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## Bank of America Doesn't Interest Us

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Financial institution Bank of America (click ticker for report: [BAC](#)) issued stronger than expected second quarter earnings Wednesday. The firm earned \$0.19 per share versus the Street's expectation of \$0.14 per share and significantly better than the \$0.90 per share loss for the same period a year ago. However, the bank posted revenue just shy of \$22 billion, which was about \$900 million lower than the consensus estimate. At current levels, we think the financial services giant is fairly valued.

Though earnings were significantly higher than a year ago, most of this change can be attributed to improvements in loan loss provisions and consumer real estate net losses that shrank considerably on a year-over-year basis. Still, the business remains challenged, partially due to its purchase of Countrywide. As with competitors Citigroup (click ticker for report: [C](#)), JP Morgan (click ticker for report: [JPM](#)) and Goldman Sachs (click ticker for report: [GS](#)), weakness in the capital markets business continues to be a large drag on performance. Revenue tumbled nearly 24% compared to the second quarter of 2011 and earnings fell 49% in the segment.

Unlike JP Morgan and Wells Fargo (click ticker for report: [WFC](#)), the health of Bank of America's balance sheet has been heavily contested. The firm has focused on improving asset quality and striving toward capital improvements (the bank achieved a Basel III Tier I capital ratio of 8.10%). Unlike Wells Fargo, which has achieved a strong net interest margin by focusing on high quality, higher yield assets, Bank of America continues to pile into conservative assets as its net interest margin fell 30 basis points to just 2.21%.

Though shares of Bank of America are trading below tangible book and at the low-end of our fair value range, we have little interest in owning shares of the company. The firm doesn't pay a significant dividend and still owns several billions of dollars of non-performing assets via Countrywide. We continue to steer clear of owning Bank of America's shares in the portfolio of our [Best Ideas Newsletter](#).

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