

SAM Market Alert: SVB Bank Collapse explained

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Transcript:

Good morning to all of those who have joined this is Tom Hewlett the CEO of Strategy Asset Managers we will begin shortly Gary thanks for controlling the waiting room I appreciate that okay it's 1101 we are going to begin our update the obvious reason why we're getting on to the call today is to update our clients and our partners about the Silicon Valley Bank collapse and its impact on the markets and the economy and what it means for your portfolio Joe Traba a senior portfolio manager Alex Hagstrom RCFA and portfolio manager and I will try to go through and answer as many questions as as have been given to us to reassure you of the the current situation with strategy asset managers Schwab Silicon Valley Bank and what it means for you first off I'd like to just say thank you for everybody to participate today there's been a lot of information that has come through since Friday and the the the collapse of Silicon Valley Bank and the intervention with the the with the government and also the Federal Banking committees what you need to know is that Sam and your

portfolios didn't have any direct did not have any direct exposure to the regional Banks we own one one position that's JP Morgan and Joe and Alex will talk specifically about that the the the deposits at Silicon Valley Bank and Signature Bank and even the stress that happened at First Republic Bank were were reassured over the weekend the depositors were reassured over the weekend by the government that they would be made whole at what point we didn't know until about Sunday when Janet Yellen came out and said that we should have everything clear by Monday and that has taken place so that was very reassuring from Janet Yellen the treasury secretary the other point is is we don't think this is systemic nor is it 2008 with the great financial crisis so we we will talk a little bit about that we're going to go through the the FDIC and the difference between sipc that should make you more informed by what you're probably hearing from multiple sources and then we're going to talk about herd mentality the Panic or or is this an opportunity but by the end of the call you should feel a little bit more informed about the current situation and where we stand and the strength of the banking system in the United States as well as the the backstop of the federal government which after the original great financial crisis we've gone in and improved quite a bit Joe I'm going to turn it over to you to start out and I think before we go on it's

important to know what happened before
and this is with Silicon Valley bank now
this isn't a traditional bank they are
very tied to a lot of the Venture
Capital that is tied to startups
why that's important because that's
where their concentration was they had a
high correlation to startups and the
hedge funds and as we are well aware of
that business a few years ago did
extremely well
excuse me and their assets ballooned
from 50 billion to over 200 billion in a
couple of years fast forward to what we
saw recently and it was really the end
of last year that you started to see
their assets weren't growing and a lot
of these non-profitable technology firms
had to get more money from their Venture
Capital also think of Bitcoin Bitcoin
had a huge drop that had a direct
correlation to the bank now the bank
what they owned was long-dated U.S
treasuries and when you get a run on a
bank they had 45 billion dollars
withdrawn in a couple of days
this forced the bank to either raise
capital
or to find a Suitor because they had to
then sell their treasuries which were at
a loss
how the bank works as long as they hold
them to maturity they never have to mark
to Market
so when they realized these losses on
U.S treasuries this created more
like Tom said Panic within the large
institutions that pulled their money
that's why they were shut down on Friday
and again over the weekend and this

typically what happened
they came and said they're going to
affirm both the insured and also the
uninsured portions of people's deposits
we know on Monday later in the afternoon
people did have access
to their Capital their deposits
and they were able to go ahead and
access that so again you look at the
order flow what happened
why it happened and where do we stand
now
it's important to know
that again our banking system is
extremely strong
this wasn't caused by assets that
were not had a value to it kind of think
of 2008 with mortgages they owned U.S
treasuries
it's the regulation and it was more on
the management it was mismanagement
where they did not properly hedge
and they did not again they were
gathering assets when interest rates
really started to go lower excuse me
interest rates are to go higher the
price of the bonds went lower
so for me that was just a mismanagement
on what management did and when that
happens obviously people are going to
have some panic and they didn't properly
communicate with some of their larger
hedge funds that had tied up in the bank
as well
it's kind of a trust with the partners
and and that definitely when people are
nervous about their income they're going
to pull their assets
what did that do well over the weekend
again we saw this a little bit yesterday

