

Something to Think About



OAKWORTH
CAPITAL BANK

COMMON CENTS

This past Sunday, my wife and I drank coffee and watched the morning news programs. At some point, the noise from the TV, histrionics actually, became ambient. To be sure, I am certain the commentators thought they were being terribly insightful, but I didn't think so. It was so much Newspeak, a la 1984, to me, and I ultimately tuned it out.

Perhaps there was something subliminal happening, because a feeling of unease came over me. I would stop way short of calling it foreboding. It was just a sneaking suspicion things weren't exactly quite right, but I couldn't have told you what it was. It was weird, but eventually passed.

Laughingly, you could counter the reason for my discontent was I should have been getting ready for church instead of watching television, but I had made plans to go to our afternoon service.

On Wednesday, I watched the Presidential debate, and stayed tuned on CNN afterwards for its analysis. Better put, I stayed tuned to watch what CNN considers analysis, because its panel basically consisted of 7 left wingers beating down on 2 presumably right wingers. More importantly, despite all the weighty issues at hand in a Presidential campaign, the topics for the most discussion, seemingly at the exclusion of all else, were: 1) whether Donald Trump will accept the election results if he loses, and; 2) Trump's incredibly poor judgement in using the phrase 'bad hombres' when discussing his plans to deport undocumented felons.

Admittedly, I am not a political expert, and maybe those things are more important than I would think at first blush. However, if the Secretaries of State of the various states declare their voting results to be valid, does it really matter what Donald Trump thinks about it? He isn't in a position to stop the transference of power in the White House from Barack Obama to Hillary Clinton. As for 'bad hombres,' it was a stupid choice of words, plain and simple. There should have been no reason for argument, debate, or heated discussion.

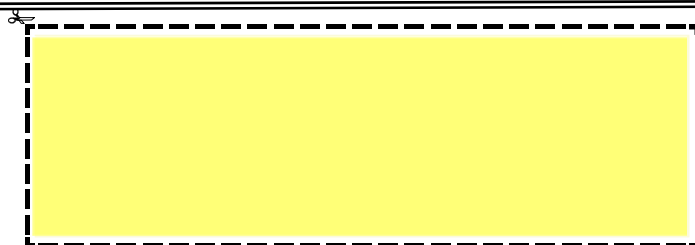
Even so, the panel blustered, bloviated, and beat those dead horses until I finally had to turn off the television. Then, I felt it again: that same feeling of unease I had felt on Sunday. It was discomforting, and I wanted to get to the bottom of it. So, I thought about it, and came to a question in my head I wasn't sure I could answer: what if I just 'don't get it,' and everyone else does? If so, it's not them; it's me!

At the risk of sounding incredibly arrogant, I hadn't considered this possibility until then, and, as if on cue, a wave of head-scratching economic and societal trends suddenly flooded my mind. To be sure, I had thought about all of them individually, but they were coming to me as though pieces of a puzzle, a mosaic if you will. Although I wasn't, and haven't been, able to connect all the tiles, the picture emerging seems to be: a nation of people pursuing individualistic goals will have a hard time living up to its full potential. It needs leadership to focus them on the common good.

At this point, you might think I would delve into a political diatribe, but I am not. The reason being is very few of us expect much leadership out of our elected officials, according to most polls. While that is indeed a shame, I would suggest the private sector needs to step up it's a game a little more than it has to provide that leadership. I will save a discussion on organized religion for private conversations. *Making friends fast here today.*

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I touched on this a little in my upcoming column for the Montgomery Advertiser. So, let me just cut & paste it here:

I am certain there are plenty of folks who begrudge Bill Gates for all his billions, but I don't know them. I also don't know anyone who thought it unfair Steve Jobs died with more assets than the average person could spend in 100 lifetimes. The list goes on, but the message is clear: Americans love business success stories, seriously.

However, they tend to hate the uninspiring executive of the moment types which seem to run so many of our public companies. To paraphrase the President, and I don't do that often: "You didn't build that, so why are you getting so stinking rich?"

The brouhaha at Wells Fargo is the most recent corporate scandal. Having helped start a bank and dealt with auditors and regulators throughout my career, I can't comprehend how a company can open upwards of 2 million unauthorized accounts over a 5-year period without someone raising their hand. Where are the internal controls? Where are the independent, external auditors? Where have the regulators been up until now?

