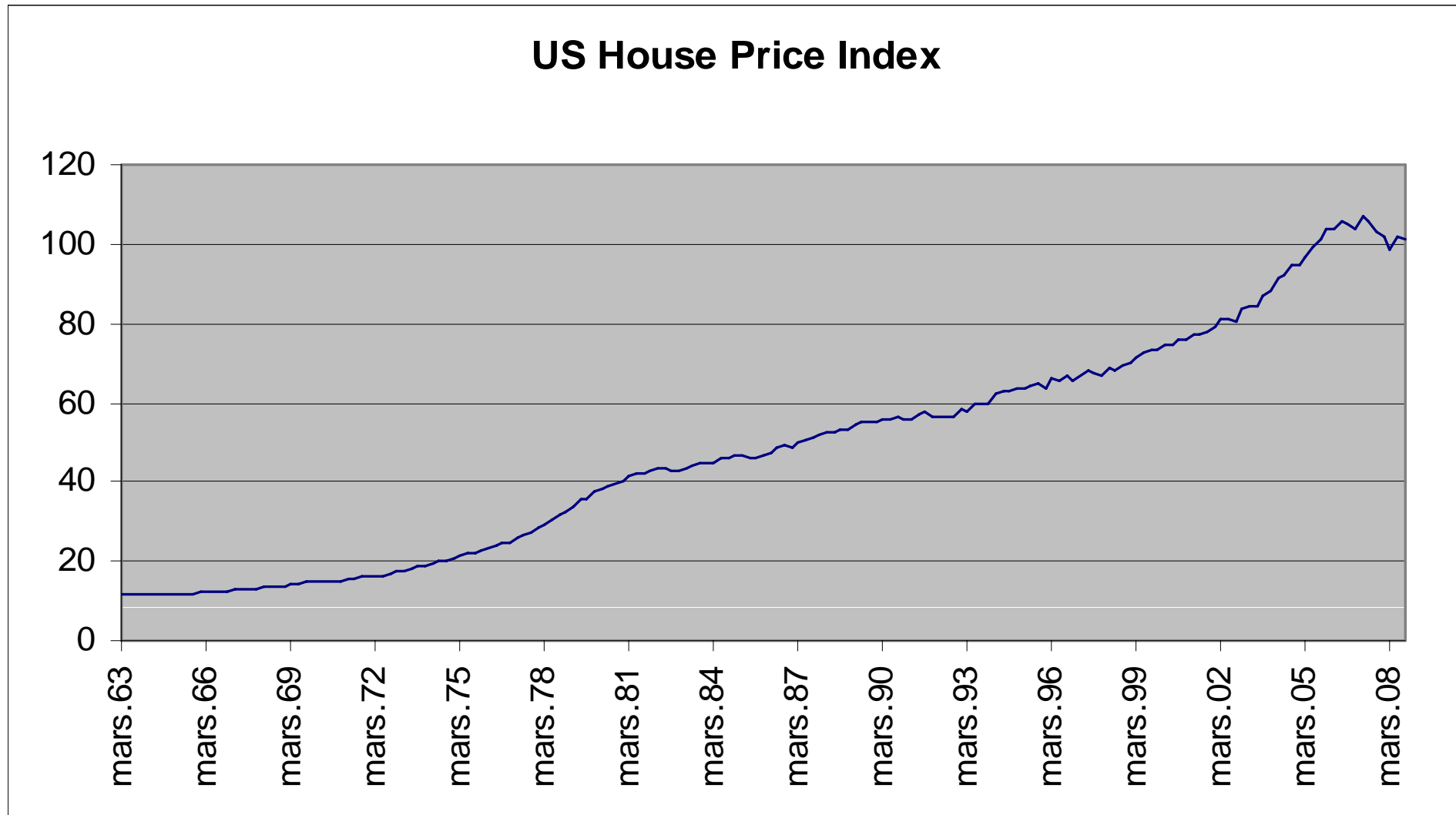
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# The Global Financial & Economic Crisis



