



Zanetti Monday Missive 2023.05.08
Another One Bites The Dust

***“You took me for everything that I had
And kicked me out on my own.
Are you happy are you satisfied?
How long can you stand the heat?
Out of the doorway the bullets rip
To the sound of the beat.*”**

Another one bites the dust!”

~ Lyrics from *Another One Bites The Dust*, by Queen

Happy Monday Everyone!

This past week another bank bit the dust.

This time it was First Republic Bank, dethroning Silicon Valley Bank (SVB) as the second largest bank failure in American history – after only 2 months of holding that title.

What gets me is that it seems like these bank failures are barely making the news now. And the news I have heard seems to downplay the data.

I've seen a few articles saying First Republic was the third bank failure in 2 months. The way I count them, it's the 5th. Let's create a timeline:

- March 8, 2023 – Silvergate Capital Corp (a crypto currency bank) shut down.
- March 10, 2023 – Silicon Valley Bank (SVB) – seized by FDIC
- March 12, 2023 – Signature Bank – seized by FDIC
- March 19, 2023 – Credit Suisse sold to UBS – guaranteed by the Swiss Government
- May 1, 2023 – First Republic Bank taken over by JP Morgan Chase – financed by the FDIC

And don't forget:

- March 13, 2023 – FDIC creates “Bridge Bank” and President Biden declares deposits are safe at all banks in the U.S.

Before we discuss First Republic, it's worth pointing out that Credit Suisse is in Switzerland and at \$1.75 trillion in assets is considered "globally systemic". It was taken over by UBS within a day of failing, which is why the Swiss government guaranteed the purchase for UBS.

Indeed, a failure of any bank that size would have caused a global financial catastrophe. But, UBS as the buyer? UBS is the largest bank in Switzerland and was bailed out during the great financial crisis in 2008. I suppose the Swiss

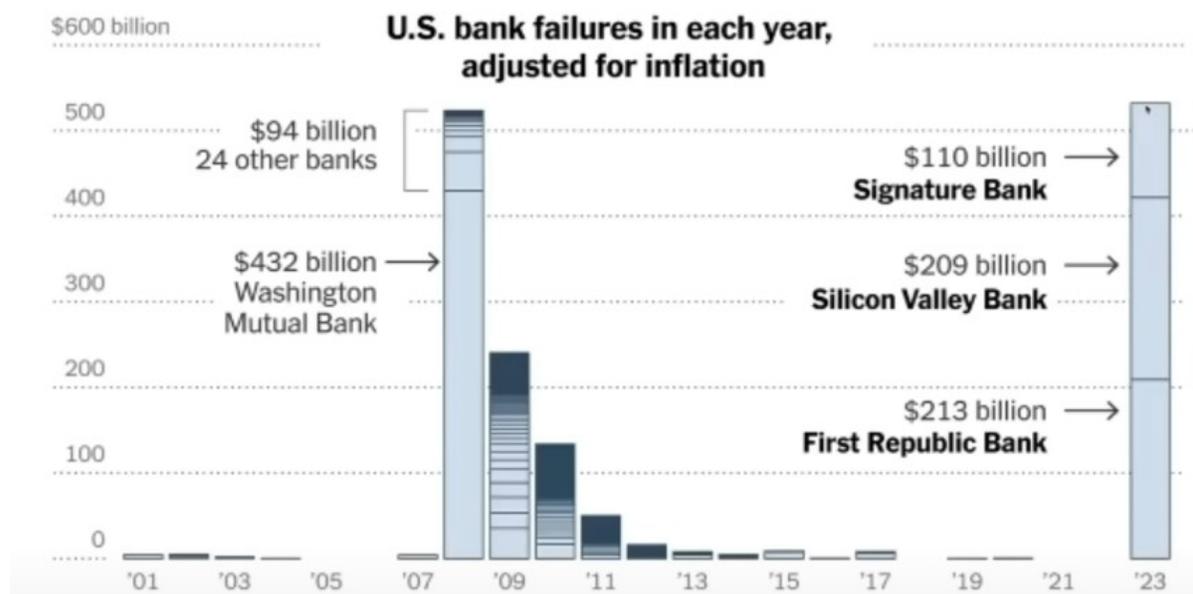
government wanted to keep those assets in the Swiss banking system.

Now back to First Republic.

First Republic Bank had over \$229 billion in assets. That's larger than SVB's \$209 billion. Both of those are a lot smaller than Washington Mutual (\$307 billion) – the largest bank failure in US history (in 2008), but when combined, they start to add up.

Now to be fair, when adjusting for inflation, Washington Mutual would be worth about \$432 billion by today's values.

But also, to be fair, when you look at only the losses of SVB, Signature, and First Republic, compared to the losses we saw in 2008, we're dealing with some very serious issues here and it seems like they're just barely making the news.



