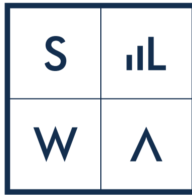

SAN LUIS
WEALTH ADVISORS

Securities | Real Estate | Private Equity

Good Morning,

By now I am confident you have heard that Silicon Valley Bank (SVB) failed yesterday and the FDIC is stepping in to manage deposits while the situation unfolds. I would like to address a few topics so you can better understand what it means for you.

What happened to SVB and how did it happen?

SVB was one of the largest banks for private equity firms in this country. They have been one of the leaders in deposits and lending to startups over the last six to seven years. The huge growth they experienced over that timeframe elevated them to the 16th largest U.S. bank in terms of assets at the time of failure and is the largest bank to fail since the 2008 financial crisis. With monetary policy being extremely easy for greater than a decade, startups were able to borrow money from banks like SVB for dirt cheap, which helped escalate the growth in the space so dramatically. With the supply of money tightening dramatically in 2022 and to start 2023, these startups could no longer afford to borrow at high interest rates, so they needed to pull cash to run operations, and SVB's main depositor base was these startup companies. During this period of extreme growth, SVB was buying treasuries with the deposits to make a spread, however with rates being so low over the last decade they were locking in very low interest rates (often below 2% on the 10 year). While buying bonds from the treasury is considered the safest investment there is, you have to hold the bond to maturity to make your money back plus the interest. When interest rates go up, the value of your bond goes down, especially when 0-12 month T Bills are paying north of 4%. Being that SVB had such a homogenous depositor base AND owned intermediate to long term treasuries they were HEAVILY correlated to interest rates. As these startups went to SVB to get money for operations and pull their assets based on many VC's recommendations, SVB didn't have enough liquid cash to support that and were $1B in the hole by end of day Thursday. They then had to go quickly sell $21B worth of their long dated treasuries that they took about a $1.8B loss on because of the rise in rates from when they bought them. SVB attempted to get $2.25B in new assets through a quick equity sale, but failed to do so and went under yesterday morning with regulators stepping in to handle the situation from here. We are hopeful depositors will be made whole, or close to, but that remains unknown.

How does the effect my investments at SLWA?

We are happy to say that we did not own SVB stock in any of our models. Not only do we not own any SVB stock, but we decided back on January 19th to get rid of almost all shares of WFC, JPM, MS, C, and BAC. With monetary policy tightening we did not think the potential reward of higher margins was worth the risk with short term treasury rates being so high in comparison to rates on bank deposits. As of market close yesterday, these stocks are currently down between 1% -10% from where we sold them. Although, we do not feel the big banks share in this risk with SVB. This situation is a great reminder as to why we keep a well-rounded, diversified portfolio, and don't get caught up in the trendy recommendations of Cramer, Motley Fool, and the like.

Thank you for your continued trust in us and please reach out to us if you have any questions at all.

Regards,

Luke Kittinger, CFP®
Founder | President

SLWA, LLC
735 Tank Farm Road Suite 264
San Luis Obispo, CA 93401
info@sanluiswealth.com
(805) 810-0002
sanluiswealth.com