



THE SCHOONER

The Official Newsletter of the Dalhousie Investment Society (DALIS)

Trade of the Month

Thomas Fallows, Portfolio Manager, Global Macro

Position

On March 15, 2023, just five days after the collapse of Silicon Valley Bank, Global Macro seized the opportunity to make a speculative trade on interest rates by opting to short SOFR future contracts. Due to the limitations of our Bloomberg subscription, trading was constrained by the fact that futures were not quoted on a daily basis. Instead, futures are handled in the same way as one would trade a stock – taking on futures exposure reflects a change in our cash position on a one-to-one basis with the underlying. For example, if we buy one CL1 contract, our portfolio cash reflects 1000 times the spot price of WTI on the day, with short and futures margin accounts at \$0 until they are manually adjusted. It is straightforward to see how adjusting these values manually to reflect daily volatility becomes irritating. So, to add a bit of leverage to the position, Global Macro placed a short call options strategy on SOFR future contracts with a strike at \$95.94. A short call would pay out if the underlying security remained below the strike price. Although the play carried unlimited risk and was less profitable, it was more likely to succeed. The initial position involved 1,000 contracts at \$1,500/contract, costing to \$1,500,000, and was bought back for \$525/contract, amounting to a \$975,000, and resulting in a 65% gain (\$525,000).

Rationale

The March edition of the Schooner would be incomplete without a trade thesis taking advantage of the turmoil in the financial sector. The Global Macro group, instead of placing bets on the involved bank stocks, opted to forecast how the overall market would react during and after the March 2023 financial sector collapses. Interest rates have been a significant driver of economic activity this year, and the Global Macro group has been closely monitoring them. Prior to the Federal Reserve rate adjustment on March 22, the market had already priced in a 50-basis point rate hike, and all eyes were on the release of the Non-Farm Payrolls and Unemployment numbers on March 10. However, on that same day, Silicon Valley Bank (SVB) collapsed, causing chaos in the markets and job numbers disregarded.

On a high level, SVB had failed to account for the impact of interest rate risk (duration) on their bond holdings, leading to a loss of \$1.8 billion when they sold off their bonds. This caused depositors to withdraw their money, creating a bank run. Two days later, SVB was declared insolvent and seized on March 10. Another midsize bank, Signature Bank, also experienced a bank run and was forced to close its doors on Sunday, March 12.

The negative impact of interest rates on banks is a significant reason for SVB's collapse insofar as they decrease the value of a bank's fixed assets. The market's automatic response to this is that the Federal Reserve must lower interest rates to assist banks. As a result, the market's initial expectation of a 50-basis point hike at the Federal Reserve meeting was thrown out the window.

The Global Macro group assessed the situation and concluded that the bank failures were unique to these midsize banks having undiversified depositors and internal risk issues that did not pose the risk of creating a domino effect on large financial institutions. After compiling that thesis, it was not justified for the Federal Reserve to abruptly halt the rise in interest rates (quantitative tightening) and immediately switch to lowering interest rates (quantitative easing). The SOFR contract position predicted that rates would remain high for the foreseeable fiscal year. When rates are expected to rise, SOFR futures fall, and vice versa. Consequently, a bearish play on SOFR was warranted, and the Global Macro group was able to profit in this scenario. Our portfolio is now valued at \$35MM.

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Alumni Spotlight: Morgan Caissie

Vice President, Credit Trading
RBC Capital Markets
Dalhousie BComm '17

How did you find the transition from Bay Street to Wall Street? What is your favourite part about living in New York?

Moving from Bay Street to Wall Street was definitely an adjustment. The USD investment grade credit market is 3x larger than that of Canada and has many nuances to market structure that took some getting used to. The culture on the trading floor was very similar, but everything happens on a much larger scale with a larger set of resources. It took about 6 months to feel adjusted and like I had a good grasp on the mechanics in the US marketplace. My favourite part about living in NYC is the endless amount of restaurants and bars to explore and how vibrant the city always is no matter the day or time. It really is the city that never sleeps, with endless possibilities of activities and food to explore and try.

What advice would you give to a student who is torn between sales and trading? (i.e. what qualities do you feel are needed for a trader vs. sales)

The black and white line between sales and trading is definitely becoming more and more blurry each year, especially as technology plays a larger part of the capital markets landscape. I would say the largest difference between salespeople and traders is specialization. Sales roles tend to be more generalist focused while traders are expected to be industry specialists on the sectors they trade. For example, you would have an investment grade sales person, while the trader is only responsible for Healthcare bonds within the investment grade universe. Client interaction is just as important for a trader as it is a salesperson, but traders are more tied to their desk during market hours. Lastly, the main differentiator is risk taking. Salespeople do not manage a portfolio or a book. They are not responsible for managing or taking risks. This is not a skillset that everyone has and is largely debated if it can be taught or it's an innate personality trait. A good way to see how you feel about risk is managing your own investments or running a mock portfolio like in DALIS.

