

WEDNESDAY, NOVEMBER 1, 2006

Banking REIT Chief Buys In

By CATHERINE SHU

HAROLD POTE IS SALUTING American Financial Realty Trust with his first purchase of the real-estate investment trust's shares since being named chief executive officer.

Pote, a former vice chairman of retail financial services at J.P. Morgan Chase, shelled out \$584,300 for 50,000 American Financial shares on Oct. 31, at prices ranging from \$11.66 to \$11.71 per share.

American Financial shares plunged to a 52-week intraday low of \$9.52 on May 3 after the company reported that it had swung to a loss in its first quarter. The stock has pulled itself back up 24% since then, but is still trading below the 52-week intraday high of \$12.88 from Nov. 23, 2005. The stock closed at \$11.80 on Wednesday.

Pote was named the company's chief executive officer on Aug. 17, replacing former CEO Nicholas S. Schorsch, who resigned "by mutual agreement" with American Financial's board, according to a press release. Pote joined the company's board in March 2006.

American Financial has engaged in several restructuring efforts over the past year, including the closure of offices in New York and London to reduce operating costs. American Financial also agreed to acquire 241 bank branches from subsidiaries of Citizens Financial Group, and expects to sell \$300 million to \$400 million of noncore assets by the end of 2007.

Ben Silverman, director of research at InsiderScore.com, says that Pote's purchase is a bullish signal, especially since he already holds a large amount of restricted common shares, including 500,000 awarded when he became CEO.

With the latest purchase, Pote owns a total of 558,513 shares, including 508,513 restricted common shares. His total holdings amount to less than 1% of the company's 129.6 million outstanding shares. The restricted shares are scheduled to vest over the next three years.

"The company is just coming off earnings, they are in the midst of making a lot of changes and investors have a good idea of where the company is right now," says Silverman.

He adds, "I think it's good that the CEO bought stock because he is expressing confidence in the strategy moving forward."

Jonathan Moreland, director of research at InsiderInsights.com, also believes that Pote's purchase bodes well for the stock. While Moreland says that the buy signal for investors is "slightly mitigated by the fact that [Pote] got 10 times this amount of shares without paying for them, the fact is that he did dip down and buy these shares after the stock has come off the mat."

Through a company spokeswoman, Pote said that he purchased the stock because it was his first opportunity since being named CEO. Pote had been restricted from buying shares earlier as the company prepared for its third-quarter earnings release on Oct. 27. In addition, executives were restricted from buying shares in August when American Financial was considering buyout offers.

Pote also said that he sees value in the stock because "we've laid out our plans for unlocking shareholder value and I believe we will be successful." American Financial has no stock-ownership requirements for its executives and directors.

Investors should take into consideration, however, that Pote's first open-market purchase of American Financial's stock may be a "political decision" to curry favor with shareholders, says Michael Painchaud, managing director of research at Market Profile Theorems.

According to Market Profile's research, Painchaud says that first-time buys by company executives and directors are less predictive of a stock's movement than other insider purchases.

Pote's purchase is "nice, but not necessarily something that we'd consider actionable," adds Painchaud.

Analysts have also been mixed on American Financial's prospects.

Deutsche Bank Securities' Lou Taylor upgraded the stock to a Buy from a Hold on Oct. 30 and raised his price rating to a \$12.50 from \$9.

"With the departure of [former CEO Schorsch], and a new management team committed to improving the portfolio and execution, we think the worst is over for American Financial," Taylor wrote.

Stifel Nicolaus analyst John W. Guinee maintained a Hold rating, however, after American Financial's third-quarter earnings report.

"Management was high on energy and attitude, but low on specifics, preferring to wait until mid-December to fully articulate the business strategy and 2007 guidance," Guinee wrote.