

Investor Relations for a Bear Market

By Becky Pendleton Reid

What a difference a year makes. Since the summer of 2007, the SNL Bank and Thrift Index is down 46 percent, reflecting huge changes in the credit markets, asset quality, interest rates and general economic concerns. For bankers, the professional investors moved quickly from asking about deposit-gathering strategies to margin compression and from loan growth to asset quality.



For all public companies, reaching out to investors is one of management's most important functions. It is particularly important in a bear market. While you cannot turn the tide of the market sentiment alone, you can address the concerns of your investors and build credibility during difficult times. Then when investment dollars return to the sector, your bank should be positioned to benefit. Waiting until the tide has turned will only leave you trying to catch up with your more proactive peers. There are five cardinal rules for investor relations during bear markets.

1. Short and sweet doesn't cut it. Whenever there is bad news to report, someone always says, "I just want to be short and sweet." Unfortunately, even when you have bad news to report, you must provide detailed explanations for your investors. Anything less will create an information vacuum, which will surely be filled by rumors, innuendo and miscalculations. You must provide enough information for investors to understand the

problem and make rational judgments about it. For instance, many banks are showing higher levels of nonperforming assets (NPAs) this year. Investors are demanding far more disclosure on your NPAs than ever before.

Breaking out the loan portfolio and NPA portfolio in a variety of ways is most helpful. Providing break out by type of loan, geographic distribution, type of borrower and loan-to-value ratios can help your investors make a far better educated assessment of your potential future losses. Without this information, they may simply draw the most

most common omissions I see in presentations and news releases from community bankers is a lack of information on the bank's markets and local economy. Many bankers spend little—or no—time discussing what drives their regional markets. Often, the only mention of the bank's operating market is in the dateline and the tag paragraph. Your investors in major money centers may have no knowledge of your markets and always appreciate data on the local economy. Equally important is the bank's strategy to capitalize on or defend against regional strengths and weaknesses.

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pessimistic conclusion and assume total losses for the entire portfolio.

Additional disclosure, either in your conference calls or news releases, needs to be added to address information that is made public in your call report. Specifically, loans 30 to 89 days past due have not been commonly discussed in years past. Today analysts and portfolio managers are mining your call report data as soon as it is filed, so addressing those numbers in your disclosure process is well advised.

2. Provide information about your markets and local economy. One of the

3. Reach out and touch someone. One of the best lines I have ever heard from a veteran investor relations consultant is, "Stocks are like salmon. They may travel far and wide, but they always return home." During a bear market, your local investors, customers and employees are often a great reservoir of buying strength. These individuals already know your bank and are personally acquainted with you and your staff. Providing fact sheets or other information about the company and the stock is an excellent way to reach out to existing and potential new investors.

Your stock ticker symbol should be included

in all company materials so that if customers or employees are interested in becoming owners, they don't have to search for your ticker. One caveat, however: Never post your stock price in your branches or at headquarters. Stock price volatility, especially in this market, is not how you want your customers to evaluate the company. Focus instead on the underlying

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strengths of the bank in your messages to this audience.

Another way to reach out to your existing individual investors is to purchase a NOBO list from Broadridge, formerly ADP. The Non-Objecting Beneficial Owners are investors who hold shares in street name. Usually, 80 to 90 percent of street-name individuals authorize their brokerage firms to release their names to companies in which they hold shares, hence the non-objecting designation. Combine this list with your registered owners and contact your shareholders. Information on the state of the bank, your ticker symbol and marketing materials for current bank promotions are all appropriate. If you are hosting customer appreciation events, invite your local shareholders as well.

4. Get on the road. Don't wait for the professional investors to come to you. Now is the best time to get out and visit your institutional investors and sell-side analysts. Investor relations is a process, not an event. The best relationships are built during tough times. A straightforward and realistic analysis of the banks' position, its markets and the factors influencing performance are always welcome by institutions. Target both current and former money managers in your plans. In addition to non-deal roadshows, plan to attend several industry conferences. These

conferences can be an extremely efficient venue for meeting institutional investors both existing and potential, as well as learning what information they are most interested in and how others bankers are responding.

5. Give attention to insider purchases. Wall Street follows insider purchases closely and believes that management teams that invest in their own stocks are confident about the future of the company. Conversely, while we all recognize that there are hundreds of reasons to sell stock for capital, diversification, college or that new boat, investors always see insider selling as a vote of "no confidence." Your board of directors and entire management team should be encouraged to step up and build their ownership positions. These transactions, furthermore, should be made through the bank's supporters—those firms and people who write research on the bank and who make markets for the stock. Insider accounts are a very important component of building relationships with sell-side firms and supporting your supporters.

If anyone is currently selling shares through a planned or automatic sales program under the 10b5-1 Rule, those sales programs should stop immediately. While the intent of these programs is to shield insiders from insider trading issues, they establish a regular "No Confidence" signal from management. Ideally, you would like 100 percent of your insider transactions to be purchases.

As we navigate a bear market, don't let the dark days on Wall Street send you into hibernation. While it may be easier to be open and communicate your story in good times, now is the best time to demonstrate your credibility and reassure your shareholder base. **16**

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