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MOULTON HOT MINUTES

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April 2023

What happened to Silicon Valley Bank and should it be concerning?

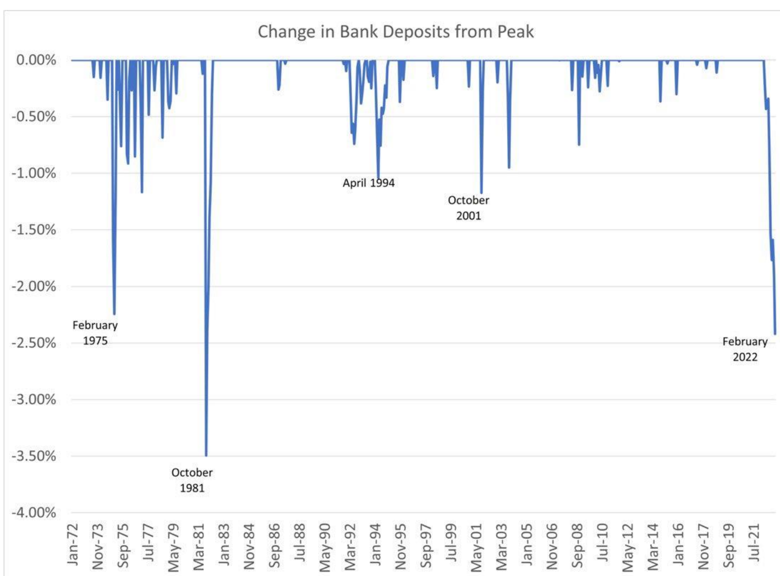
First, it's important to understand that we have a "fractional banking system". This means that a bank only has to hold a fraction of deposits as cash in their vault. That liquid cash is available to satisfy short term customer demand. The bulk of deposits are instead used in one of two ways:

- It's invested in "safe assets"
- It's loaned out

Banks make money by earning more on their loans and investments than they have to pay out in account interest.

Much like gains or losses in your portfolio don't impact your taxes unless they're "realized" (i.e., you sell the securities), unrealized gains or losses on the bank investments are not required to be reported in earnings reports (outside of the mostly ignored footnotes) unless they are sold.

With the Fed hiking rates to fight inflation, existing bonds lose value if they aren't held to maturity.

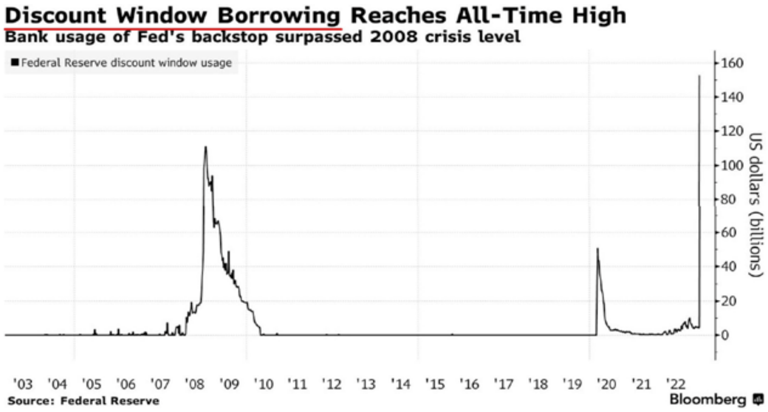


Why? Because you aren't going to give me face value for my 1% bond if you can instead buy a similar bond that pays 4%. A $1,000 bond maturing in 10 years with a 1% coupon in a world where similar bonds pay 4% would only be worth about $836 or an 16.4% discount. Ultimately, if it can be held to maturity, the discount is temporary because the bond will pay out the full $1,000, it's only a problem if it can't be held to maturity.

And this is what happened to Silicon Valley Bank. They experienced higher than expected customer withdrawals. As their "liquid" cash got used up they had to ultimately sell the bonds at a large loss.

We're told that this is specific to Silicon Valley Bank whose customers were very concentrated in venture capital and start up firms. As technology firms have been hit by the slowing economy, they had to increase withdrawals for operating funds.