As shocking as that is to me, even more surprising was the revelation Wells Fargo's former CEO, John Stumpf, had amassed over \$100 million in company stock over the years, and was taking home around \$20 million per year in what is known as awarded income. This doesn't include any restricted stock which might vest during the year. If you factor that into the mix, Mr. Stumpf took home a shade over \$44 million in 2015. As head scratching as that is, it was about \$30 million less than 2014's haul, and over \$20 million less than 2013's.

I must be missing something. Did John Stumpf invent the banking system? I am pretty sure he didn't.

Now, a couple of weeks ago, I bought a container of strawberries. They looked fresh enough in the store, and the first of them was delicious. Unfortunately, my wife found a big one with moldy fuzz in the in middle of the bunch, and she was, shall we say, less than pleased. How could I have not seen it? Instead of just throwing the bad one away, do you know what she did? That's right, all of them went into the garbage.

In this little story, Mr. Stumpf is the bad strawberry, and my wife is the public perception of the banking industry, if not Sen. Elizabeth Warren. While the vast majority of the berries were fresh and delicious, the one bad one was proof enough the rest of them were rotten. They weren't.

To be sure, I don't know John Stumpf to throw him. He might be a prince of a guy and an extremely diligent, hard-working banker, who just happened to cut a sweetheart deal. Further, the average business owner or CEO makes nowhere near the amount of money he did, and it isn't even close. However, these high profile examples of what can only be called extreme corporate pay are not as unusual as they should be. This has helped engender a certain level of public distrust in the private sector, which could ultimately be have negative consequences to both our economy and society.

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Something to Think About Cont.

In the end, I certainly don't begrudge anyone for making money, and neither would most folks. However, I would ask the Boards of Directors of large, public companies to seriously analyze what they pay their 'executives of the moment.' Why? They are misallocating precious capital and alienating everyone by not doing so.

Please understand that column is intended for a more 'retail' audience. As I wrote, the average American business owner, CEO, or senior manager makes a fraction of what Mr. Stumpf made. According to the BLS, the median wage for 'chief executives' is around \$175K.....which, you know, I doubt Joe Sickspace would consider this amount out of the realm of reasonableness.

Of course, much of what Wells Fargo awarded its former CEO was restricted stock, and other things beside cold cash. So, that might not be a perfect apples to apples comparison. However, there is still a cost to the company of awarding stock, as well as a powerful message. Then you have to consider the company paid out \$5.1 million in cash and awards to its Board of Directors, all 15 of them, in 2015. This translates into \$340,000, on average, almost double the median pay for chief executives, again, according to the BLS.

Want the better news? Wells Fargo stock fell \$0.46/share last calendar on a drop in net income of about \$300 million. I am not trying to pick on WFC here, but the numbers are what the numbers are...and they are pretty spectacular for pretty pedestrian performance. In truth, I could have picked any number of massive companies at any given point in time, and found similar examples of, well, largesse. It is no wonder why so many people feel so alienated from corporate America, with headlines and scandals such as these.

How do they get away with it? The answer is pretty simple: because large, increasingly passive institutional investors own big business in the United States, and \$20 million to John Stumpf is a dern drop in the bucket to the company's bottom line...about 0.09% in 2015, or less than 1/2 of 1¢ per share. Really. As crazy as it sounds, paying part-time board members 6 times the average wage in the United States is so much of a rounding error. It is a numbers game, and the relative numbers here aren't as large as you might think EVEN IF the absolute numbers are absolutely outrageous.

Unfortunately, it isn't in the CEO's best interest to cut his pay nor the Board of Directors, for that matter. I mean, it would be pretty darn hard for the person with their hand in the cookie jar to remove it unless someone makes them do so. Who would that be?

I would argue IF the private sector wants to exert the leadership this country needs, large, institutional investors need to step up to the plate and take their ownership more seriously than they do. This means Vanguard; it means Black Rock; it means State Street, and firms like Berkshire Hathaway. Those 4 companies, alone, control or own 25% of Wells Fargo (in this instance). Warren Buffet's company owns 10% of it!

In the end, unless the private sector wants the public sector to meddle in its business more than it already does, the large institutional investment firms need to develop an activist bone or three, and put an end to some of these headlines which only serve to alienate US business from the society as a whole. Executive compensation is a good starting place, and they/we can work ourselves down from there.

Hey, this isn't perfect, but I would much rather have shareholders (passive or otherwise) determine salary pay, etc., than the Federal government. So, in a nutshell, the cause of my recent fits of unease seems to be a lack of leadership in the country. If big business isn't going to step up to the plate by itself, the firms which actually own it should break with standard operating procedure and do it for them.

...but, then again, I am increasingly of the belief that I just 'don't get it.'