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# BANK & THRIFT daily

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## In Jon we Bruss

by *Nathan Stovall*

*SNL Financial recently had the opportunity to discuss future trends in the banking industry with Fortress Partners Capital Management Managing Director and CEO Jon Bruss. Bruss is former chairman and CEO of Fortress Bancshares Inc., a public bank in Wisconsin. He retired from Fortress in January 2000, and Fortress sold to Merchants and Manufacturers in June 2002. After leaving Fortress, Bruss started the hedge fund that he currently runs, focusing primarily on micro and small-cap bank stocks. Since the fund's inception in 2000, Fortress Partners has grown its assets under management to \$35 million.*

*The fund hired Robert Ollech on March 1 as managing director of portfolio management. Ollech spent 11 years serving as administrative examiner and manager in the supervision and regulation department at the Federal Reserve Bank of Chicago. More recently, he spent six years as vice president at Ziegler Investment Services Group in Milwaukee.*

*Bruss gave his opinion on the current state of the banking industry, specifically touching on recent bank stock activity and how these stocks do not get the respect he feels they deserve. He spoke about the hike in interest rates on the horizon and the continuing prospects for an already thriving M&A market.*

*What follows is an edited transcript of that conversation.*

**SNL: Many are calling the recent downturn in the markets the "correction of the correction." Do you think that this trend will continue in bank stocks?**

**Bruss:** We've had a correction in our own fund, but that correction has not been as significant as the correction in the NASDAQ Bank Index. And I'm not actually sure what to make of that all, but I'm convinced of the following: First of all, the correction we're seeing is not related to any fear on the part of investors that interest rates are going to go up any time soon. And I do think that that will cause prices of bank stocks to roll back because investors in bank stocks react wrongly when there is going to be a change of rates, believing that it is going to adversely impact bank stocks. I've talked to the guys who are running the banks in our portfolio, and they're virtually all assetsensitive.

Some are leaning a little bit more to the neutral side, but generally they're asset-sensitive, so they're, in effect, ready for rates to change. But historically, when there is a rate announcement, the bond vigilantes take off and start whacking away at bond prices, taking bond prices down and yields up. That has an adverse impact on stocks because the general public and many of its leading pundits believe that this is bad news for banks, when in fact the opposite is true.

### **Where do you see the state of bank stocks right now?**

You could make the argument that some groups of bank stocks have moved a little bit ahead of themselves, whatever that means, and have gotten a little pricey. As I reflect on the banks that we have in our portfolio and many, many others like them, we're looking at record or near record earnings, we're looking at institutions, businesses that are paying dividends — and 98% or 99% of banks pay dividends. We're talking about the largest publicly traded industry in the country with [something like] 987 publicly traded banks, with an incredible amount of transparency caused by a high level of state and federal regulation, what you see is what you get, I just think that bank stocks are getting swept up into how people view all stocks [and] saying, "Hey, anything that is in NASDAQ is overpriced and we're taking them down."

### **And you don't think that's necessarily fair?**

I don't think that's fair. When you take a look at how bank stocks are priced, how earnings have grown at a rate of 50% higher than industrials, and that's the case over the last 40 years, you've got the numbers to prove it. Bank stocks' earnings have grown at a rate at 50% faster than other industrials. I'm saying, 'Hey, what's wrong with this picture?' We got low P/E ratios — lower than the S&P on average and in our portfolio, they're even lower. So, I'm saying that I think bank stocks are being discriminated against. I'm looking at the Dow right now, it's down 33 points and the NASDAQ, for reasons that I don't understand, is up about 7 points, but in general, I think that bank and thrift stocks are being discriminated against. The discriminating investor has concluded, for whatever reason, that bank stocks have had their run now.

*For a complete transcript of the Q&A, log on to **SNL** at <http://www.snl.com/interactivex/article.aspx?id=1636734>  
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