you want to see what the effect was did that actually happen that they were able to get access to the posits yes and now you're seeing people really unsure of about a lot of these Regional Banks and going to the larger Banks so this may not be a direct result of what they wanted to happen but this is what's happened and again for the overall banking system I again again this is not 2008 and we'll go into that a little bit more this was again isolated events with a couple of banks that again you had to run on a bank they don't have an exit enough Capital available and aren't properly leveraged this is what happens it's also worth noting what The Regulators did they also increased capital for any of the regional Banks so they're on top of having unveiling amount they also said any other bank that needs Capital they will provide that Capital based on their treasuries so they did two-fold one they did come and rescue these Banks and all depositors made whole but they also gave another lifeline and that's doubly important because what they did not do was bail out the banks so Equity holders are going to not have any value that bank was at 200 then down under 100 and closed trading so it'll all be open up and again unless someone comes in at the last minute to save the bank we'd expect the equity to be at zero same thing with Signature Bank the debt that's an interesting story it's probably priced around 45 cents on the dollar so there are showing a value of the bank we go into that because again this is

a direct consequence of the sell-off and unprofitable tech and the Bitcoin rise. I like to kind of think of it as Kathy Wood and art that ETF everyone was saying went up hundreds of percents well then it crashed and it's also some of the Bitcoin currency when you have this environment you have the ebbs and flows you had a tremendous rise up and for those companies that were smart with their fundamentals and balance sheets they were able to lock in really low interest rates for other companies that continue to be leveraged they had a big a big cash call pool and I think we're going to continue to see this and for us you really have to think about just the market cycle you're allowed to make as much money as a published trader company but you should also be allowed to lose and that means going bankrupt for bad decisions you look back the last couple of years the Fed really bank stopped everyone meaning both people and companies had access to capital that's drying up I would expect to see more bank regulation which in turn means lending should be a little bit more stricter and that in turn will slow down inflation we think inflation slowing that then gives the Fed really reasons to slow down and maybe we've seen the peak in interest rates so those are some of the concerns we did see heading into this year and again expecting earnings too slow which we're seeing

but again as you get through this you just have to know where you're at in the cycle and again for us it's really important to know what you own and that's what we emphasize with all of our clients and partners we know what we don't we know what we own with you if you want us to take a second look at other assets that you have are more than willing to do that Joe let's let's let's have Alex give an overview of the the Civic and FDIC issue and yeah absolutely so yeah as Tom mentioned there's a lot of protection for the separately managed accounts that you own per the SEC all of the stocks bonds mutual funds any Security in your account is segregated and your segregated assets are not available to a brokerage's creditors you know those stocks and bonds and funds belong to you even if your broker went bankrupt tomorrow those stocks and bonds and funds would still belong to you in addition to that there's a second layer of protection it's called sipc Insurance it protects your account for any amount up to five hundred thousand dollars including up to two hundred fifty thousand of Cash Plus Brokers like Schwab even have a third layer of protection in their case they have an insurance policy from Lloyd's of London so you know overall the Securities in your brokerage accounts are extremely well protected from broker insolvency you know if that you know if that were to happen which you know we do not foresee for you know a well-capitalized brokerage like Schwab

Alex let me ask you a question on Friday when we got the information about Silicon Valley Bank and and you know Moody's was making the move to downgrade the debt we stayed late both Friday and Saturday and over the weekends and we reviewed all investors accounts for cash positions let's let's talk a little bit about that and and what we were doing from a risk management standpoint and what other firms also were doing for risk management in looking at their clients cash yeah absolutely so you know we go through when we look we're making sure that our clients don't have cash above that 250 000

