

Mr. Chairman, I am very pleased to have been invited to address this formidable group of lawyers today in order to share my views as a banker and as an investor about the economy and the capital markets. There is much gloom out there in the media and in the public sphere in general. I am certain that none of us in this room can remember a recent business meeting that did not touch on the current financial crisis. The gloom has much justification, for sure. The economic storms are stronger than I have ever seen in 35 years of my banking and investment experience. I have no doubt that we have ahead of us a few years of very slow growth and further nasty financial surprises. However, despite these very significant and very real problems in much of the world there are some surprisingly good and promising things developing out there. I want to use this opportunity to draw your attention to two of these developments which I believe have been neglected in most recent public discussions.

My perspective is as Chief Executive of Bank Gutmann in Vienna, a group of roughly 200 professionals and support staff involved in investment management. Our clients range from very large institutions to families and individuals. We invest about 10 billion Euro worth of securities for our clients pretty much throughout the world capital markets, with most of our clients located in Austria and the wider central and eastern European space. It is from this perspective that I see the present international financial crisis. Our unique way of doing business involves our very close collaboration with a number of internationally recognized experts in various investment fields. These range from independent economists and financial academics to specialists in very narrow but complex areas of investment.

In short I share with my partners a significant responsibility for a very large pool of investments and receive much original advice from some very smart advisors. With some of these advisors we have had close relationships for many years. So those are some of our business methods: You know that I was not going to get away without full disclosure in the company of so many lawyers.

Let me now return to my real message: There are some surprisingly good things happening out there hidden among the gloom!

The first of my “surprisingly good things happening” has much to do with the current crisis. We need to search out the roots of the crisis in order to appreciate the good things. What caused the crisis? There is much blame passed around for the current problems. Prime candidates in the public discussions of the crisis are the US Federal Reserve Bank for keeping interest rates too low, greedy bankers and brokers, overpaid leaders of banks and hedge funds with oversized bonuses. While in my view all of these were part of the problem none of them seem fundamental to me. While interest rates may have been too low for too long, people who were inclined to borrow to acquire rapidly appreciating assets would have borrowed even if the rates had been higher. As for greed or - even worse - crime I truly believe that they are fairly distributed throughout the world. I have no good reason to believe that there are more than average numbers of greedy or crooked people among us bankers. So what then was the fundamental cause of this crisis?

I think that severely shaken confidence is what caused the serious disruptions in today's system of banking and commerce. Our confidence in the past decade was built on blind trust in a financial theory which stated – effectively - that markets are always right. When this theory's limitations became obvious, the very foundations of our system of finance were shaken. This theory is the so called “efficient market theory.” It was a theoretical breakthrough in it's time about 30 years ago but failed to evolve into a more general theory of greater practical viability. Of course markets are right most of the time. There are many smart and driven investors trying to find the next opportunity overlooked by others. But they are not always right. Every honest and responsible investment professional knows that we all make mistakes. Relying on market information alone to take investment decisions sometimes carries with it great risks. The future simply always holds great uncertainties.

However, in the past 10 years almost all financial risk control both internal and applied by our regulators, was built on this misguided theory. This led many investors to overconfidence and to massive use of leverage in all areas of finance, while we still thought we knew how much risk was being accumulated. The more risk management resources an institution had, the more risk it took. Imagine a party of rock climbers mounting a steep cliff in blind confidence that their rope will hold them. Near the top, they discover that the rope is defective and would not hold them. Can we be surprised that everybody wants to come down from the mountain first, before his rope breaks? That is what is happening now - a massive deleveraging in the system – coming down the mountain of debt!

So what is good about all that, you may ask?

It is that we are beginning to accept a more limited degree of predictability in financial markets. As a result our financial theories underlying risk control will be modified. This of course is a project for academia. But what matters to the rest of us is that bankers will be more humble about their ability to control risks and to predict markets. As a result, in the future, we will see a great reluctance to use as much leverage as in the last decade. That was forgotten in past years and is a surprisingly good thing resulting from this crisis.

The other day I listened to Paul Volker, former Federal Reserve Chairman, and one of America's most influential central bankers. He posed the following questions: are our leading banks too big to manage? Can we control the various conflicts of interest in these organizations? Is it prudent to have banks so big that their failure endangers our economies? Paul Volker thinks there is a need to rebuild our banking system from the ground up and I agree with him. We need to ask these questions. Humility about our abilities to predict future investment risks must bring the human element back to the forefront in banking. You can do this effectively only in organizations of manageable size. This is one of the best things that this crisis will bring about.

