

JPMorgan: Sometimes Volatility is Our Friend

Against a backdrop of the extraordinary media coverage of Facebook's recent IPO, JPMorgan has managed to garner its share of headlines with the surprising announcement of a \$2 billion trading loss originating out of the bank's London offices. When the dust settles, the loss will likely amount to a larger write-down than the initial headline number, but we believe the bank's capital levels will remain strong and at high levels relative to its peers.

For Jamie Dimon, the bank's Chairman and CEO, the revelation and nature of the loss has significantly diminished his "brand" as the smartest banker on Wall Street and undercut his persistent criticism of the regulations (both enacted and proposed) promulgated out of Washington in response to the financial crisis and resulting equity market crash. In fact, the trading activity that occasioned the subject losses is exactly what the "Volcker Rule", so-called, is seeking to regulate, if not prohibit entirely. And while this news has been embarrassing for Jamie Dimon and JPMorgan, we believe the market reaction provides patient investors an opportunity to purchase the stock at attractive levels.

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It's no secret; the post financial crisis world for banks has fundamentally changed and it is unlikely that profitability will return to pre-crisis levels, having largely been derived from excessive leverage. A stricter regulatory backdrop will certainly challenge the banks' ability to generate competitive levels of returns on both equity and assets. We therefore struggle to make a long term investment case for owning bank stocks, more generally.

However, when presented with opportunities (whatever the reason) to

purchase well managed banks at significant discounts to their book value and normalized earnings power, we will invest client dollars accordingly. In the wake of recent negative headlines, JPMorgan's stock has lost nearly \$30 billion in market value, far in excess of where we believe the final write-down will shake out. In sum, we view this price decline as an opportunity to invest client funds in JPMorgan stock.

Market Log- May 22, 2012

S&P 500: 1316.63

10 year T-Note: 1.775%

Crude Oil: \$91.75

Gold: \$1,567.70

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