Independent Banker

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Portfolio

[tag] Portfolio Management

[hed] Three chords and the truth

[dek] Country music evokes portfolio management themes.

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The title of this month’s column, courtesy of legendary songwriter Harlan Howard, defined for him what country music is all about. Other musicians of the genre have offered thoughts on its varied messages: heartbreak, regret and redemption, to name some of the more popular. This sounds like a lot of conversations I’ve had with community bank portfolio managers this year.

Since country music ultimately is an exercise in catharsis, maybe we should look at some song titles you may have heard of and wind our way back into their relevance to bank management, especially in 2022.

Portfolio market losses (as it may have come to your attention) are at their biggest levels in at least 15 years. Unless your community bank’s collection of investments consists solely of cash and money-market equivalents, you’re probably more than 6% underwater. But before deciding to drown one’s sorrows, there’s reason for some hope (more C&W themes).

[subhed] “I Walk the Line,” Johnny Cash

This Johnny Cash standard about discipline, self-denial and perseverance worked into the conversations about risk tolerances early in the pandemic. In mid-2020, community bank balance sheets were flooded with cash and there was nowhere to lend it, while interest rates were pushed to record lows by both fiscal and monetary policies. The temptation was to toss the playbook (i.e., investment policy) aside and greatly extend average maturities. While it’s true that the average community bank’s investment portfolio is much longer now than in 2019, overall balance sheets are built for a rate hike environment, thanks to still-ample supplies of cash, and depositors who are (so far) showing little inclination to walking the line with their money.

[subhed] “You Never Even Called Me by My Name”

David Allen Coe knows the value of a straightforward moniker. Brokers, on the other hand, are adroit at assigning nicknames, acronyms and initialisms to their products and services. It seems that regulators are complicit in this exercise too. Sometimes, this can be a blessing; I mean, who remembers Fannie Mae’s birth name? Still, it helps to have a glossary handy to sort through the debris of shorthand foisted upon the investing public by these service providers. Terms such as DCPCs, Canary, BQ, FICO or GWAC are casually tossed around in commentary and actual offerings. And for the record, Fannie Mae came to life in 1938 as the Federal National Mortgage Association.

[subhed] “Cost of Livin’”

I don’t know that this harkens directly back to how a community bank might manage its bonds, but it does strike me that the lyrics refer to “four dollars and change at the pump” despite it being a hit for Ronnie Dunn a full 11 years ago. So perhaps the takeaway from this song is that the interest rate cycle is a multi-year process. We had near zero yield on short-term rates for the past two years. And probably, one day, rates (and energy prices) will go through a correction. A quick check of U.S. crude oil prices show that they were higher in 2008, 2011 and 2013 than they have been this year.

[subhed] “I’ll Never Get Out of this World Alive”

No compilation of country music would be complete without a ditty by Hank Williams. I’m not sure this is the most challenging moment of Mr. Williams’ career, but it was probably in the sub-25th percentile. In this one, he claims:

<i>A distant uncle passed away and left me quite a batch
And I was living high until that fatal day
A lawyer proved I wasn't born

I was only hatched.<i>

I imagine some of the capable chief credit officers reading this story could write a song that stitches together similar tales of woe from would-be borrowers. Lucky for us, community banks have their safe-and-sound lending practices in place, which enables us to suggest…

[subhed] “Act Naturally”

In spite of Buck Owens’ claim that his song was about a man who’s sad and lonely, the community banking industry is in great shape by most every measure, mainly because it has reacted according to its instincts. Earnings will not likely hit records this year but are far ahead of the numbers in the post-Great Recession era from 2011 through 2015. The business model continues to perform well. And as we heard from the Buckaroos in 1962, your community bank might even win an Oscar without rehearsing. All it’s got to do is act naturally.

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[sidebar] Education on tap

2022 webinar series takes a summer break

ICBA Securities and its exclusive broker Stifel Financial will go on hiatus from its Community Banking Matters series for several months but will resume our schedule in the fall. Look for announcements in this space and on *stifel.com*

Fall balance sheet conference

The 2022 Balance Sheet Academy will be held in Memphis, Tenn., from Oct. 17–18. This is an intermediate-level program that addresses topics such as interest rate products, bond swaps and private-label securities. Up to 12 hours of CPE credit are offered. For more information, contact your Stifel representative or visit *icbasecurities.com*