

## Hartland money manager considers community banks a good investment

By Kathleen Gallagher of the Journal Sentinel  
Aug. 28, 2011 |

Despite the hand-wringing by national pundits, there's good news coming out of banks - particularly community banks, says Hartland money manager Jon Bruss.

The pundits generally are talking about a narrow swath of the banking world, fretting over the big financial institutions that have exposure to debt-ridden countries like Portugal, Italy, Greece and Spain, and European banks in general, said Bruss, managing principal, chief executive officer and portfolio manager at Fortress Partners Capital Management Ltd.

They're not talking about the thousands of smaller banks that don't have international exposure and have been cleaning up their credit issues.

"They've identified them, they've wrapped their arms around them and, with a few exceptions, are getting rid of their problems," Bruss said.

Among these smaller financial institutions, he said, there has been a steady decline in their provisions for loan losses and their reserve balances, which are kept to deal with problem loans, for more than a year.

A jittery market and relatively low trading volume combine to make shares of many of these banks quite volatile. Investors who stay away may regret it, though, Bruss said.

"Historically, sector shifts have happened very quickly and investors can be caught napping. The result is, they miss the opportunity to collect a significant upside," he said.

**Horizon Bancorp.** (HBNC, \$26.30), Michigan City, Ind., sells at about 95% of its tangible book value and has a price-to-earnings ratio of 8.5, Bruss said.

"This is a classic example of a very conservatively managed bank in an area that arguably could be nothing but trouble," he said.

Horizon operates in Indiana and Michigan, homes to the recreational vehicle and auto industries. Despite challenging markets, the bank is unique among competitors for its ability to generate fee income and create loans, Bruss said.

It has a good mix of retail and commercial business, with slightly more retail because of the large number of mortgage loans it generates and sells, he said.

Horizon has paid off part of its Troubled Asset Relief Program, or TARP, investment from the U.S. Treasury and pays shareholders a 2.5% dividend. The shares are trading in a 52-week range of \$21.26 to \$29.20.

**OceanFirst Financial Corp.** (OCFC, \$11.81), Toms River, N.J., trades at 104% of its tangible book value and has a P/E ratio of 10.1, Bruss said.

The bank is "an attractive multi-branch franchise in a fairly densely populated area of New Jersey," Bruss said.

Many OceanFirst locations are in areas where there's been a lot of consolidation, creating a good environment for picking up market share, he said. The consolidation is expected to continue, he said.

OceanFirst has paid off its TARP investment from the U.S. Treasury and pays shareholders a 4.14% dividend. The shares are trading in a 52-week range of \$11.08 to \$14.69.

Bruss said the biggest risk with both companies is the possibility the economy could fall back into recession.

Both could see a rise of 20% to 25% in their share prices in the next 12 months, he said. Meanwhile, their dividend yields are higher than the yield on a 10-year Treasury bond, Bruss said.

"You're paid to wait if change doesn't come quickly," he said.

#### ABOUT THIS

The Journal Sentinel focuses on one Wisconsin money manager or analyst in this weekly feature, looking at a trend that helps investment pros make their decisions.