

University of Missouri
 St. Louis
 Making Sense of Investing

Stock Report

Bank of America®



Rating:	HOLD
Suitability:	Growth
Date:	07/18/08
Price:	\$27.49
Dividend:	\$2.40
Yield:	9.31%

Company Overview:

Before 1998 the Bank of America that we all know was then known as NationsBank and was known in even earlier years it was known as North Carolina National Bank. Bank of America generates 90% of its revenue from the domestic market and they want to be the number one bank in the domestic market. Bank of America currently competes directly with the retail banking divisions of Citigroup and JPMorgan Chase. Bank is a member of the Global ATM Alliance, which is a group of international banks that allow customers to use their ATM card at other banks in the Global ATM Alliance for no charge with they are traveling internationally.

Market Data:

52-Week Range	\$52.96 - \$19.04
Market Cap. (mil.)	82,465.56
Div. Pmt. Mths	M, J, S, D
Est. Engs. Date	Sept. 01, 2008

Valuation:

	07A	08E	09E
Earnings	3.12	2.31	3.44
P/E	12.5	11.9	13.6

Growth Outlook

Est. 5-Yr EPS Growth	-16.47%
Est. 5-Yr Div Growth	14.49%

Financial Data

Debt Rating	AA
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INVESTMENT SUMMARY

Rating: HOLD. I recommended HOLDING onto Bank of America stock for investors willing to wait for the housing market to improve. Even with the current drop in the stock price there had been a gradual increase in the stock price recently. I also believe that when things get better with the housing marketing that the price of the stock will go back closer to the 52-week high. I do believe that it will take several months for the housing market to improve but I believe if you were to sell the stock now and get out of it you will be upset with yourself when the price of the stock improves.

Added to the Dow Jones Industrial Average

Even with the obvious problems that are facing most bank stocks Bank of America still seems to have made an impression on the people who choose the companies to be part of the Dow Jones Industrial Average. In February Bank of America was added to the Dow Jones Industrial Average. This is impressive being that there are several requirements that must be met to be added to this index. I believe this says a lot about Bank of America being that enough though the stock has been falling they still met the requirements to be added to the index. This also tells me that the members at the Dow Jones Industrial Average believe that even though the stock is currently low that it is going to rebound from all of this.

Valuation

Bank of America is currently selling for \$1.78 per share less than the 2008 fiscal year end. I believe that the reason for this is the housing market and the scare of failing banks. I also believe that if you are willing to stick with Bank of America the valuation will get to a more attractive number. Currently the stock is estimated to be valued at a mean of \$3.44 per share at the fiscal year end of 2009. This means that the share price is estimated to raise \$2.91 per share from where it currently is and is expected to raise \$1.13 by the 2008 fiscal year end. The reason that I believe that there is such a high difference in where the stock currently is and where it is estimated to be in just five months is analyst know that at some point the housing market has to go back up and this will result in an increase in all bank stocks.

Another recent event that shows how well Bank of America is doing as far as value goes it that even with the cut in its current stock price Bank of America was able to still acquire Countrywide. I think this really shows the real value of the stock because even with the hard times in the market for financial institutions Bank of America still had enough capital to take on the issues that come with another struggling financial company.

Risks

The key risk that is facing Bank of America Corp is the housing market. This is a real risk for Bank of America stock because the more mortgages that are foreclosed on the larger of a loss that Bank of America will

RECENT NEWS AND ANALYSIS

On July 9th, 2008 Bank of America's CEO, Ken Lewis, states that he believes there will be no need to raise capital and cut dividends. In LA he stated that Bank of America planned to resolve at least \$40 billion worth of bad mortgages in the next two years which will help nearly 250,000 families stay in their homes. After Bank of America acquired Countrywide which had billions of dollars of home loans and this made investors concerned that the company would need to raise capital and cut dividends help write down these mortgage problems.

On July 14th, 2008 Bank of America senior equity analyst from four major companies including Bear Stearns, Lehman Brothers Holdings Inc., Morgan Stanley, Credit Suisse Group, and Jefferies & Co.,. There were nine new additions that included Joseph Buckley, managing director of restaurants coverage; Robert Hopkins, managing director of medical devices coverage; James Kissane, managing director of information technology services coverage; and Suzanne Schiavelli, principal - specialty finance. With the nine new addition of Bank of America's also announcement in May that Michael Rietbrock would be the new head of equity research.

