March 15, 2023

Silicon Valley Bank Collapse

This weekend was the most tumultuous for the banking sector since 2008 as we witness another financial crisis unfold before us. The collapse of Silicon Valley Bank (SVB) has become a catalyst for further market downturn. The main concern is leaving depositors without access to their funds. Silicon Valley Bank was the 16th largest U.S. bank, but this is not just a U.S. issue. SVB also had branches in Canada, the UK, China, Denmark, Germany, India, Israel and Sweden.

So, how did the bank collapse?

- Silicon Valley Bank had friendly startup policies, which attracted many tech companies funded by venture capital business. They enjoyed a huge increase in deposits following COVID lockdowns as there was a spike in demand for digital technologies as well as cash for investors from COVID spending. SVB bank tripled in size over the past three years going from $55 billion in deposits at the beginning of January 2020 to $186 billion at the end of December 2022.
- Extremely low interest rates during that time made it hard for SVB to make the deposits grow. They invested a large portion into 10-year U.S. Treasury Notes and other public debt to try and generate some positive gains.
- In 2022, the Federal Reserve raised interest rates eight times in 12 months to try and combat rampant inflation. The assets SVB held in bonds fell in value. Around the same time, tech startups began drying up and those companies began to draw on funds they had at SVB. In order to cover these withdrawals, SVB needed to sell its assets, which were at a loss.
- Investors became aware of the trouble and began to quickly withdraw even more money, creating a classic bank run. Customers eventually withdrew $42 billion on March 9th, leaving a negative cash balance of $958 million. SVB was left with no liquidity and major losses, forcing them to default.

The closure of Silicon Valley Bank has had a ripple effect on the industry. Customers of New York City-based Signature Bank withdrew $10 billion on March 10th, forcing that bank into the third largest bank closure in U.S. history.

Bank stocks have taken a hit across the board. The volatility resulted in stock exchanges temporarily freezing trading on them. On Monday morning, when the stock market opened, it began to sell off. In order to have things ‘appear’ normal, the U.S. Securities and Exchange Commission (SEC) halted the trading on regional banks 29 times! The halting of these stocks happened again yesterday. How long can they keep the market propped up?

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As consumer confidence waivers, the number one question on everyone's mind is, **"Is my money safe?"**

Most banks have much more diversified sources of funding and are better positioned to weather various outcomes. TD Ameritrade is a solid brokerage company backed by strong financials. The chart below outlines the type of cash and investments and how they are insured.

Type of Investment	How it's Insured
Certificates of Deposit (CDs) – Banks	FDIC Insured Limits: $250,000 Individual Account $500,000 Joint Account
Bank Accounts	FDIC Insured Limits: $250,000 Individual Account $500,000 Joint Account
Credit Unions	NCUA Insurance Limits: $250,000 per credit union member
Treasury Bills	Backed by the U.S. Government
Brokerage Accounts – stocks/bonds/mutual funds	SIPC Insured Limits: Up to $500,000 for members including $250,000 for cash claims – used if the brokerage firm fails TD Ameritrade provides each client $149.5 million worth of protection for securities and $2 million of protection for cash through supplement coverage provided by London insurers
Annuities	Backed by the Insurance Company that issued the contract
Commodities – gold/silver/real estate	Held in your own possession
Cash	Held in your own possession

All of your investments fall into one or more of these categories. The U.S. Treasury Bills are considered 'the safest' investment because it is backed by the US government. Other investments use insurance as a backup option in case of a default. Just to be clear, the brokerage accounts are backed by insurance ONLY if the brokerage firm fails. It does NOT insure losses of investments held within that brokerage account.

We have been taking measures over the past few months to ensure your portfolio is well positioned for this type of uncertainty. As we further navigate a volatile economic situation, continued company layoffs, and possible continued interest rate hikes, we will continue to monitor your portfolio for any other appropriate action.

As always, we at Kapusta Financial Group, would like to thank you for the trust and confidence you place in our team.

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