Special Market Update: March 20, 2023

Just last week, we had the second and third biggest bank failures in U.S. history – Silicon Valley Bank (SVB) and Signature Bank. Last night, we learned that UBS agreed to take over Credit Suisse … the first megamerger of systemically important banks since 2008.

Coincidentally, fifteen years-ago to the month, the Federal Reserve rescued Bear Stearns. That was the first shoe to drop in what would eventually become the Great Recession of 2008/2009.

> **So much for banking regulation. Swiss authorities on Sunday organized the shotgun wedding of UBS and Credit Suisse to avert a failure of the latter – exactly the panicky too-big-to-fail rescue we were told new rules post-2008 would prevent.**
>
> **The Editorial Board – WSJ 3/19/23**

Credit Suisse was known to be a risk-taker. A mismanaged risk-taker at that. The bank was losing deposits at the pace of $10 billion daily last week alone.

> **The acceleration of the loss of trust and the worsening of the last few days made it clear that Credit Suisse cannot continue to exist in its current form.**
>
> **Axel Lehmann, Credit Suisse Chairman – WSJ 3/19/23**

Banking is nothing more than a balancing act. Management must apply the appropriate balance of assets to liabilities, all with various maturities. SVB apparently had a fatal mismatch of short-term deposits and longer-term Treasury and mortgage-backed securities.

Investors need to be reminded that when you deposit cash in a bank, you are lending money to the bank. It is a loan transaction. Sure, you are covered by FDIC insurance … but only up to $250,000.

As of mid-2022, U.S. banks held 10.5 trillion of uninsured deposits. Insured deposits totaled a mere $7.4 trillion. So, we shouldn't be surprised to see more problems ahead. As the saying goes, there are generally more than just one or two cockroaches.

I started Corrigan Financial in 1989 … meeting the recession of 1990 head on. That recession was accompanied by Iraq's invasion of Kuwait. In the recession of 2001, otherwise known as the "dotcom" bust, we witnessed the September 11 terrorist attacks. The collapse of Lehman Brothers was the *shock* that highlighted the recession of 2008. Currently, we find ourselves working through the aftermath of the 2020 Covid-19 inspired recession.

> **I don't think of this as being equivalent to Lehman, or 9/11, or Iraq invading Kuwait. But whatever your views were on the odds of a recession before this, they've probably gone up.**
>
> **Richard Clarida, Pimco (former Fed vice chair) – WSJ 3/17/23**

Since 2000, there have been four market declines of 20% or more. Needless to say, this isn't our first rodeo. And it most certainly won't be our last.

> **Capitalism without failure is like religion without hell.**
>
> **Charlie Munger, Berkshire Hathaway Vice Chairman**

Remember, economic freedom inherently brings instability. The more we try to make the economic backdrop safer, the more we foster complacency and excessive risk.

Each and every day there are pundits ready to give their opinions on all matters of finance. But do they ever get it right? Consider the following four examples:

1. In October 2001, Goldman Sachs analysts reported that Enron was still "the best of the best". Within weeks, Enron filed for America's largest ever bankruptcy.
2. During a speech in May 2007, then Fed-Chairman Ben Bernanke stated, "We believe the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system.
3. Remember when inflation was considered transitory? Fed Chair Powell quoted on June 10, 2020: "We are not thinking about raising rates. We're not even thinking about thinking about raising rates."
4. Last April, FactSet reported that out of 10,821 analyst ratings on stocks in the S&P 500, less than 6% were actually sell recommendations.

So, if the really smart people don't have a clue about the future, what's an individual investor supposed to do? That's easy, start with a plan.

At a minimum, everyone should have an *investment policy* that is driven by a *comprehensive personal financial plan*. That way, unlike SVB, you can be sure assets and liabilities are appropriately synchronized.

Also make sure to be diversified *among* and *within* various asset classes. Remember, in down markets, sound asset classes are like tennis balls, they eventually bounce back. That will help to reduce anxiety, and enable investors to take advantage of market volatility.

No one really knows how the current banking issues will be resolved, but I am confident our clients' portfolios are appropriately positioned.

Daniel G. Corrigan, CPA/PFS, CFP®