sipc limit the good thing is if you put money into a money market fund or treasury that does not count as cash so those assets are segregated they belong to you you know they're not at risk in any insolvency but we do we are very conscious of that 250 000 cash limit and so are the advisors that are on this call as well we had calls with advisors all the way through the weekend and through yesterday about the risk management steps that were in place to ensure that there was a safety of capital in the accounts especially at Strategy Asset Managers but with our partners out there thank you Alex about that Joe did you want to go into the next discussion yeah just

and one more point on the treasuries we actually did buy treasuries really starting the end of last year so not that we are foreseeing this it just we stay with high quality and I think that's important we didn't go to unrealistic yields we again stick with what the Market's pricing and found the best assets to increase our quality and again that kind of didn't have to worry about the volatility and I think that's how this year is going to play out the next point I wanted to mention and this is what Tom had alluded to why is this not 2008 and anyone out there if you remember 2008 was really because you had you weren't able to Value assets and again this affected balance sheets of of any of the banks and what we're seeing now it's U.S treasuries again we know both of these Banks they own U.S treasuries it was just the mark to Market what that means is as long as the banks hold these treasuries they never have to show that the bond prices went lower as the Fed was Raising interest rates they had to do that when they had to sell it and that created again more uncertainty so I the heart of the issue was again raising interest rate and treasuries and for us the mismanagement of the companies very different than what we saw in 2008 and we also have to remember Banks going under unfortunately is part of our history you can look back at 2020 we had a few Banks go under then and obviously everyone remembers the 2008

and you can even those of you that a little bit older remember the Savings and Loans when we had almost 30 percent of the banks wiped out so this does happen what does it do we end up showing up our balance sheets our regulation and we do end up coming out stronger from this and I think that's where we're at with this you can kind of look back and go was this our you know Enron and Worldcom moment you know not completely different but again if you're gonna Circle a couple of companies that mismanagement you can look at what happened now the other thing does history often repeat itself no but it does rhyme and and that's again another part of what we look at with tightening cycles and the direct result that it has on some of the booms and if you remember volcker this is in 79 in 1981 you had a huge boom prior in oil and gas and then as we started tightening you saw these LPS and a lot of these energy limited Partnerships really seized as they were highly leveraged and the higher interest rates obviously herd borrowing costs so again this does happen it's different cycles that you see a boom and bust but again we do get through this and we all will get through this

Joe let's talk a little bit about that what what all clients um institutional and private clients need to know I mentioned earlier that that our portfolios did not have any direct exposure to the regional Banks which was great some people out there may have some exposure but you know the

stability of the U.S banking system today is far different than it was in the past much more stable stronger we learned a lot and there's risk management in place so we feel good about this about our position as a firm and our custodians as well as our partners should also feel good about that is this systemic to any of the stocks that we hold in the portfolio and I know the answer is probably not yeah I mean when you really have to look at what is systemic mean and it's the counter risk so if you remember in 2008 it's the counter risk of other Banks or other companies that had you weren't able to sell certain types of instruments that's not happening now at all the credit market and also you know the fixed income markets they're open and everything is healthy so we're not seeing any again counter risk when we look at the insurance companies as well things are able to get priced trading is happening and in fact trading is you know the last couple days has been extremely robust and again we've seen trading act on carry on so I don't see any any of that risk coming through now but I do want to mention two points it's one companies that were highly leveraged are going to have to address Capital needs if they weren't able to pay that amount of debt it's a higher interest rate and and that you know does not pretend well for these types of companies so this can happen and again it shouldn't be unexpected we said this at the end of last year we would expect

to see some companies that were weaker players and that we would start to see some bankruptcies we had mentioned maybe like a Bed Bath and Beyond and again this is just part of the economic cycle companies that are well managed and can change direction they will continue to do well and get through these periods and companies that weren't able to change and again are seeing decrease in sales this is how a free economy Works those companies will go under so I do think you know you'll continue to see that and that's why we stay and stick to high quality companies okay cash flow yep Alex do you have anything that to add to that before and I think you know this is part of how you crush inflation right you crush inflation by making interest rates High you get you know those wheat companies out of the market and that's you know that's how it's done and if you know the the price of bringing inflation down to a normal level is for weak companies like mismanaged companies like Silicon Valley Bank to be in trouble you know that's a worthy price to pay so that well-managed companies like the ones we own can you know continue to thrive in a normalized inflationary environment Strategy Asset Managers reviews technical information as well as you know the qualitative information for our proprietary research and we should talk a little bit about the technical levels just to let the clients know that we we have access to this and what we've seen yeah it's a really interesting again technicals take the emotion out