On July 16th, 2008 Bank of America's rating was lowered by on the Fitch Ratings. Fitch lowered Bank of America's rating one notch to AA. The reason that Fitch lowered Bank of America's stock one notch was because Fitch believes that asset valuations will decline because the company's position has been through write downs and other improvement efforts. Fitch also believe that pending legal problems facing Countrywide including actions by California and Illinois on the same day the Countrywide shareholders voted to approve the sale of Countrywide to Bank of America adds additional risk to the company.

On July 19th, 2008 financial stocks were going through a world wind when on one day they could seem to be in recovery and the next only to be teetering on the edge the

accrue on its financial statements. However, I only see this as a temporary risk because as soon as the housing market gets better then this risk will no longer be a problem.

The next major risk that faces Bank of America is the risk that came along with the recent purchase of Countrywide. The reason this is a major risk is because Countrywide is right in the middle of several major lawsuits. The reason for the lawsuits is because Countrywide was involved in several questionable issues. Countrywide also brings on a large amount of potential debt with its own mortgage problems. However, I do still believe that these issues can be resolved and Bank of America will not have to worry about these potential problems.

Corporate Profile

Currently Bank of America is one of the world's largest financial institutions. They are serving individuals, small to middle business, and they are even helping out larger corporations. They have a full range of investment, asset management and other financial and risk-management product and services. Bank of America is currently serving 59 million customers. They have 6,100 banking office, more than 19,000 ATMs, and an award winning online banking system with nearly 24 million active users. Bank of America right now is the number one overall Small Business Administration lender in the US. Bank of America is in 175 countries and they work with 99% of U.S Fortune 500 companies and 80% of the Fortune Global 500.

next day. With several big banks up 30% over the prior two recent lawsuits with days it looked like a possible turnaround was possible. One way to judge if there is a chance for a possible turnaround it to look at the loan-loss provision a cost that was mess up earnings for healthier lenders such as J.P. Morgan Chase, Bank of America, and Wells Fargo. Loan-loss provisions is the amount set aside each quarter the help protect banks from future credit losses. Big provisions can hurt a banks' current income statements however, when credits quality start to recover the income earnings could soar.

INDUSTRY AND COMPANY OUTLOOK

Housing Market Improvement

I believe the one major risk that faces Bank of America stock can be improved. I believe that currently the only thing that can happen to the housing market is that is being to improve. Right now we are seeing less and less foreclosures on mortgages. Also in the last few days we have seen financial stock rise in price. With this being one of the major risks that face Bank of America stock I believe with the improvement to the housing market will improve the stock price and give the company a positive outlook

FDIC Stepping In

Even though I do not for see an issue with Bank of America stock where the FDIC would need to step in I believe that fact that the FDIC has stepped in on several banks lately it gives financial stock a positive outlook. The reason I see this as being a positive thing to financial stocks is because even if a financial stock is in trouble there is a back-up in place to support financial stocks. So I believe that even though most people would find the fact that the FDIC has had to step in with several banks lately negative, I think other wise and I believe that is adds to the positive outlook that I believe Bank of America currently ha

Positive Company Outlook

I currently believe that the outlook for Bank of America is currently a positive outlook. There are several key factors

that make be believe Bank of America has a positive company outlook.

One key factor is the estimated earning for the 2008 fiscal year and the following 2009 fiscal year. The stock is estimated to increase by almost two dollars by the end of this year and then another dollar in 2009. This is a key factor because this shows that the stock is only expected to do better in the coming years.

A second key factor that I believe gives Bank of America a positive company outlook is the fact that they acquired Countrywide. I believe this is a key factor because even with all of the problems with financial stocks Bank of America acquired another financial company with the belief that they can turn Countrywide problems around. This says a lot about the company because they are not scared to take on more risk because they must believe that they are more than stable to take care of everything.

These two key factors I believe show how well Bank of America is currently doing. This also shows that even though financial stocks may be hurting currently in the market that Bank of America believes that they are doing fine. So even if I didn't believe that the company had a positive outlook they however, do believe that as a company they have a positive outlook.