How, if at all, has the recent string of bank failures affected the demand you see for credit product?

SVB and Credit Suisse news have impacted the whole market, equities, rates, and credit. Volatility to that degree in any market causes dislocations but also lots of opportunities. We saw demand decrease a bit but what was more apparent was institutional investors rotating out of bank credit into other highly rated, investment grade companies (i.e. TMT and Healthcare sectors). There was also a shift in demand for domestic banks (RBC, TD) versus European banks or smaller regional banks as many money managers who are index funds still need to keep exposure to the banking sector as a whole.

What is an opinion you have that most people disagree with?

The CFA is not the be all and end all of success in capital markets. Since moving to the US, I have noticed how little it is brought up and how few people I work with have the designation. While starting in my career, many interviews consisted of where I was at in my CFA, and a lot of people were surprised that I was not pursuing it. I think further education and continuing to learn new things is very important but can be achieved in many different ways and through various paths (books, masters degrees, podcasts, networking events).

What was behind your decision to return to school to complete a masters in finance while working full time?

I had been working for 2 years and was feeling more comfortable in my day to day tasks so was looking for a challenge. I started studying for CFA level one although I found it very hard on my own and I don't love exams. I wanted to continue to learn and my boss at the time recommended doing a masters degree or completing my CFA. I wasn't interested in an MBA program in Canada as many of the courses overlapped with what was covered in my undergrad business degree, so that's what led me to the Master of Finance program. Being able to expand on my skill set previously developed at Dal and meet a whole new set of classmates from different quantitative backgrounds was a huge draw. The program was part time, so it allowed me to work and study at the same time, along with attending many networking events to learn more about the world of finance and career options.

Count Heads with Me

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Much has been made of the rationality, or irrationality fundamental to market mechanisms. Reason itself approximates a data-generating process and one that theory attempts to reveal. The realization that reason may not result in the same underlying process, with actions taken by policymakers being fundamentally endogenous was traumatic for economists. (Ask one about the “Lucas Critique” and you are sure to get an animated response.) This of course does not invalidate rationality assumptions, only their revelation through crude econometrics performed on macroeconomic datasets. If given the choice between X and Y, in aggregate we will choose X over Y if we have made the same choice in the past, assuming homogeneous preferences.

Now consider an instance where the rationality assumption is violated. Definitionally, it is not possible here to predict a person’s behaviour. Instead, we are left to react to whatever might come our way. Naturally, this is not the norm or even a common occurrence. The aggregate rationality of markets is self-evident, a prominent example being the term structure of interest rates. With this, we might say that even if we all lose our heads, finding them is but a matter of time. The rational outcome, that which is supported by theory, is thus a steady state to which we can look forward to. That, my friends, is something we can work with.

On March 10th there was a run on Silicon Valley Bank, largely the result of interest rate risk mismanagement. The institution was overexposed to long-term government bonds, the value of which had been rapidly dissolved by hikes to the federal funds rate. Those same rate hikes had increased pressure on the bank’s depositors, most of whom were particularly vulnerable to interest rate hikes themselves. The failure of SVB dealt a blow to the confidence in similar intuitions, several of which subsequently failed or were shut down by regulators as deposits were withdrawn en masse. Apparently, markets reacted by losing their heads.

The Secured Overnight Financing Rate is a broad measure of the cost of overnight credit in the United States, collateralised by treasury bills. As the cost of overnight credit is represented by the overnight rate, itself targeted by the FED; the SOFR can be thought of as an approximation of the Federal Funds Rate.

SOFR futures thus represent market expectations for the FFR at expiry. Note that the price of SOFR futures move opposite to FFR expectations, so an appreciation implies a lower rate. This is what happened immediately after the above-mentioned bank failures. The three-month SOFR future appreciated to the point of implying a 25-basis point reduction in the FFR by late spring – which is absurd.

I approach economics from a New-Keynesian perspective, and so does the FED. That looks like using fiscal and monetary policy to target a level of output that results in roughly 2-3% annual inflation. I’ll spare you the macroeconomic theory, but the short version largely involves how liquid the labour market is. If we produce too much there will be enough jobs that wages are bid up without a proportionate rise in productivity. This relationship is known as the Phillips Curve and is a good starting point to think about how the FED approaches monetary policy. When there is abnormally high inflation, it means that output is at an unsustainably high level. In the long run, rising prices put pressure on firms to cut back and inflation will subside. Unfortunately, as lord Keynes put it best: “in the long run were all dead”.

