

# Banks and stocks

Finance



Banks and Stocks Table of Contents Introduction 3 Reasons for the loss of JP Morgan 3 Effect of the loss on industry and economy 4 Conclusion 5 References 6

Introduction JP Morgan Chase & Co. is known to be amongst the leaders in the financial services providing globally. JP Morgan & Co. is into assisting clients in their business as well as wealth management program. JP Morgan Chase & Co. mainly deals in asset management, private banking, investment banking services related to treasury and securities and even commercial banking. It generally concentrates on building up the innovative strategies to meet the requirements of its client's daily and future needs. But recently JP Morgan Chase & Co. had suffered a "significant" loss amounting to \$ 2 billion faced in the credit investments of portfolio, as stated in the New York Times on the news of 17th May, 2012. Within a week's disclosure of the news JP Morgan Chase & Co. was stroked with another blow, i. e., another loss of at least \$1 billion. The momentum of the loss of JP Morgan went high with the hedge funds and other investors taking an upper hand of the situation. The above crises lead to the faster deterioration of JP Morgan in the credit market. Reasons for the loss of JP Morgan JP Morgan did not disclosed the trade factors of the company in details which led to is competing investors and hedge fund dealers taking advantage of the situation. The loss of JP Morgan added up on the corporate index due to the steepening of the credit yield curve; thus matters got worse resulting in the mismatch of the expiration date of the securities enhancing further loss of the company. In the process of retrieving from the loss of \$2 billion JP Morgan Chase and Co. sold its profitable securities worth \$ 25 billion to increase its earning thus resulting in more soup and causing a further loss of \$ 1 billion and more. Such was the scenario that the government of United

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States and Britain started with the investigation of the accounting practices and the disclosure of public policies of trade of JP Morgan Chase & Co. Later it was learnt that the company being a giant in the financial market was cheating not only their clients but also their investors. Thus the decisions taken by the company in dealing with risky derivatives was a wrong one as they did not seem to have understood the derivative market and secondly they sold off their assets of high worth which were hard to replace. However, the lack of detailing for the sales of its securities leaves every detail unaccounted for the massive loss of the company leading to “ London Whale” in the credit markets (Nesto, “ Another Rogue Trader? JP Morgan’s \$2 Billion Loss Stuns Wall Street”). Effect of the loss on industry and economy

The government of America already made stringent measures for the banks without disturbing the global financial system. But the case of JP Morgan Chase & Co. calls for tougher rules to be implemented on the banks regarding its dealings. This may disrupt the regular course of dealings in the banking industry as the customers may refrain from buying financial products which would affect the industry as a whole. The economy may face crises for the sudden loss of the JP Morgan Chase & Co. Looking at which the government of America is more concerned in dealing with the reasons for the financial distresses those are being cause at frequent gaps. One of the main rule of Volker is that the bank cannot enter into business for its own profitability without disregarding the interest of its clients which was violated by JP Morgan & Co. resulted in the ceasing the US-based banks to in the proprietary trading involving risk. The hedge funds went to an advantageous position regarding this. Financial overhauling came into being after the JP Morgan’s loss of \$ 2 billion (Marcinek, Griffin & Kopecki, “ JPMorgan Said to

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Consider Clawing Back Bonuses after Loss”). Conclusion Before the loss made by JP Morgan the claw back of the company was not really an option for its revival. The investors became smarter from this happening as they started keeping their investments in different baskets so that the loss in one investible security will not harm them as much. Moreover from the study we can interpret that the main reason behind the loss of JP Morgan is hiding of the accounting practices carried by the company. Further the losses were a result of the assets which could not be revived from the market was sold off for the retrieval of the company. Thus the wrong decisions taken by the company went against it. References Marcinek Laura, Griffin Donal & Kopecki Dawn. JPMorgan Said to Consider Clawing Back Bonuses after Loss. Bloomberg, 16 May, 2012. <http://www.bloomberg.com/news/2012-05-15/jpmorgan-said-to-weigh-bonus-clawbacks-after-loss.html>. 30 May, 2012. Nesto Matt. Another Rogue Trader? JP Morgan’s \$2 Billion Loss Stuns Wall Street. Yahoo Finance, 11 May, 2012. <http://finance.yahoo.com/blogs/breakout/another-rogue-trader-jp-morgan-2-billion-loss-162431768.html>. 30 May, 2012.