But is it true that the same effect won't impact other banks? The chart to the left from Michael Green shows that the decline in deposits across the system are at levels not seen in 42 years. In fact, the Fed and Treasury, while telling us not to worry as Silicon Valley Bank was a unique case, set up a special facility to provide short term funding to the banks we weren't supposed to be worried about. Before the special facility was active, banks instead borrowed money at the Fed's "Discount Window".



This is where a bank borrows if they have no other options, as the rate charged is higher than the equivalent market rate. Notice the jump in borrowing on the far right of the above chart. This record borrowing doesn't give comfort that other banks aren't also struggling with short term liquidity.

Aside from banks, S&P Global tells us that corporate defaults so far in 2023 are at the highest of any year since the Great Recession. Corporate defaults present another drain on bank liquidity.

Finally, are consumers, whose purchases are 70% of GDP, strong as Wall Street tells us? Following is a chart from the Washington Post showing Total Delinquent U.S. Consumer Loans. They are also at levels unseen since the Great Recession.

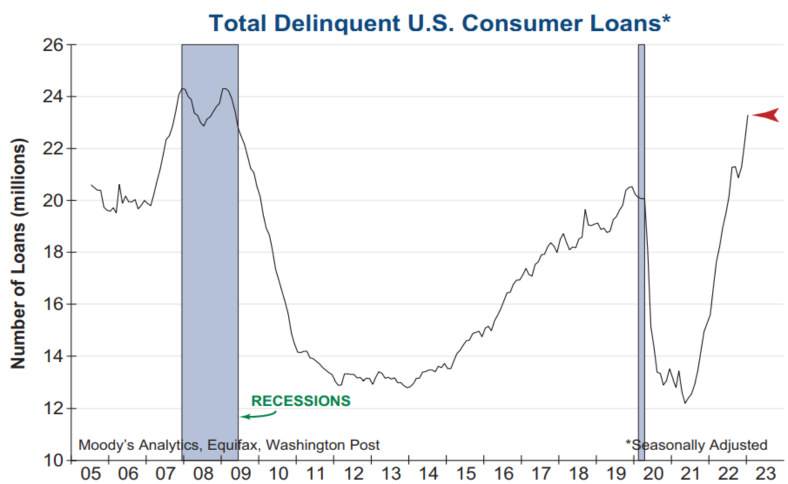
Economic stress first shows up in the weakest players and then spreads.

TAKE NOTE: It is showing and it is spreading.

<u>It's not too late to protect yourself.</u>

What is your defensive plan? Attend a free seminar or call the office to hear about ours.

Waiting could be costly.



Yours truly,

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please ask them to send an email with their information and permission to be added.

Stress in Banks is the Beginning, Not the End!

Weekly Radio Show Saturday Morning:

8:00 AM KXLY 920 AM
Spokane and Area

9:30 AM KFLD 870 AM
Tri-Cities and Area

Moultonwealth.com

SPOKANE
Hampton Inn—North
BREAKFAST!
7919 N. Division; Spokane
April 19th @ 9:30 AM

TRI-CITIES
Hampton Inn
486 Bradley Blvd; Richland
April 26th @ 11:00 AM

- **How employing and consistently following a defensive system could help you to a better retirement.**
- The Secure Act tax law change could alter how you leave your retirement accounts!
- What happens when an economic downturn makes it difficult for companies to pay back their massive debt?
- Why Buy and Hold Investing was right for the 80's and 90's yet very wrong for today.
- Will inflation eat up your assets?
- How to potentially decrease taxes on your hard earned Social Security Income
- To Roth or not to Roth?

And so much more!

COMPLIMENTARY SEMINAR

For those 50 years old and older

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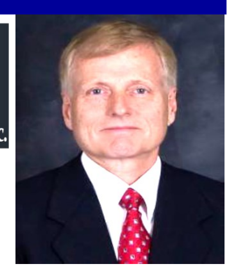

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Stress Shows in the Most Financially Sensitive Sectors First (Banks) and Continues to Spread from There.

Spokane	No Cost Seminars for Retirees and those close to Retirement	Richland
April 19th @ 9:30 AM Details Inside		April 26th @ 11:00 AM Details Inside