FINANCIAL POSITION

Bank of America currently has a strong financial position. You are able to see this with the large amount of cash that is found on the balance sheet in the last calendar quarter enough though the stock has been losing money. I believe that this gives Bank of America a strong financial position because enough the stock has been losing money the company has consistently been gaining cash for its company. Another item that demonstrates how well Bank of America is doing financially is the fact that they just purchased Bank of America. This shows how well Bank of America is doing because they had the financial capital to purchase another company. This shows how currently Bank of America has a strong financial position.

Ratio Analysis

I decided to compare Bank of America (BAC), to JP Morgan Chase (JPM) and Wells Fargo (WFC) as of first quarter 2008. I the reason that I decided to compare Bank of America to two other stocks is because I believe it better shows how Bank of America is doing in the industry.

	Liquidity Ratio		
	BAC	JPM	WFC
CR	1.090	1.348	1.169
QR	1.090	1.348	1.169

The Current Ratio (CR) currently indicates that for every dollar of the company owes that they have \$1.09 in current assets to cover the debt. The current ratio of Bank of America also shows that even though it has the smallest current ratio of the three companies it is right in line with other major companies in the same industry. The reason that the Quick Ratio (QR) is the same as the current ratio is because all three of these companies do not have any inventory because they are financial institutions. If there had been any inventory on the balance sheet then there would have been a difference in the quick ratio and the current ratio however, because there isn't then they are the same.

Leverage Ratio			
	BAC	JPM	WFC
DR	91.00%	13.38%	91.91%
EM	1.099	1.083	1.088

The Debt Ratio (DR) of Bank of America is not all that promising. The reason is because it shows that 91% of the company's assets are provided by debt. As you can see JP Morgan Chase shows most of their assets are not from debt. However, if you compare Bank of America to Wells Fargo it shows that almost all of Wells Fargo assets are from debt. When you compare Bank of America to the other two companies DR it is hard to say how well Bank of America is doing because their ratio is better than Wells Fargo's ratio however, they are doing a lot worse than JP Morgan Chase's.

Now when you compare the EM ratio of all three companies shows that Bank of America is currently not doing bad compared to the other two companies. As you can see when you compare the three companies Bank of America's ratio is just about the same as the other two companies.

Efficiency Ratio			
	BAC	JPM	WFC
TATO	.013	.011	.015
FATO	1.935	1.854	1.750

The Total Asset Turnover Ratio (TATO) of these three banks shows the amount of sales that is being generated by every dollar of total assets. This shows that

currently Bank of America is doing well compared to other companies in the industry. The ratio shows that Bank of America currently is generating \$0.013 of revenue from total assets and JP Morgan Chase is only generating \$0.011 and Wells Fargo is generating \$0.015. So Bank of America is only .002 cents difference from Wells Fargo and they are better than JP Morgan by .002 cents so they are doing well to other companies.

The Fixed Asset Turnover Ratio (FATO) shows that Bank of America is again doing well compared to other companies in the industry. What the fixed asset turnover ratio tells you the amount of sales that is generated by every dollar of fixed asset. This means the higher the ratio that better it is for the company. So if you compare each company you will see that Bank of America is generating more sales for its amount of fixed assets compared to the other three companies.

Profitability Ratio			
	BAC	JPM	WFC
ROE	0.77%	1.89%	4.15%
ROA	.07%	0.14%	0.34%

The Return on Equity Ratio (ROE) shows how well a company can generate profits from its net assets. The thing about this ratio is that you need a large number if your company needs a large amount of assets. So when you go to compare Bank of America's ratio to the other two ratios you will see that Bank of America's ratio is rather low. I believe this is not a bad thing because I do not believe that financial institutions really need a large amount of assets on their financial statements as long as they are making a nice profit.

The Return on Asset Ratio (ROA) shows how well a company generated sales from the assets that they have. This is not a very promising ratio for Bank of America because they have a very small ratio. JP Morgan Chase is twice as large as Bank of America and Wells Fargo is nearly

five times higher than Bank of America's ratio. I believe back of the problem that Bank of America is having is their net income is not very large but they have a large number for their assets.