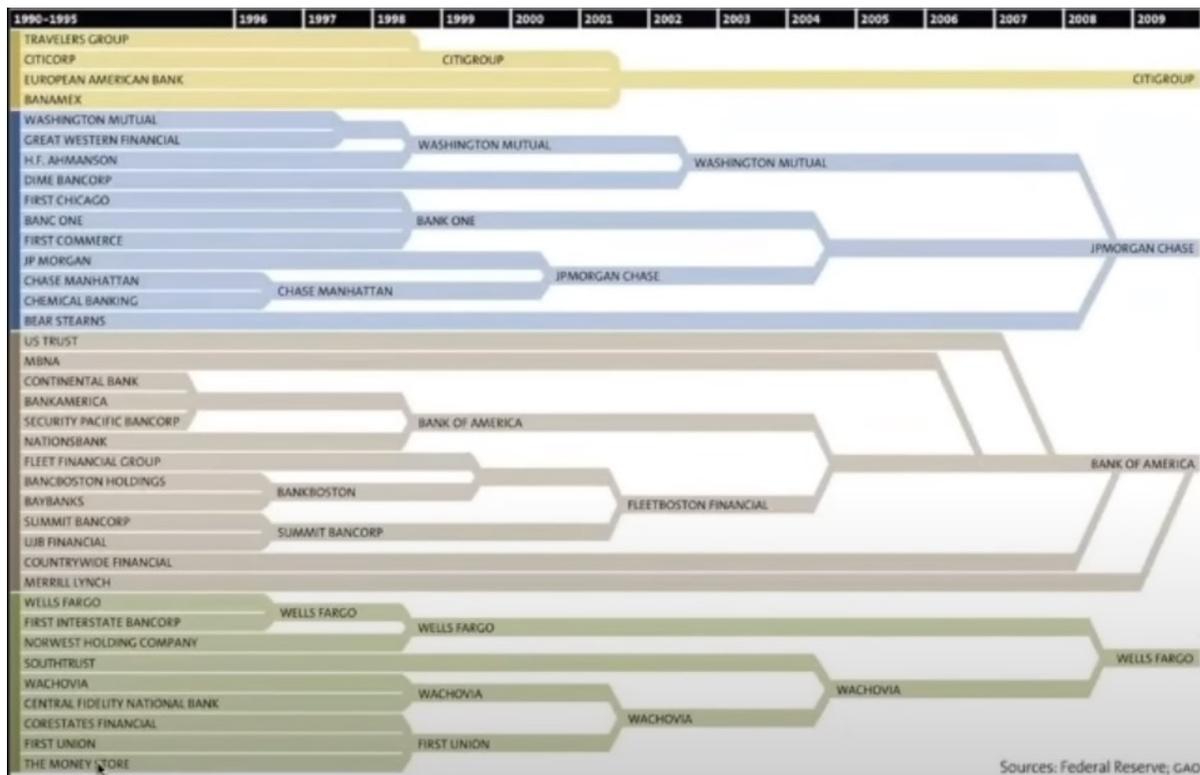
So what happened to First Republic Bank? Well, last week, Jamie Dimon, the CEO of JP Morgan Chase, announced “the Government asked and we responded.”



That's one way to control the message.

But lest you think that JP Morgan Chase is patriotically taking one for the team, it's important to look at how the deal was structured.

To sweeten the pot for the reluctant JP Morgan Chase, the FDIC agreed to finance the deal with favorable terms, and then as the cherry on top – the US Government promised to share in all losses associated with First Republic, but any and all profits would belong to JP Morgan. And the big banks keep getting bigger.



If this sounds fishy to you, it should. The US Government has basically privatized profits and socialized losses for JP Morgan.

How can that be?

Well, if there are any profits from the First Republic deal JP Morgan will be the only beneficiary (specifically, the shareholders of JP Morgan Chase will benefit), but if there are losses, the US Government will help spread those losses to all of us.

Also, all of us are helping to finance the project. How can that be? The FDIC gets their money from banks. Where do the banks get their money from? From the money they've made off their depositors (you and me). Essentially, we pay for FDIC insurance.

One thing Mr. Dimon did say that I agree with (which is kind of what I've been saying all along) is that the banking crisis SVB caused is “not over” and will cause “repercussions for years to come.”

And on that note, I must add, as with all crises – there are always good opportunities if you know where to look. We see a lot of good opportunities right now.

Your Never-Confide-In-A-Vacuum-Cleaner-Because-They're-Always-Collecting-Dirt Financial Advisor,

Walt

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Our mailing address is:

5120 San Francisco Rd NE
Suite A

Albuquerque, NM 87109

505-858-3303