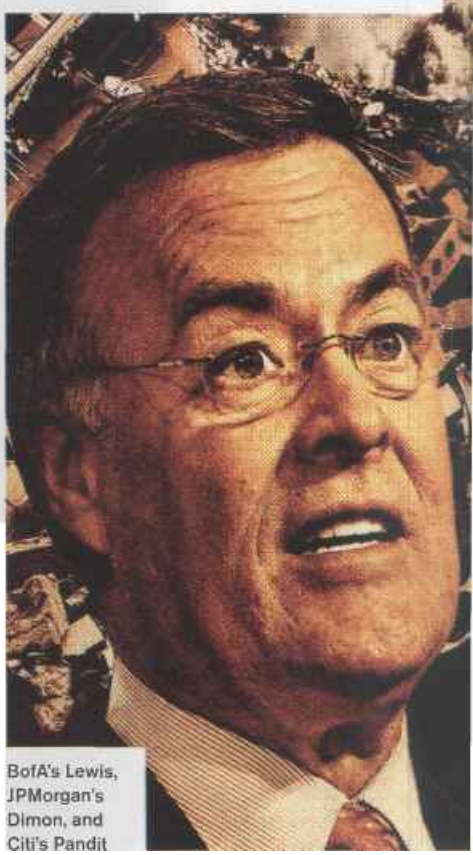
DIMON MAY GO SHOPPING

The JPMorgan CEO dodged subprime, bought Bear, and still has funds to spare



BofA's Lewis, JPMorgan's Dimon, and Citi's Pandit

By Matthew Goldstein, David Henry, and Mara Der Hovanesian

In case there were any lingering doubts that JPMorgan Chase Chief Executive Jamie Dimon had emerged from the credit crisis on top of the U.S. banking heap, more proof came on June 2 when Ken Thompson, CEO of rival Wachovia, was ousted. Two days later, JPMorgan's market value surpassed Bank of America's, the first time it has been in the No. 1 spot since June, 2001.

Not long ago banks jockeyed for the title of biggest, with Citigroup and Bank of America trading places on any given day. Now it's all about strength. JPMorgan has come to the forefront by avoiding subprime securities and other major problems that have ravaged its peers. While many CEOs, including Citi's Vikram Pandit, are raising billions in capital and selling assets to survive, Dimon can marshal his firm's resources to acquire competitors and build business. "JPMorgan has a chance to really increase its market share," says David Easthope, a bank analyst with research firm Celent.

There are two camps in the banking world today: the many trying to climb out of the financial wreckage and the few trying to profit from it. Sure, U.S. giants like Wells Fargo, Bof A, and U.S. Bancorp have held up relatively well. But JPMorgan, with a solid balance sheet and an ample pile of capital, is poised to dominate. In fact, Dimon's toughest competition may come from overseas players, many of which have more buying power, thanks to the weak dollar. "America looks pretty cheap," says Andrew Maguire, a global head of the retail banking practice with Boston Consulting Group. "If you had ambitions to do a deal, this would be a good time. But you have to be in good shape."

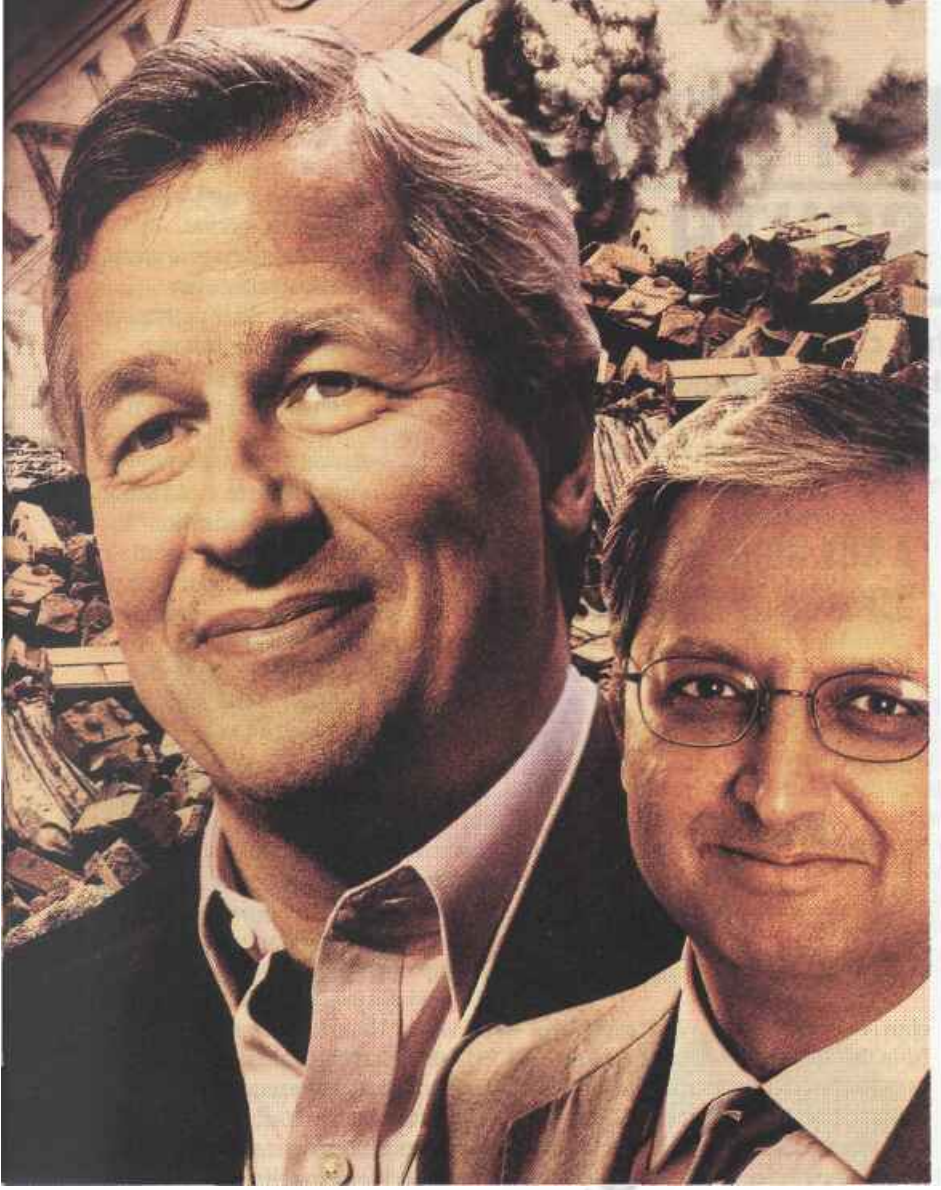
JPMorgan's shopping list could be long. Dimon could make a bid for Wachovia, or

