PORTAL
ASSET MANAGEMENT

# SVB and the Opportunity for Crypto - March 2023

## Synopsis

On Friday afternoon after the markets closed, Silicon Valley Bank (SVB) was declared insolvent. This was the 17th largest bank in the USA with $212bn in assets and was funded by over $173 billion in deposits, of which $151.5 billion are uninsured. SVB is the bank at the heart of the US start-up industry due to its singular focus on venture-capital firms. This has understandably spurred global investor concerns on the spill-over effect on both start-up companies and fears of a potential contagion amongst other smaller regional banks.

On Sunday a Bloomberg's article broke the news of how the US Federal Reserve, Treasury Department and Federal Deposit Insurance Corp. (FDIC) *"moved quickly over the weekend to protect customer deposits and shore up confidence in the banking system and have pledged to fully protect all of SVB's depositors' money."* From our perspective, we remain very concerned that this could spark a general run on any banks with weak balance sheets as the effects of rapid central bank interest rate hikes become evident.

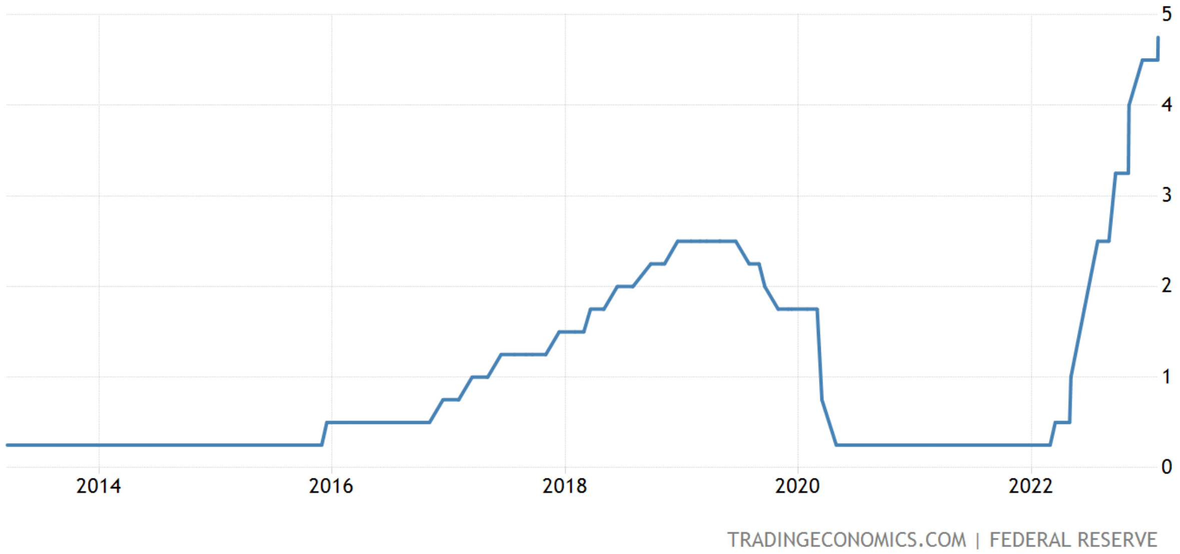
## Update

Portal Asset Management places a considerable focus on our Operational Due Diligence process and emphasises only investing in top tier funds that understand how to measure and mitigate both counterparty and custody risk. We confirm that the Portal Digital Fund via investment in its underlying funds has no exposure to SVB or Silvergate.

## Back to the Future

We have discussed at length the risks of poorly signalled and even more poorly executed monetary policy by the US Federal Reserve. This was both in their initial ignorance of rapidly rising inflation in 2021 and then in their heavy handed raising of interest rates from 0.1% in November 2021 to 4.5% in 7 months as per the chart below.

**Federal Funds Effective Rate**




Reference: [https://fred.stlouisfed.org/series/FEDFUNDS](https://fred.stlouisfed.org/series/FEDFUNDS)

As the rapid and unexpected rise in interest rates caused a global asset sell-off of both bonds and equities in 2022, the capital losses have resulted in the second-order liquidity effect of banks having to replenish their Tier 1 Capital Adequacy requirements whilst facing much higher interest payments on their debt. There will be further runs on bank deposits and further contagion as the effects of this rate hiking cycle ripple through the economy. This is compounded by many banks investment in MBS and CDO's, which have lost more than AAA rated paper.

## Lesson Learnt?

The centralised and fractional banking model is subject to manipulation, leverage, fraud and ultimately failure. It has happened almost every decade since the 1913 Federal Reserve Act established the Federal Reserve System as the central bank of the USA. Our view is the feast and famine cycle will continue indefinitely.

The one encouraging outcome is that Silicon Valley has learned what "not your keys, not your crypto" means the hard way. Firsthand they now understand that your money in the bank doesn't legally belong to you, and you can be "bailed-in". Dodd-Frank gives the bank permission to take your money as an 'unsecured creditor'. The opportunity for decentralisation and self-sovereignty combined with liquidity and transportability should be obvious to anyone who views self-preservation and security as priorities in protecting their wealth. If you don't control your assets and investments directly via physically holding the likes of gold or cryptocurrency, you may be left holding worthless paper.

Please feel free to contact me should you have any enquiries.

Contact: E: mark.witten@firstdegree.asia W: www.portal.am

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- *Swiss Representative: FIRST INDEPENDENT FUND SERVICES LTD, Klausstrasse 33, CH-8008 Zurich.*
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