



SVB failure

By P&A

Clients and friends of P&A,

In light of events unfolding over the weekend regarding the financial system, we've been fielding questions about what happened and what it means for your money under our care. This letter will focus on the latter, not because we don't want to explain what happened in our own words, but to be conscious of the time sensitive nature of your questions as well as the fact there are others who have already done a great job of explaining (see links to articles and podcasts we've used to educate ourselves at the end of this letter).

First, what happened in case you missed it: Silicon Valley Bank (SVB from here), one of the largest banks in the US, failed after suffering a bank run (i.e., depositors were withdrawing money faster than the bank could repay it). Because of the accounting rules afforded to banks and the loans (or assets) held on its books, SVB was underwater and placed into receivership by the FDIC.

What does this mean for your money?

- (1) Cash in your brokerage accounts held at Charles Schwab are [FDIC insured](#) up to \$250,000.
- (2) If a brokerage firm were to fail, [SIPC protection](#) would protect up to \$500,000 of cash and securities in your brokerage accounts on a per account basis. In Charles Schwab's case, this protection amounts to \$150 million per customer thanks to the [additional SIPC coverage](#) they provide. (*important to note SIPC does not protect against a decline in value of securities)
- (3) Cash invested in money market mutual funds sponsored by Charles Schwab are *not* FDIC insured. However, in addition to SIPC protection, the funds we use invest in very short-term securities (required not to mature in more than 60 days) and are considered to be very liquid and safe. Most of these securities are backed by the US government.
- (4) The other securities in your accounts (stocks, bonds, mutual funds, ETFs) have very little risk exposure to a bank run. We are highly confident in Schwab's ability to safeguard your money. ([See "Perspective on recent industry events" in the links section](#))
- (5) The best way to safeguard your cash - in our humble opinion - is to not have very much of it. This means we favor brokerage accounts as opposed to savings and checking accounts. Owning government securities directly in your brokerage account is the safest way to protect your short-term money. Unless otherwise directed, we target to hold very little cash in the accounts we manage. Call us if you want to talk more about this.
- (6) P&A did not directly invest any client funds in SVB common stock or debt instruments. Some clients may have indirect exposure through ETFs or mutual funds. We do have a limited amount of direct exposure to some larger banks, however.

- (7) For those willing, we believe these events will create investment opportunities. You can bet the hedge fund-types have smelled blood and are working harder than anyone to find ways to make an extra dollar. Our philosophy and experience usually avoid trying to catch a falling knife but that's not a black and white rule. If we think the risk-reward makes sense for a client, we won't shy away from an opportunity.

Though updates are available by the minute, the latest we've heard is the US Government is "back-stopping" all the deposits held at SVB to try and stem systemic issues throughout the financial system. The purpose of this letter is not to debate the principles of this government action, but we are highly confident your money under our care is well protected against a bank or broker-dealer failure. If you are concerned about your bank accounts held away from Charles Schwab, we recommend you call your local branch or support team at those institutions.

Sincerely,
P&A

Links:

[Perspective on recent industry events | About Schwab](#)

[The All-In Podcast](#)

[The Demise of Silicon Valley Bank | Net Interest by Marc Rubenstein](#)

[Silicon Valley Bank Goes Bust | Prof G Pod](#)

[The End of Silicon Valley \(Bank\) | Stratechery](#)

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