When the FED raises interest rates, they are raising the relative cost of credit. This reduces aggregate demand via a reduction in investment. That reduces the time it takes for output to return to potential. Demand shocks are also far more common than supply shocks, so returning to potential via demand tends to result in lower terminal inflation when all is said and done. Empirically, this takes six to eighteen months. The FED began raising rates in March of 2022, and core inflation has only started to subside. Cries from the soapbox be damned, they know what they’re doing. The idea that the FED would suddenly reverse course due to the failure of some poorly managed banks was and is asinine. Much more reasonable was their decision to simply guarantee depositors, rather than take procyclical action.

The night that SVB went under I received a call from my portfolio managers. The week prior, we had been monitoring economic releases and all signs pointed to a rate hike. The FED had even signalled as much so our confidence was high; yet so was the 3-month SOFR. Relative to my colleagues I’m a bit of a wet blanket. That is, I tend towards caution in the context of our portfolio. Nonetheless, my thoughts here were anything but. I’m afraid my exact terminology would bar this article from publishing, so you’ll need to use your imagination.

It was only natural that we began shorting the 3-month SOFR. We had identified an instance where the market overreacted to an event and made a bet that they would come to their senses, finding their heads if you will. Even if the market was surprised when the FED inevitably raised rates, our options were scheduled to expire long after the next meeting. Within a week, our position was up over 35%.

Credit Suisse has since collapsed, and we are still realizing the fallout. I will not understate the importance of the institution to the financial system, nor will I accuse commenters of doomsdayism. Instead, I invite you to consider that markets are capable of irrationality in the short-term. Have the confidence to identify when this is the case and bet on the steady state.

What Led Silicon Valley Bank to Collapse?

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The second biggest bank failure in the United States, the collapse of Silicon Valley Bank took a day and a half. There are many questions on what caused this collapse and who to blame. The SVB bank failure has caused concern about what is to come with the FED raising interest rates and if this is 2008 and over again, but what exactly happened that led to the sudden fall of the 16th largest bank in the United States?

Silicon Valley bank regional bank, located in California was the global center for start-up technology companies and venture capital firms. The bank opened in 1983 with the purpose to fund start-up tech companies. Over the past years, over half of the United States venture capital-backed technology companies relied on SVB, as well as SVB had a presence throughout Europe's technology companies. Start-up companies would choose Silicon Valley Bank because it provided its clients with unique products personalized to the individual. The bankers at SVB hosted many events that brought together entrepreneurs and investors which created a strong relationship between companies and the bank. Silicon Valley Bank put pressure on their borrowers to keep the majority of their cash at SVB instead of spreading it among other banks.

CEOs did not think twice about this decision because of their personal relationship with the senior bankers at SVB, they had trust that their deposits were safe in their hands. The venture-capital world grew at a rapid speed throughout the last couple of years which concerned regulators.

After the Financial Crisis in 2008, President Barack Obama signed the Dodd Frank Act, implemented to reform wall street and prevent excessive risk-taking within financial institutions. The Financial Stability Oversight Council was created to monitor banks that established minimum leverage and capital requirements for lenders. The Dodd Frank Act required SVB and similar banks to follow stricter regulations. In 2018, the Trump administration rolled back some regulations on smaller banks that had less than \$250 billion in assets, which included Silicon Valley Bank.

The Tech industry started to take off in 2020 and 2021 which was a result of the low-interest rates during that time. Due to the increase in the tech industry in 2020 at the start of Covid, Silicon Valley Bank was flooded with cash and SVB's stock escalated. By 2022 the bank's deposits level of \$189 billion, triple the size from 2019.

Silicon Valley Bank decided to invest these deposits into different vehicles to create additional profits, as all banks due. Where Silicon Valley Bank went wrong was deciding to invest in government-backed mortgage securities, which ultimately led it to collapse on March 10th. Within 2021 Silicon Valley Banks' security portfolio increased to approximately \$100 billion in under one year due to investing a sum of the massive increase in deposits and low-interest rates post covid. The bank invested in government-backed mortgage securities, which usually are considered a safe investment, but not in the case of increasing interest rates. When interest rates rise, the price of bonds falls. Last year when the Federal Reserve began to raise the interest rates at an increasingly fast rate, SVB management seemed to think this would not be a concern for them. SVB also did not have a chief risk officer for most of 2022 and relied purely on internal risk models. Months later SVB started realizing there had been a severe loss for the bank from the bonds they were holding. The bank's investments soon became worth \$17 billion less than their fair value. During 2022 Silicon Valley Bank's deposits also decreased by \$30 billion from March to December. Not only was the bank dealing with large losses from their investments using the cash from deposits, but the number of deposits being put into the bank was decreasing at the same time.