The second of my “surprisingly good things happening” is the effective control of political brinkmanship through increasingly integrated global capital markets. By brinkmanship I mean the practice of pushing a dangerous situation to the verge of disaster in trying to achieve the most advantageous outcome. This is not a political speech, but from a pure investment perspective – do you know of greater risks to your financial well being than politically dangerous policies? I do not think so and I think you will agree with me. Why? Because I am sure that there are more than a few people in this audience whose financial welfare has been affected negatively by political brinkmanship. Europe’s history in this regard is rich and so is the history of the rest of the world. But increasingly, globalization of capital markets has crystallised into a role of a very sensitive early warning gauge for all forms of political overreaching.

Our political realities are still inherently national. Even the recent reactions of European Member States to the banking crisis have offered plenty of opportunities to observe this. On the other hand capital markets and economies have migrated to a much more global sphere. There is no better opportunity to observe this transformation in capital markets and in the overall economy than to follow the current regional developments in the emerging economies of Central and Eastern Europe. The economic fundamentals of many CEE nations are quite promising, but the global capital market crisis is increasingly taking its toll on local economic growth. It acts as an early warning system to the real economy in these countries. Capital markets have become truly connected and have thus mutated into one of my favorite “surprisingly good things”: They react very quickly to first signs of political brinkmanship.

Let me briefly demonstrate to you what I mean by that.

When Russia and Georgia embarked on an escalated military confrontation last August, this tussle unsettled investors sufficiently to initiate a sharp decline in Russian share prices. There followed, in rapid succession, a growing liquidity crisis in Russia and finally a challenge to the foreign exchange value of the Ruble. This also reinforced the financial storm in the West. Until then, Russia seemed a pillar of strength in the global economy, well protected from the growing financial crisis in the West but the regional military brinkmanship changed this over night. I should stress that I have no way of judging whose brinkmanship it was. But it was brinkmanship!

Example two: In September, the US financial authorities were confronted with the likely failure of Lehman Brothers. Its trading partners had lost confidence in the firm's ability to meet its obligations. Lehman had become one of the largest players in the financial markets. Financial analysis alone would have shown how dangerous the failure of a bank of this size was for the capital markets. Perhaps cool heads could have guided an orderly liquidation, but in Washington angry politicians and an angry electorate demanded a sacrificial lamb. This led to political brinkmanship. They got their sacrificial lamb but with it they got the greatest shock to the credit markets since WW II undermining the very confidence that is the foundation of banking and commerce.

Within a few weeks following the Lehman Brothers collapse the financial virus was rapidly spreading in Europe. Until then it had been limited to only very few financial institutions, heavily involved in underwriting and distributing securitized mortgages. Despite some efforts to address the problems on the level of the European Union a number of European States proceeded to forge national solutions to the crisis. In so doing, they undermined the unity of the European Community's common currency. What did the markets do in response? They drew the only logical conclusion by selling the common currency against the US Dollar. Dollar borrowers became overextended and rushed for cover. CEE countries with dollar funding deficits also caught the virus. Indeed, the markets even questioned the commitment of some European States to remain within the common currency zone.

Why is it so important for investors to see that political brinkmanship is promptly punished by integrated capital markets? Because there is no greater danger to investment success than irresponsible political policies.

A diversified, well considered investment approach is almost certain to preserve capital and provide adequate compensation for risk. It will not, however, provide protection against major political disruptions. The globalization of capital markets has made these disruptions much more painful also for the perpetrators and therefore much less likely. The current financial crisis has made this painfully obvious to anyone.

There is no denying that we are in the midst of a crisis which only few expected to get as deep as it got. There is little doubt in my mind that some nasty surprises are still upon us in the coming year or two. But I have tried to remind you of some of the good things resulting from this calamity. I must confess that, like most bankers, I like bubbles better than their bursting. But burst they must and we should at least be left with some good new things growing out of the rubble.

Let me leave you with a last thought on the current economic crisis: If all “my surprisingly good things happening” seem a bit too philosophical to you and what you really hoped to get from me is some practical investment advice then here it is: Markets hate great economic uncertainty and therefore significant volatility will continue to be upon us for the coming months. If you can take the risk of significant volatility start to look for value in investments - not just momentum - seek positive cash flow, secure funding and give your investments plenty of time to produce results. Keep in mind that in this period of economic pessimism some of the greatest investment opportunities will surface but resist the temptation to simply buy a technical rebound of oversold markets.

As the legendary Warren Buffet has written in a recent editorial in the New York Times: “Be greedy when others are fearful and be fearful when others are greedy”. I totally agree with him. But I also know that this is much easier said than done!

Thank you for inviting me and thank you for your attention.