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On the Investment Value of Industry Awards

Observations on American Banker's "Banker of the Year" Award

by David B. Moore | March 23, 2009

Most investment professionals are aware of the "magazine cover indicator" as a powerful contrary indicator for investment performance. The logic underlying the magazine cover indicator is that once a company or investment theme makes it on the cover of a widely-read magazine, its run is over. Famous examples include BusinessWeek's 1979 cover, "The Death of Equities," Time magazine anointing Amazon CEO Jeff Bezos "Man of the Year" in 1999, and Time's June 2006 cover, "Home $weet Home" (a bullish story on real estate).

With this in mind – and given the precarious state of the banking industry – I thought it might be interesting to evaluate the investment performance of banks operated by prior winners of American Banker's "Banker of the Year" award. One would think, after all, that institutions run by "Bankers of the Year" would perform considerably better than their peers (that is, mere "mortal bankers"). One would be largely wrong.

Because those bankers named "Banker of the Year" prior to 2002 are no longer in the banking business, I started with the year 2002. I then calculated the investment performance of the stock of the CEO's company from the date he received the award to the present (March 13, 2009), and compared that result to the performance of the SNL Large Cap Bank Index over the same period. The results are presented in the following table.

Year	American Banker "Banker of the Year"	Company	Company Stock's Total Return	SNL Index[1] Total Return	Outperf./ Underperf.
2002	Kerry Killinger	Washington Mutual	-100.0%	-56.8%	-43.2%
2003	Richard Kovacevich	Wells Fargo & Company	-41.0%	-65.2%	24.2%
2004	Jamie Dimon	JP Morgan Chase	-28.1%	-69.3%	41.2%
2005	Kenneth Thompson	Wachovia Corp	-86.3%	-70.7%	-15.6%
2006	Richard Fairbank	Capital One Financial	-82.8%	-73.8%	-9.0%
2007	James Rohr	PNC Financial Services Group	-59.3%	-70.0%	10.7%
2008	Kenneth Lewis	Bank of America Corporation	-54.1%	-33.4%	-20.7%
		Average	**-64.5%**	**-62.7%**	**-1.8%**
		Median	**-59.3%**	**-69.3%**	**-9.0%**

[1] *SNL Large Cap Bank Index*

* *For consistency, returns are calculated from December 1 of each year (shortly after each recipient received his award) to March 13, 2009*

Clearly the last several years haven't been kind to bank stock performance in general. Adding insult to injury, however, as the table above illustrates, companies headed by "Bankers of the Year" slightly underperformed the index on average. Thus, even under the less stringent criterion of relative performance, "Bankers of the Year" still managed to underwhelm the competition on average.

Admittedly, a sample size of seven isn't what any statistician would consider "statistically significant." And a couple of these bankers – Jamie Dimon and Richard Kovacevich – showed significant outperformance. But considering the fact that one of these über-bankers – Washington Mutual's Kerry Killinger – managed to lead his company into receivership, while another – Wachovia's Kenneth Thompson – would have met the same fate had it not been for the largesse of Wells Fargo, one wistfully wonders what, exactly, these awards actually say about their recipients.

American Banker in 2006 bestowed a Lifetime Achievement Award on Angelo Mozilo, then CEO of Countrywide Financial. Fast forward to 2009 and we find that CNN has labeled Mr. Mozilo as one of the "Ten Most Wanted Culprits" of the 2008 financial collapse in the United States. A lifetime of achievement, indeed!

Further, an acquaintance of mine is a (somewhat) recent recipient of American Banker's "Community Banker of the Year" award and serves as Chairman of three small publicly-traded financial institutions (two banks and one soon-to-be bank). He's a very smart, engaging guy. But since receiving his award, the NASDAQ Bank Index has declined by 58.1%, while the market values of his companies have declined by 80.2%, 75.9%, and 68.2%, respectively. That is, all three institutions have meaningfully underperformed their bogey in the market of financial public opinion (i.e., stock price performance).

My point is not to pick on American Banker. It's a fine industry publication. But despite the small, almost anecdotal, sample size of my "study," it seems fairly clear that industry-related awards should be taken with a large grain of salt where investment decisions are concerned. And, more specifically, if you bank with a recent American Banker award recipient, you might want to make sure that your deposit balances are kept below the FDIC-insured minimum.

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