BANKS UNDER PRESSURE

What to do now to protect your retirement savings

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Transcript

Topics include:
What happened to SVB?
How secure is Charles Schwab?
How can I protect my assets and investments?

A Web Presentation by Financial Harvest Wealth Advisors

Hi, I'm David Witter, founder and CEO, Financial Harvest Wealth Advisors. Great to be with you today. Lots of fear and concern in the market. Volatility, banks under pressure in particular. So I want to discuss three things with you. Number one, what happened with SVB, Silicon Valley Bank. Number two is what about Charles Schwab? Should we be concerned that they're in a similar situation?

If you're a client of ours, many of you know that we use Charles Schwab as Custodian of Choice. And then third, probably most importantly, what can we be doing to protect our retirement savings?

So, let's dive right in. So let me start with what happened with SVB Bank. I like to draw a diagram - as most banks, they would take in deposits and they had about 200 billion in deposits.

And then as most banks, what they would do is they would take those deposits and then they would buy or loan it out customers. So we have loans. But what SVB did was it also bought on the long end of the bonds. They would buy ten-year treasuries. Now, why they did this was at the time interest rates were down around zero and they were trying to get some yield on the assets that they would buy.

And so they bought longer term bonds. But here's the problem.

First is they only had about 20% of their deposits were covered by FDIC insurance, meaning 80% of those deposits they had on hand were unprotected.

Secondly, is with the bonds on the long end of the curve, if we remember, it's a see-saw - and I'll draw a little triangle there - when interest rates rise as they did in late ‘21 and also particularly in ‘22 when the interest rates rise.

What happens to bond prices? They fall.

So when the bond values decline, especially here on the ten-year bonds, when their customers started to withdraw deposits a couple of weeks ago or last week, then they had they were forced to sell some of these bonds at significant losses and that spiraled out of control.

Now, the problem is this is "banking 101".

Usually when banks will do is they'll buy bonds at differing maturities. So if they needed to sell shorter term bonds to fund those deposits, they don't move as much when interest rates move. But unfortunately, SVB was long bonds and those prices fell a lot. In fact, the risk manager of SVB had resigned in April 2022, and they didn't hire another risk manager until January of 2023.

So there was roughly nine months there where SVB didn't have a risk manager in place to help mitigate some of these issues that they ran into.

So let's now move to Charles Schwab. Should we be concerned? Are they in a similar situation? Well, first thing I say no, and here's why. One, they have 7.3 trillion in client assets. If you're a client of ours, Katie and I, we have our investments are Charles Schwab.

We're part of that 7.3 trillion in assets, tremendous financial stability to have that kind of client assets in their custodial services. Number two is: 80% of their total client bank deposits fall within the FDIC insurance.

So remember, if we go back to this diagram here, remember that with SVB only 20% was covered. But here is Charles Schwab. They have 80% of their deposits covered by the FDIC insurance.

Much better position to be in. And with that, believe or not, there that puts Charles Schwab in the top five highest of the largest 100 banks in terms of that ratio. And the other thing that is a key thing to remember is those deposits that they have come from 34 million brokerage accounts. Very broad diversification when it comes to the deposits.

That's very different than SVB, because it was very concentrated in venture capital in startup technology firms. So that broad deposit base helps to mitigate some of the risk of those deposits exiting.

And last but not least, is Schwab's loan to deposit ratio is about 10%. And you might be thinking, was it good at that? To give you an idea, a typical banks loan to deposit ratio is closer to 80 or 90%, meaning those banks have eight times as much loans outstanding versus their deposits compared to Charles Schwab.

So very strong stability when you're thinking about Charles Schwab. Very different situation than Silicon Valley Bank. Last but not least: What do we need to be doing now to protect our retirement savings? So first is utilize the FDIC insurance rules to your advantage. So what do we mean by that?

So let's say that Katie and I, we have a joint account at a bank. Well, that means we will get $500,000 of FDIC insurance. But she can also open up an individual account. And I could open up an individual account, and that would give us another $250 each. So now we are up to $1 million. So understand that it's $250 per type of account could allow you to get additional FDIC insurance at a particular bank.

The other thing to do is spread it across multiple banks. That's a little bit more cumbersome. It takes more effort on your part.

Which brings me to number two: U.S. Treasury bonds. So we've had several clients do this where recently they'll move in cash into their Charles Schwab brokerage account. We buy them. U.S. Treasury bonds, or Treasury ladders, differing maturities, 30 days, 60 days, 90 days, six months, nine months.

You know, all the way out to two years, whatever you're comfortable with. Gets a nice, attractive yield. And remember, this is based on the full faith and credit of the U.S. government. I can't-can't say there's no default risk, but if there's any other investment out there with less risk, I don't know of one. And there is no FDIC insurance concern because it's U.S. Treasury bond.

So that's another thing to be considering is, hey, if I have cash above that $250 limited a bank, we can easily put that into a Treasury bond letter for you in your Schwab brokerage account. And last but not least, this could be a really good, attractive buying opportunity. Our investors, our clients, we typically, broadly diversify across 14,000 positions in 44 different countries.

Some of those are banks, probably hundreds of banks represented in that portfolio. Are all of them going to go insolvent like SVB? No. Many of them are in a very sound financial position, still very profitable. So this could be an opportunity where their price has been suppressed because of what happened with SVB. And it's a very good buying opportunity.

So when most people are fleeing stocks, a lot of times that's the best time to be buying. So if you're a client of ours and have further questions on what we're talking about here, in particular with the Charles Schwab, we have an article that grounds all the assessments that we made there with Charles Schwab. Or if you're not a client of ours, you'd like a second opinion in your situation, either from a stock position or from a cash position or bonds.

We're here to help and here's our website and also my email address. In the meantime, take care. We look forward to hearing from you.