Market Ratio			
	BAC	JPM	WFC
PE	12.04	12.69	12.63
MB	.91	1.04	1.90

The PE Ratio tells an investor the amount paid for a share relative to the profit earned by a company. Most companies have a PE ratio between 15-25. Bank of America has a PE ratio lower than the norm of most companies. However, if you are comparing Bank of America to JP Morgan and Wells Fargo, Bank of America's ratio seems normal because the other two stocks have a PE ratio just about the same as Bank of America's PE ratio.

Now when you compare all of the stocks Market-to-Book Ratio (MB) of the three stocks you will see that JP Morgan's and Bank of America's MB ratios are about the same and that Wells Fargo's MB ratio is rather large than the other two stocks. What the MB ratio tells you is compares a company's book value to the current market price. So what this tells you about Bank of America is that its book value is a little lower than its market value. You can then see that JP Morgan Chase is a little higher than its market value and Wells Fargo's book value is much higher than its market value. However, I believe that Bank of America is just about right on with its MB ratio compared to other companies in the industry.

ON SITE INTERVIEW

Review of Physical Site

When I went to a Bank of America to do my onsite review I noticed that the location was large. I was also very neat and keep very clean. Along with all of that the site also was set-up so that it was easy to know where you need to go to get all of your needs taken care of. The lines waiting to see the next customer service agent were short and there looked like there wasn't a long wait. The age of customer that came into the site where customer of all ages. I show young, middle aged, and even elderly customer. This means that Bank of America is suited for customers of all ages.

Manger's Insight

I was not able to interview a Bank of America manger that how was high enough to gain financial insight into Bank of America stock. So, I interviewed Edward R. Meyer, of Edward R. Meyer Financial Services LLC. The interview was on July 18th, 2008 from 8:00 a.m. till 8:45 a.m. Then on July 23rd, 2008 I sent a thank you note to Mr. Meyer along with a copy of my stock report.

Q: Do you think that the Bank of America stock is going to be hit hard with the mortgage problems that many other banks are having problems with?

A: I believe that the Bank of America stock is currently being affected by the mortgage problems that is why the stock price has lowered so much

Q: With many large banks currently being taken over by FDIC do you believe that Bank of America stock holders should be in fear of this happening to Bank of America?

A: People should always consider the fact that it might happen to Bank of America but, I don't believe that Bank of America will be taken over by FDIC

Q: What is your option on Bank of America stock should stock holders hold, sell, or buy this stock?

A: I believe that stock holders should buy because I believe that the stock is currently under sold

Q: What do you think it will take to start bringing the stock price back up and when do you believe this is going to happen?

A: I believe that it is currently happening, what we need is calming of the sub-prime market. The fact that the FDIC is stepping in, I believe is also making people feel better

Q: In recent months have you been advising your clients to invest in Bank of America and what about the stock is making you chose to advise your clients in this way?

A: I have advised my clients to buy Bank of America Stock and the reason is because of the current price of the stock

Q: If the housing market doesn't get better in the next few months how do you think this will affect the stock price and is the housing markets get better what effect do you think that will have?

A: If the housing market gets better I believe the stock price will return to the 50s and if the housing market doesn't I sill believe that the stock price will go back to the 20 or 30s.

RECOMMENDATION & CERTIFICATION

Recommendation

The following recommendations are possible:

Buy (B)

Fundamentals and/or valuations are compelling

Hold (H)

Fundamentals and/or valuations are stable or special situations exists, such as a merger, that warrants no action

Sell (S)

Fundamentals are deteriorating considerable and/or a recovery is highly unlikely. The stock is significantly overvalued

Short (SS)

Fundamentals have deteriorated and are expected to continue to do so for the foreseeable future resulting in negative growth in EPS.

I have recommended a HOLD for the reasons outlined in this report.

Certification

I certify that the information contained in this report is the result of my primary research and has not been copied in whole or in part. All sources of information have been properly and completely documented in the *Bibliography*. Statements that are not my own have been put in quotations and are properly referenced in section.

I have read and understand the *University of Missouri* guidelines governing plagiarism and further certify that no statements contained in this report are other than my own. Should the professor find otherwise, I understand that I am subject to the University's rule of suspension or expulsion from the UM system.

Tabitha Williams

Name Printed

Date Signed

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