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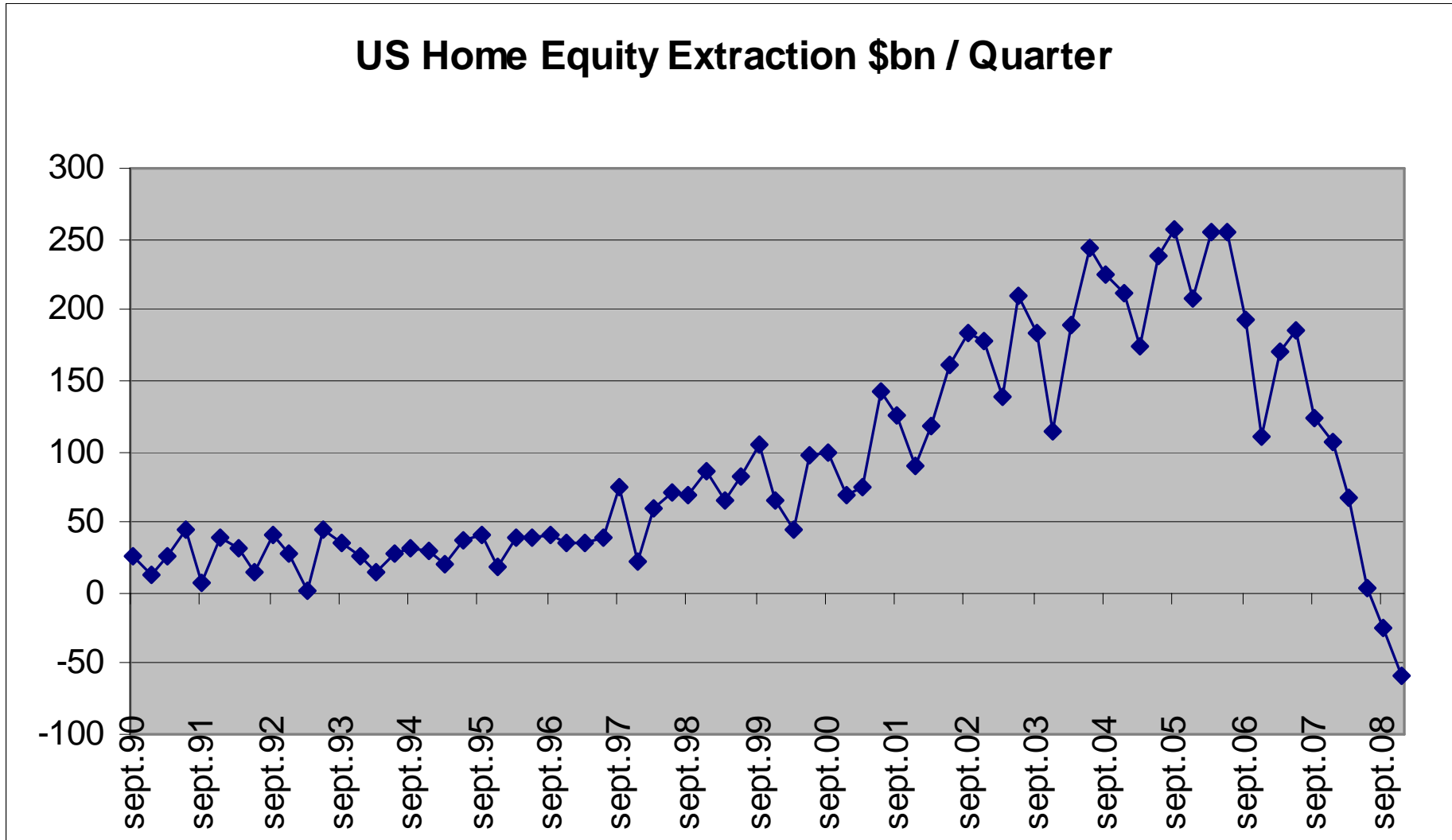