and if we look historically the two months that we see what we call noise or March and October and as On Cue March has been one of those years where we have a lot of what we call noise just a lot of things happening that's creating uncertainty what happens you typically get through this March up time period And when we look at some two different levels of technicals it is pointing toward you know a better picture emerging can't tell you when but again once you know some of these unknowns you can then manage through this kind of Crisis why is that important though Joe because you know in taking a look at the you know the the stress that's out there when we take a look at technicals that's just one one area that we we can use to make decisions you know for for our clients accounts yeah and again one of the things that we continue to reiterate a lot of people oh I heard this on social media I heard this on this television show and that's what we're referring to is that hurt mentality when everyone's saying the same thing you know are they doing their work are they looking at research what research are they looking at and I think that's for us extremely critical so using different types of information again real information the technicals do tell us you know better days are ahead and again this is made contrary to what you hear on a lot of these TV shows which I think is important because again what is a TV show supposed to do they want to create you know panic and fear so that they can

get more viewers you know telling people things you know me not what they want to hear and it's you have some time here that's not going to sell advertising right so again just just know where we're at in the cycle and again stick to your game plan in this time period you can always look at Panic selling or making decisions when you're stressed typically isn't a good time to do it Alex do you have anything to add on that before we conclude

yeah just that you know you know with how much rates have increased it is absolutely essential that you own quickly capable of surviving and doing well in that sort of environment you don't want to just own every company because if you do you're going to have some bad apples like Silicon Valley who were not at all prepared for this who just you know speculated on rates being zero forever and now you know now they're in big trouble yeah okay I I think what we want to do is keep these calls short just reassure reassure clients that the that there's no direct exposure that we had in the portfolios to to Silicon Valley Bank that the liquidity is not an issue with us nor with any other institution at this point there's not a loss of confidence in the banking system out there the government did what they needed to do to step into reassure investors and depositors that you know everything was going to be okay and they did it in a very orderly orderly fast

to to know that you know we do have a

very strong
banking system we've got a very
stable government we have
transparency with accounting we have a
legal system and checks and balances in
place and that worked very well
during this unfortunate crisis if you if you have any questions you
can contact us directly or contact your
advisor directly and we'd be happy to
have a private conversation with you
offline we're going to have another call
this afternoon at 2 pm it's once again
we're getting a lot of information
that's coming through and so it's
fluid so we'll have updated information
later today and then we're going to have
some follow-up calls Joe do you want to
say anything in conclusion yeah and
again if you have any questions or you
want us to review a portfolio or you
have cash at a bank you know we can help
you with that and this is what we've
been doing so feel free to reach out to
us yeah I'll make one one point that was
important that I forgot to bring up we
had somebody call in a panic on Friday
from a non-profit and they were they
were in a tough spot
and we we were able to counsel them all
the way through the weekend in support
of the board that they had this goes to
all clients and all participants on the
call it doesn't matter whether you're an
Institutional partner of ours or you're
a direct client we're there to provide
you with the facts and the facts that we
know are a lot different than what you
will hear in the media and that's
important you want to have somebody with
a steady hand and who can lead you

through a time like this anything else
Joe before we sign off that's it
all right we will have another call at 2
pm today if you'd like to chime into
that please dial in same dial-in
information that you had and then we
have a subsequent follow-up call
tomorrow and then one summary call on
Friday and it seems that things are
stabilizing and improving and we hope to
have a much better information on Friday
for everybody
have a good afternoon