

## Nationalisation of banking system 'a disaster', fund house warns

By [Nicholas Paler](#) | 00:01:00 | 17 November 2008

The government's rescue of the British banking system will end in tears, a fund house has warned, questioning whether the banks were raising enough capital.

Mercater Capital Management's chief investment officer, David Oakes, said the decision to nationalise parts of the banking system would cause problems in the future because of the constraints it places on the sector.

'The nationalisation of large parts of the banking system, whilst needed to restore confidence, will be a disaster,' Oakes warned.

He said UK banks in which the government had taken a stake would be hamstrung by government interference, and he also questioned whether enough capital had yet been raised by the financial institutions.

'Government interference going forward will hamper growth as they won't be able to rebuild their balance sheets, and effectively they will become a utility - that doesn't pay a dividend - rather than a growth stock,' he said.

'They also haven't raised enough capital yet, and so we are completely out of banks.'

Oakes also warned that these were 'truly frightening times', with so much uncertainty remaining going forward, and he warned it was not a time for investors to be brave.

Oakes and his firm have therefore opted to invest in cash and sovereign bonds, and going forward he said Mercater would use any uplift from current levels to reduce remaining equity weightings further.

In terms of when some stability will return, Oakes said some progress could be made once house prices stop falling, as it will allow losses linked to the sector to be quantified.

However, he warned these losses would be bigger than expected, and he concluded that he was expecting equities to head lower for now, hence his move to sell when possible.