AMERICAN BANKER

Insiders continue to take advantage of post-election surge in bank stocks

By Jackie Stewart
March 22 2017

Executives and directors continue to capitalize on the post-election surge in bank stocks.

Insiders have been steadily selling shares over the last four months. For instance, insiders at 243 banks covered by Keefe, Bruyette & Woods have reduced their holdings by 103 million shares, valued at nearly $24 billion, since early November.

More than 9 million shares have been sold since Feb. 21, according to KBW data.

Many of the sales have involved insiders at smaller banks. About 80% of the stock sales since November, accounting for 56% of the proceeds, were tied to individuals and groups at banks with market capitalizations below $5 billion. KBW's data includes transactions by private equity firms that have large bank stakes.

The moves make sense since bank stocks have jumped more than 20% since the Nov. 8 election even with the recent market pullback. While the numbers seem large, bank insiders still own a considerable amount of stock in their companies, industry experts said.

"Keep in mind they aren't liquidating their entire portfolios," said Christopher McGratty, a KBW analyst. "It's only a fraction of what some of them own."

There are several reasons insiders are cashing out a portion of their holdings. First, a surge in prices has provided a convenient window to make the most of shares that many bankers and directors may have been holding onto for years.

Also, some individuals may need to exercise stock warrants or options before they expire. They may also sell some stock to cover associated taxes, said James Cassel, chairman and co-founder at the investment bank Cassel Salpeter.

Bank insiders, like other investors, could see the increase in prices as a chance to diversify their personal portfolios. Many bankers learned that lesson the hard way during the financial crisis.

Executives with the $7.8 billion-asset Boston Private often sell stock based on personal circumstances, such as tax planning or charitable giving, regardless of market conditions, a spokesman said, adding that CEO Clayton Deutsch's sale of 25,000 shares on Jan. 25 is consistent with his activity in recent years.

A spokesman for the $214 billion-asset BB&T said it is common for stockholders to realize gains when shares increase in value. KBW noted that King still holds about 290,000 shares of BB&T stock, which hit an all-time high earlier this year.

Ted Peters, chairman and CEO of Bluestone Financial Institutions Group, said his investment firm is generally discouraged when insiders sell. Still, Peters, a former CEO of Bryn Mawr Bank, said he realized there were many good reasons for selling.

The key for Peters is conducting more research into a seller's motives.

"You have to look behind the scenes to see why the executive sold," he said. "If an executive won't stand behind their own stock, why should we?"

Insiders need to take precautions when they sell to remove any suspicion from other investors and to remove any claims of underhanded dealings. Though rare, there have been instances where individuals used material nonpublic information to trade shares.

James Cope, a former director at Pinnacle Financial Partners in Nashville, Tenn., agreed to pay a $200,000 fine and two years of probation after pleading guilty to insider trading. Cope bought shares in Avenue Financial Holdings after learning during a meeting that Pinnacle was interested in buying Avenue.

Chip MacDonald, a lawyer at Jones Day, encourages a conservative approach to insider stock sales. “When in doubt, don’t trade,” he said.

There are laws and company policies that dictate when and how insiders can divest their stock. Internal discussions over strategic decisions like negotiating a merger or planning a stock offering would usually mean an insider could not sell stock for a period to avoid using nonpublic knowledge to their benefit.

Insiders often set up plans under the Securities and Exchange Commission’s Rule 10b5-1 where a broker is designated to make buying or selling decisions based on predetermined times or prices.

“I wouldn’t read too much into [a sale] unless an entire board or management team sold their entire portfolio at one time,” MacDonald said. “If they’re maintaining a meaningful amount of stock, you can assume it’s a diversification effort as opposed to a concern about their institution or the industry.”