On February 28th, 2023, Moody's contacted SVB's CEO, Greg Becker wanting to meet. Three days later Moody's informed Becker that they were considering downgrading the bank's ratings. This led SVB executives to decide to sell \$2.25 billion in new shares to raise capital.

On March 8th, 2023, a regulatory filing was released and Silicon Valley Bank announced the sale of a large number of securities at a loss of \$1.8 billion to meet the increasing withdrawals' demands. The announcement of the significant stock decrease imposed fear on investors. After many start-up CEOs received calls from concerned venture capital investors, companies started pulling their money out of SVB. Word began to spread which led to a bank run of SVB's clients withdrawing their cash. By the middle of the day, Moody's downgraded SVB financial. The stock began to decrease at a high rate and by the afternoon of March 9th, the largest banks in the U.S. shares began decreasing. The declines in share price led to a combined \$52 billion loss in market value for JPMorgan Chase, Bank of America, Wells Fargo, and CitiGroup. This was the beginning of the end for Silicon Valley Bank.

On Friday, March 10th, just two days after the regulatory filing was released the bank's stock price went into free fall. Between March 8th and March 10th, \$42 billion in deposits were withdrawn from the bank. Silicon Valley Bank became insolvent and was seized by regulators before the market closed on March 10th in an effort to protect the assets and deposits remaining at the bank. The FDIC originally announced that customers would have their insured deposits no later than three days, but most of the bank's deposits were held in 37,000 accounts, 90% exceeding the FDIC's \$250,000 insured limit. Three days regulators announced that all depositors will receive all their cash that was still held in the bank including the uninsured depositors.

See below SVB's stock price on March 10th:



Seventeen days after the bank was seized, on March 27th, the Federal Deposit Insurance Corp announced First Citizens BancShares Inc. will acquire a bulk of SVB's assets. First Citizens took over \$56.5 billion in deposits and \$72 billion in loans at a discount of \$16.5 billion and the FDIC has agreed to share any losses or potential gains on SVB's commercial loans as well as on the 27th First Citizens Class A shares rose 54%. It is controversial what is to come in the next few months, many believe that this will not lead us into a financial crisis similar to 2008 but there are also many worried that it will. The result of SVB's failure followed by multiple other banks' collapses in the weeks after shows that the financial system is much more fragile than the public has been led to believe.

Breaking the Bank: Nigeria's Bold Demonetization Move

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Before we dive into what has been occurring in Nigeria for the last six months, let's understand what demonetization is. Demonetization is a monetary policy when a central bank or a government stops a currency from being legal tender, making the currency unit invalid to use.

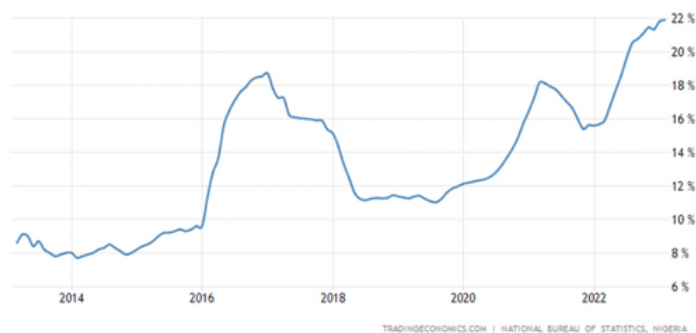
The Central Bank of Nigeria (CBN) put this monetary policy into practice as a strategy to control inflation, black money holders, corruption, and illegal activities like ransom demands and financing terrorism. Demonetizing the currency in the CBN's mind was also a step in the right direction toward attaining Nigeria's long-term objective of becoming cashless. But has the CBN elected to implement this radical policy too quickly?

Spark of Optimism

In October 2022, CBN announced that it intends to demonetize the higher denominations of the Naira notes: ₦200, ₦500, and ₦1000. This was seen as abrupt by the people, but to economists it was a long time coming, especially since Nigeria's inflation hit a 13-year high of 21.83% (Shown in figure 1). Godwin Emefiele, the CBN Governor, stated that "at the time, over 85% of Naira notes (2.73 trillion of 3.23 trillion) in circulation were outside the vaults of commercial banks."

