NASHVILLE NOTES

Cashing out and swapping shares

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Two of the more interesting items I observed after the release of third-quarter bank earnings had to do with sales: the planned sale of 1 million shares of JPMorgan Chase & Co. by CEO Jamie Dimon and CapStar Financial Holdings Inc.'s decision to sell to Old National Bancorp via a share exchange.

Upon seeing these announcements last week, my first reaction was the old Wall Street saw that no one goes broke taking a profit. But there is more to both announcements.

Once the S-4 is filed with the SEC in six weeks or so, investors will know more about the rationale that CapStar's board followed in electing to sell the company to Old National, pending shareholder and regulatory approval. However, I think it is important to note that the boards negotiated an exchange ratio, not a cash-out price. CapStar stockholders will exchange their common shares for Old National common shares and therefore remain invested in bank stock unless they choose to sell shares in the open market for cash.

Dimon elected the cash-out option, with timing determined by him and pricing determined by the market.

In a Form 8-K filing on Oct. 26, JPMorgan disclosed that Dimon would sell 1 million shares in 2024, representing 11.6% of the Dimon family's 8.6-million-share interest in the company. The family's position based upon the company's closing price on Oct. 27 was worth about $1.2 billion, excluding 562,000 unvested performance share units and 1.5 million shares via a stock appreciation rights plan.

> ***I think it is important to note that the CapStar and Old National boards negotiated an exchange ratio, not a cash-out price. CapStar stockholders will remain invested in bank stock unless they choose to sell shares.***

JPMorgan has been a great common stock to hold for capital appreciation and income since Dimon became CEO as of year-end 2005. Annual dividends in the last 12 months totaled about $34 million, which is roughly five times Dimon's annual cash compensation the past several years.

Selling shares for diversification and estate planning are common reasons to reduce a highly concentrated position. As an aside, significant estate planning actions by bankers and others could pick up in 2024 because the lifetime estate gifting exemption that currently stands at roughly $13 million for individuals and $26 million for couples will fall to around $7 million and $14 million in 2026 with the sunset of tax law changes enacted in 2017.

Dimon has been the dominant banker of the 21st century. As is so often the case, a failure set the stage for success when Sandy Weill fired him as his No. 2 and heir apparent at Citigroup in 1998. An alternate history might have had Dimon taking over Citigroup, avoiding the 2008 fiasco and guiding the company to respectable performance.

Instead, Dimon and his cohorts propelled the so-so JPMorgan of the early 2000s into a top-performing institution. Dimon has rightly been rewarded with stock awards by the board over the years. What may be overlooked in the commentary about his pending sales is that he made three large open-market purchases that I think were instrumental in influencing investor views about the company's shares, the industry and perhaps the broader market.

The first was a 500,000-share purchase on Jan. 16, 2009, for $11.5 million, or $23 per share. While JPMorgan had made two purchases in 2008 that appeared to be bargains at the time (Washington Mutual and Bear Stearns), the outlook for the economy was terrible even though markets were in the process of bottoming. Also, my recollection of the time is that there was some concern that the incoming Obama administration might move to nationalize some of the banks in order to contain the crisis.

> ***What may be overlooked about Dimon's pending sales are three large earlier open-market purchases that I think were instrumental in influencing investor views about JPMorgan, the industry and perhaps the broader market.***

His second 500,000 share purchase occurred in July 2012 for $17.1 million, or $34 per share, as markets tanked due to concerns about the US economic recovery and European financial markets — both of which blew over in time.

In February 2016, Dimon bought another 500,000 shares for $26.6 million, or $53 per share, as markets fell following the first Fed rate hike since short-term policy rates were cut to zero in late 2008 at the height of the global financial crisis. Investors were then concerned about the impact of what was expected to be multiple rate hikes in 2016 on the broad economy, at a time when weak energy prices had produced sizable credit losses for energy lenders. Ultimately, credit losses did not spread beyond the energy sector, perhaps in part because the Fed did not hike again until December 2016.

So, while some are equating Dimon's move to sell shares as a commentary on the markets and the outlook for depressed bank stocks, I do not. I assume his position in JPMorgan shares represents the bulk of his wealth. If so, it has been a highly concentrated position that he has augmented through well-timed purchases that evoke another Wall Street saw: Bought right is half right.

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