



**Zanetti Monday Missive 2023.03.20**  
**Bank Nationalization**

**“Now the court square's just a set of streets  
That the people go 'round but they seldom think  
'Bout the little man that built this town  
Before the big money shut 'em down  
And killed the little man  
Oh the little man.”**

**~ Alan Jackson Song, Little Man**

Hello Everyone,

I believe most of us are sympathetic toward the “little man” who has gotten the short end of the economic stick for decades now.

But based on last week’s Fed and US Treasury action, you can likely substitute “little banks” for “little man” and also be correct.

The concentration of wealth and power continues. And the Silicon Valley Bank bailout is emblematic of the trend. But there may be even more to it than that.

Did a quiet nationalization of the banking system just occur?

It's been over a week since the collapse (now Chapter 11 Bankruptcy) of Silicon Valley Bank (SVB). The remarkable thing was the US Government's and Federal Reserve's response. Not only did they insure depositors up to the \$250,000 limit, but every depositor (!) above that.

Yup, if you were foolish enough to put \$20 million at a bank with a Diversity-Equity-Inclusion Officer but no Risk Management Officer, you have nothing to worry about.



Silicon Valley Bank

**Chief Diversity, Equity  
& Inclusion Officer**

## Angela Morris Lovelace

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Angela Morris Lovelace is the Chief Diversity, Equity & Inclusion (DEI) Officer for Silicon Valley Bank. In this role, she serves as the chief strategist for DEI initiatives globally, focused on fostering an environment that offers equitable and fair growth opportunities for more than 4,000 employees, while also sharing diverse perspectives and expertise with SVB's clients.

Even though the insiders were dumping shares prior to the collapse. You're covered.

And, yes, Silicon Valley Bank is headquartered in Silicon Valley where lots of big political donors reside. *Nothing to see here.*

Of course, the Biden Administration says there will be no taxpayer cost to this bailout.

I call baloney. Not only will taxpayers bear the burden of this, it was totally unnecessary.

Silicon Valley Bank (SVB) had assets. The FDIC did its job well. Really. They shut the bank down fast to prevent the “big guys” from jumping to the front of the bank-run line.

Yes. A few got out early (Investor Peter Thiel among them), but for the most part, every depositor was treated equally.

So what should have happened once the FDIC had the situation under control?

SVB had assets. They were underwater due to rising rates, but they had a massive bond portfolio. Had the assets been liquidated, approximately 80% of the money could have been returned to depositors. Every depositor with \$250,000 or less would have been made whole. The \$10 million “big guy” would have gotten back \$8 million.

Instead, we saw panic. Fear of “contagion!” Political phone calls were made (*Greg's conjecture*). Despite foolish and corrupt (errr, allegedly corrupt) management...and foolish and arrogant (not allegedly) “big guys”, everyone was made whole. By magic. No cost to anyone but the banks. So says Biden.

The reality is this. If the US Government and the Federal Reserve are going to backstop every deposit at every bank regardless of behavior or amount, then the banks have a silent partner in the background. Uncle Sam.

That is a stealth nationalization of the banking system. Mussolini would be proud.

If banks don't do as Uncle Sugar says, watch out. No bailout for you. If bank management doesn't follow every government edict, (or donate to "correct" causes) watch out for increased "regulatory reviews."

And this decision will affect everyone. Not just banking. Here is why.

There are 11 major sectors in the US economy. Think energy, materials, health care, etc. Banking touches them all. No other sector does that. And now, banking has a big-brother watching over everything. Great. Just great.

So, where do I think this going?

I suspect we will see massive consolidation in the banking industry. The little local banks are already under extreme stress as depositors abandon savings and checking accounts (paying 0-3%) in favor of US Treasury Bills paying 4.5%-4.75%. Depositor flight is kryptonite to little banks.

Meanwhile, regional banks (like SVB) hold bond portfolios that are all in loss positions due to the Fed's rapid interest rate hikes. Thus, any hint of a run on those banks will spark

panic for them---ala SVB.

So, who wins? The message is clear. Banks with political clout. The big guys. The “too-big-to-fails.” Oh wait. The politically correct term is Systematically Important Banks. My bad. (Sarc.)

If you are sensing frustration and disgust, you are correct. The SVB decision was bad. And far reaching.

Inflation, which was already permeating the economy is now cemented into the economic landscape. Every investment/banking mistake will have no consequences. Their mismanagement and corruption will be “papered over” with printed dollars.

So much for the little man who built this country.

Signed, Your Based-On-The-First-20-Days-Of-This-Month-March-Madness-Pertains-To-More-Than-Basketball Financial Advisor,

Greg

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