

April 3, 2023

Investment Commentary

Who said that accounting was a black and white matter? The [Silicon Valley Bank \(NYSE: SIVB\)](#) debacle shows that accountants, no matter how boring they may look, have a few tricks up their sleeves.

Banks own a great deal of treasuries. Some of them mature within one to two years, some mature in four to five years and even longer. The longer the maturity the more vulnerable they are, as any fixed income security is, for that matter, to rising interest rates. Evidently, as [Jonathan Weil](#) of [The Wall Street Journal](#) reported on March 30, 2023, many banks were highly dedicated to creating the best cosmetic picture of their treasury holdings and their balance sheets.

As of December 31, 2022, [Wells Fargo \(NYSE: WFC\)](#) held a significant amount of fixed income securities, including treasury obligations, with unrealized losses of forty-one and a half billion dollars. But as [Weil](#) reports, the bank had classified a good deal of these securities as unavailable for sale. In other words, the banks implied that no matter how difficult things might become, these securities would not be sold. That is not an honest implication. These securities are highly liquid, and if interest rates were to rise, they can be sold, maybe not at a profit, often at a loss, but they could be sold. Whether those securities had been touched or liquidated to meet any rush by customers for their funds is unknown. But to say, that these securities were in fact sacrosanct, protected from any customer demand in case of a crisis would be disingenuous. [Jonathan Weil](#) thoroughly describes the less than forthcoming pictures of the balance sheets that the banks had presented.

The money manager's job is a job no different from any ordinary detective. We must find the difficult to find facts, make deductions, and discover facts that are not willingly shown by management and are not easily valued or detected. [Jonathan Weil](#), as journalistic detective, does a great job in drawing out the truth from the big bank balance sheets.

Sincerely,



Fredric E. Russell

P.S. I first met [Jonathan Weil](#) when we had lunch in New York a few years ago at [Morton's the Steakhouse](#) on 551 Fifth Avenue, New York, NY. We were there to discuss issues in banking, an area of specialization for him. We had a great time, and we also consumed the one-and-a-half-pound prime rib special, a daunting portion, which we both thoroughly enjoyed.