Overview of Asset Safety Provisions

In light of recent events and heightened investor concerns with respect to the health and stability of the global financial system, we have prepared the following brief overview, with a specific emphasis on the provisions in place to provide for the safety of your assets. We continue to monitor the situation, which remains fluid day-to-day, and will provide updates as warranted. In the interim, we encourage you to give us a call if you have questions after reviewing the material herein.

Q: What has happened?

A: A cluster of regional bank failures over the past week sent a ripple of fear through financial markets worried about contagion spreading through the broader U.S. and global financial systems. Simply put, the main culprits have been losses on the banks' bond portfolios as interest rates have risen, and a lack of diversification within their base of depositors. For more in-depth view, see our March 13th Financial System Update.

Q: How big a problem is this?

A: So far, issues have been limited to a small number of financial institutions, all of which were regional; none of the major money center banks has experienced an issue, although fear and speculation has caused considerable stock price volatility for many such banks. In addition, regulators have rolled out a broad package of provisions to backstop banks, protect depositors, and restore confidence in the system. As a result of all of the above, it is our conviction at this time that the issues within the banking system are **not systemic**. While there may be further issues to come to light, we do not believe they will be of a scale sufficient to pose a credible threat to the financial system, particularly in light of the additional measures of support we have seen from the Federal Reserve, the US Treasury, and the FDIC.

Q: Do we own any of the banks in question?

A: The primary banks affected are Silicon Valley Bank (SIVB) and Signature Bank (SBNY); in addition, considerable speculation has continued around the health of First Republic Bank (FRC). Many of you hold no exposure whatsoever to any of these names, either directly or indirectly (via a fund, for example); meanwhile, for those that do have some exposure – typically through an index fund (all 3 banks were/are members of the S&P 500 index) – any such exposure is de minimis in nature.

Q: Are my investments safe?

A: We retain confidence in the healthy financial condition of the institutions that serve as custodians for our clients' assets. In addition, these institutions have well-established measures in place to provide for the protection of the assets entrusted to them, above and beyond the protections afforded by the federal government and other specialized organizations. You can obtain additional information by clicking on the links to our primary custodians, Charles Schwab/TD and Fidelity.

In addition, your bank deposits – including cash held in a bank sweep program through either of the above custodians – is protected by insurance provided by the Federal Deposit Insurance Corporation (FDIC) – backed by the full faith and credit of the US government - in the event the depository institution at which they are held fails. A more in-depth explanation of the protection provided by the FDIC can be found here. In addition, for an overview of what is and is not covered, as well as limits to the coverage provided, you can click here.

Similarly, investors' securities positions held at a member brokerage firm are protected by the Securities Investor Protection Corporate (SIPC). Both Fidelity and Schwab are SIPC members, affording investors whose assets they custody up to $500,000 in protection for securities and up to $250,000 for cash balances. In addition, both firms have purchased very sizable supplemental coverage from private insurance companies to provide protection on significantly higher account balances.

Q: What should we do for now?

A: Based on our current assessment of the situation, there is little action required on the part of investors at this time; we DO NOT view recent events as a reasonable basis for altering otherwise appropriate investment plans. Nonetheless, there are some basic steps that you can take at the margin that could make a difference in the event issues spread more widely. Specifically, you should review your bank account balances to ensure that you remain within FDIC insurance limits, which are generally $250,000 per depositor per bank (and be sure you understand how the FDIC defines a "depositor"!). In addition, within your brokerage accounts, if you have a margin agreement with your broker/custodian but are NOT making use of your ability to borrow on margin, you may wish to consider – out of what we would consider an abundance of caution – cancelling your margin agreement in order to prevent your securities positions from being commingled with those of the brokerage.