# The Global Financial & Economic Crisis



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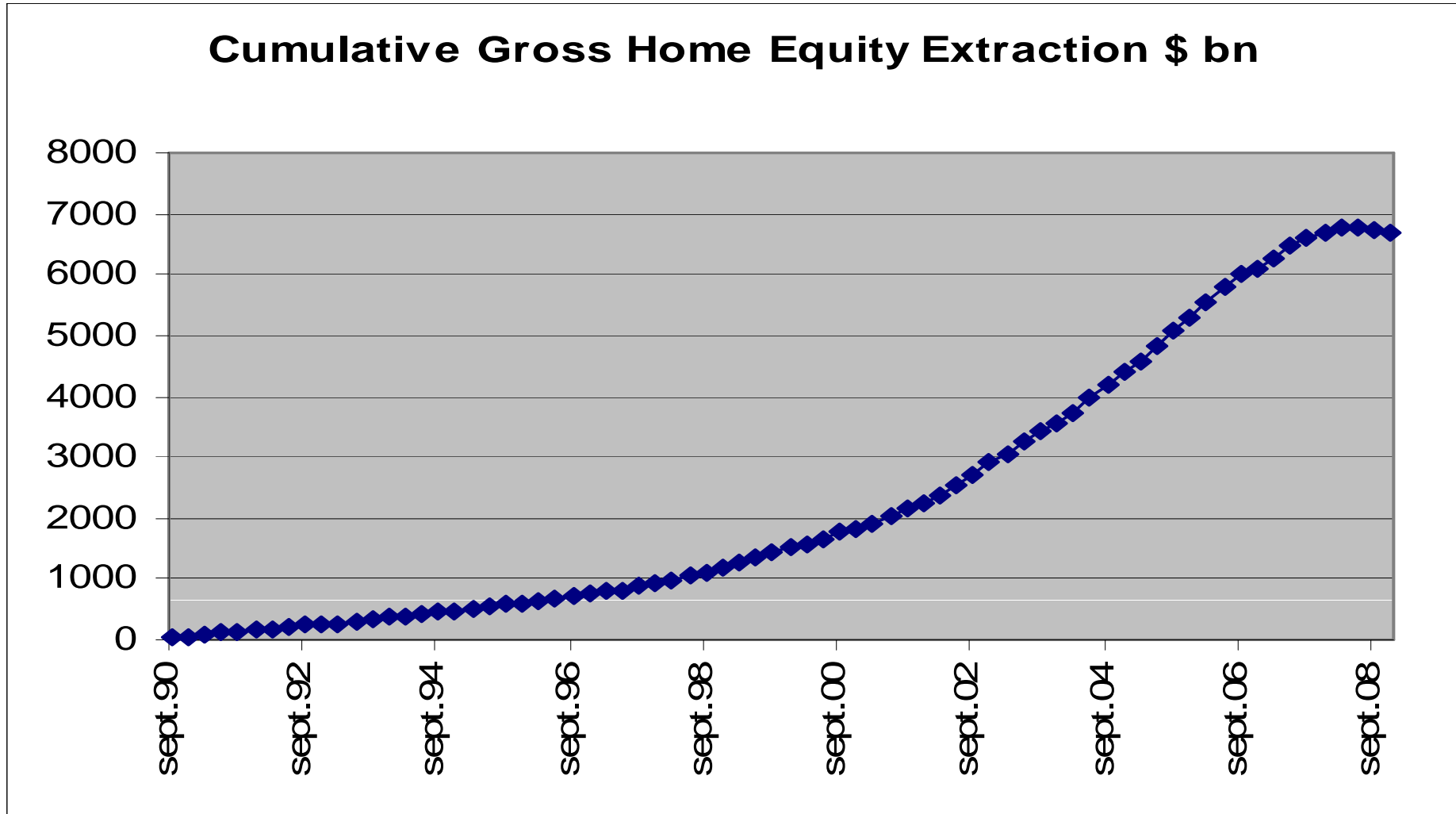
## US Home Equity Extraction \$bn / Quarter



