Crisis Over, But Be Wary of Banks: Vernes

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ZÜRICH, Switzerland (Reuters)—Asset manager Vernes & Associés SA, whose conservative investment approach helped it outperform peers last year, said on Wednesday [May 27] the global financial crisis was over, but investors should still steer clear of banking stocks.

"The market was undervalued at the beginning of 2009 but there has been a real turnaround since," said Cyrille Vernes, founder and president of the small Geneva-based company which manages around 200 million Swiss francs ($184.2 million) for private clients.

Mr. Vernes said he was relatively optimistic for 2010 and 2011 too. "The worst of the crisis is behind us," he said, although he also said that investors should be wary of the ongoing rebound in the banking sector.

"We exited our positions in financial stocks completely in August 2007," said Mr. Vernes, whose handful of colleagues work with the company's proprietary models.

Fund manager Stephane Dutu was equally cautious. "Many people are deluding themselves about the banks, some are still very fragile," he said.

Mr. Dutu manages his company's European equities fund, which lost 1% of its value last year, outperforming by a large margin the 44% loss of the benchmark MSCI EMU index.

"Bad debts at banks are going to mount, and will have to be written down," he said, explaining why he preferred defensive stocks such as Nestlé SA, Novartis and Roche.

Mr. Vernes said his company had not lost a single client since the start of the downturn, and had actually had some new subscriptions, including one client who approached the company after losing money in Bernard Madoff's $65 billion investment fraud.

Vernes itself had no Madoff investments. "We met one of Madoff's salesmen a month before the scandal broke, and concluded the fund was not at all transparent," Mr. Dutu said. The asset manager prides itself on "managing client money as though it were our own" in order to avoid what Mr. Vernes calls a fundamental conflict of interests between banks and their clients.

"For us the clients' interests come first. Our remuneration depends on how we protect their capital," Mr. Vernes said. "A good asset manager is not the one who makes you money when markets are rising, but one who avoids losing you money when they are falling."

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