BATTLE OF THE TITANS

JPMorgan Chase could capitalize on the industry's weakness

COMPANY	JPMorgan Chase	Bank of America	Citigroup
CEO	Jamie Dimon	Ken Lewis	Vikram Pandit
BANK ASSETS ($ Billions)	$1,591	$1,649	$2,136
U.S. RETAIL BRANCHES	3,100	6,100	3,500
1-YEAR CHANGE IN STOCK	-19%	-34%	-59%
COMMENT	Despite having to digest Bear, the bank could still sift through the wreckage for deals	The Countrywide acquisition and the potential for more writedowns could sideline BofA	Citi is selling assets to raise capital and soothe investors

Data: Company reports, Standard & Poor's



at least cherry-pick some of its retail branches in the Southeast and Texas. And JPMorgan's name continues to come up as a potential suitor for Washington Mutual, even after the ailing thrift got a hefty $7 billion cash infusion from private equity firm TPG Capital. Some of Citi's retail branches in the U.S. may also be up for grabs; Pandit, who recently hired a new executive to head up the retail banking group, has said he may offload select branches. Alternatively, Dimon could opt to beef up his presence in overseas markets, where JPMorgan is thin.

Of course, JPMorgan may have to go head-to-head with foreign rivals if it wants some of the industry's better assets. Britain's HSBC and Barclays, along with a number of Chinese competitors, could make a run at a U.S. bank. China Investment Corp., a sovereign wealth fund, partnered with private equity firm J.C. Flowers & Co. on a $4 billion fund that will seek out opportunities among distressed financial companies.

"BETTER TO BE LUCKY THAN GOOD"

JPMorgan's newfound muscle is especially bad news for rival Citi, which is struggling to hold on to its brokerage force and wealthy clients in the face of massive losses at a number of in-house hedge funds. On May 30, Citi's Richard Zinman, one of the most successful brokers in the nation, bolted for Credit Suisse. JPMorgan, along with Morgan Stanley, stand ready to benefit from other such departures.

Dimon's current stature is the product not only of smart decisions but also a hefty dollop of good fortune. The risk-averse Dimon sat on the subprime sidelines largely because he was busy trying to digest BankOne, which merged with JPMorgan in 2004. And the acquisition of Bear Stearns, which closed on May 30, looks similarly serendipitous for JPMorgan. Dimon will have to navigate culture clashes, manage legal liabilities, and woo back hedge fund clients who have bolted in recent weeks from Bear's once-mighty prime brokerage business. But the low $10-a-share price and concessions from the Federal Reserve mean that JPMorgan still has plenty of financial ammunition to pull off another big deal in retail banking, investment banking, or asset management. "Sometimes it's better to be lucky than good," says Timothy Ghriskey, co-founder of Solaris Asset Management. "But it really puts [JPMorgan] in the driver's seat with the Bear Stearns sale—or, gift."

For the moment, Charlotte (N.C.)-based Bof A is JPMorgan's fiercest competitor. But that bank will have its hands full trying to absorb Countrywide Financial, which Bof A agreed to buy in January for $4 billion. Making matters worse, Bof A could face another round of multibillion- dollar writedowns on its ailing CDOs should the housing market deteriorate further. Such losses are especially likely if giant bond insurers MBIA and Ambac Financial, both of which insured many of Bof A's subprime securities, suffer downgrades of their debt—a scenario that seemed likely on June 4 when Moody's Investors Service put the two insurers on review. Given those potential problems, there's concern that Bof A may have to add to its coffers, especially if its credit-card business and home-equity lending suffer amid a consumer spending slowdown. "We're comfortable with our capital position," says Joe Price, the bank's chief financial officer.

Wall Street, nonetheless, worries that Bof A's earnings could be depressed—a situation that would distract management. And with another hobbled competitor, JPMorgan could put more distance between itself and the rest of the pack.

Fonte: Business Week, p. 24-25, june. 2008.