The goal of this monetary policy was to encourage a cashless economy so that the flow of funds could be more easily monitored, a burgeoning black market could be stopped, and lost tax income could be recovered. The strategy appears to be working, as 2.4 trillion of the 3.23 trillion (as of January 2023) in money circulation has been recorded as bank deposits over the past few months. I and others, most notably Jack Dorsey of Block Inc, believe this move can give rise to the FinTech industry in Nigeria as banks can collaborate with them to promote the use of debit/credit cards and Unified Payments Interfaces (UPI). In Nigeria's case, as access to the internet grows, the infrastructure for FinTech services become significantly more available than traditional banking which is limited to large cities.

Figure 1: The Rate of Inflation in Nigeria for the Last 10 Years



The Scarcity

Although the CBN's goal towards a cashless economy has good motivations and has been somewhat successful, a lack of new Naira notes led to a national crisis. The scarcity was caused by the following factors:

1. Hoarding: Nigerians are storing excess cash, especially the new bank notes, because they are expecting their value to rise. This has prompted the Economic and Financial Crimes Commission (EFCC) to make multiple arrests, most notably taking the operations manager of Abuja's commercial bank into custody for allegedly hoarding ₦29 million of the new Naira notes
2. Inefficient distribution: Nigerians living in rural areas, where it is rare to find commercial banks, have difficulties exchanging their banknotes. According to the World Bank Global Findex Database, more than half of Nigeria's 216 million people have no bank accounts; so, one can only imagine how tedious the process of transacting in physical notes must have been.

3. This scarcity led to a lot of unrest between the people and the government, which led to riots and the vandalism of properties. In one example, two banks and two vehicles were set on fire in a protest rally in Lagos.

The Political Drama

When it comes to a national crisis, you can make a risk-free bet that opposing political parties are ready to swoop in like vultures. The reaction by the public led to three governors suing the federal government/central bank which led to the postponement of the currency exchange date to February 20th. Additionally, re-election was called on February 25th as the leadership was under heavy scrutiny.

Bola Tinubu has been elected as Nigeria's next leader. Mr. Tinubu was the candidate of the All Progressives Congress (APC), the platform on which outgoing President Muhammadu Buhari has governed Nigeria since 29 May 2015.

Mr. Tinubu was announced the winner of the hard-fought contest with 8,794,736 of the over 24 million votes cast in the election. His tally represents only 37 percent of the votes, representing the lowest turnout since 1979.

The opposition obviously was not happy with the outcome and is currently alleging electoral fraud. They are lamenting the failure of the Independent National Electoral Commission (INEC) to upload screenshots of polling station results to a web portal, IReV, created for the purpose. Even at that, though quite ironic, some of the election results at the national legislative levels favorable to these parties have been endorsed and celebrated. The INEC did release a statement two days later, saying that it experienced "technical glitches." The agency has since uploaded and published over 90 percent of the results, but this delay has cast doubt on the credibility of the election, at least in the eyes of the public.

The Future

As previously indicated, Nigeria has experienced excessive inflation, a poor exchange rate, and a lack of currency tracking by the CBN. Reducing the money supply through monetary policy seems like a straightforward strategy to combat these problems, but the execution needs to be excellent.

Right now, given the daily CBN withdrawal restriction, lack of equal access to FIs, and the scarcity of new notes, even after paying a premium, make it impossible to convert all the average person's currency.

The Central Bank reduced the money supply but at a prohibitive cost, affecting people's daily lives and shattering Nigerians' collective confidence. This policy will not have a long-term impact if the government ignores its fundamental economic issue of creating adequate infrastructure to get people onto digital banking and curb corruption. All we can do is hope that Mr. Tinubu would give Nigeria a new beginning.

The Downfall of Credit Suisse

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The Buildup

For decades, Credit Suisse (CS) has been the “problem child” of the investment banking world. CS stock never recovered from the 2007/2008 crisis but the company's real demise began in early 2021 with the collapse of Greensill Capital. CS asset management division marketed and sold \$10B of Greensill-linked supply chain funds to its clients. When Greensill's funds failed, CS ended up losing about \$1.7B and subsequently faced regulatory as well as reputational damage. Only weeks later, Bill Hwang's Archegos Capital Management failed to meet margin calls from several banks resulting in CS Prime Services division losing \$5.5B. Then in the fall of 2021, CS was fined \$475M for its role in the issuance of “Tuna Bonds” to state owned companies in Mozambique. CS bankers received kickbacks from the deal and a portion of the money raised was spent on military vehicles and bribes instead of fishing boats. In February 2022, leaked documents were released that allegedly contained information on over 18,000 clients of CS. This list included high profile names that were involved in crimes such as human trafficking and bribery. Next up, was in March 2022, when the former Prime Minister of Georgia won a lawsuit in Bermuda which stated that Credit Suisse's life insurance arm had defrauded him, for which he was awarded approximately \$600M. Shortly after, CS and a former employee were found guilty by Switzerland's Federal Criminal Court for failing to prevent money laundering relating to a Bulgarian cocaine trafficking gang.

