A Note on Silicon Valley Bank (SVB)
March 14, 2023

Good Day,

Over the last few days, we have witnessed a bit of market volatility, much of which has been directly related to the banking industry.

As many of you know, on Friday, federal regulators shut down California-based Silicon Valley Bank (SVB), the 16th largest bank in the United States. This closure sent shockwaves through the news and had a ripple effect on many stocks within the financial sector.

There has been no lack of coverage regarding the fall of SVB, but I do feel that is important to understand what is happening as questions may arise regarding your investments.

Like many banks, Silicon Valley Bank kept a portion of its deposits in cash and used the remainder to buy longer-term debt instruments. These debt instruments, such as Treasury bonds, typically provide steady and modest returns. However, like any investment, there is day-to-day fluctuation. In the world of fixed income, these day-to-day fluctuations prove meaningless if held to maturity. But, if customer withdrawals from the bank exceed the amount of cash on hand, this leads the banks to sell their investments, potentially at a loss, in order to cover the withdrawals.

While there were many contributing factors unique to SVB's demise, at a high-level, this is where cracks began to form. SVB's client base, largely technology start-up companies, withdrew large sums of money. When SVB did not have enough cash on hand to cover these withdrawals, they were forced to sell their investments at a steep discount. As news spread that this was happening, nervous customers began withdrawing more money and in turn, the bank had to liquidate more of their investments at a loss. This quickly turned to a snowball effect that SVB could not recover from.

Since then, the Federal Deposit Insurance Corporation (FDIC) has intervened and reassured SVB customers that their deposits are secure. As we have witnessed, anxiety can quickly can turn to panic. The fall of SVB lead to questions regarding the stability of broader financial institutions and a sell-off in bank stocks yesterday, Charles Schwab (SCHW) being one of them.

Schwab has since released a statement to customers affirming their continued stability. To summarize, Schwab detailed their access to significant liquidity, highlighted their healthy loan-to-deposit ratio, and emphasized that more than 80% of their deposits fall within FDIC insurance limits. The institution has described themselves as a "safe port in a storm" for the last five decades, and I believe that they will continue to be.

The media, and the markets, can be unforgiving in the short-term in these situations. Your portfolios are extremely diversified and built to withstand shocks to the system - the effect of SVB on your investments has been relatively insignificant and I have continued confidence in the stability of Charles Schwab. As headlines emerge, pessimists will talk of the risk of a prolonged downturn, and optimists will say to capitalize on the opportunity. The most appropriate response tends to be neither of these, but instead, to stay the course. This is the volatility that long-term investors are rewarded for enduring. As we traverse through the noise, I encourage you to read the statement by Charles Schwab and reach out if you have any questions or concerns.

Regards,
Olivia Knecht