We are thinking about … Regional banks and why we diversify.

Silicon Private Wealth
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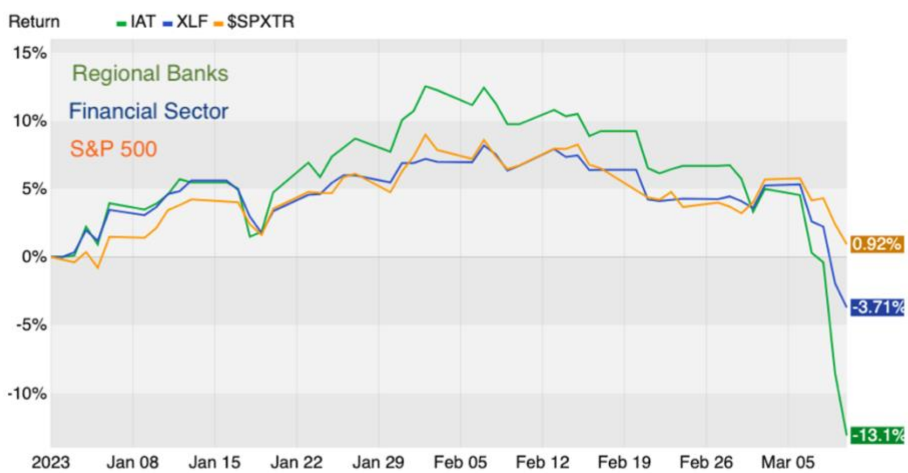
Silicon Private Wealth (SPW) Is Unaffiliated with Silicon Valley Bank (SVB)

Our firm is NOT affiliated with Silicon Valley Bank (SVB). We (SPW) are a Registered Investment Advisor ("RIA"), so assets are not held by us; in fact, lion's share of our customer assets is held by Schwab Institutional, and we feel good about that choice for many reasons. Again, the bottom line: SPW is an RIA, rather than a commercial bank.

Impact of SVB Failure on Banking Stocks



Source: Kwanti 3_13_23 ETFs IAT Regional Banks XLF Financial Sector

Reassurance and a Collective Sigh of Relief

According to journalist David Goldman, "US regulators say SVB customers will be made whole as second bank fails." Naturally, those in high tech and private equity with deposits far in excess of the FDIC protection minimums are breathing a collective sigh of relief with this recent reassurance.

The Collapse of a Significant Regional Bank

Like many, we are studying the SVB collapse with great interest. Before the dark blue suits descended upon the institution, the former regional bank was a centerpiece to the Bay Area's success story; its collapse is big news for technology, private equity, depositors and investors. A friend blessed with a golden voice hosts a popular technology radio program and podcast; he has been asked to travel all the way to Dubai -- just to speak on SVB implosion. The debacle, in some sense, is that proverbial "shot heard around the world."

The Importance of Diversification

For us, the regional bank's failure reinforces our ongoing mantra that diversification makes good sense. By way of example if you have a particular affinity for regional banks, or want to wear the hat of a contrarian, consider diversified ETFs which have a stake hold in the sector, such as SPDR® S&P Regional Banking ETF (ticker symbol "KRE") or iShares U.S. Regional Banks ETF (ticker symbol "IAT"). ETFs which hold major money center banks as well as other financial services companies include iShares U.S. Financials ETF (ticker symbol "IYF") and Vanguard Financials Index Fund ETF Shares (ticker symbol "VFH"). Also noted is that the first regionals to be closed (SVB) and New York-based Signature Bank could be considered outliers – SVB with its unusual concentration of start-up deposits and Signature Bank's ill-fated decision to be "crypto-friendly."[i]

What Led to SVB's Demise?

Rising Interest Rates: A Blessing and a Curse for Banks

With the rise in interest rates, investment pundits often wrote about how banks were poised to benefit with juicier markups on their lending rates. Unfortunately left out of the discussion was the impact to bond portfolios held as reserve collateral, especially intermediate or long-term paper, whether held in Treasuries or other fixed income investments. The longer the duration of these holdings, the greater the impact of rising interest rates to a bank's reserve holdings.

Lack of Sticky Deposits

Colin Plunkett, an equity analyst, wrote about SVB's "Economic Moat" back in February of 2019.[ii] He pointed to some concerning attributes regarding SVB's deposits. Most of the deposits were of the "non-interest bearing" variety, making them more susceptible to flight in the event rates rose. In addition, unlike a Wells Fargo or Bank of America, the majority of SVB's deposits are commercial rather than stickier retail deposits. Compounding the issue was the fact that many of SVB's deposits were highly concentrated; their deposits, though substantial, were from start-ups which "burn" through their cash. Moreover, when Peter Thiel reportedly expressed concern about SVB's fiscal health, venture capitalists and their portfolio companies began a massive withdrawal of their deposits.[iii]

The Fed's Potential Role to Calm the Markets

The Fed, in the past, has been a willing holder of less attractive bank securities, allowing banks under duress to reinforce their balance sheet; interestingly, the Fed benefits from many of these trades. The Fed could also moderate the pace of its rate hikes; perhaps more consideration could be paid to the consequences of trying to get inflation under control. The Fed could also step in and force weaker banks to take actions that would improve liquidity and shore up balance sheets.

Diversification as the Main "Takeaway"

Our main takeaway is to urge our clients to revisit their portfolio allocation and examine any embedded risks, whether systematic or unsystematic, including interest rate risk, market risk, political risk, etc.

Consider Who Holds Your Cash

The FDIC protects bank customers if an FDIC insured depository institution fails. Deposits are insured up to $250,000 per depositor, per FDIC insured bank and per ownership category. SVB's demise prompts a review of where and how your cash deposits are held. We would be happy to provide ideas on how you manage your cash.

Reach out to us for a more in-depth conversation: www.siliconprivatewealth.com

General Disclosure

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[i] https://finance.yahoo.com/news/crypto-friendly-signature-bank-shut-222541514.html
[ii] Morningstar's research report on SIVB, 3/28/2019
[iii]https://www.bloomberg.com/news/articles/2023-03-09/founders-fund-advises-companies-to-withdraw-money-from-svb