A few months later, the bank announced a plan to cut 9,000 jobs, raise just over \$4.2B through equity dilution, and eventually carve out their investment banking arm; “CS First Boston”. When the bank released its Q4 report in February 2023, they posted an annual net loss of nearly \$8B and saw huge customer outflows which resulted in the stock dropping 16% that day. With investors already on edge, it did not help when Silicon Valley Bank began its own collapse on March 9 (see Alexis's article for more on this). The next week, Chairman of Saudi National Bank (Credit Suisse's largest shareholder) said that they would “absolutely not” assist further in providing funding to CS for “many reasons.” His main rationale was that they would face increased regulation if they increased their ownership stake in CS above 9.9%. However, his choice of words, namely “absolutely not,” spooked investors. By this point, the company stock is down about 75% in the past year and 25% on the day. The big news came later in the day when the bank announced it would receive a \$54B backstop from the SNB as they tried to ensure the public's confidence in the bank. Privately however, Swiss authorities told CS that they would merge with UBS and a deal would be done before Monday morning.

The Acquisition

On Sunday March 19 it was announced that CS would be “merging” with their long-time competitor, UBS. UBS is set to pay about \$3.25B for CS in a deal that was brokered by the Swiss government. For context, Credit Suisse's market cap was sitting above \$7B at the close on Friday. The SNB is backing the deal by providing CHF 100B (\$110B) in liquidity assistance to UBS as well as a default guarantee. CS shareholders are to receive 1 share of UBS for every 22.48 shares held of CS. Although equity holders are getting some compensation, CS AT1 bonds (a type of hybrid bond that is converted or written down under certain circumstances) are being written down and valued at zero. Another unique aspect of this deal is the fact that shareholders had no say in the deal, leading to claims that shareholder rights were violated by the Swiss government when they forced the deal using emergency laws. This deal is a bit ironic, as UBS had to be bailed out by the Swiss government during the 2008 crisis and it is now saving CS who did not require a bailout but rather and escaped 2008 somewhat unscathed relative to UBS.

The Implications

Most of the public seems to have at least some objection to this deal.

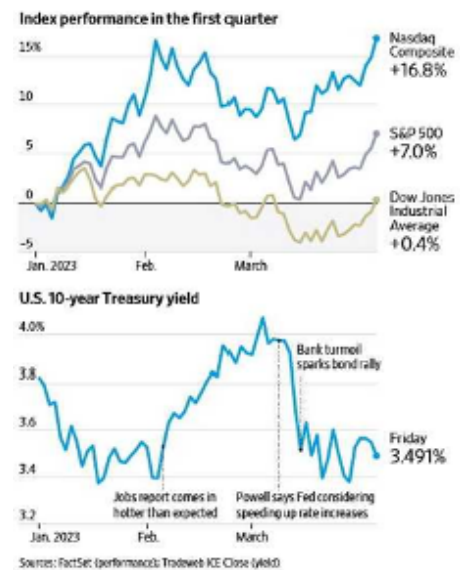
AT1 bondholders are very upset that they were wiped out before equity holders, and many holders are now considering legal action. This has led to an increase in premiums for similar bonds, although European and UK banking authorities have stated that common equity holders will incur losses before other creditors in their jurisdictions. Additionally, the people of Switzerland are on edge about how a merger of their two biggest banks will impact competition. A recent poll showed that 80% of Swiss are in favour of UBS spinning off CS after the deal is complete. Several Swiss political parties have been critical of the deal, with concerns regarding the financing of government support packages, the size of the new entity, and potential job losses. With regards to UBS, they seem to be the winners of this situation, having picked up Credit Suisse for a cheap price, and now looking at ways to wind down its investment banking arm. CS had recently announced that its investment banking arm was acquiring M. Klein & Company which they planned to IPO under the CS First Boston brand. But UBS is already trying to scrap this deal indicating that the risk tolerance at CS was accepting of the sorts of risk more responsible financial institutions are intolerant of. Overall, it seems the failure of Credit Suisse was due to management and operational inefficiencies as opposed to a widespread failure of banking. However, it has left a stain on the reputation of Swiss banking and will bring many challenges in the years to come.

