



Weekly Review—February 21, 2020

An interesting article, “The simple maths error that can lead to bankruptcy,” was published this week on the BBC’s website [BBC Article](#). The gambler’s fallacy may be more far reaching than just gambling; it could cause poor decision-making by any of us. The gambler’s fallacy is simply the feeling that an outcome will change because of past outcomes. The classic example is flipping a coin. If the pattern is HTHTHT, one might think the next flip results in heads, right? Wrong. What we fail to remember is the math; the probability remains 50% that the coin will come up heads **or** tails each flip. If we take this mentality into our work and investment lives, we may be playing a very dangerous game.

One recent example provided within the article shares the story of “53 fever.” In Italy’s lottery system, players can choose a number between 1 and 90, based on their municipality’s lottery wheel. During 2003, the number 53 ceased to show on the Venice wheel. Thus, larger and larger bets began to be placed on the number 53 because it just had to come up next time! It finally appeared after 182 games and over four billion euros in losing bets – the financial ruin of too many people.

The real danger comes when we make decisions based on this fallacy at work. A study mentioned in the article found that “loan officers were up to 8% more likely to reject an application after they had accepted two or more in a row.” Another example featured HR managers and the possibility they could reject applicants after seeing two excellent ones. Unfortunately, no field is immune from this type of psychological error. So, what can we do? Slow down, treat each occurrence as an individual event.

When investing in fixed income, look at each bond on its own merit and characteristics. We like to compare and contrast with other bonds and that is certainly appropriate during the decisioning process. However, **the decision to invest in a certain bond ultimately comes down to what happens to this specific security when things change.** Treat each bond as a single occurrence – a unique opportunity, not solely based on how similar bonds have behaved in similar circumstances. It is not easy, because we want to believe our feelings are accurate. Our instincts are right. That moment is precisely when the gambler’s fallacy creeps in and could lead us down a painful path.

I am grateful for the training we receive as employees of Commerce Bank. We often speak about and are trained on recognizing biases, more importantly, how to avoid them. We are here to share this knowledge with our customers and help all of us stay focused on doing what is right.

Have a wonderful weekend!

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NEW ISSUE MUNICIPAL CALENDAR			
Date	Amount (\$)	Description	Maturity
02/24/2020	\$1,205,000	Canton MO 2020 UT GO BQ AA BAM	2021-2031
02/25/2020	\$2,625,000	Belton MO Sewer Revs BQ AA-	2021-2036
02/27/2020	\$3,790,000	Bayless CSD STL CO MO UT GO BQ AA+ BAM/AA-	2021-2032

ECONOMIC CALENDAR

Monday 2/24	Tuesday 2/25	Wednesday 2/26	Thursday 2/27	Friday 2/28
	Conf. Board Consumer Confidence	MBA Mortgage Applications New Home Sales	GDP Annualized QoQ Durable Goods Orders Initial Jobless Claims	Wholesale Inventories MoM Personal Income Personal Spending

KEY INDICES				MUNI AA-BQ	
	Current	Last Month	One Year Ago		
Prime Rate	4.75	4.75	5.50	3 Mo.	0.78
Discount Rate	2.25	2.25	3.00	6 Mo.	0.81
Fed Funds Rate	1.59	1.55	2.40	1-Year	0.83
IOER	1.60	1.55	2.40	2-Year	0.87
1-Month Libor	1.63	1.65	2.48	3-Year	0.88
11th Dist COFI	1.04	1.04	1.13	5-Year	0.91
1-Yr. CMT	1.43	1.56	2.54	7-Year	1.02
Dow	28,992.41	29,196.04	25,850.63	10-Year	1.24
NASDAQ	9,576.59	9,370.81	7,459.71	30-Year	1.89
S&P 500	3,337.67	3,320.79	2,774.88		
Bond Buyer	2.46	2.56	4.23		

Treasuries & New Issue Agencies (<i>Spread to Treasuries</i>)						CMO Spreads to Treasuries		
	Treasuries	Bullets	NC-6 Mo.	NC-1 Year	NC- 2 Year		PAC	Vanilla
3 Mo. Bill	1.55					1-Year	N/A	+42
6 Mo. Bill	1.55					2-Year	45	57
1-Year Bill	1.43					3-Year	55	68
2-Year Note	1.34	5	17	5		5-Year	67	80
3-Year Note	1.30	5	30	20	1			
5-Year Note	1.30	6	48	38	21			
7-Year Note	1.38	16	51	42	28			
10-Year Note	1.45	27	68	58	47			
30-Year Bond	1.90							

MBS Current Coupon Yields	
GNMA 30 Yr.	2.26%
FNMA 30 Yr.	2.37%
GNMA 15 Yr.	1.88%
FNMA 15 Yr.	1.97%

About the Author, Matthew Maggi



Prior to joining CMG in 2016, Matthew was the Corporate Treasurer at a \$1.2 billion publicly-traded community bank headquartered in Missouri. During his tenure, he developed and implemented balance sheet strategies to maximize margin while managing acceptable levels of interest rate risk, liquidity, and capital. Matthew not only managed the investment portfolio, but also conducted extensive loan portfolio performance analyses.

Previously, he was a Treasury Analyst for one of the largest privately held banks in the U.S. He monitored cash flow and liquidity and developed funding strategies. Matthew leverages his extensive balance sheet management experience to provide tactical and strategic solutions to maximize performance while mitigating risks for the community banks.

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