

## Tuesday's Bank Stocks: Still waiting for the 'magic day'

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By Katie Borden

Bank and thrift stocks posted strong gains Tuesday, Dec. 2, as investors warmed up to financials after the previous session's furious sell-off.

The SNL Bank Index advanced 8.66% to 253.08, and the SNL Thrift Index grew 6.08% to 632.95. The broader markets also rallied, as the Dow Jones Industrial Average added 3.31% to 8,419.09, and the NASDAQ Composite Index ticked up 3.70% to 1,449.80. Treasury prices increased, as the yield on the benchmark 10-year note slipped 2 basis points to 2.69%. Oil prices continued their descent, with a barrel of light, sweet crude for January 2009 delivery dropping \$2.32 to \$46.96 on the New York Mercantile Exchange.

Contango Capital Advisors Inc. CEO George Feiger told SNL that now is a good time to hunt for bargains among financial stocks "if you have a strong stomach." As cheap as financials are, they will get cheaper still, and Feiger is waiting. Although no one can pinpoint the "magic day" when financials bottom out, he believes that day is near.

Meanwhile, a day after Federal Reserve Chairman Ben Bernanke commented on the central bank's commitment to boosting liquidity, the Fed said Tuesday that it extended three of its liquidity facilities through April 30, 2009. The Primary Dealer Credit Facility, the Asset-Backed Commercial Paper Money Market Fund Liquidity Facility and the Term Securities Lending Facility were previously authorized through Jan. 30, 2009.

Feiger told SNL that the Fed's and the U.S. Treasury Department's actions "have been of considerable use," as they "keep inventing new ways of lending money to financial institutions."

But when the Fed supports one part of the system with a guarantee, the other parts "look worse," and the Fed ends up having to guarantee them, too, according to Feiger.

The "deep problem," he said, is that the Fed was structured as a backstop for banks, before capital markets supplied the lion's share of credit in the financial system. "They were very slow to the party," and then began scrambling "to catch up."

Leading the way among banks during the afternoon, Colonial BancGroup Inc. shot up 54.00% to \$3.08. The company said Tuesday that it received preliminary approval from the Treasury to receive a

\$550 million capital injection from the federal government under TARP.

Bank of America Corp. added 11.83% to \$14.37 by the closing bell. In a Dec. 2 report, Citigroup analyst Keith Horowitz cut his fourth-quarter EPS estimate on Bank of America to 2 cents from 42 cents. He cited \$1.5 billion in mark-to-market losses and \$2.7 billion of reserve additions, and he mentioned the credit card portfolio as an area of particular concern.

"We still believe BAC offers the best value among the large cap banks, but our Buy rating is clearly more of a valuation call as our estimates remain well below consensus and we see relatively high risk of a dividend cut," Horowitz wrote.

Citigroup Inc. rose 11.94% to \$7.22, JPMorgan Chase & Co. jumped 9.23% to \$28.53, Wells Fargo & Co. added 10.59% to \$25.89 and Wachovia Corp. rose 16.05% to \$4.99.

Among bank laggards, PNC Financial Services Group Inc. slipped 2.28% to \$43.26, and 1st Source Corp. fell 7.86% to \$15.00.

Ladenburg Thalmann analyst Dick Bove reduced his price target for PNC to \$50 from \$77 in a Dec. 2 report. He attributed the cut to "the dramatic drop in the prices of bank stocks in general, and PNC in specific," but he also said "this company remains attractive because it will be growing in an industry that is under severe pressure."

In the thrift space, Sovereign Bancorp Inc. jumped 13.74% to \$2.40, and BankAtlantic Bancorp Inc. was up 42.17% to \$3.27. Guaranty Financial Group Inc. lost 1.04% to \$1.90.

Also on Dec. 2, the Fed said that a day earlier it conducted an auction of \$150 billion in 84-day credit through its term auction facility. There were 80 bidders who submitted total propositions of \$66.47 billion, all of which were accepted with a bid-cover ratio of 0.44. The stop-out rate was 0.420%, applying to all awarded loans. The awarded loans will settle Dec. 4 and mature Feb. 26, 2009.

On the macro front, the U.S. Bureau of Labor Statistics said Dec. 2 that unemployment rates were higher in October year over year in 361 of 369 metropolitan statistical areas, while rates were lower in eight MSAs.

Jobless rates were at least 10.0% in 13 areas, and 11 areas registered rates below 3.0%. The national unemployment rate in October was 6.1%, not seasonally adjusted, compared to 4.4% a year earlier. *i*