Q1 2023 Recap

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For anyone who may have missed some big headlines in recent months, or simply if you're choosing to read The Schooner before you move to your more scheduled daily news, provided are some of the most notable headlines and events from Q1 2023:

- Index Returns
S&P: 7% DOW: 0.4% NASDAQ: 17%
- 10yr U.S. Treasury note fell to 3.491%;
- 2 U.S. Rate Increases each 25 BP, currently at 5%; and
- Big movers include Meta (META) up 76%, Tesla (TSLA) Up 68%.



Headlines

Banking Industry

- Silicon Valley Bank failed on March 10th. Since then, through a regulated buyout First Citizens Bank (FCNCA) has purchased \$72bn of SVB assets at a 23% discount.
- Credit Suisse failed on March 19th, and it was subsequently announced that UBS will acquire CS for \$3.25bn in a Swiss Government brokered deal with a 100-billion-franc liquidity assistance.
- Between March 10th and March 15th, a bailout of First Republic Bank occurred, with major U.S. bank's injecting \$30bn into FRC. On the 20th, shares fell to a record low, and since then have stayed at that relative support level.
- Other banks who failed include Signature Bank, Silvergate, amongst others.

Trump Indictment

More recent news that made headlines in Q1 involves the 45th President. News broke that he had been officially indicted to face charges for his role in paying hush money to porn star Stormy Daniels on the eve of his election victory.

Tech Job Cuts Continued

Amazon is set to cut another 9000 employees, Accenture to cut 19,000 employees, Indeed to lay off 2200 employees, and META to cut another 10,000 jobs. This most certainly offers some potential bear sentiment in what has been a soaring sector in 2023.

Oil and Energy

- During the quarter, WTI and Brent Crude each matched lows since the beginning of 2022.
- Oil has fell for 5 consecutive months with a much slower Chinese demand recovery than bulls anticipated.
- During the quarter, in the U.S., Natural Gas prices dropped to an 18-month low after reaching their highest level since 2008 in the year prior.

Sports

- March Madness is in full swing with men's and women's Nationals Championship games set to take place the week of the 3rd.
- MLB regular began in recent weeks, the NHL and NBA are closing in on playoff season, and the NFL offseason has been as offseason as it can get.

A lot has happened in this quarter. And so, DALIS is heading into Q2 excited to see how everything plays out.



Rick's Rant: Writer's Block

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This is freaking unbelievable! I am at a loss for what to rant about. Some will claim that this is a sign from the deities. Others claim that I never have anything to say, but that has never been an impediment for my saying it anyways. Nonetheless, here it is deadline and I got nuthin.

In my defense, I did have a wonderful article ready to go, but it needed a picture (actually two) in order for it to make sense. The problem is that I do not have the pictures taken yet! Ugh! The good news is that next month's rant is all ready to go – except for the pictures.

So, what does one do when one is at deadline and needs to do something? Kind of like seeing that you have some extra cash in your brokerage account and thus feel an immediate urge to invest in something. The possibilities are endless, but as we all know choice can be paralyzing - just ask any parent of a seven-year-old visiting Baskin Robbins.

You could phone your investment advisor. They are generally good at telling you how to invest your money. In fact, you would be making their day. Instead of them having to call you during mealtime, you are reversing the favour. The problem with this is that commercial about “still using mom and dad's advisor” really stung. Furthermore, if their suggestions do pay off, then you will not get to feel like a Warren Buffett investment rock star as you had no input. The imposter syndrome guilt might be insurmountable.

You could walk into that snazzy HNW wealth management company and open an account. They will be happy to take your money - if you have a sufficient amount of it. They always have a nice espresso machine to make you a fancy custom latte, which you can take advantage of if you can bluff for long enough exactly how much money you actually do have. They also have really comfortable furniture and tasteful wall art. Just be sure to ignore the fact that – depending on the study – up to 80 percent of professionally managed funds underperform their respective benchmark.

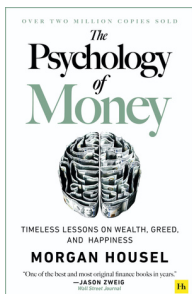
Now, everyone has an uncle Frank or an aunt Sally, who before they took up breeding pet porcupines (cuddlier than one first imagines), was on track to get their CFA. (I hear the fifth time through level 1 is the charm. I am confident they will pass this year.) Surely, they will have several primo investment ideas to confidently share with you. After all, did they not make a killing in buying that batch of discount fidget spinners last year?