# The Global Financial & Economic Crisis



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# The Global Financial & Economic Crisis



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- House Prices to Continue to Rise For Ever
- Interest Rates Would Stay Low Permanently
- Money Would Always Be Easy to Borrow



## The Herd Mentality

When everyone is thinking the same thing

**NO ONE IS THINKING**

# The Global Financial & Economic Crisis



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- House Prices and Mortgage Debt
- Consumer Debt
- Untested New Financial Products
- Commodities
- Bank Lending
- Private Equity
- Hedge Funds

**BUST**

# The Global Financial & Economic Crisis



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- Massive Public Policy Failure in the US Housing Sector
- The Fed Holding Rates Too Low For Too Long
- Failed Financial Innovation on a Massive Scale
- Complete Regulatory Failure in US, UK and Europe
- Total Failure of the Rating Agencies
- Far Too Much Leverage

# The Global Financial & Economic Crisis



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Central Banks Must Be More Proactive, they must:-

- Forecast Better;
- Act Completely Independently
- Act Quickly

# The Global Financial & Economic Crisis



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Failure in Corporate Governance. Directors must:-

- Stand Up and be Counted
- Exercise Their Fiduciary Duty to the Shareholders
- Not Accept Governmental Pressure

# The Global Financial & Economic Crisis



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Failing Companies Must be Allowed to go Bust :-

- Large Banks and Insurers Should Not be Allowed to Create Huge Systemic Risk.
- Survival of the Fittest

Some Financial Institutions Have Become Too Large:-

- Problems Managing Very Complex Businesses



## Financial Engineering and Innovation:-

- The Risks of New Products Were Poorly Understood
- Pricing Models and Pricing Assumptions Totally Inaccurate
- No Market for Hundreds of Billion of Dollars of Toxic Assets
- Massive Losses For Banks and Investors

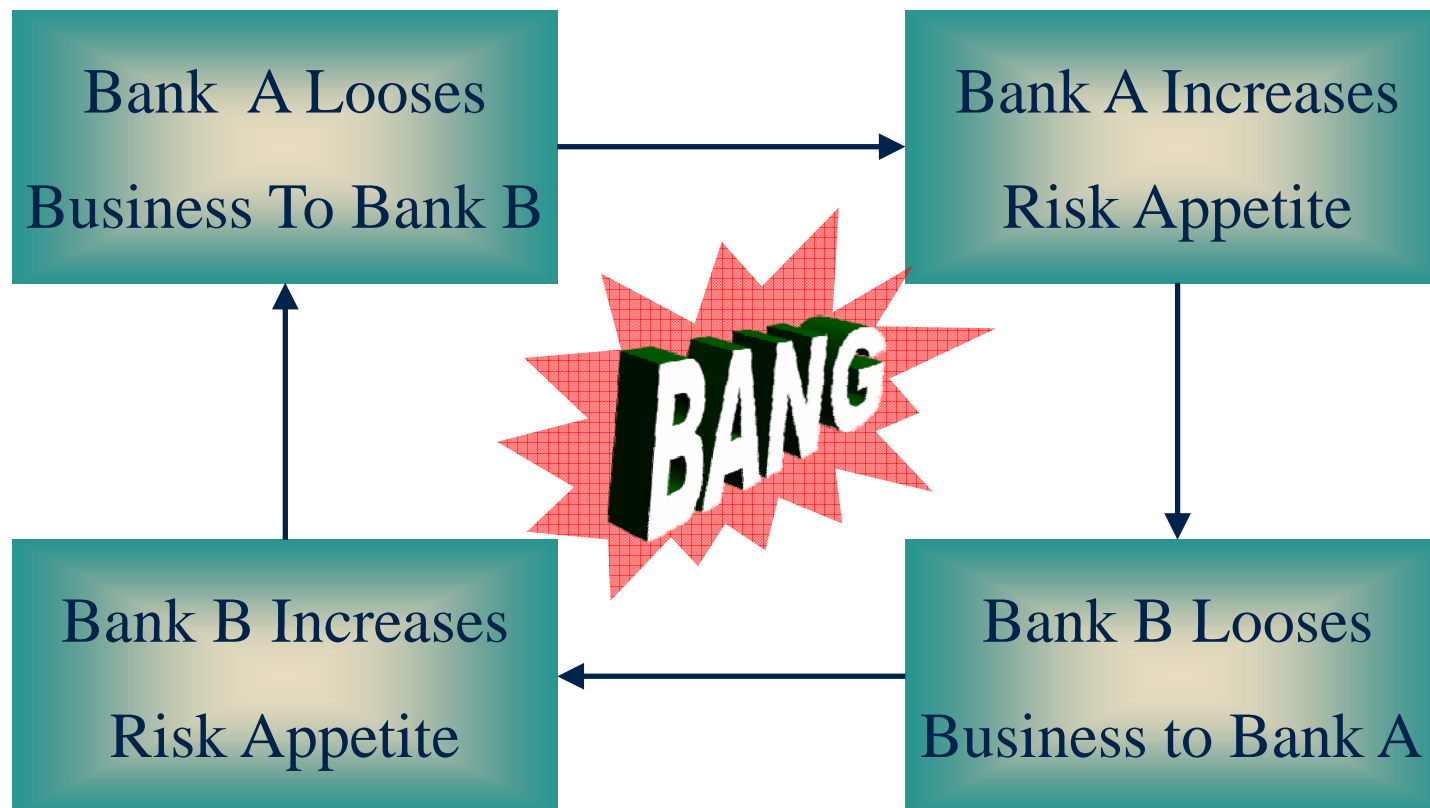
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# The Global Financial & Economic Crisis



