



The Odds For Banks Looking For Investors

by [Steve Brown](#) Topics: [strategic planning](#), [performance](#)

Summary: The odds have soared for community banks seeking capital from investors. We give you the lay of the land.

Looking around the internet we found some interesting odds to share with you. For instance, did you know that you are much more likely to get hit by lightning during your lifetime (1 in 6,250 if you live to 80Ys old) than you are to see a bear in the wild (1 in 2.1mm) or get attacked by a shark (1 in 3.7mm). That said, you are also much more likely to be audited by the IRS (1 in 29) if you make more than \$200,000 per year, than your high school children will get a college scholarship for athletics (1 in 50) or you can split an arrow like Robin Hood (1 in 3k). Let's face it - bankers love numbers.

The odds have also soared for community banks seeking capital from investors. More firms, including institutional investors and hedge funds, are considering investing in community banks now than before the financial crisis. Bank consolidation has diminished the number of potential investments, the economy is strong and things look good.

Interestingly, potential investors are also using metrics that they might not have used 5Ys ago. Area data, individual situations, regional economics, and trends can be even more valuable than bank financial statements in forming investment decisions.

Where it makes sense, analysts and investors have even tied bank equity investing to certain commodity markets, such as the dairy market. One community bank in WI is a perfect example of this, as it writes about 60% of its loans to agricultural businesses, many of which focus on dairy. This bank's stock price seemed to roughly follow the ups and downs of tracked milk prices over time. Another bank in an oil-producing area has seen its value rise and fall over time, as oil prices have varied.

Another factor investors may review is the age of the bank executive leadership team. When a CEO or management team is approaching retirement, this could mean new opportunities for a community bank, but also added risk. Potential investors will look closely at such things in an effort to try and predict which way the situation might go and where to put their money to work.

Investment advisors commonly tell their clients to diversify their holdings to avoid concentrating too much in one area, as it can unbalance risk and lead to unintended consequences. The same applies when it comes to investors in community bank stocks. Most have a portion of their portfolio dedicated to the banking industry and that mix can shift over time. As a community bank operating in a given community, diversification can be difficult. However, even taking small steps to do so can help, if hard times hit local regions you are operating in.

Further, it is always appropriate to consider the best way to communicate with shareholders to keep potential future liquidity sources open and available. Sharing more information using public disclosures or perhaps devoting more time to coaching investors on the nuances of your business model could help.

The bottom line is to embrace who you are as a bank and then communicate actively to build allegiances over time. Doing so can foster credibility and help increase the odds of raising more equity investment from more investors, no matter the environment.

BANK NEWS

Business Sentiment

Atlanta Fed President Bostic said businesses are less upbeat as trade and tariff uncertainties loom. He believes the economy remains in a good place, but uncertainty around trade discussions has reduced business optimism.

Social Risk

A bank with 550 branches in the UK known as TSB said it noticed attempted fraud soared to 70x the usual activity after customers complained on social media about a recent system issue at the bank. Hackers are closely monitoring social media for banking issues that could open the door to compromise. Be sure to alert your clients to this risk and be extra cautious when issues arise.

Revenue Recognition

Deloitte research finds 47% of corporate execs said their company hasn't started or is in the early stages of preparing for the implementation of the Financial Accounting Standards Board's revenue-recognition rules, which take effect in January of 2019.

Blockchain

The CEO of one of the most technologically advanced banks in the world, [BBVA, stated concerns](#) about current blockchain technology. He noted things such as volatility of associated currencies and potential problems with tax and financial authorities' systems. However, he noted that when this technology has resolved these challenges and regulators accept it, he is ready to use it.

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