Of course, there is always social media. The party team at your hip online trading platform has the digital confetti ready to fly once you invest in the latest meme stock. What could possibly go wrong – particularly if you double up on your crypto at the same time? Twitter is always good for some investment ideas. If Elon has limited the number of people whose tweets you see, simply put out a call for DMs of investment ideas. You may never feel lonely ever again!

Personally, I like the dart throwing at the Wall Street Journal stock pages approach. After all, I read Random Walk Down Wall Street and learned that a group of monkeys throwing darts at the stock pages will outperform the best of professionals. The only drawback of this plan is that I not aware of a newspaper that still publishes stock prices. Heck, I am not even aware of a newspaper that still publishes! I tried throwing darts at my computer screen, but the darts won't stick, and thus I cannot see what I hit.

You could ask a finance professor what to do with your money. (Okay, now I am just clutching at straws to fill the page with words.) Seriously though, the lecture on the efficient markets hypothesis was boring enough the first two times that you took Finance 1. No one save the great Dr. Fama himself has any desire whatsoever to repeat hearing the wisdom of EMH. I will spare you from bringing up the beauty of the Capital Asset Pricing Model.

Yup – I think that we can agree that last minute, knee jerk, on a whim investments, without the benefit of an overall well-reasoned investment plan are generally suboptimal. In a way they are just like last minute rants



Book Review: **The Psychology of Money** *Timeless Lessons on Wealth, Greed, and Happiness*

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Wealth, Greed, and Happiness. Three concepts vastly different and often misunderstood, are the core focus of Morgan Housel's *The Psychology of Money*. As I prepare to enter the field of Private Wealth, this book, perhaps more than any other, has been recommended as a must read. And so, cracking it open this reading break was a no brainer.

Housel provides an exploration of the psychological factors that influence how we think about, earn, and spend money. He does so by employing multiple entertaining stories to illustrate foundational concepts about the relationship between money and human behaviour. This story sets aside the Benjamin Graham formula (though *The Intelligent Investor* is another book I'd recommend) and focuses on how most people don't use a spreadsheet to make personal finance decisions.

In one of his many reflections on greed, Warren Buffet recounted that Berkshire Hathaway's third business partner, Rick Guerin, was levered 70% in the '73-'74 downturn, forcing him to offload his BRK equity to Buffet at \$40 a piece once he was called. That equity is now worth \$465,670 per share. In like manner, Housel says, "Planning is important, but the most important part of every plan is to plan on the plan not going according to plan." (Now try saying that ten times fast.)

In essence, leaving room for error is critical when positioning yourself against the unforeseen worst scenario. Housel uses a blackjack analogy to explain room for error. Referring to card counters, he outlines that they are correct 51% of the time, which is sustainable only if they have a large sum of initial capital to withstand any unlucky swings against them. Not that gambling should be used to describe financial literacy, nor can you pull initial capital out of thin air, but allocating a room for error in your portfolio is always wise.

The chapter titled "Wealth is What You Don't See" immediately turned my mind to Warren Buffett living in the house he bought for \$31,500 in 1958, and still driving a used 2014 Cadillac XTS. Many people equate wealth with flashy cars, luxurious houses, private vacations, and other Veblen goods. Sure, someone driving a nice car may be rich, but the level of income that qualifies them for a line of credit does not represent their wealth. Being rich and being wealthy are two very different concepts. A rich person buying a \$250,000 Lamborghini simply means that individual has \$250,000 less than they did prior to acquiring -- key point -- **a depreciating asset**. Wealth on the other hand is to be thought of as the total amount of financial assets whose value appreciates over time, that is, assets not converted into desired goods. I am not sure if this lesson will stop me from spoiling myself as a sense of personal accomplishment once I make a couple of bucks one day, but this concept is definitely something I now consider and certainly one that has mitigated my ego. As Morgan says in the book, "Saving money is the gap between your ego and your income, and wealth is what you don't see."

Overall, *The Psychology of Money* was thought provoking and offers valuable insight into anyone looking to better understand their relationship with money. I would give this book 4.25 out of 5 boats! Housel offers many great lessons using eye opening examples, and leaves the reader with applicable knowledge. Though I couldn't find where I initially pulled the quote from, I am going to leave you with something that I had to write down midway through the book: "Your personal experiences with money make up maybe 0.000000001% of what's happened in the world, but maybe 80% of how you think the world works.". Mitigate emotions. Maximize returns.

The Psychology of Money deserves 4.25 boats out of 5!



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