

NASHVILLE NOTES

Selling Georgia banks near the top

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Richard Russell, who began publishing Dow Theory Letters in 1958 until his death in 2015, was an observer of markets and human behavior. His utterances and philosophies remain widely followed among many market participants today. He was credited with calling a secular top in the market in the mid-1960s and a bottom in 1974 during a brutal bear market that had plenty of catalysts, including the closing of the gold window in 1971 by Nixon, an oil shock, rising inflation and interest rates and civil disturbances.

His one utterance that has always resonated with me is, "markets make opinions." My take on his quip is that the consensus is formed by recent trends. It is not called a herd mentality for nothing, but human nature is tribal and therefore programmed to follow trends in my opinion.

When I asked a friend of mine who works with banks as a corporate securities attorney what trends he is seeing, he offered the same thing most of you would who are reading this post: Asset prices are expensive but the economy is performing well, or something along those lines. He then added that no one knows when the top is in, but that Joe Evans, chairman of State Bank Financial Corp., has a knack for getting out near the top.

I doubt Evans will remember it, but I had dinner with him and a couple of other people at Bones in Atlanta in November 2009. I asked him what banks he liked in Georgia, which was then a desolate wasteland of broke and nearly broke banks. I expected him to say Synovus Financial, which on a reverse split-adjusted basis is up about 4x since then. He surprised me by offering Atlanta-based Fidelity Southern Corp. The stock was then trading around \$3 per share; today it is near \$24 per share.

Earlier that year, Evans and others invested \$300 million in State Bank to capitalize a then-tiny bank to buy busted Georgia banks. The timing was impeccable. A series of FDIC-backed and whole-bank transactions followed, including the acquisition of the six banking subsidiaries on once high-flying Security Bank Corp. The most recent acquisition was the 2017 purchase of a quasi-commercial finance company in a bank wrapper, AloStar Bank of Commerce, which I thought brought good diversification benefits to the company.

AloStar was the last acquisition. Probably to the surprise of few bank investors other than the timing of the announcement State Bank's board of directors approved a merger with Cadence Bancorp. during May 2018. The still-pending transaction was valued at \$1.4 billion at announcement and equated to 248% of tangible book value and 16x the then-2018 consensus earnings estimate.

Is Evans top-ticking the market? We will only know in a few years with the benefit of hindsight; however, his track record of ringing the bell near the top is pretty good. Among the transactions Evans is associated with is the 1997 sale of Bank Corp. of Georgia to Century South Banks Inc. as the 1990s bull market in bank stocks was nearing a peak; the 2001 sale of Century South Banks Inc. to BB&T Corp. that was struck in late 2000 before the 2001 recession got underway; and the 2006 sale of Flag Financial Corp. to a unit of Royal Bank of Canada prior to the 2008 implosion.

No one goes broke taking a profit. Evans seems to be pretty good at taking profits.

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