Financial Advice - Follow The Money

by Steve Brown

We wrote not too long ago about slowing asset growth in banks based on some pretty detailed analysis from a respected source. No sooner had the ink proverbially dried on our story, than we saw an article in a mainstream financial publication that seemed to directly conflict our findings (at least upon an initial reading). After digging deeper into the article and the conclusions, though, it became apparent our positions were much more similar once apples to apples were compared. What struck us was how misleading the initial presentation of the data was in the first few paragraphs of the story in the publication, which if we had to guess was about as far as most people read.

Why the different approach? It is clear that one publication's objective is to sell newspapers and advertising whereas our approach is quite different. Publications are built to convince readers that only if they come back for more information, will they know everything they need to know. It is a repeat business driven by headline and this direction has come directly from who buys the majority of advertisements.

Take for instance the dawn of the discount brokerage and no load mutual fund industry for individual investors. Firms like Fidelity, Schwab and Vanguard were buying large quantities of advertising space. Soon the narrative of never paying for service, no fees, no commissions became standard not only in ad space, but in articles. There are people who are capable of making their own investment decisions, but the idea that an individual who reads the news knows as much as a financial professional is not likely. We have seen the results of poor choices based on common knowledge over and over.

The obsession with not paying for professional advice dramatically changed the environment for firms that advise individual investors, but it has created a myriad of problems for the banking industry as well. Consumers have been trained that fees of any kind are a rip-off, so banks are left struggling to justify any fee or make a living off NIM.

Slanted advice is not only something that affects individuals. We have heard speakers at banking conferences recently who are advising that no bank with assets under $5B can survive. While it is true that there are economies of scale that can be achieved through mergers and acquisitions, we also find that the personality of community banks most often is lost in these kinds of transactions. Every bank has a story, a reason for existing in its community, whether it's a business specialty or simply the people who work in the bank. We wonder why some consultants at banking conferences are recommending mergers and then look deeper to see it is actually their line of business to facilitate M&A. If we look at the 6,031 banks in the US that are under $2B in assets, the average size is $270mm. It makes sense then that someone paid to do M&A is pushing to consolidate every bank under $5B as it would cover just about every bank in the US.

Our advice is to learn everything you can from speakers you hear at conferences, but to also follow the money. Seek to understand whether there is a deeper objective for recommendations that may not be consistent with the interests of your bank. Be wary of the drive-by consultant that advocates the same for every bank and challenge the status quo.

Advice can be one of the most beneficial things a bank get, as long as advisors have your bank's interest placed in front of their own. That is what good advisors and partners do.

BANK NEWS

Rate Risk

FDIC research finds that from 2Q 2008 through 2Q 2013, longer-term assets (loans and securities with remaining maturities or next repricing dates greater than 5Ys) held by banks with assets < $1B have jumped 45% (from 19.9% to 28.8% of assets).

Big Banks

McKinsey research finds only 20% of the world's largest 500 banks have been successful in recent years when it comes to cutting costs and growing revenue. A lack of focus on a singular goal and employee confusion were cited as key reasons why.

Mobile

The ICBA 2013 Payments Survey finds 80% of community banks plan to offer mobile banking by 2015.

RDC

Javelin reports the average financial institution can save $50 per year per mobile banking customer if one in person deposit is shifted over to mobile deposit each month.

Mobile Biz

Aite Group projects more than 50% of small businesses will adopt mobile banking by 2015.

Consumer Payments

Experion reports people under 30Ys old are 400% more likely than those over 65Ys old to make late payments on credit cards, despite having fewer cards and lower average balances.

Fewer Checks

The Fed reports the number of checks paid has declined from close to $50B in the 1990s to about $20B.

M&A Activity

Research finds US business mergers reached $1T in 2013 and accounted for about 43% of all activity worldwide.

Fined

The CFPB's fine of Ally Financial and Ally Bank of $98mm was the first indirect auto lending action taken by the regulator since its formation. The CFPB took the action based on a dealer markup system that resulted in discriminatory pricing of 235k minority borrowers from 2011 to 2013.