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## Spiralling Increase in Risk Taking

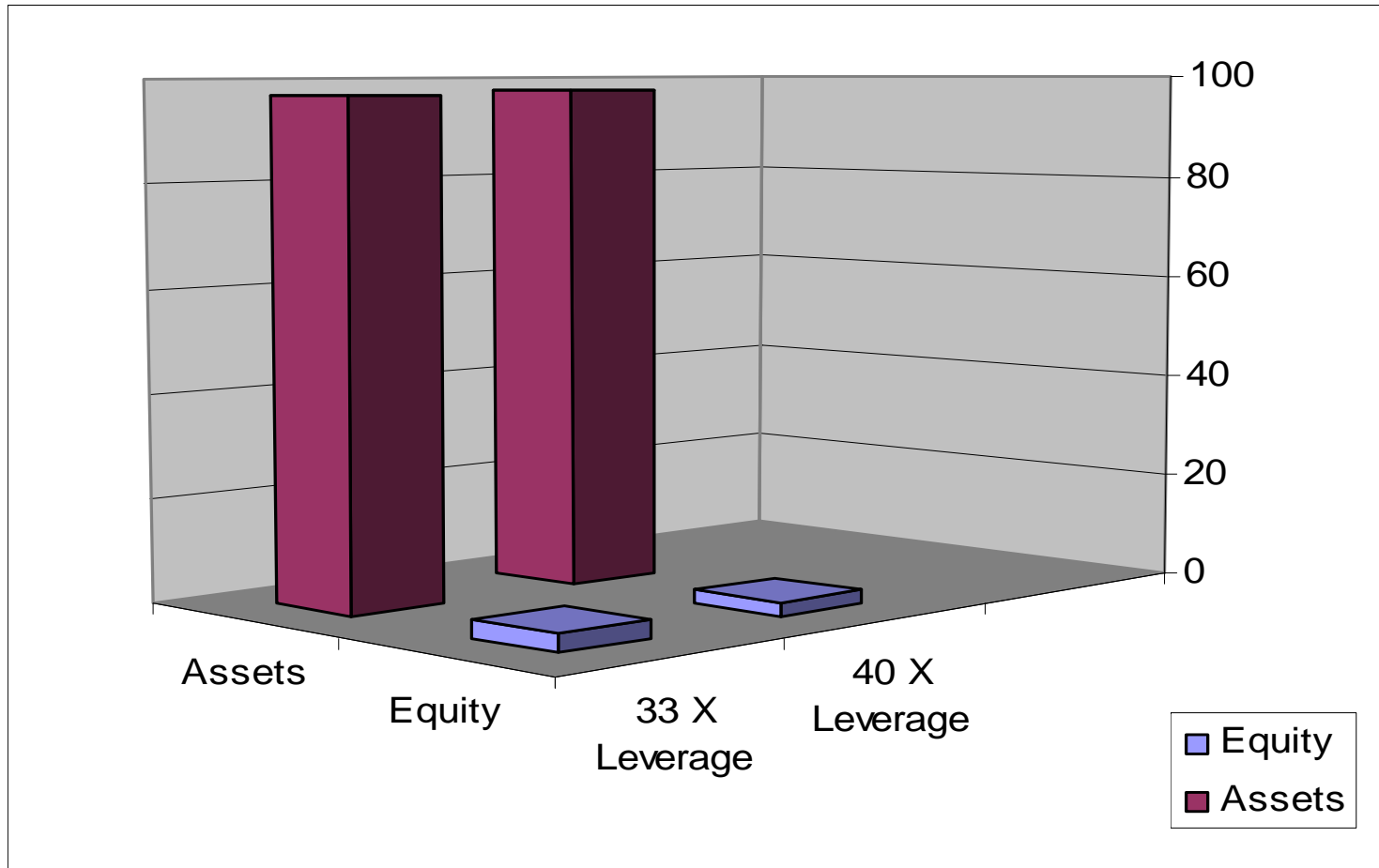


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## The Effects of Leverage



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*“In future .... I think a primary characteristic of the system ought to be a strong, traditional, commercial banking-type system. Probably we ought to have some very large institutions ..... whose primary purpose is a kind of fiduciary responsibility to service consumers, individuals, businesses and governments by providing outlets for their money and by providing credit. They ought to be the core of the credit and financial system. This kind of system was in place in the United States thirty years ago and is still in place in Canada, and may have provided support for the Canadian system during this particularly difficult time”.*

# The Global Financial & Economic Crisis



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## Some Important Lessons:-

- Don't Over Leverage
- If You Can't Take The Downside Don't Do It
- There Are NO FREE LUNCHES – Don't Be Seduced
- Don't Be Greedy
- If You Don't Understand It Don't Do It



## The Future

- Stabilisation Of The Banking System
- More Write Downs
- No Rapid Recovery – Debts Must Be Repaid By The Consumer
- Taxes Will Have To Rise
- At Best Anaemic Growth



## Some Major Questions

- What will be the effect of \$1 tn - \$2tn deficits in the US?
- Who will purchase all of the Treasury Bonds to be issued?
- Will The Federal Reserve print money?
- Will other banks be nationalised?
- Is there a bubble in the US Treasury Bond market?
- Will the massive liquidity injection cause an inflationary problem?

# The Global Financial & Economic Crisis



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“These are days when many are discouraged. In the 93 years of my life, depressions have come and gone. Prosperity has always returned and will again.”

John D Ruckerfeller - 1930

# Canadian Banks



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- No Canadian bank has had to seek assistance from the Canadian Government
- Canadian banks are not allowed to be highly leveraged
- Canadian banking system is heavily regulated
- Canadian banks have been and continue to be conservative
- No mega mergers or macho corporate raids

## A little about RBC

- RBC is 150 years old
- The largest company in Canada
- The 3rd largest bank in North America
- The 9th largest bank in the World
- Aaa rated by Moody's
- Stable and conservative.

# Where to find us ?



RBC Wealth Management®



- In Switzerland since 1982, the home of private banking
- Switzerland is one of the world's major financial centres.
- Geneva is the centre of private family wealth management
- The Swiss financial industry, is one of the oldest and most stable, in the world . It remains discrete and dedicated to private wealth.
- We are located in Geneva in the heart of the “**Quartiers de Banks**”.

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## Worldwide Locations



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Since 1869

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