

# Take It or Leave It

Realizing the market values of your bank's portfolio requires thought

By Jim Reber

I've had more than one community bank investment manager tell me that he tends to read the reports of his portfolio's performance "from the bottom up." What this indicates is that the unrealized gain or loss tends to have a large, and some would argue outsized, influence on the impression of the performance of his portfolio.

This is at least partly driven by the expectations of the readers of these reports. Examiners, for example, tend to look askance at a collection of investments that has dropped in value since the investments were purchased. And to be sure, board and investment committee meetings can be a bit less contentious if a bank is sitting on a net unrealized gain versus a loss.

## Busy season

This topic is both relevant and timely. The relevance is that, at the present, your community bank probably owns some investments that have increased in value since you've bought them and some that have fallen in value since purchase date. As interest rates have gyrated but essentially run on a treadmill for the last two years, your timing has alternated between good and less good.

The "timely" adjective is that investment managers tend to make strategic adjustments in the early part of the year. The benefit of moving early to book losses is that the bank has the rest of the year to make them back. The reason to book gains early is to capture the benefit that could erode later due to interest rate changes.

## Do's and don'ts

I should point out that there is a positive to owning bonds at prices higher than they are now worth. Assuming that the reason they've declined in value is that interest rates

have risen, the most obvious plus is that future purchases will be made at higher yields. It's a consensus among community bankers that higher yields will net more income.

If you are inclined to take gains in your portfolio, be aware of at least two bond-selling tenets:

- » Your overall portfolio will probably go down in yield in the near term; and
- » Selling tax-free municipals

for gains is at best a zero-sum game. These securities are exempt from federal income tax liability, but the gain is fully taxable.

## Before you leap

To recap, you are in essence speeding up the earnings process whenever you capture losses or gains. Be sure they sync with the rest of your bank's overall earnings picture.

Also, ask your broker to document



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the true cost of the sales, which is quantified by the "take-out yield." This metric defines what the use of the proceeds needs to yield for your sales to have economic benefit to your community bank. <sup>13</sup>



## New Year News

The first Economic Outlook webinar of 2016 will be presented Jan. 20 at 10 a.m. (Central time). Craig Dismuke, chief economist for Vining Sparks, will discuss the first quarter's economic prospects.

To register, contact your Vining Sparks sales rep or visit [www.viningsparks.com](http://www.viningsparks.com).