

# FORTRESS PARTNERS

## E-Memo

**TO:** INVESTOR/MEMBERS, BANKERS AND FRIENDS  
**FROM:** Jon Bruss and Ed Depenbrok  
**DATE:** June 30, 2020  
**SUBJECT:** Independence Day 2020

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On July the Fourth, we will celebrate the independence of the 13 colonies that went on to form the United States of America. The Declaration of Independence was approved by most of the 56 delegates of the 13 colonies to the Second Continental Congress 244 years ago, on July 4, 1776. But according to most historians, the final draft was not signed by the delegates until nearly 30 days later, on August 2, 1776, in Philadelphia.

Mythology surrounding the signing of the Declaration emerged in the following years as it became an important founding symbol of the United States of America. One of the pithiest stories, perhaps apocryphal, is John Hancock's pronouncement that the delegates, having signed the Declaration, must now "all hang together", to which the oldest signatory, Benjamin Franklin replied: "Yes, we must all hang together, or most assuredly we shall all hang separately."

The mythology of the Declaration is fed by a bevy of interesting historical facts. For instance, four men we consider to be chief among our Founding Fathers did not actually sign the Declaration. They were George Washington, John Jay, Alexander Hamilton, and James Madison. At the time, Washington was in New York City commanding the Continental Army; Jay, all of 30 years old was recalled by his home state of New York; and Madison at age 25 was serving in the Virginia legislature.

Only 19 years old in 1776, Alexander Hamilton, was a captain serving the Continental Army in New York City and raising a unit called the New York Provincial Company of Artillery of 60 men. In March 1777 he was promoted to Lieutenant Colonel and served for four years as Washington's *senior aide-de-camp* and played a leading role in the decisive Battle of Yorktown. In the interim, Hamilton taught himself law, passed the bar in July 1782 and in 1784 founded the Bank of New York, which survives today as BNY Mellon. In 1789—at age 34—he became the nation's first Secretary of the Treasury. Several days before entering the new Treasury Office on Broadway, just south of Trinity Church, he arranged for an emergency \$50,000 loan for the federal government from the Bank of New York.<sup>1</sup>

Hamilton, as you may have guessed by now, has our vote as the Founding Father of Banking in the United States. In his background from his birth at Charlestown on Saint Kitts and Nevis, where at age 11 he apprenticed as a clerk at Beekman & Cruger, a local import-export firm that traded with New York and New England and major European countries. Here he was exposed to the principles of general business, international trade, the payments system, credit and foreign exchange. One historian observed that "when Alexander Hamilton was serving his apprenticeship . . . he was near the economic center of gravity in the New World." He wrote excellently and spoke English and French fluently. Hamilton would later tell his children that his dealings with "ships' captains, customs official, merchants and planters, as well as duties in warehousing and retail"—in short, commerce—were "the most useful part of his education."<sup>2</sup>

In 1772, four years after his mother died, Hugh Knox, a Presbyterian minister, decided Alexander's "exceptional intelligence" warranted furthering Hamilton's education. Thus, he sent Hamilton to New York

<sup>1</sup> Erzati, Milton, **Alexander Hamilton: America's First Banker**, *The National Interest*, August 26, 2018

<sup>2</sup> Voight, Heather, **The Education of Alexander Hamilton**, *American History Blog*, December 20, 2017

City and in 1773 he entered King's College (now Columbia University). He never returned to St. Croix or the West Indies but his apprenticeship with Beekman & Cruger in St. Croix was central to his formation.

It was that early commercial education that led him to found the Bank of New York and, later, to establish the first two *central* banks of the newly independent country.

- The Bank of North America, formed after a plan presented by US Superintendent of Finance Robert Morris but based on the recommendations of Alexander Hamilton, was chartered by the Continental Congress on May 26, 1781. It was a *privately held bank* but functioned as the first *de facto* central bank. It never gained significant long-term traction.
- It was succeeded 10 years later in 1791 by the privately held First Bank of the United States which also functioned as the central bank for the United States.

Hamilton's business background and experience informed his vision of the economic and financial structure of the United States of America. In forming these banks, Hamilton "proceeded to shape [the future of his adopted country] so that the American economy could be not only an engine of wealth but an engine of economic opportunity as well."<sup>3</sup> His vision synchronizes squarely with the positioning statement of Fortress Partners Capital Management—

*The FOUNDATION of a strong, free economy is a diverse and competitive banking system.*

A central bank was needed as Hamilton saw it to help ensure the internal and external stability of the currency. Internally, this means keeping the purchasing power of the money intact and preclude deterioration of that power—keeping inflation in check. External stability implies keeping a balance between exports and imports thereby preventing the foreign exchange value of the US dollar in this case from depreciation. A central bank will also adopt measures to control the money supply and the supply of credit. As you can well imagine, the system of payments, the availability of currency.

To be sure, we are dealing with adversity created by a viral pandemic which has resulted in a partial shutdown of our economy. And all of that has harmed us financially as citizens of this nation and as bankers and bank investors. As you've likely noticed, Chairman Jerome Powell of the Federal Reserve System—our central bank, has been front and center for much of the period of the pandemic shut-down. He has been representing the assurance of stability of the US financial system as evolved from the rudiments devised by Alexander Hamilton.

The pandemic has impacted virtually all businesses financially, causing many to permanently to close and to others it has dealt debilitating shocks.

The consequences of the viral pandemic have dealt bank stock prices some crushing blows but the consequences would have been far worse without the several congressional acts of stimulus and the guidance and support of the Federal Reserve System, working just as envisioned by Alexander Hamilton.

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<sup>3</sup> John Steele Gordon, **The Self-Made Founder**, *American Heritage Magazine*, April/May 2004

Following are the crushing blows bank values have been dealt and which we've endured as bankers and bank investors:

INDEX	LEVEL December 31,2019	LEVEL MARCH 31, 2020	GAIN OR LOSS (%) Since 12/31/2019	LEVEL JUNE 29, 2020	GAIN OR LOSS (%) Since 12/31/2019
DJIA	28,538.44	21,917.16	-23.20	25,595.80	-10.31
S & P 500	3,230.78	2,584.59	-20.00	3,053.24	-5.50
NASDAQ	8,972.60	7,700.10	-14.18	9,874.15	+10.05
NASDAQ Bank Index	3,968.83	2,442.94	-38.45	2,664.73	-32.86
QABA (ABA Community Bank Index Fund)	\$ 51.39	\$ 32.64	-36.13	\$ 34.46	-32.94
SNL MicroCap Bank Index	NA	NA	-30.64	475.09	-34.03
SNL Small Cap Bank Index	NA	NA	-34.91	487.87	-31.98
SNL US Bank Index	NA	NA	-40.83	423.60	-36.20

That's a lot of damage—a lot of red ink.

But compared to the damage wreaked by the eight-year War of Independence (1775-1783) on fledgling business and investment, the damage we are enduring to our investments though shocking could be a lot worse in our view.

But what resulted from those eight years of struggle has been 244 years of unparalleled peace and prosperity. Hamilton's experience in commerce, his understanding of trade and the role of centralization of money flows, his creativity in forming a commercial bank and the concept and formation of a central bank without which, in our opinion, this nation would have suffered far more greatly in the past four months than it has.

Alexander Hamilton, the Founding Father of Banking in the United States never seemed to run out of ideas for the formation and financing the new US economy. But his best idea was to bring the bear the power of banking. Bankers and bank investors should take stock of the important role banking played in Hamilton's view of the US economy as he formed the Bank of New York, the Bank of North America and the First Bank of the United States.

We believe the role of banking today in today's economy is every bit as important as it was 240 years ago.

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