**As originally distributed to clients on Friday, March 24, 2023*

Northstar Notes

“It’s not that damned easy to run a bank intelligently, there are a lot of temptations to do the wrong thing.”

-Charlie Munger

March 24, 2023

There’s an old joke about interest rates. There are only two people who know the future path—they’re gnomes in Switzerland, and they disagree. At Northstar, we’ve always avoided making market forecasts, and we’re not about to start.

But we can make some observations about the momentous events of the past two weeks:

Silicon Valley Bank experienced an epic run on deposits, as thousands of their customers moved money online to other institutions. This forced the bank to sell securities at a loss and exposed their lack of risk controls. It was grossly irresponsible to hold longer-term bonds to back up a deposit base. Higher interest rates drove down those bond prices, and SVB was forced to sell at an inopportune moment. Similar events unfolded in New York at Signature Bank, in recent years the exciting go-to bank for landlords (sometimes sleazy) and crypto investors. Bank runs are always frightening, as the endless clips of Jimmy Stewart in “It’s a Wonderful Life” keep reminding us. But those days were quaint in comparison to Peter Thiel’s “Fire-in-the-theater!” moment with Silicon Valley Bank.

An Important Contrast*: our largest financial holding is Berkshire Hathaway, and the money they hold for policy holders (over $100 billion of float) is not subject to instantaneous "runs on the bank." This is a huge structural advantage and has allowed the company to make investments across the spectrum of stocks, bonds and operating companies.*

We often wonder at times like this if this is the next huge event. While there are a few faint echoes of the financial crisis of 2007-2009, it is likely that today's problems can be more easily resolved. Our clients have no direct exposure to the failed banks, such as Credit Suisse, Silicon Valley Bank and Signature Bank. These were all aggressive, marketing-driven institutions, and those qualities stand at odds with our ideas of prudent banking. Let's look elsewhere for excitement in our lives.

There are some simple steps we all can take to safeguard our bank accounts. These include keeping bank balances below the amount guaranteed by the FDIC. This applies particularly to smaller community and regional banks. Also, work with your bank to structure your accounts to take full advantage of deposit guarantees, including the use of separate and joint accounts at a specific institution.

As always, we at Northstar will focus on rational investing behavior and the search for superb businesses with strong balance sheets. We will make mistakes, but hopefully not out of the greedy pursuit for a bit of extra yield.

Now a note about communications:

Investment advisors are under intense regulatory pressure to communicate ONLY via email, as opposed to text messages, when it comes to electronic communications. We must document and archive our communications, and the SEC is particularly concerned with substantive communications that evade surveillance. We are seeking guidance as to the continued use of texting for simple messages, for example, "I am running a few minutes late." But in general, we would ask that you communicate via email rather than text messages. We apologize for this level of self-referential stuff, but being on the right side of the regulatory gods is to everyone's advantage.

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