

Bloomberg TV Interview Transcript

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Raymond Stewart, CEO and CIO of RASARA Strategies, Inc.
commenting on regional bank stocks



BloombergTV:

Could regional banks grow by way of acquisitions? More specifically, buying investment banks as M&A volume continue to rise?

Well, Raymond Stewart is the President and Chief Investment Officer of RASARA Strategies. They have over \$200 million under management, focused mainly on small and mid-cap financial companies. He joins us now with what he sees.

Raymond, we thank you so much for coming in. Do you think it is a good investment — a good strategic plan — for these regional banks to become more and more involved in the M&A activity that's going on?

Raymond Stewart:

No. While the underlying goal of diversifying bank revenues to come from both net interest and non-interest revenue streams is a good one, I think that regional banks that are considering acquiring investment banking operations face three particular challenges.

First, I don't believe there are many deal opportunities out there for this.

Second, buying an investment bank is buying a corporate finance team, not just a corporate entity. A regional bank will have to consider what it's going to take to keep that in place. If the investment bankers walk, the regional bank is essentially left holding a shell.

And third, the corporate financing business can be cyclical; particularly for secondary and tertiary players.

BloombergTV:

Alright. So why are we seeing so many acquisitions happening? The promise for growth is out there and people are taking the bait? How would you explain the phenomenon then?

Raymond Stewart:

Essentially, banks are seeking to diversify their revenue streams to mitigate the risk involved with their revenue. Say, for example, in our current economic environment a number of banks are constantly faced with the challenge of margin pressures right now. Banks are trying to diversify their revenue streams so that they are not solely dependent on the interest rate cycle. They're trying to diversify out of that area.

BloombergTV:

So you mention they are trying to diversify. What other areas or business model could you suggest then for them?

Raymond Stewart:

I think there is opportunity for regional banks for expansion in the investment management business.

First, there's the mega-trend of the Baby Boomer demographic reaching and living through their retirement years. This supports the need for asset management financial services, and it's not tied to any market cycle, per se.

Second, as many of the large brokerage and wealth management firms continue to raise their desired minimum for clients' investable asset size, many investors are finding themselves no longer considered an "ideal customer" by the firm that had been managing their money. This creates opportunity for regional banks and boutique wealth management firms.

Third, there are boutique money management firms out there that have good managers with good track records, but they lack a distribution system for their account base. And that's just the type of asset management business a regional bank can keep in-house.

BloombergTV:

OK, Raymond. Well, we thank you so much.

That is Raymond Stewart. He is the president and chief investment officer of RASARA Strategies.

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